

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-51357

BUILDERS FIRSTSOURCE, INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

2001 Bryan Street, Suite 1600

Dallas, Texas

(Address of principal executive offices)

52-2084569

*(I.R.S. Employer
Identification No.)*

75201

(Zip Code)

Registrant's telephone number, including area code:

(214) 880-3500

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Common stock, par value \$0.01 per share

Trading Symbol(s)

BLDR

Name of Each Exchange on Which Registered

NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 30, 2020 was approximately \$2,375.5 million based on the closing price per share on that date of \$20.70 as reported on the NASDAQ Stock Market LLC.

The number of shares of the registrant's common stock, par value \$0.01, outstanding as of February 24, 2021 was 206,431,681.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its annual meeting of stockholders to be held on June 16, 2021 are incorporated by reference into Part II and Part III of this Form 10-K.

BUILDERS FIRSTSOURCE, INC.
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Item 1. Business

CAUTIONARY STATEMENT

Statements in this report and the schedules hereto that are not purely historical facts or that necessarily depend upon future events, including statements about expected market share gains, forecasted financial performance or other statements about anticipations, beliefs, expectations, hopes, intentions or strategies for the future, may be forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Readers are cautioned not to place undue reliance on forward-looking statements. In addition, oral statements made by our directors, officers and employees to the investor and analyst communities, media representatives and others, depending upon their nature, may also constitute forward-looking statements. All forward-looking statements are based upon currently available information and the Company's current assumptions, expectations and projections about future events. Forward-looking statements are by nature inherently uncertain, and actual results or events may differ materially from the results or events described in the forward-looking statements as a result of many factors. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Any forward-looking statements involve risks and uncertainties, many of which are beyond the Company's control or may be currently unknown to the Company, that could cause actual events or results to differ materially from the events or results described in the forward-looking statements, including risks or uncertainties related to the novel coronavirus disease 2019 ("COVID-19"), the BMC Merger (as defined below), the Company's growth strategies, including gaining market share, or the Company's revenues and operating results being highly dependent on, among other things, the homebuilding industry, lumber prices and the economy. The Company may not succeed in addressing these and other risks. Further information regarding the risk factors that could affect our financial and other results are included as Item 1A of this annual report on Form 10-K and may also be described from time to time in the other reports the Company files with the Securities and Exchange Commission ("SEC"). Consequently, all forward-looking statements in this report are qualified by the factors, risks and uncertainties contained therein.

BMC MERGER

On January 1, 2021, Builders FirstSource, Inc. completed its previously announced all stock merger transaction with BMC Stock Holdings, Inc., a Delaware corporation ("BMC"), pursuant to the Agreement and Plan of Merger, dated as of August 26, 2020 (as amended, restated, supplemented, or otherwise modified from time to time, the "Merger Agreement"), by and among Builders FirstSource, Inc., Boston Merger Sub I Inc., a Delaware corporation and direct wholly owned subsidiary of Builders FirstSource, Inc. ("Merger Sub"), and BMC. On the terms and subject to the conditions set forth in the Merger Agreement, on January 1, 2021, Merger Sub merged with and into BMC, with BMC continuing as the surviving corporation and a wholly owned subsidiary of Builders FirstSource, Inc. (the "BMC Merger").

In this annual report, unless otherwise stated or the context otherwise requires, references to the "company," "we," "our," "ours" or "us" refer to Builders FirstSource, Inc. and its consolidated subsidiaries.

The BMC Merger will be accounted for using the acquisition method of accounting, and the Company will be treated as the accounting acquirer. The operating results of BMC will be reported as part of the Company beginning on January 1, 2021, and as such, references to the Company in this annual report, including the Company's historical financial condition, results of operations and cash flows, does not include BMC, unless otherwise noted.

OVERVIEW

We are a leading supplier and manufacturer of building materials, manufactured components and construction services to professional homebuilders, sub-contractors, remodelers and consumers. Following the BMC Merger, we operate approximately 550 locations in 40 states across the United States. We offer an integrated solution to our customers by providing manufacturing, supply and installation of a full range of structural and related building products. Our manufactured products include our factory-built roof and floor trusses, wall panels and stairs, vinyl windows, custom millwork and trim, as well as engineered wood that we design, cut, and assemble specifically for each home. We also assemble interior and exterior doors into pre-hung units. Additionally, we supply our customers with a broad offering of professional grade building products not manufactured by us, such as dimensional lumber and lumber sheet goods and various window, door and millwork lines. Our full range of construction-related services include professional installation, turn-key framing and shell construction, spanning all of our product categories.

Builders FirstSource, Inc. is a Delaware corporation formed in 1998 as BSL Holdings, Inc. On October 13, 1999, our name changed to Builders FirstSource, Inc. Our common stock is listed on the NASDAQ Stock Market LLC under the ticker symbol "BLDR".

OUR INDUSTRY

We compete in the professional segment (“Pro Segment”) of the U.S. residential building products supply market. Suppliers in the Pro Segment primarily focus on serving professional customers such as homebuilders and remodeling contractors. The Pro Segment consists predominantly of small, privately owned suppliers, including framing and shell construction contractors, local and regional materials distributors, single or multi-site lumberyards, and truss manufacturing and millwork operations. Because of the predominance of smaller privately owned companies and the overall size and diversity of the target customer market, the Pro Segment remains fragmented. There were only eight building product suppliers, one of which was BMC, with manufacturing capabilities in the Pro Segment that generated more than \$500 million in sales, according to *ProSales* magazine’s 2020 ProSales 100 list. We were the largest building product supplier with manufacturing capabilities on *ProSales*’ list and have further increased our size through the BMC Merger.

The residential building products industry is driven by the level of activity in both the U.S. residential new construction market and the U.S. residential repair and remodeling market. Growth within these markets is linked to a number of key factors, including demographic trends, housing demand, interest rates, employment levels, availability of credit, foreclosure rates, consumer confidence, the availability of qualified tradesmen, and the state of the economy in general.

The residential building products industry is characterized by several key trends, including greater utilization of manufactured components, an expanding role of the distributor in providing turn-key services and a consolidation of suppliers by homebuilders, as described in more detail below.

- *Prefabricated components:* Compared to conventional “stick-build” construction where builders cut and assemble lumber at the job site with their own labor, prefabricated components are engineered in an offsite location using specialized equipment and labor. This outsourced task allows for optimal material usage, lower overall labor costs and improved quality of structural elements. In addition, using prefabricated components typically results in faster construction because fabrication can be automated and performed more systematically. As such, we believe there is a long-term trend towards increased use of prefabricated components by homebuilders.
- *Turn-key services:* Many homebuilders have taken a more limited role in the homebuilding process and have outsourced certain key elements of the construction process, including process management, product selection, order input, scheduling, framing and installation. As such, we believe that many homebuilders are increasingly looking to suppliers in the Pro Segment to perform these critical functions, resulting in greater demand for integrated project services.
- *Consolidation of suppliers by homebuilders:* We believe that homebuilders are increasingly looking to consolidate their supplier base. Many homebuilders are seeking a more strategic relationship with suppliers that are able to offer a broad range of products and services and, as a result, are allocating a greater share of wallet to a select number of larger, full-service suppliers.

According to the U.S. Census Bureau, the single-family residential construction market was an estimated \$365.0 billion in 2020, which was 23.5% higher than 2019, and still down from the historical high of \$413.2 billion in 2006. Further, according to the Home Improvement Research Institute (“HIRI”) in its September 2020 semi-annual forecast, the professional repair and remodel end market was an estimated \$126.8 billion in 2020, which was 3.5% higher than 2019.

OUR CUSTOMERS

We serve a broad customer base across the United States. We have a diverse geographic footprint as we now have operations in 85 of the top 100 U.S. Metropolitan Statistical Areas (“MSAs”) following the BMC Merger, as ranked by single family housing permits based on available 2020 U.S. Census data. In addition, approximately 91% of U.S. single-family housing permits in 2020 were issued in MSAs in which we operate. Given the local nature of our business, we have historically and will continue to locate our facilities in close proximity to our key customers and co-locate multiple operations in one facility to improve efficiency.

We have a diversified customer base, ranging from large production builders to small custom homebuilders, as well as multi-family builders, repair and remodeling contractors and light commercial contractors. For the year ended December 31, 2020, our top 10 customers accounted for approximately 15.8% of net sales, and no single customer accounted for more than 6% of net sales. Our top 10 customers are comprised primarily of the largest production homebuilders, including publicly traded companies such as D.R. Horton, Inc., Pulte Homes, Inc., Lennar Corporation, Taylor Morrison Home Corporation, and M/I Homes, Inc.

In addition to the largest production homebuilders, we also service and supply regional production and local custom homebuilders as well as repair and remodeling contractors and multi-family builders. These customers require high levels of service and a broad product offering. Our sales team expects to work very closely with the designers on a day-to-day basis in order to ensure

the appropriate products are identified, ordered or produced and delivered on time to the building site. To account for these increased service costs, pricing in the industry is tied to the level of service provided and the volumes purchased.

OUR PRODUCTS AND SERVICES

We group our building products and services into six product categories:

Lumber & Lumber Sheet Goods. Lumber & lumber sheet goods include dimensional lumber, plywood and oriented strand board (“OSB”) products used in on-site house framing. Lumber & lumber sheet goods are our largest sales volume product category. The products in this category are highly sensitive to fluctuations in market prices for such commodities.

Manufactured Products. Manufactured products are factory-built substitutes for job-site framing and include wood floor and roof trusses, steel roof trusses, wall panels, stairs, and engineered wood that we design, cut, and assemble for each home. Our manufactured products allow builders to build higher quality homes more efficiently. Roof trusses, floor trusses, wall panels and stair units are built in a factory-controlled environment. Engineered floors and beams are cut to the required size and packaged for the given application at many of our locations. Without manufactured products, builders construct these items on site, where weather and variable labor quality can negatively impact construction cost, quality and installation time. In addition, engineered wood beams have greater structural strength than conventional framing materials, allowing builders to frame houses with more open space creating a wider variety of house designs. Engineered wood floors are also stronger and straighter than conventionally framed floors. While not as sensitive to commodity price fluctuations as Lumber & Lumber Sheet Goods, the products in this category include lumber & lumber sheet goods, and thus are somewhat sensitive to commodity price fluctuations.

Windows, Doors & Millwork. Windows & doors are comprised of the manufacturing, assembly and distribution of windows, and the assembly and distribution of interior and exterior door units. We manufacture a portion of the vinyl windows that we distribute in our plant in Houston, Texas which allows us to supply builders, primarily in the Texas market, with cost-competitive products. Our pre-hung interior and exterior doors consist of a door slab with hinges and door jambs attached, reducing on-site installation time and providing higher quality finished door units than those constructed on site. These products typically require a high degree of product knowledge and training to sell. Millwork includes interior trim and custom features, including those that we manufacture under the Synboard[®] brand name. Synboard is produced from extruded PVC and offers several advantages over traditional wood features, such as greater durability and no ongoing maintenance such as periodic caulking and painting.

Gypsum, Roofing & Insulation. Gypsum, roofing, and insulation include wallboard, ceilings, joint treatment and finishes.

Siding, Metal, and Concrete. Siding, metal, and concrete includes vinyl, composite, and wood siding, exterior trim, other exteriors, metal studs and cement.

Other Building Products & Services. Other building products & services consist of various products, including cabinets and hardware. This category also includes services such as turn-key framing, shell construction, design assistance and professional installation of products spanning all of our product categories. We provide professional installation and turn-key services as a solution for our homebuilder customers. Through our installation services program, we help homebuilders realize efficiencies through improved scheduling, resulting in reduced cycle time and better cost controls. By utilizing an energy efficiency software program, we also assist homebuilders in designing energy efficient homes in order to meet increasingly stringent energy rating requirements. Upgrading to our premium windows, doors, and insulating products can reduce overall cost to the homebuilder by minimizing costs of the required heating/cooling system. We work closely with the homebuilder to select the appropriate mix of our products in order to meet current and forthcoming energy codes. We believe these services require scale, capital and sophistication that smaller competitors do not possess. We will continue to pursue profitable business in this category.

We compete in a fragmented marketplace. We believe our integrated approach and scale allow us to compete effectively through our comprehensive product lines, prefabricated components, and value-added services, combined with the knowledge of our integrated sales forces to enable our homebuilder customers to complete construction more quickly, with higher quality and at a lower cost. While we expect these benefits to be particularly valuable to our customers in market environments characterized by labor shortages, sourcing challenges or sharply rising demand for new homes, we expect such benefits will also be increasingly valued and demanded by our customers operating under normal market conditions.

MANUFACTURING

Our manufacturing facilities utilize industry leading technology and high quality materials to improve product quality, increase efficiency, reduce lead times and minimize production errors. We manufacture products within two of our product categories: manufactured products, and windows, doors & millwork.

Manufactured Products — Trusses and Wall Panels. Truss and wall panel production has two steps — design and fabrication. Each house requires its own set of designed shop drawings, which vary by builder type — production versus custom builders. Production builders use prototype house plans as they replicate houses. These house plans may be minimally modified to suit individual customer demand. We maintain an electronic master file of trusses and wall panels for each builder's prototype houses. For custom builders, the components are designed individually for each house. We download the shop drawings from our design department to computerized saws. We assemble the cut lumber to form roof trusses, floor trusses or wall panels, and store the finished components by house awaiting shipment to the job site.

Manufactured Products — Engineered Wood. As with trusses and wall panels, engineered wood components have design and fabrication steps. We design engineered wood floors using a master filing system similar to the truss and wall panel system. Engineered wood beams are designed to ensure the beam will be structurally sound in the given application. After the design phase, a printed layout is generated. We use this layout to cut the engineered wood to the required length and assemble all of the components into a house package. We design and fabricate engineered wood at many of our distribution locations.

Manufactured Products — Stairs. We manufacture box stairs at some of our locations. After a house is framed, our salesman takes measurements at the job site prior to manufacturing to account for any variation between the blueprints and the actual framed house. The fabricated box stairs are based on these measurements.

Custom Millwork. Our manufactured custom millwork consists primarily of interior and exterior trim, interior and exterior doors, custom windows, features and box columns. In addition, we sell many of these custom millwork products in a synthetic material under our Synboard brand name. We sand, cut, and shape sheets of 4 foot by 18 or 20 foot Celuka-blown, extruded PVC, or Synboard, to produce the desired product.

Windows. We manufacture a full line of traditional vinyl windows at an approximately 200,000 square foot manufacturing facility located in Houston, Texas. The process begins by purchasing vinyl lineal extrusions. We cut these extrusions to size and join them together to form the window frame and sash. We then purchase sheet glass and cut it to size. We combine two pieces of identically shaped glass with a sealing compound to create a glass unit with improved insulating capability. We then insert the sealed glass unit and glaze it into the window frame and sash. The unit is completed when we install a balance to operate the window and add a lock to secure the window in a closed position.

Pre-hung Doors. We pre-hang interior and exterior doors at many of our locations. We insert door slabs and pre-cut door jambs into a door machine, which bores holes into the doors for the door hardware and applies the jambs and hinges to the door slab. We then apply the casing that frames interior doors at a separate station. Exterior doors do not have a casing, and instead may have sidelights applied to the sides of the door, a transom attached over the top of the door unit and a door sill applied to the threshold.

OUR STRATEGY

By pursuing the Company's four pillar strategic priorities as outlined below, we intend to build on our advantaged market position to create value for our shareholders by increasing profits and net cash flow generation, while making us a more valuable partner to our customers. The resulting cash flow should provide meaningful opportunities for increased investment in organic and acquisitive growth that preserve our balance sheet strength, grow our return on invested capital and return capital to our shareholders.

Organic Growth of Value-add Products and Services

Maximize our share of wallet by capturing above-market growth in our higher margin value added products. We believe our national manufacturing footprint and differentiated capabilities will allow us to capture growth in our higher margin value-added products, including trusses, wall panels and millwork. We believe our value-added products address the growing demand for ways to build homes more efficiently, addressing labor constraints and rising costs. We plan to accelerate this growth by further expansion of our national manufacturing footprint to serve locations that do not currently have adequate access to these high margin products. By focusing on our differentiated platform and broad product mix, we are able to offer a complete array of products and services that would otherwise need to be sourced from various distributors, providing us an opportunity to capture a greater share of wallet. This operational platform often will make us a preferred distributor for large scale national homebuilders as well as local and custom

homebuilders looking for more efficient ways to build a home. We believe that customers continue to place an increased value on these capabilities, which further differentiates us from our competitors.

Leverage our competitive strengths to capitalize on housing market growth. As the U.S. housing market returns to a historically normalized level, we intend to leverage our core business strengths including size, national footprint, unmatched scale in manufacturing capability, breadth of product portfolio, and end market exposure to expand our sales and profit margins. Our customers continue to emphasize the importance of competitive pricing, a broad product portfolio, sales force knowledge, labor-saving manufactured products, on-site services and overall “ease of use” with their building products suppliers. Our comprehensive product offering, experienced sales force, strong strategic vendor relationships, and tenured senior management team position us well to capitalize on strong demand in the new home construction market and the repair and remodel segment. Our large delivery fleet, professional drivers, and comprehensive inventory management enable us to provide “just-in-time” product delivery, ensuring a smoother and faster production cycle for the homebuilder. Our comprehensive network of products, services and facilities provides a strategically advantaged service model which enhances our value to our customers and provides a strong platform to drive growth.

Drive Operational Excellence

Optimize our highly scalable cost structure with operational excellence initiatives. We continue to focus on standardizing and automating processes and technology-based workflows to minimize costs, streamline our operations and enhance working capital efficiency. We are implementing operational excellence initiatives that are designed to further improve efficiency as well as customer service. These initiatives, including distribution and logistics, pricing and margin management, back office efficiencies, customer integration and systems-enabled process improvements, should yield significant cost savings. The scope and scale of our existing infrastructure, customer base, and logistical capabilities mean that improvements in efficiency, when replicated across our network, can yield substantial profit margin expansion.

Continue to Build our High-Performing Culture

Strong emphasis on putting our people first. Our team members are a critical resource, and every single one makes a difference. Enhancing talent acquisition, employee development and retention will ensure we continue to attract and retain this valuable component of our business. Our team members are the face of the Company to our customers and the communities in which we operate. Their contributions in serving our customers is a fundamental component in our success. We care about our team members and strive to have a strong environmental, health and safety program that drives world-class safety results and ensures our team members leave their workplace safely, every day. We recognize how important it is for our team members to develop and progress in their careers and strive to build a performance-based culture.

Environmental, social and governance strategy. We are also committed to making informed choices that improve our corporate governance, financial strength, operational efficiency, environmental stewardship, community engagement and resource management. Consistent with our core values, our goal is to be recognized by our customers as the preferred supplier, by our employees as a safe, diverse and inclusive workforce, by the industry as being at the forefront of innovation, by our stakeholders as an ethical company and by the communities in which we serve as a good corporate citizen. We recognize that the environmental sustainability of our products is important to both us as a company, and to our customers. We prioritize purchasing and supplying sustainable wood products led by the Sustainable Forestry Initiative. Helping homebuilders become more productive, more efficient, and safer is fundamental to what we do and we are passionate about building this future together.

Pursue Strategic Acquisitions

Leverage free cash flow to accelerate strategic growth. The highly fragmented nature of the Pro Segment of the U.S. residential new construction building products supply market presents substantial acquisition opportunities. Our long-term acquisition strategy is focused on the continued growth of our prefabricated components business and on the potential for geographic expansion. First, we plan to selectively seek acquisition targets that manufacture prefabricated components such as factory-built roof and floor trusses, wall panels, stairs, and engineered wood, as well as other value-added products such as vinyl windows and millwork. We also intend to pursue potential acquisitions that present an opportunity to add manufacturing capabilities in a relatively short period of time. Second, there remain a number of attractive homebuilding markets where we do not currently operate. We believe that our proven operating model can be successfully adapted to these markets and where homebuilders, many of whom we currently serve elsewhere, would value our broad product and service offering, professional expertise, and superior customer service. When entering a new market, our strategy is to acquire market-leading distributors and subsequently expand their product offerings or add manufacturing facilities while integrating their operations into our centralized platform. This strategy allows us to quickly achieve the scale required to maximize profitability and leverage existing customer relationships in the local market. Our management has shown the capability to effectively and efficiently integrate newly acquired businesses, ramping up productivity and driving value. Prior to the BMC Merger, we successfully integrated 43 acquisitions since 1998.

SALES AND MARKETING

We seek to attract and retain customers through exceptional customer service, leading product quality, broad product and service offerings, and competitive pricing. This strategy is centered on building and maintaining strong customer relationships rather than traditional marketing and advertising. We strive to add value for the homebuilders through shorter lead times, lower project costs, faster project completion and higher quality. By executing this strategy, we believe we will continue to generate new business.

Our experienced, locally focused sales force is at the core of our sales effort. This sales effort involves deploying salespeople who are skilled in housing construction to meet with a homebuilder's construction superintendent, local purchasing agent, or local executive with the goal of becoming their primary product supplier. If selected by the homebuilder, the salesperson and his or her team review blueprints for the contracted homes and advise the homebuilder in areas such as opportunities for cost reduction, increased energy efficiencies, and regional aesthetic preferences. Next, the team determines the specific package of products that are needed to complete the project and schedules a sequence of site deliveries. Our large delivery fleet and comprehensive inventory management systems enable us to provide "just-in-time" product delivery, ensuring a smoother and faster production cycle for the homebuilder. Throughout the construction process, the salesperson makes frequent site visits to ensure timely delivery and proper installation, and to make suggestions for efficiency improvements. We believe this level of service is highly valued by our customers and generates significant customer loyalty. At January 31, 2021, following the BMC Merger, we employed approximately 2,400 sales representatives, who are paid a commission based on gross margin dollars collected and worked with approximately 2,100 sales coordinators and product specialists.

BACKLOG

Due to the nature of our business, backlog information is not meaningful. While our customers may provide an estimate of their future needs, in most cases we do not receive a firm order from them until just prior to the anticipated delivery dates. Accordingly, in many cases the time frame from receipt of a firm order to shipment does not exceed a few days.

MATERIALS AND SUPPLIER RELATIONSHIPS

We purchase inventory primarily for distribution, some of which is also utilized in our manufacturing plants. The key materials we purchase include dimensional lumber, OSB and plywood along with engineered wood, windows, doors, millwork, gypsum and roofing. Our largest suppliers are national companies such as Boise Cascade Company, Weyerhaeuser Company, Canfor Corporation, Norbord, Inc., James Hardie Industries plc, National Gypsum Company, PlyGem Holdings, Inc., M I Windows and Doors, Inc., Andersen Corporation, Masonite International Corporation and JELD-WEN Inc. We believe marketplace supply allows us to competitively source most of our requirements without reliance on any particular supplier and that our diversity of suppliers affords us purchasing flexibility. Due to our centralized procurement platform for commodity wood products and corporate oversight of purchasing programs, we believe we are better able to maximize the advantages of both our and our suppliers' broad geographic footprints and negotiate purchases across multiple markets to achieve more favorable contracts with respect to price, terms of sale, and supply than our regional competitors. Additionally, for certain customers, we institute purchasing programs on commodity wood products such as OSB and lumber to align portions of our procurement costs with our customer pricing commitments. We balance our OSB and lumber purchases with a mix of contract and spot market purchases to ensure consistent supply of product necessary to fulfill customer contracts, to source products at the lowest possible cost, and to minimize our exposure to the volatility of commodity lumber prices.

We currently source products from thousands of suppliers in order to reduce our dependence on any single company and to maximize purchasing leverage. Although no purchases from any single supplier represented more than 6% of our total materials purchases for the year ended December 31, 2020, we believe we are one of the largest customers for many suppliers, and therefore have significant purchasing leverage. We have found that using multiple suppliers ensures a stable source of products and the best purchasing terms as the suppliers compete to gain and maintain our business.

We maintain strong relationships with our suppliers, and we believe opportunities exist to improve purchasing terms in the future, including inventory storage or "just-in-time" delivery to reduce our inventory carrying costs. We will continue to pursue additional procurement cost savings which would further enhance our margins and cash flow.

COMPETITION

We compete in the Pro Segment of the U.S. residential building products supply market. We have and will continue to experience competition for homebuilder business due to the highly fragmented nature of the Pro Segment. Most of our competitors in the Pro Segment are small, privately held local or regional businesses. Most of these companies have limited access to capital and lack

sophisticated information technology systems and large-scale procurement capabilities. We believe we have substantial competitive advantages over these smaller competitors due to our long-standing customer relationships, local market knowledge and competitive pricing. Our largest competitors in our markets often include one or more of 84 Lumber Company, Carter Lumber Company, US LBM Holdings, LLC and, prior to the BMC Merger, BMC Stock Holdings, Inc.

Our customers primarily consist of professional homebuilders and those that provide construction services to them, with whom we focus on developing strong relationships. The principal methods of competition in the Pro Segment are the development of long-term relationships with professional builders and retaining such customers by (i) delivering a full range of high-quality products on time, and (ii) offering trade credit, competitive pricing and integrated service and product packages, such as turn-key framing and shell construction, as well as manufactured components and installation. Our leading market positions in the highly competitive Pro Segment create economies of scale that allow us to cost-effectively supply our customers, which both enhances profitability and reduces the risk of losing customers to competitors.

HUMAN CAPITAL

Following the BMC Merger, we had more than 26,000 employees. Approximately 500 are covered by collective bargaining agreements and the Company believes that its relations with the labor unions are generally good. Employee levels are managed to align with the pace of business and management believes it has sufficient human capital to operate its business successfully.

At Builders FirstSource, our people are the key to our success and our continued focus on delivering exceptional customer service and innovative solutions. In managing our human capital, our goal is to ensure their safety, growth and development in an inclusive and team-based environment. By participating in regular surveys and focus groups, we place a strong emphasis on enhancing and increasing the retention and engagement level of our team members. Key areas of the Company's human capital focus include the following:

Workplace Health & Safety

We care about our team members and anyone who enters our workplace. We strive to have a strong environmental, health and safety program that focuses on implementing policies and training programs, as well as performing self-audits to ensure our team members leave their workplace safely, every day. Over the past several years, we have developed and implemented programs designed to promote workplace safety, with the goal of reducing the frequency and severity of employee injuries. We also review and monitor our performance closely by updating our executive team monthly on progress.

During 2020, our experience and continuing focus on workplace safety enabled us to preserve business continuity without sacrificing our commitment to keeping our team members and workplace visitors safe during the COVID-19 pandemic.

The Company also aspires to reduce its lost time and recordable injuries each year. In 2020, we reduced our Total Recordable Incident Rate for the fifth consecutive year.

We also broadly provide accessible safety training to our employees in a number of formats to accommodate the learner's style and pace, location, and access to technology.

Diversity & Inclusion

Our team members are the face of the Company to our customers and the communities in which we operate. Their contributions in serving our customers is a fundamental component in our success, and every single team member makes a difference.

Our Company strives to foster a culture that encourages collaboration, flexibility and fairness to enable all team members to contribute to their full potential. We are committed to enhancing our efforts related to diversity and inclusion across all aspects of our organization, including hiring, promotion and developmental opportunities. We conduct both in-person and online diversity training through our Learning Management System, and we plan to create greater awareness, eliminate unconscious bias and foster more open and honest communication through the establishment of Diversity & Inclusion Councils.

Learning & Development

In order to attract and retain top talent, we provide several resources in a variety of formats that promote the ongoing learning and development of our team members. We offer leadership development training for new and existing leaders in topics such as: Effective Communication, Conducting Performance Management, Developing Successful and Productive Teams, Conflict Resolution

& Management, Providing Exceptional Customer Service, Hiring for Fit and Building a Diverse and Inclusive Team. We have approximately 1,000 courses in our system which is available to all team members, and our commitment to learning and development was maintained during the COVID-19 pandemic through our online learning management system and limited on-site courses facilitated in a safe setting by our training and development team. We continually adapt and modify existing programs to meet the changing needs of our business and our workforce.

To assess and improve employee retention and engagement, the Company surveys employees with the assistance of third-party consultants, and takes actions to address areas of employee concern. Approximately 85% of team members participated in our most recent engagement survey. The highest scoring categories were Safety, Ethics, Future Outlook for the company, Manager Effectiveness and Trust in Leadership. Additionally, we won Best Places to Work awards in Raleigh, North Carolina, Dallas, Texas and Kansas City, Kansas.

INFORMATION TECHNOLOGY SYSTEMS

Our operations are dependent upon our information technology systems, which encompass all of our major business functions. Our primary enterprise resource planning (“ERP”) system, which we currently use for operations representing the majority of our sales, is a proprietary system that has been highly customized by our computer programmers. The materials required for thousands of standard builder plans are stored by the system for rapid quoting or order entry. Hundreds of price lists are maintained on hundreds of thousands of SKUs, facilitating rapid price changes in a changing product cost environment. A customer’s order can be tracked at each stage of the process and billing can be customized to reduce a customer’s administrative costs and speed payment.

We have a customized financial reporting system that consolidates financial, sales and workforce data from our ERP systems and our human resource information system (“HRIS”), delivering standardized enterprise key performance indicators. This technology platform provides management with robust corporate and location level performance management by leveraging standardized metrics and analytics allowing us to plan, track and report performance and compensation measures.

We have developed a proprietary program for use in our component plants. This software reviews product designs for errors, schedules the plants and provides the data used to measure plant efficiency. In addition, we have purchased several software products that have been integrated with our primary ERP system. These programs assist in various aspects of our business such as analyzing blueprints to generate material lists, purchasing lumber products at the lowest cost, delivery management, resource planning and scheduling and financial planning and analysis.

SEASONALITY AND OTHER FACTORS

Our first and fourth quarters have historically been, and are generally expected to continue to be, adversely affected by weather causing reduced construction activity during these quarters. In addition, quarterly results historically have reflected, and are expected to continue to reflect, fluctuations from period to period arising from the following:

- The volatility of lumber prices;
- The cyclical nature of the homebuilding industry;
- General economic conditions in the markets in which we compete;
- The pricing policies of our competitors;
- Disruptions in our supply chain;
- The production schedules of our customers; and
- The effects of weather.

The composition and level of working capital typically change during periods of increasing sales as we carry more inventory and receivables. Working capital levels typically increase in the first and second quarters of the year due to higher sales during the peak residential construction season. These increases may result in negative operating cash flows during this peak season, which historically have been financed through available cash and borrowing availability under credit facilities. Generally, collection of receivables and reduction in inventory levels following the peak building and construction season positively impact cash flow. However, in 2020, the Company’s typical seasonal working capital was influenced by the COVID-19 pandemic, which had the effect of deferring the typical peak residential construction season later into the year. This, along with the significant commodity price inflation experienced in the third and fourth quarters of 2020, led to increased working capital levels as of December 31, 2020, as compared to December 31, 2019.

AVAILABLE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith, we file reports, proxy and information statements and other information with the SEC. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements and other information and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through the investor relations section of our website under the links to “Financial Information.” Our Internet address is www.blr.com. Reports are available on our website free of charge as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. In addition, our officers and directors file with the SEC initial statements of beneficial ownership and statements of change in beneficial ownership of our securities, which are also available on our website at the same location. We are not including this or any other information on our website as a part of, nor incorporating it by reference into, this Form 10-K or any of our other SEC filings.

In addition to our website, the SEC maintains an Internet site that contains our reports, proxy and information statements, and other information that we electronically file with, or furnish to, the SEC at www.sec.gov.

Item 1A. Risk Factors

Risks associated with our business, any investment in our securities, and with achieving the forward looking statements contained in this report or in our news releases, websites, public filings, investor and analyst conferences or elsewhere, include the risk factors described below. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. Any of these risks, whether known or unknown, could cause our actual results to differ materially from expectations and could have a material adverse effect on our business, financial condition or results of operations, and we may not succeed in addressing these challenges and risks. You should read these Risk Factors in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 and our consolidated financial statements and related notes in Item 8.

Economic and Industry Risks

The COVID-19 pandemic has impacted our business, and will likely continue to impact our business in the future.

The COVID-19 pandemic has adversely impacted economic activity and conditions worldwide, including workforces, liquidity, capital markets, consumer behavior, supply chains, and macroeconomic conditions, which in turn has materially impacted our business. In particular, the COVID-19 pandemic has recently caused significant disruptions and delays in the manufacture and distribution of building products throughout the industry supply chain, resulting in shortages and shipping delays of several categories of building products, such as windows and lumber. In turn, these supply chain disruptions have in many cases led to significant spikes in the prices of the affected building products. While we expect the COVID-19 pandemic to continue to impact our business in the near term, particularly in regions where we derive a significant amount of our revenue or profit or where our suppliers and customers are located, the extent and duration of the continued effects of the COVID-19 pandemic on our business and results of operation is unknown and will depend on future developments, which are highly uncertain and outside our control. These developments include the scope, duration and severity of the pandemic (including the possibility of further surges or variations of COVID-19 or the emergence of other health epidemics or pandemics), the timing and efficacy of the vaccination program in the U.S., further actions taken by governmental authorities, including future stimulus programs, in response to the pandemic and changing consumer and supplier behavior. It is also possible that the pandemic and its aftermath will lead to a prolonged economic slowdown or recession in the U.S. economy. The current COVID-19 pandemic has impacted and may continue to impact our industry and cause disruptions to our operations, including as a result of temporary closure of locations, decreased demand for our products and services or disruption to our supply chain, all of which could materially and adversely affect our business, financial condition and results of operations.

While we have taken significant precautions to ensure the health and safety of our team members and customers throughout the pandemic, we have had several employees test positive for COVID-19 to date, requiring us to quarantine certain groups of employees and disinfect at certain locations and to occasionally temporarily close certain locations to disinfect. Our operations could be further disrupted in the future if additional employees or employees of our suppliers or customers were suspected or confirmed of having COVID-19 or other illnesses, and such illness required us or our suppliers or customers to quarantine some or all such employees or disinfect additional locations. Also, a number of our administrative employees are working remotely. Remote working may heighten cybersecurity, information security and operational risks and affect the productivity of our employees.

The COVID-19 pandemic has caused, and may continue to cause disruptions in our supply chain. Such disruptions may also be caused by the outbreak of new health epidemics or pandemics. The inability of our suppliers to meet our supply needs in a timely

manner or our quality standards could cause delays to delivery date requirements of our customers. Such failures could result in the cancellation of orders, customers' refusal to accept deliveries, a reduction in purchase prices, and ultimately, termination of customer relationships, any of which could have a material adverse effect on our business, financial condition, results of operations and liquidity. In that case, we may be required to seek alternative sources of materials or products. Although we believe that we can manage our exposure to these risks, we cannot be certain that we will be able to identify such alternative materials or sources without delay or without greater cost to us. Our inability to identify and secure alternative sources of supply in this situation could have a material adverse effect on our ability to satisfy customer orders. While we have largely been able to manage these supply chain disruptions to date, there is no guarantee that we will be able to do so in the future.

While only some of our locations were temporarily closed in the few states or counties where construction activities were temporarily prohibited at the beginning of the pandemic, we could also be adversely affected if government authorities impose further mandatory closures, seek voluntary closures or impose restrictions on our operations. Even if such measures are not further implemented and a virus or other disease does not spread significantly, the perceived risk of infection or health risk may adversely affect our business and operating results.

We cannot predict the duration or scope of the COVID-19 pandemic or when or how our business, financial conditions and results of operations will be further impacted by it, including as a result of the recent deterioration in the U.S. economy and any related impact on the residential homebuilding industry, and based on the duration and scope, such impact could be material. Historically, in times of an economic recession, new home construction in the United States has slowed considerably. Any significant downturn in new home construction as a result of the economic impact of the COVID-19 pandemic could have an adverse effect on our business, financial condition and results of operations.

To the extent the COVID-19 pandemic adversely affects our business, financial conditions and results of operations, it may also have the effect of heightening many of the other risks described in this "Risk Factors" section.

The industry in which we operate is dependent upon the residential homebuilding industry, as well as the U.S. economy, the credit markets and other important factors.

The building products industry is highly dependent on new home and multifamily construction as well as repair and remodel, which in turn are dependent upon a number of factors, including interest rates, consumer confidence, employment rates, foreclosure rates, housing inventory levels and occupancy, housing demand and the health of the U.S. economy and mortgage markets. Unfavorable changes in demographics, credit markets, consumer confidence, housing affordability, or housing inventory levels and occupancy, or a weakening of the U.S. economy or of any regional or local economy, including as a result of the COVID-19 pandemic, in which we operate could adversely affect consumer spending, result in decreased demand for our products, and adversely affect our business. Production of new homes and multifamily buildings may also decline because of shortages of qualified tradesmen, reliance on inadequately capitalized builders and sub-contractors, and shortages of suitable building lots and material. In addition, the building industry is subject to various local, state, and federal statutes, ordinances, and regulations concerning zoning, building design and safety, construction, energy and water conservation and similar matters, including regulations that impose restrictive zoning and density requirements in order to limit the number of homes that can be built within the boundaries of a particular area or in order to maintain certain areas as primarily or exclusively residential. Regulatory restrictions may increase our operating expenses and limit the availability of suitable building lots for our customers, which could negatively affect our sales and earnings. Because we have substantial fixed costs, relatively modest declines in our customers' production levels could have a significant adverse effect on our financial condition, operating results and cash flows.

The building supply industry is subject to cyclical market pressures.

Prices of building products are subject to fluctuations arising from changes in supply and demand, national and international economic conditions, labor costs, competition, market speculation, government regulation, and trade policies, as well as from periodic delays in the delivery of lumber and other products. For example, prices of wood products, including lumber and panel products, are subject to significant volatility, such as the spike in lumber prices during the COVID-19 outbreak, and directly affect our sales and earnings. In particular, low prices for wood products over a sustained period can adversely affect our financial condition, operating results and cash flows, as can excessive spikes in prices. Our lumber and lumber sheet goods product category represented 35.9% of total net sales for the year ended December 31, 2020. We have limited ability to manage the timing and amount of pricing changes for building products. In addition, the supply of building products fluctuates based on available manufacturing capacity. A shortage of capacity or excess capacity in the industry can result in significant increases or declines in prices for those building products, often within a short period of time. Such price fluctuations can adversely affect our financial condition, operating results and cash flows.

In addition, the building products industry is cyclical in nature. Despite disruptions from the COVID-19 pandemic, the homebuilding industry has experienced growth in recent years and industry forecasters expect to see continued growth in the housing market over the next year. However, it is likely, based on historical experience, that we will face future downturns in the homebuilding industry which could have an adverse effect on our operating results, financial condition or cash flows. We are not able to predict the timing, severity or duration of any future downturns in the housing market.

Our industry is highly fragmented and competitive, and increased competitive pressure may adversely affect our results.

The building products supply industry is highly fragmented and competitive. We face, and will continue to face, significant competition from local and regional building materials chains, as well as from privately-owned single site enterprises. Any of these competitors may (1) foresee the course of market development more accurately than we do, (2) develop products that are superior to our products, (3) have the ability to produce or supply similar products at a lower cost, (4) develop stronger relationships with local homebuilders or commercial builders, (5) adapt more quickly to new technologies or evolving customer requirements than we do, or (6) have access to financing on more favorable terms than we can obtain in the market. As a result, we may not be able to compete successfully with them. In addition, home center retailers, which have historically concentrated their sales efforts on retail consumers and small contractors, have intensified their marketing efforts to professional homebuilders in recent years and may continue to intensify these efforts in the future. Furthermore, certain product manufacturers sell and distribute their products directly to production homebuilders or commercial builders, and the volume of such direct sales could increase in the future. Additionally, manufacturers of products distributed by us may elect to sell and distribute directly to homebuilders or commercial builders in the future or enter into exclusive supplier arrangements with other distributors. Consolidation of production homebuilders or commercial builders may result in increased competition for their business. Finally, we may not be able to maintain our operating costs or product prices at a level sufficiently low for us to compete effectively. If we are unable to compete effectively, our financial condition, operating results and cash flows may be adversely affected.

Homebuyer demand may shift towards smaller homes creating fluctuations in demand for our products.

Home affordability can be a key driver in demand for our products. Home affordability is influenced by a number of economic factors, such as the level of employment, consumer confidence, consumer income, supply of houses, the availability of financing and interest rates. Changes in the inventory of available homes as well as economic factors relative to home prices may result in homes becoming less affordable. Furthermore, consumer preferences could shift to smaller or larger homes in the future. This could cause homebuyer demand to soften or shift substantially which could have an adverse impact on our financial condition, operating results and cash flows if we are unable to respond to the new market demands effectively.

A range of factors may make our quarterly revenues, earnings and cash flows variable.

We have historically experienced, and in the future will continue to experience, variability in revenues, earnings and cash flows on a quarterly basis. The factors expected to contribute to this variability include, among others: (1) the volatility of prices of lumber, wood products and other building products, (2) the cyclical nature of the homebuilding industry, (3) general economic conditions in the various areas that we serve, (4) the intense competition in the industry, including expansion and growth strategies by competitors, (5) the production schedules of our customers and suppliers, and (6) the effects of the weather. These factors, among others, make it difficult to project our operating results and cash flows on a consistent basis, which may affect the price of our stock.

Operational and Strategic Risks

We may be unable to successfully implement our growth strategy, which includes increasing sales of our prefabricated components and other value-added products, pursuing strategic acquisitions, opening new facilities, implementing operational excellence, and maintaining a balanced debt level.

Our long-term strategy depends in part on growing our sales of prefabricated components and other value-added products, increasing our market share, and implementing various initiatives to increase our operational efficiency. If any of these initiatives are not successful, or require extensive investment, our growth may be limited, and we may be unable to achieve or maintain expected levels of growth and profitability.

Our long-term business plan also provides for continued growth through strategic acquisitions and organic growth through the construction of new facilities or the expansion of existing facilities. Failure to identify and acquire suitable acquisition candidates on appropriate terms could have a material adverse effect on our growth strategy. Moreover, our liquidity position, or the requirements of our debt instruments could prevent us from obtaining the capital required to effect new acquisitions or expand our existing facilities. Our failure to make successful acquisitions or to build or expand needed facilities, including manufacturing facilities, produce saleable

product, or meet customer demand in a timely manner could adversely affect our financial condition, operating results, and cash flows. A negative impact on our financial condition, operating results and cash flows, or our decision to invest in strategic acquisitions or new facilities, could adversely affect our ability to maintain a balanced debt level.

In addition, although we have been successful in the past with the integration of numerous acquisitions, we may not be able to fully integrate the operations of any future acquired businesses, including the recent BMC Merger, with our own in an efficient and cost-effective manner or without significant disruption to our or the acquired companies' existing operations. Moreover, acquisitions involve significant risks and uncertainties, including uncertainties as to the future financial performance of the acquired business, the achievement of expected synergies, difficulties integrating acquired personnel and corporate cultures into our business, the potential loss of key employees, customers or suppliers, difficulties in integrating different computer and accounting systems, exposure to unforeseen liabilities of acquired companies and the diversion of management attention and resources from existing operations. We may be unable to successfully complete potential acquisitions due to multiple factors, such as issues related to regulatory review of the proposed transactions. We may also be required to incur additional debt or issue additional shares of our common stock in order to consummate acquisitions in the future. Potential new debt may be substantial and may limit our flexibility in using our cash flow from operations. The issuance of new shares of our common stock could dilute the equity value of our existing stockholders. Our failure to fully integrate future acquired businesses effectively or to manage other consequences of our acquisitions, including increased indebtedness, could prevent us from remaining competitive and, ultimately, could adversely affect our financial condition, operating results and cash flows.

We are subject to competitive pricing pressure from our customers.

Production homebuilders and multi-family builders historically have exerted and will continue to exert significant pressure on their outside suppliers, including on us, to keep prices low because of their market share and their ability to leverage such market share in the highly fragmented building products supply industry. Over the past several years, these pricing pressures have adversely affected our operating results and cash flows. In addition, continued consolidation among production homebuilders or multi-family and commercial builders, or changes in such builders' purchasing policies or payment practices, could result in additional pricing pressure, and our financial condition, operating results and cash flows may be adversely affected. Furthermore, in periods of economic downturn these pricing pressures tend to increase. As a result, we may face heightened pricing pressures in the event of an ongoing economic downturn resulting from the continuing COVID-19 pandemic or otherwise, and our financial condition, operating results and cash flows may be adversely affected.

The loss of any of our significant customers or a reduction in the quantity of products they purchase could affect our financial health.

Our ten largest customers generated approximately 15.8% of our net sales for the year ended December 31, 2020. We cannot guarantee that we will maintain or improve our relationships with these customers or that we will supply these customers at historical levels. Moreover, in the event of any downturn, some of our homebuilder customers may exit or severely curtail building activity in certain of our markets.

In addition, production homebuilders, multi-family builders and other customers may: (1) seek to purchase some of the products that we currently sell directly from manufacturers, (2) elect to establish their own building products manufacturing and distribution facilities or (3) give advantages to manufacturing or distribution intermediaries in which they have an economic stake. Continued consolidation among production homebuilders could also result in a loss of some of our present customers to our competitors. The loss of one or more of our significant customers or deterioration in our relations with any of them could significantly affect our financial condition, operating results and cash flows. Furthermore, our customers are not required to purchase any minimum amount of products from us. The contracts into which we have entered with most of our professional customers typically provide that we supply particular products or services for a certain period of time when and if ordered by the customer. Should our customers purchase our products in significantly lower quantities than they have in the past, such decreased purchases could have a material adverse effect on our financial condition, operating results and cash flows.

Product shortages, loss of key suppliers, and our dependence on third-party suppliers and manufacturers could affect our financial health.

Our ability to offer a wide variety of products to our customers is dependent upon our ability to obtain adequate product supply from manufacturers and other suppliers. Generally, our products are obtainable from various sources and in sufficient quantities. However, as noted above, the COVID-19 pandemic has recently caused significant disruptions and delays in the manufacture and distribution of building products throughout the industry supply chain, resulting in shortages and shipping delays of several categories of building products, including windows and lumber. The loss of, or an ongoing substantial decrease in the availability of products from our suppliers or the loss of key supplier arrangements could adversely impact our financial condition, operating results, and cash flows.

Although in many instances we have agreements with our suppliers, these agreements are generally terminable by either party on limited notice. Failure by our suppliers to continue to supply us with products on commercially reasonable terms, or at all, could put pressure on our operating margins or have a material adverse effect on our financial condition, operating results and cash flows. Short-term changes in the cost of these materials, some of which are subject to significant fluctuations, are oftentimes, but not always passed on to our customers. Our delayed ability to pass on material price increases to our customers could adversely impact our financial condition, operating results and cash flows.

Failure to attract and retain our key employees and the impact of our recent leadership changes may adversely impact our ability to successfully execute our business strategies.

Our success depends in part on our ability to attract, hire, train and retain qualified managerial, operational, sales and other personnel. We face significant competition for these types of employees in our industry and from other industries. We may be unsuccessful in attracting and retaining the personnel we require to conduct and expand our operations successfully. In addition, key personnel may leave us and compete against us. Our success also depends to a significant extent on the continued service of our senior management team. We may be unsuccessful in replacing key managers who either resign or retire. The loss of any member of our senior management team or other experienced senior employees could impair our ability to execute our business plan, cause us to lose customers and reduce our net sales, or lead to employee morale problems and/or the loss of other key employees. In any such event, our financial condition, operating results and cash flows could be adversely affected.

Furthermore, business combinations such as the BMC Merger increase the risk of employee retention and we may not be successful in retaining the talents and dedication of the professionals previously separately employed by us and BMC. It is possible that these employees may decide not to remain with us. If key employees terminate their employment, or if an insufficient number of employees are retained to maintain effective operations, our business activities may be adversely affected and management's attention may be diverted from successfully integrating the operations of BMC into our existing operations to hiring suitable replacements, all of which may have an adverse impact on our business and results of operations. We also underwent significant leadership changes in connection with the BMC Merger. Any significant leadership changes involve inherent risk and any failure to ensure the effective transfer of knowledge and a smooth transition could hinder our strategic planning, execution and future performance.

We may be adversely affected by any disruption in our respective information technology systems.

Our operations are dependent upon our information technology systems, which encompass all of our major business functions. Our primary ERP system is a proprietary system that has been highly customized by our computer programmers. Our centralized financial reporting system currently draws data from our ERP systems. We rely upon our information technology systems to run critical accounting and financial information systems, process receivables, manage and replenish inventory, fill and ship customer orders on a timely basis, and coordinate our sales activities across all products and services. A substantial disruption in our information technology systems for any prolonged time period could result in problems and delays in generating critical financial and operational information, processing receivables, receiving inventory and supplies and filling customer orders. These disruptions could adversely affect our operating results as well as our customer service and relationships. Our systems, or those of our significant customers or suppliers, might be damaged or interrupted by natural or man-made events or by computer viruses, physical or electronic break-ins, or similar disruptions affecting the global Internet. In addition, we rely on a number of third-party service providers to execute certain business processes and maintain certain information technology systems and infrastructure, and any breach of security or disruption in their systems could impair our ability to operate effectively. Such disruptions, delays, problems, or associated costs relating to our systems or those of our significant customers, suppliers or third-party providers could have a material adverse effect on our financial condition, operating results and cash flows.

We are subject to cybersecurity risks and expect to incur increasing costs in an effort to minimize those risks.

Our business employs systems that allow for the secure storage and transmission of customers', vendors' and employees' proprietary information. Security breaches could expose us to a risk of loss or misuse of this information, litigation and potential liability. We may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber-attacks. Any compromise of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, damage to our reputation and a loss of confidence in our security measures, which could harm our business. The regulatory environment related to information security and privacy is increasingly rigorous, with new and constantly changing requirements applicable to our business, and compliance with those requirements could result in additional costs. Our computer systems have been, and will likely continue to be, subjected to computer viruses or other malicious codes, unauthorized access attempts and cyber- or phishing-attacks. These events could compromise ours' and our customers' and suppliers' confidential information, impede or interrupt our business operations, and could result in other negative consequences, including remediation costs, loss of revenue, litigation and reputational damage. While we have not experienced any material losses relating to cyber-attacks or other information security breaches to date, we have been the subject of attempted hacking and cyber-attacks and there can be no assurance that we will

not suffer such significant losses in the future. As cyber-attacks become more sophisticated, we expect to incur increasing costs to strengthen our systems from outside intrusions. While we have implemented administrative and technical controls and have taken other preventive actions to reduce the risk of cyber incidents and protect our information technology, they may be insufficient to prevent physical and electronic break-ins, cyber-attacks or other security breaches to our computer systems.

Some Company employees are unionized.

Less than 2% of the workforce at our company are members of 12 different unions. There can be no assurance that additional employees of our company will not conduct union organization campaigns or become union members in the future. Further, many of our collective bargaining agreements are scheduled to be renewed within the next 18 months. Failure to successfully renew such agreements could have a material adverse effect on our financial condition, operating results and cash flows.

Changes in our customer or product sales mix affect our operating results.

Our operating results vary according to the amount and type of products we sell to each of our primary customer types: single-family homebuilders, remodeling contractors, and multi-family, commercial and other contractors. We tend to realize higher gross margins on sales to remodeling contractors due to the smaller product volumes purchased by those customers, as well as the more customized nature of the projects those customers generally undertake. Gross margins on sales to single-family, multi-family, commercial and other contractors vary based on a variety of factors, including the purchase volumes of the individual customer, the mix of products sold to that customer, the cost to serve that customer, the size and selling price of the project being constructed and the number of upgrades added to the project before or during its construction.

We generate significant business from the large single-family homebuilders; however, our gross margins on sales to them tend to be lower than our gross margins on sales to other market segments. A shift in our sales mix towards the larger homebuilders could negatively impact our gross margins.

In addition, we typically realize higher gross margins on more highly engineered and customized products, or ancillary products that are often purchased based on convenience and are therefore less price sensitive to our customers. For example, sales of lumber and lumber sheet goods tend to generate lower gross margins due to their commodity nature and the relatively low switching costs of sourcing those products from different suppliers. Structural components and millwork, doors and windows often generate higher gross margins relative to other products. A shift in our sales mix towards the lumber and lumber sheet goods product category could negatively impact our gross margins.

The implementation of our supply chain and technology initiatives could disrupt our operations, and these initiatives might not provide the anticipated benefits or might fail.

We have made, and we plan to continue to make, significant investments in our supply chain and technology. These initiatives are designed to streamline our operations to allow our employees to continue to provide high quality service to our customers, while simplifying customer interaction and providing our customers with a more interconnected purchasing experience. The cost and potential problems and interruptions associated with the implementation of these initiatives, including those associated with managing third-party service providers and employing new web-based tools and services, could disrupt or reduce the efficiency of our operations. In the event that we continue to grow, there can be no assurance that we will be able to keep up, expand or adapt our IT infrastructure to meet evolving demand on a timely basis and at a commercially reasonable cost, or at all. In addition, our improved supply chain and new or upgraded technology might not provide the anticipated benefits, it might take longer than expected to realize the anticipated benefits or the initiatives might fail altogether.

Furthermore, our customers are continuing to increasingly demand and rely on increased technology in their operations. We anticipate digitization trends in the home-building industry to continue. While we believe such trends present opportunities for our business, we may be unsuccessful in keeping pace with the development of such technologies, which could result in loss of customers.

We occupy most of our facilities under long-term non-cancelable leases. We may be unable to renew leases at the end of their terms. If we close a facility, we are still obligated under the applicable lease.

Most of our facilities are leased. Many of our leases are non-cancelable, typically have initial expiration terms ranging from five to 15 years and most provide options to renew for specified periods of time. We believe that leases we enter into in the future will likely be for similar terms (five to 15 years), will be non-cancelable and will feature similar renewal options. If we close or idle a facility we would remain committed to perform our obligations under the applicable lease, which would include, among other things, payment of the base rent, insurance, taxes and other expenses on the leased property for the balance of the lease term. We have closed

or idled a number of facilities for which we continue to remain liable. Our obligation to continue making rental payments with respect to leases for closed or idled facilities could have a material adverse effect on our business and results of operations. At the end of a lease term, for those locations where we have no renewal options remaining, we may be unable to renew the lease without additional cost, if at all. If we are unable to renew our facility leases, we may close or, if possible, relocate the facility, which could subject us to additional costs and risks which could have a material adverse effect on our business. Additionally, the revenue and profit generated at a relocated facility may not equal the revenue and profit generated at the former operation.

BMC Merger Risks

We may not be able to retain customers or suppliers, or customers or suppliers may seek to modify contractual obligations with us, which could have an adverse effect on our business and operations.

If any of our customers or suppliers seeks to terminate or modify contractual or other obligations or discontinue its relationship with us as a result of the BMC Merger, then our business and results of operations may be harmed. There can be no guarantee that our customers and suppliers will remain or continue to have a relationship with us or do so on the same or similar contractual terms to those they had with either us or BMC prior to the BMC Merger. If any of our suppliers seeks to terminate or modify its relationship with us, we may be unable to procure necessary supplies from other suppliers in a timely and efficient manner and on acceptable terms, or at all. Any such disruptions could limit our ability to achieve the anticipated benefits of the BMC Merger.

Integrating the business of BMC into our existing business may be more difficult, costly or time-consuming than expected, and we may fail to realize the anticipated benefits of the BMC Merger, which may adversely affect our business results and negatively affect the value of our common stock following the BMC Merger.

The success of the BMC Merger will depend on, among other things, our ability to integrate the business of BMC into our existing business in a manner that facilitates growth opportunities and realizes cost savings. Our goal is to achieve the anticipated growth and cost savings without adversely affecting current revenues and investments in future growth. Actual growth and cost savings, if achieved, however, may be lower than what we expect and may take longer to achieve than anticipated, which could have an adverse effect on our revenues, level of expenses and operating results.

In addition, integrating the business of BMC into our existing business may result in additional and unforeseen expenses, and the anticipated benefits of our integration plan may not be realized. If we are not able to adequately address integration challenges, we may be unable to realize the anticipated benefits of the integration of BMC's operations into our existing business. If we are not able to successfully achieve these objectives, the anticipated benefits of the BMC Merger may not be realized fully, or at all, or may take longer to realize than expected. An inability to realize the full extent of the anticipated benefits of the BMC Merger, as well as any delays encountered in the integration process, could have an adverse effect upon our revenues, level of expenses and operating results, which may adversely affect the value of our common stock.

The failure to successfully integrate the businesses and operations of the Company and BMC in the expected time frame may adversely affect the combined company's future results.

There can be no assurance that BMC's operations can be integrated successfully into our existing operations. It is possible that the integration process could result in the loss of key employees, the loss of customers, the disruption of our ongoing business, inconsistencies in standards, controls, procedures and policies, unexpected integration issues, higher than expected integration costs and an overall post-completion integration process that takes longer than originally anticipated. Specifically, the following issues, among others, must be addressed in integrating the operations of BMC into the Company's existing operations in order to realize the anticipated benefits of the BMC Merger:

- managing a larger company and meeting our capital requirements;
- integrating personnel from the two companies and maintaining employee morale;
- integrating the companies' technologies;
- integrating and unifying the offerings and services available to customers;
- identifying and eliminating redundant and underperforming locations, functions and assets;
- harmonizing the companies' operating practices, employee development and compensation programs, internal controls and other policies, procedures and processes;

- maintaining or renegotiating agreements with existing customers, distributors, providers and vendors and avoiding delays in entering into new agreements with prospective customers, distributors, providers and vendors;
- addressing possible differences in business backgrounds, corporate cultures and management philosophies;
- consolidating the companies' administrative and information technology infrastructure, including multiple ERP systems;
- coordinating distribution and marketing efforts;
- managing the movement of certain positions to different locations;
- coordinating geographically dispersed organizations; and
- effecting actions that may be required in connection with obtaining regulatory approvals.

In addition, at times the attention and resources of certain members of management may be focused on the integration of BMC's operations into our existing operations and therefore diverted from day-to-day business operations or other opportunities that may be beneficial to the Company, which may disrupt our business.

Furthermore, our board of directors and executive leadership currently consists of certain directors and executive officers who served and were employed by BMC immediately prior to the BMC Merger. Integrating the boards of directors and management teams of BMC and the Company into a single board and a single management team could require the reconciliation of differing priorities and philosophies.

We will incur significant integration costs in connection with the BMC Merger.

We have incurred and expect to incur a number of non-recurring costs associated with combining the operations of BMC into our existing operations. These costs and expenses include fees paid to financial, legal and accounting advisors, facilities and systems consolidation costs, severance and other potential employment-related costs, and other related charges. There are also a large number of processes, policies, procedures, operations, technologies and systems that must be integrated as part of integrating BMC's operations into our existing operations. While we anticipated that a certain level of expenses would be incurred in connection with the BMC Merger, there are many factors beyond our control that could affect the total amount or the timing of the integration and implementation expenses.

There may also be additional unanticipated significant costs in connection with the BMC Merger that we may not recoup. These costs and expenses could reduce the realization of efficiencies, strategic benefits and additional income we expect to achieve from the BMC Merger. Although we expect that these benefits will offset the transaction expenses and implementation costs over time, this net benefit may not be achieved in the near term or at all.

Financial and Liquidity Risks

Our level of indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, and prevent us from meeting our obligations under our debt instruments.

As of December 31, 2020, our debt totaled \$1,642.4 million, which includes \$239.9 million of finance lease and other finance obligations. As of December 31, 2020, we also had a \$900.0 million revolving credit facility ("2023 facility"), which was amended on January 29, 2021 and increased to \$1,400 million. We had \$75.0 million of outstanding borrowings and \$78.0 million of letters of credit outstanding as of December 31, 2020 under the 2023 facility. In addition, we also have \$280.9 million in obligations under operating leases.

Our level of indebtedness could have important consequences to us, including:

- increasing our vulnerability to general economic and industry conditions;
- requiring a substantial portion of our operating cash flow to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our liquidity and our ability to use our cash flow to fund our operations, capital expenditures, and future business opportunities;
- exposing us to the risk of increased interest rates, and corresponding increased interest expense, because borrowings under the 2023 facility are at variable rates of interest;

- limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions, and general corporate or other purposes;
- limiting our ability to adjust to changing marketplace conditions and placing us at a competitive disadvantage compared to our competitors who may have less debt; and
- limiting our attractiveness as an investment opportunity for potential investors.

In addition, our debt instruments contain cross-default provisions that could result in our debt being declared immediately due and payable under a number of debt instruments, even if we default on only one debt instrument. In such event, it is possible that we would not be able to satisfy our obligations under all of such accelerated indebtedness simultaneously.

Our financial condition and operating performance, including that of our subsidiaries, are also subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. There are no assurances that we will maintain a level of liquidity sufficient to permit us to pay the principal, premium and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital, or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations in an effort to meet our debt service and other obligations. The agreements governing our debt instruments restrict our ability to dispose of assets and to use the proceeds from such dispositions. We may not be able to consummate those dispositions or be able to obtain the proceeds that we could realize from them, and these proceeds may not be adequate to meet any debt service obligations then due.

We may have future capital needs and may not be able to obtain additional financing on acceptable terms.

We are substantially reliant on cash on hand and borrowing availability under the 2023 facility, which totaled \$1,170.8 million at December 31, 2020, to provide working capital and fund our operations. Our working capital requirements are likely to grow assuming the housing industry continues to grow. Our inability to renew, amend or replace our debt instruments when required or when business conditions warrant could have a material adverse effect on our business, financial condition and results of operations.

Economic and credit market conditions, the performance of our industry, and our financial performance, as well as other factors, may constrain our financing abilities. Our ability to secure additional financing, if available, and to satisfy our financial obligations under indebtedness outstanding from time to time will depend upon our future operating performance, the availability of credit, economic conditions and financial, business and other factors, many of which are beyond our control. Significant worsening of current housing market conditions or the macroeconomic factors that affect our industry could require us to seek additional capital and have a material adverse effect on our ability to secure such capital on favorable terms, if at all.

We may be unable to secure additional financing, financing on favorable terms or our operating cash flow may be insufficient to satisfy our financial obligations under indebtedness outstanding from time to time. The agreements governing our debt instruments, moreover, restrict the amount of permitted indebtedness allowed. In addition, if financing is not available when needed, or is available on unfavorable terms, we may be unable to take advantage of business opportunities, including potential acquisitions, or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition, and results of operations. If additional funds are raised through the issuance of additional equity or convertible debt securities, our stockholders may experience significant dilution.

We may incur additional indebtedness.

We may incur additional indebtedness in the future, including collateralized debt, subject to the restrictions contained in the agreements governing our debt instruments. If new debt is added to our current debt levels, the related risks that we now face could intensify.

Our debt instruments contain various covenants that limit our ability to operate our business.

Our financing arrangements, including the agreements governing our debt instruments, contain various provisions that limit our ability to, among other things:

- transfer or sell assets, including the equity interests of our restricted subsidiaries, or use asset sale proceeds;
- incur additional debt;
- pay dividends or distributions on our capital stock or repurchase our capital stock;
- make certain restricted payments or investments;
- create liens to secure debt;
- enter into transactions with affiliates;
- merge or consolidate with another company or continue to receive the benefits of these financing arrangements under a “change in control” scenario (as defined in those agreements); and
- engage in unrelated business activities.

The agreement governing the 2023 facility contains a financial covenant requiring the satisfaction of a minimum fixed charge ratio of 1.00 to 1.00 if our excess availability falls below the greater of \$80.0 million or 10% of the maximum borrowing amount, which was \$90.0 million as of December 31, 2020.

These provisions may restrict our ability to expand or fully pursue our business strategies. Our ability to comply with the agreements governing our debt instruments may be affected by changes in our operating and financial performance, changes in general business and economic conditions, adverse regulatory developments, a change in control or other events beyond our control. The breach of any of these provisions could result in a default under our indebtedness, which could cause those and other obligations to become due and payable. If any of our indebtedness is accelerated, we may not be able to repay it.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our indebtedness service obligations to increase significantly.

Interest rates may increase in the future. As a result, interest rates on our 2023 facility could be higher or lower than current levels. As of December 31, 2020, we had approximately \$75.0 million, or 4.6%, of our outstanding debt at variable interest rates. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, would correspondingly decrease. Further, an increase in interest rates could also trigger a limitation on the deductibility of those interest costs, increasing our tax expense and further decreasing our net income and cash flows. In recent years, the Company has executed several debt transactions designed to reduce debt, extend maturities or lower our interest rates. The Company is likely to execute similar debt transactions in the future. However, there can be no assurance that we will be successful in anticipating the direction of interest rates or changes in market conditions, which could result in future debt transactions having a material adverse impact on our financial condition, operating results and cash flows.

A 1.0% increase in interest rates on the 2023 facility would result in approximately \$0.8 million in additional interest expense annually as we had \$75.0 million in outstanding borrowings as of December 31, 2020. The 2023 facility also assesses variable commitment and outstanding letter of credit fees based on quarterly average loan utilization.

If the housing market declines, we may be required to take impairment charges relating to our operations or temporarily idle or permanently close under-performing locations.

If conditions in the housing industry deteriorate we may need to take goodwill and/or asset impairment charges relating to certain of our reporting units. Any such non-cash charges would have an adverse effect on our financial results. In addition, in response to industry conditions, we may have to temporarily idle or permanently close certain facilities in under-performing regions. Any such facility closures could have a significant adverse effect on our financial condition, operating results and cash flows.

We do not have any current plan to pay dividends on our common stock, and as a result, your ability to achieve a return on your investment in our common stock may be limited to any increases in the price of our common stock.

We anticipate that we will retain future earnings and other cash resources for the future operation and development of our business, including potential debt reduction. Accordingly, we do not expect to declare or pay regular cash dividends on our common

stock in the near future. Our board of directors may approve the payment of future dividends after taking into account many factors, including our operating results, financial condition, current and anticipated cash needs, plans for expansion, and any restrictions on the payment of such dividends by the terms of our outstanding indebtedness.

Our inability to effectively deploy our excess capital may negatively affect return on equity and stockholder value.

Our business plan calls for us to execute a variety of strategies to deploy excess capital including, but not limited to, continued organic balance sheet growth and the consideration of potential acquisition opportunities to further deploy our excess capital when we expect such opportunities to significantly enhance long-term stockholder value. We may also implement share repurchase plans. Our inability to effectively and timely deploy our excess capital through these strategies may constrain growth in earnings and return on equity and thereby diminish potential growth in stockholder value.

Legal and Compliance Risks

The nature of our business exposes us to product liability, product warranty, casualty, construction defect, asbestos, vehicle and other claims and legal proceedings.

We are involved in product liability, product warranty, casualty, construction defect, asbestos, vehicle and other claims relating to the products we manufacture and distribute, and services we provide or have provided that, if adversely determined, could adversely affect our financial condition, operating results, and cash flows. We rely on manufacturers and other suppliers to provide us with many of the products we sell and distribute. Because we have no direct control over the quality of such products manufactured or supplied by such third-party suppliers, we are exposed to risks relating to the quality of such products. The Company has a number of known and threatened construction defect legal claims. We are also involved in several asbestos personal injury suits due to the alleged sale of asbestos-containing products by legacy businesses that we acquired. In addition, we are exposed to potential claims arising from the conduct of our respective employees and subcontractors, and builders and their subcontractors, for which we may be contractually liable. Although we currently maintain what we believe to be suitable and adequate insurance in excess of our self-insured amounts, there can be no assurance that we will be able to maintain such insurance on acceptable terms or that such insurance will provide adequate protection against potential liabilities. Product liability, product warranty, casualty, construction defect, asbestos, vehicle, and other claims can be expensive to defend and can divert the attention of management and other personnel for significant periods, regardless of the ultimate outcome. Claims of this nature could also have a negative impact on customer confidence in our products and our company. In addition, we are involved on an ongoing basis in other types of legal proceedings, such as workers' compensation proceedings. We cannot assure you that any current or future claims against us will not adversely affect our financial condition, operating results and cash flows.

Federal, state, local and other regulations could impose substantial costs and/or restrictions on our operations that would reduce our net income.

We are subject to various federal, state, local and other regulations, including, among other things, regulations promulgated by the Department of Transportation and applicable to our fleet of delivery trucks, work safety regulations promulgated by the Department of Labor's Occupational Safety and Health Administration, employment regulations promulgated by the United States Equal Employment Opportunity Commission, tariff regulations on imported products promulgated by the Federal government, accounting standards issued by the Financial Accounting Standards Board ("FASB") or similar entities, state and local regulations relating to our escrow business, and state and local zoning restrictions and building codes. More burdensome regulatory requirements in these or other areas may increase our general and administrative costs and adversely affect our financial condition, operating results and cash flows. Moreover, failure to comply with the regulatory requirements applicable to our business could expose us to substantial penalties that could adversely affect our financial condition, operating results and cash flows.

Future changes to tax laws and regulations could have an adverse impact on our business.

We are subject to income and other taxes in the United States. We are subject to ongoing tax audits in various jurisdictions. We regularly assess the likely outcome of these audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcome of these audits, and the amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and therefore could have a material impact on our tax provision, net income and cash flows. In addition, our effective tax rate in the future could be adversely affected by changes to our operating structure, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, and the discovery of new information in the course of our tax return preparation.

For example, on December 22, 2017, legislation commonly referred to as the Tax Cuts and Jobs Act (“the 2017 Tax Act”) substantially changed several aspects of the Internal Revenue Code, some of which may have an adverse impact on our business over time. Certain aspects of the 2017 Tax Act, including limitations on deductions for property taxes, mortgage interest and state and local income taxes, may make purchasing a home less attractive, which could reduce demand for homes and have an adverse impact on our business. Further, any future changes in federal and state tax laws and regulations could have an adverse impact on our financial condition, operating results and cash flows.

We are subject to potential exposure to environmental liabilities and are subject to environmental regulation.

We are subject to various federal, state and local environmental laws, ordinances and regulations. Although we believe that our facilities are in material compliance with such laws, ordinances, and regulations, as owners and lessees of real property, we can be held liable for the investigation or remediation of contamination on such properties, in some circumstances, without regard to whether we knew of or were responsible for such contamination. No assurance can be provided that remediation may not be required in the future as a result of spills or releases of petroleum products or hazardous substances, the discovery of unknown environmental conditions, more stringent standards regarding existing residual contamination, or changes in legislation, laws, rules or regulations. More burdensome environmental regulatory requirements may increase our general and administrative costs and adversely affect our financial condition, operating results and cash flows.

General Risks

We may be adversely affected by uncertainty in the economy and financial markets, including as a result of terrorism, unrest, or pandemics.

Instability in the economy and financial markets, including as a result of terrorism, unrest or pandemics, including COVID-19, may result in a decrease in housing starts, which would adversely affect our business. In addition, such adverse developments, may cause unpredictable or unfavorable economic conditions and could have a material adverse effect on our financial condition, operating results, and cash flows. Any shortages of fuel or significant fuel cost increases related to geopolitical conditions, or other factors, could seriously disrupt our ability to distribute products to our customers. In addition, domestic terrorist attacks, civil unrest and outbreaks of disease may affect our ability to keep our operations and services functioning properly and could have a material adverse effect on our financial condition, operating results and cash flows.

We may be adversely affected by any natural or man-made disruptions to our operations and our distribution and manufacturing facilities.

We currently maintain a broad network of distribution and manufacturing facilities throughout the U.S. Any widespread disruption to our operations resulting from fire, earthquake, weather-related events (such as tornadoes, hurricanes, flooding and other storms), other natural disasters, an act of terrorism or any other cause could damage multiple facilities and a significant portion of our inventory and could materially impair our ability to distribute our products to customers. Moreover, we could incur significantly higher costs and longer lead times associated with distributing our products to our customers during the time that it takes for us to reopen or replace a damaged facility. If any of these events were to occur, our financial condition, operating results and cash flows could be materially adversely affected.

In addition, general weather patterns affect our operating results throughout the year, with adverse weather historically reducing construction activity in the first and fourth quarters in the regions in which we primarily operate. Adverse weather events, natural disasters or similar events, including as a result of climate change, could generally reduce or delay construction activity, which could adversely impact our financial condition, operating results and cash flows.

The price of our common stock is volatile and may decline.

The market price of our common stock historically has experienced and may continue to experience significant price fluctuations similar to those experienced by the broader stock market in recent years. For example, between January 1, 2020 and December 31, 2020, the closing price of our common stock on the NASDAQ ranged from \$10.65 to \$42.28 per share. In addition, the price of our common stock may fluctuate significantly in response to various factors, including:

- actual or anticipated fluctuations in our results of operations;
- announcements by us or our competitors of significant business developments, changes in customer relationships, acquisitions, or expansion plans;

- changes in the prices of products we sell;
- involvement in litigation;
- our sale of common stock or other securities in the future;
- market conditions in our industry;
- changes in key personnel;
- changes in market valuation or earnings of our competitors;
- the trading volume of our common stock;
- changes in the estimation of the future size and growth rate of our markets; and
- general economic and market conditions.

Broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against that company.

If we were involved in any similar litigation we could incur substantial costs and our management's attention and resources could be diverted, which could adversely affect our financial condition, results of operations and cash flows. As a result, it may be difficult for you to resell your shares of common stock in the future.

The issuance or conversion of awards under our stock incentive plans could adversely affect the market price of our common stock.

The conversion of restricted stock units under our stock incentive plans could adversely affect the prevailing market price of our common stock and could cause the market price of our common stock to remain low for a substantial time. Additional stock grants may also be made under our incentive plans, including our 2014 Incentive Plan, as it may be amended. The potential for future stock grants could have a negative effect on the market for our common stock and our ability to raise additional capital.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We have a broad network of distribution and manufacturing facilities in 40 states throughout the U.S. Based on available 2020 U.S. Census data, we have operations in 85 of the top 100 U.S. Metropolitan Statistical Areas following the BMC Merger, as ranked by single family housing permits in 2020.

Distribution centers typically include 10 to 15 acres of outside storage, a 45,000 square foot warehouse, 4,000 square feet of office space, and 15,000 square feet of covered storage. The outside area provides space for lumber storage and a staging area for delivery while the warehouse stores millwork, windows and doors. The distribution centers are usually located in industrial areas with low cost real estate and easy access to freeways to maximize distribution efficiency and convenience. Many of our distribution centers are situated on rail lines for efficient receipt of goods.

Our manufacturing facilities produce trusses, wall panels, engineered wood, stairs, windows, pre-hung doors and custom millwork. In many cases, they are located on the same premises as our distribution facilities. Truss and panel manufacturing facilities vary in size from 30,000 square feet to 60,000 square feet with eight to 10 acres of outside storage for lumber and for finished goods. Our window manufacturing facility in Houston, Texas is approximately 200,000 square feet.

Following the BMC Merger, we contractually lease approximately 400 facilities and own approximately 150 facilities. These leases typically have an initial lease term of five to 15 years and most provide options to renew for specified periods of time. A majority of our leases provide for fixed annual rentals. Certain of our leases include provisions for escalating rent, as an example, based on changes in the consumer price index. Most of the leases require us to pay taxes, insurance and common area maintenance expenses associated with the properties. As described in Note 10 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K, 131 of our leased facilities are subject to a sales-lease back transaction that is accounted for in our financial statements as owned assets with offsetting financing obligations.

In addition, following the BMC Merger, we operate a fleet of approximately 17,000 rolling stock units, which includes approximately 7,500 trucks and 6,500 forklifts as well as trailers to deliver products from our distribution and manufacturing centers to our customers' job sites. Through our emphasis on local market flexibility and strategically placed locations, we minimize shipping and freight costs while maintaining a high degree of local market expertise. Through knowledge of local homebuilder needs, customer coordination and rapid restocking ability, we reduce working capital requirements and guard against out-of-stock products. We believe that this reliability is highly valued by our customers and reinforces customer relationships.

Item 3. *Legal Proceedings*

The Company has a number of known and threatened construction defect legal claims. While these claims are generally covered under the Company's existing insurance programs to the extent any loss exceeds the deductible, there is a reasonable possibility of loss that is not able to be estimated at this time because (i) many of the proceedings are in the discovery stage, (ii) the outcome of future litigation is uncertain, and/or (iii) the complex nature of the claims. Although the Company cannot estimate a reasonable range of loss based on currently available information, the resolution of these matters could have a material adverse effect on the Company's financial position, results of operations or cash flows.

In addition, we are involved in various other claims and lawsuits incidental to the conduct of our business in the ordinary course. We carry insurance coverage in such amounts in excess of our self-insured retention as we believe to be reasonable under the circumstances and that may or may not cover any or all of our liabilities in respect of such claims and lawsuits. Although the ultimate disposition of these other proceedings cannot be predicted with certainty, management believes the outcome of any such claims that are pending or threatened, either individually or on a combined basis, will not have a material adverse effect on our consolidated financial position, cash flows or results of operations. However, there can be no assurances that future adverse judgments and costs would not be material to our results of operations or liquidity for a particular period.

Although our business and facilities are subject to federal, state and local environmental regulation, environmental regulation does not have a material impact on our operations. We believe that our facilities are in material compliance with such laws and regulations. As owners and lessees of real property, we can be held liable for the investigation or remediation of contamination on such properties, in some circumstances without regard to whether we knew of or were responsible for such contamination. Our current expenditures with respect to environmental investigation and remediation at our facilities are minimal, although no assurance can be provided that more significant remediation may not be required in the future as a result of spills or releases of petroleum products or hazardous substances or the discovery of unknown environmental conditions.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

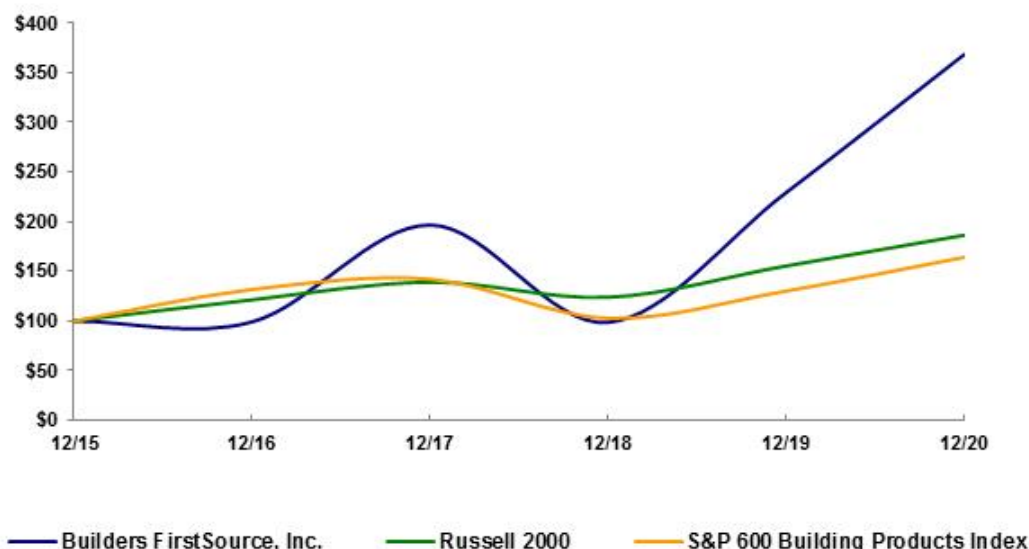
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Stock Market LLC under the symbol “BLDR”. The approximate number of stockholders of record of our common stock as of February 24, 2021 was 139.

We currently do not pay dividends. Any future determination relating to dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including restrictions in our debt instruments, as well as our future earnings, capital requirements, financial condition, prospects and other factors that our board of directors may deem relevant. Our debt agreements currently restrict our ability to pay dividends. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources” contained in Item 7 of this annual report on Form 10-K.

The graph below matches the cumulative 5-Year total return of holders of Builders FirstSource, Inc.’s common stock with the cumulative total returns of the Russell 2000 index and the S&P 600 Building Products index. The graph assumes that the value of the investment in our common stock, in each index, and in the peer group (including reinvestment of dividends) was \$100 on December 31, 2015 and tracks it through December 31, 2020.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Builders FirstSource, Inc., the Russell 2000 Index, and S&P 600 Building Products Index



*\$100 invested on 12/31/15 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

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	12/15	12/16	12/17	12/18	12/19	12/20
Builders FirstSource, Inc.	100.00	99.01	196.66	98.47	229.33	368.32
Russell 2000	100.00	121.31	139.08	123.76	155.35	186.36
S&P 600 Building Products Index	100.00	131.67	141.97	102.71	130.08	164.06

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

The information regarding securities authorized for issuance under equity compensation plans appears in our definitive proxy statement for our annual meeting of stockholders to be held on June 16, 2021 under the caption “Equity Compensation Plan Information,” which information is incorporated herein by reference.

Item 6. Selected Financial Data

The following selected consolidated financial data for the years ended December 31, 2020, 2019 and 2018 and as of December 31, 2020 and 2019 were derived from our consolidated financial statements which are included in Item 8 of this annual report on Form 10-K. Selected consolidated financial data as of December 31, 2018 and as of and for the years ended December 31, 2017 and 2016 were derived from our consolidated financial statements, but are not included herein.

The following data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in Item 7 of this annual report on Form 10-K and with our consolidated financial statements and related notes included in Item 8 of this annual report on Form 10-K.

	Year Ended December 31,				
	2020	2019	2018	2017	2016
	(In thousands, except per share amounts)				
Statement of operations data:					
Net sales (1)	\$ 8,558,874	\$ 7,280,431	\$ 7,724,771	\$ 7,034,209	\$ 6,367,284
Gross margin	2,222,584	1,976,829	1,922,940	1,727,391	1,596,748
Selling, general and administrative expenses	1,678,730	1,584,523	1,553,972	1,442,288	1,360,412
Net income (loss) (2)(3)	313,537	221,809	205,191	38,781	144,341
Net income (loss) per share — basic	\$ 2.69	\$ 1.92	\$ 1.79	\$ 0.34	\$ 1.30
Net income (loss) per share — diluted	\$ 2.66	\$ 1.90	\$ 1.76	\$ 0.34	\$ 1.27
Balance sheet data (end of period):					
Cash and cash equivalents	\$ 423,806	\$ 14,096	\$ 10,127	\$ 57,533	\$ 14,449
Total assets (4)	4,173,671	3,249,490	2,932,309	3,006,124	2,909,887
Total debt (including current portion)	1,624,240	1,291,273	1,561,294	1,784,420	1,802,052
Stockholders’ equity	1,152,783	824,953	596,338	376,209	309,620
Other financial data:					
Depreciation and amortization	\$ 116,566	\$ 100,038	\$ 97,906	\$ 92,993	\$ 109,793

- (1) We adopted updated revenue recognition guidance using the modified retrospective method as of January 1, 2018. As such, periods prior to the adoption date have not been restated and continue to be presented in accordance with previous guidance.
- (2) Net income for the year ended December 31, 2017 includes \$29.0 million in income tax expense attributable to revaluation of our net deferred tax assets resulting from the enactment of the 2017 Tax Act. Net income for the year ended December 31, 2016 includes a reduction to our valuation allowance of \$131.7 million as we released the valuation allowance against our net federal and certain state deferred tax assets in that period.
- (3) Net income for the year ended December 31, 2020 includes net losses on debt extinguishment and other financing costs of \$29.4 million. Net income for the year ended December 31, 2019 includes net losses on debt extinguishment and other financing costs of \$10.2 million. Net income for the year ended December 31, 2018 includes a net gain on debt extinguishment of \$3.2 million. Our 2020, 2019, and 2018 debt transactions are discussed in detail in Note 9 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K. Net income for the year ended December 31, 2017 includes net losses on debt extinguishment and other financing costs of \$58.7 million. Net income for the year ended December 31, 2016 includes net losses on debt extinguishment and other financing costs of \$56.9 million.
- (4) We adopted guidance relating to leases using the modified retrospective method as of January 1, 2019. As such, periods prior to the adoption date have not been restated and continue to be presented in accordance with previous guidance.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with the selected financial data and the consolidated financial statements and related notes contained in Item 6. Selected Financial Data and Item 8. Financial Statements and Supplementary Data of this annual report on Form 10-K, respectively. See "Risk Factors" contained in Item 1A. Risk Factors of this annual report on Form 10-K and "Cautionary Statement" contained in Item 1. Business of this annual report on Form 10-K for a discussion of the uncertainties, risks and assumptions associated with these statements.

OVERVIEW

We are a leading supplier and manufacturer of building materials, manufactured components and construction services to professional contractors, sub-contractors and consumers. Following the BMC Merger, the Company operates approximately 550 locations in 40 states across the United States. Given the span and depth of our geographical reach, prior to the BMC Merger our locations were organized into nine geographical regions (Regions 1 through 9), which were also our operating segments, and these were further aggregated into four reportable segments: Northeast, Southeast, South and West. Following the BMC Merger, we will re-evaluate our operating and reportable segments for future reporting periods. All of our segments have similar customers, products and services, and distribution methods. Our financial statements contain additional information regarding segment performance which is discussed in Note 15 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K.

We offer an integrated solution to our customers providing manufacturing, supply and installation of a full range of structural and related building products. Our manufactured products include our factory-built roof and floor trusses, wall panels and stairs, vinyl windows, custom millwork and trim, as well as engineered wood that we design, cut, and assemble for each home. We also assemble interior and exterior doors into pre-hung units. Additionally, we supply our customers with a broad offering of professional grade building products not manufactured by us, such as dimensional lumber and lumber sheet goods and various window, door and millwork lines. Our full range of construction-related services includes professional installation, turn-key framing and shell construction, and spans all our product categories.

We group our building products into six product categories:

- *Lumber & Lumber Sheet Goods.* Lumber & lumber sheet goods include dimensional lumber, plywood, and OSB products used in on-site house framing.
- *Manufactured Products.* Manufactured products consist of wood floor and roof trusses, steel roof trusses, wall panels, stairs, and engineered wood.
- *Windows, Door & Millwork.* Windows & doors are comprised of the manufacturing, assembly, and distribution of windows and the assembly and distribution of interior and exterior door units. Millwork includes interior trim and custom features that we manufacture under the Synboard® brand name.
- *Gypsum, Roofing & Insulation.* Gypsum, roofing, & insulation include wallboard, ceilings, joint treatment and finishes.
- *Siding, Metal, and Concrete.* Siding, metal, and concrete includes vinyl, composite, and wood siding, exterior trim, other exteriors, metal studs and cement.
- *Other Building Products & Services.* Other building products & services are comprised of products such as cabinets and hardware as well as services such as turn-key framing, shell construction, design assistance, and professional installation spanning the majority of our product categories.

Our operating results are dependent on the following trends, strategies, events and uncertainties, some of which are beyond our control:

- *Homebuilding Industry and Market Competition.* Our business is driven primarily by the residential new construction market and the residential repair and remodel market, which are in turn dependent upon a number of factors, including demographic trends, interest rates, consumer confidence, employment rates, housing affordability, household formation, land development costs, the availability of skilled construction labor, and the health of the economy and mortgage markets. According to the U.S. Census Bureau, annual U.S. total and single-family housing starts were 1.4 million and 1.0 million, respectively, in 2020. Due to increased competition for homebuilder business and cyclical fluctuations in commodity prices, we may experience pressure on our gross margins. In addition to these factors, there has been a trend of consolidation within the building products supply industry. However, our industry remains highly fragmented and competitive and we will continue to face significant competition from local and regional suppliers. We believe there are several meaningful trends that indicate U.S. housing demand will continue to grow, including historically low interest rates, the aging of housing stock, and normal population growth due to immigration and birthrate exceeding death rate. Building upon the current rate of market growth, industry forecasters, including the National Association of Homebuilders ("NAHB"), expect to see continued increases in housing demand over the next year.

- *Effect of COVID-19 Pandemic.* In March of 2020, the U.S. economy began to see significant disruption, uncertainty and record high levels of unemployment as a result of the COVID-19 pandemic. While the COVID-19 pandemic did not have a materially adverse impact on our financial results in 2020, the extent and duration of any future impact resulting from the pandemic is not fully known, and we may experience a decline in housing starts, reduced sales demand, volatility in commodity prices, challenges in the supply chain, increased margin pressures and/or increased operating costs as a result.
- *Targeting Large Production Homebuilders.* In recent years, the homebuilding industry has undergone consolidation, and the larger homebuilders have increased their market share. We expect that trend to continue as larger homebuilders have better liquidity and land positions relative to the smaller, less capitalized homebuilders. Our focus is on maintaining relationships and market share with these customers while balancing the competitive pressures we are facing in servicing large homebuilders with certain profitability expectations. Additionally, we have been successful in expanding our custom homebuilder base while maintaining acceptable credit standards.
- *Repair and remodel end market.* Although the repair and remodel end market is influenced by housing starts to a lesser degree than the homebuilding market, the repair and remodel end market is still dependent upon some of the same factors as the homebuilding market, including demographic trends, interest rates, consumer confidence, employment rates and the health of the economy and home financing markets. The repair and remodel end market has been impacted by the COVID-19 pandemic and while the extent of this impact and related uncertainties are yet to be fully known, we may experience reduced sales demand, increased margin pressures and/or increased operating costs in this area of our business as a result. We expect that our ability to remain competitive in this space will depend on our continued ability to provide a high level of customer service coupled with a broad product offering.
- *Use of Prefabricated Components.* Homebuilders are increasingly using prefabricated components in order to realize increased efficiency, overcome skilled construction labor shortages and improve quality. Shortening cycle time from start to completion is a key imperative of the homebuilders during periods of strong consumer demand. We continue to see the demand for prefabricated components increasing within the residential new construction market as the availability of skilled construction labor remains limited.
- *Economic Conditions.* Economic changes both nationally and locally in our markets impact our financial performance. The building products supply industry is highly dependent upon new home construction and subject to cyclical market changes. Our operations are subject to fluctuations arising from changes in supply and demand, national and local economic conditions, labor costs and availability, competition, government regulation, trade policies and other factors that affect the homebuilding industry such as demographic trends, interest rates, housing starts, the high cost of land development, employment levels, consumer confidence, and the availability of credit to homebuilders, contractors, and homeowners. The disruptions and uncertainties as a result of the ensuing COVID-19 pandemic may have a significant impact on our future operating results.
- *Housing Affordability.* The affordability of housing can be a key driver in demand for our products. Home affordability is influenced by a number of economic factors, such as the level of employment, consumer confidence, consumer income, supply of houses, the availability of financing and interest rates. Changes in the inventory of available homes as well as economic factors relative to home prices could result in changes to the affordability of homes. As a result, homebuyer demand may shift towards smaller, or larger, homes creating fluctuations in demand for our products.
- *Cost of Materials.* Prices of wood products, which are subject to cyclical market fluctuations, may adversely impact operating income when prices rapidly rise or fall within a relatively short period of time. We purchase certain materials, including lumber products, which are then sold to customers as well as used as direct production inputs for our manufactured and prefabricated products. Short-term changes in the cost of these materials, some of which are subject to significant fluctuations, are oftentimes passed on to our customers, but our pricing quotation periods and market competition may limit our ability to pass on such price changes. We may also be limited in our ability to pass on increases on in-bound freight costs on our products. Our inability to pass on material price increases to our customers could adversely impact our operating results.
- *Controlling Expenses.* Another important aspect of our strategy is controlling costs and striving to be a low-cost building materials supplier in the markets we serve. We pay close attention to managing our working capital and operating expenses. Further, we pay careful attention to our logistics function and its effect on our shipping and handling costs.
- *Multi-Family and Light Commercial Business.* Our primary focus has been, and continues to be, on single-family residential new construction and the repair and remodel end market. However, we will continue to identify opportunities for profitable growth in the multi-family and light commercial markets.

- *Capital Structure.* As a result of our historical growth through acquisitions, we had \$1,642.4 million of indebtedness as of December 31, 2020. We strive to optimize our capital structure to ensure that our financial needs are met in light of economic conditions, business activities, organic investments, opportunities for growth through acquisition and the overall risk characteristics of our underlying assets. In addition to these factors, we also evaluate our capital structure on the basis of our leverage ratio, our liquidity position, our debt maturity profile and market interest rates. As such, we may enter into various debt or equity transactions in order to appropriately manage and optimize our capital structure and liquidity needs.

RECENT DEVELOPMENTS

General

On January 1, 2021, we completed our previously announced all stock merger transaction with BMC. The BMC Merger will be accounted for using the acquisition method of accounting, and Builders FirstSource, Inc. will be treated as the accounting acquirer. The operating results of BMC will be reported as part of the Company beginning on the closing date of the BMC Merger and as such, the historical financial condition, results of operations and cash flows of the Company presented in this annual report do not include BMC.

COVID-19 Pandemic

The COVID-19 pandemic resulted in significant disruption to the U.S. economy in 2020 and impacted our operations and those of our customers. Despite experiencing disruptions to our operations and implementing a number of health and safety precautions as a result of the pandemic, our financial results and financial condition were not materially adversely affected by the pandemic. In most of the states in which we operate, construction was deemed an essential activity and, as a result, our operations faced limited temporary closures early on in the pandemic. Furthermore, housing starts and repair and remodeling activity generally increased throughout our markets in 2020 despite the pandemic.

Despite the limited impact of the COVID-19 pandemic on our 2020 financial results, the extent to which the pandemic may impact our results in future periods is uncertain and will depend upon, among other things, the duration and severity of the outbreak or subsequent outbreaks, related government responses, such as required physical distancing or restrictions on business operations and travel, the pace of recovery of economic activity and the impact to consumers, the effectiveness of available vaccines, and any potential supply disruptions, all of which are uncertain and difficult to predict in light of the rapidly evolving landscape. Refer to Part I, Item 1A. Risk Factors for a full discussion of the risks associated with the COVID-19 pandemic.

Business Combinations

On January 9, 2020, we acquired certain assets and operations of Bianchi & Company, Inc. (“Bianchi”) for \$15.9 million in cash. Located in Charlotte, North Carolina, Bianchi is a supplier and installer of interior and exterior millwork.

On November 2, 2020 we acquired certain assets and operations of Kansas Building Supply Company, Inc. (“KBS”) for \$16.8 million in cash. Located in Overland Park, Kansas, KBS is a supplier for interior and exterior doors, windows, millwork cabinetry, and hardware.

These acquisitions are described in Note 5 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K.

Debt Transactions

During the year ended December 31, 2020, the Company executed several debt transactions, including the redemption of \$503.9 million in outstanding aggregate principal amount of 5.625% senior secured notes due 2024 (“2024 notes”), the redemption of \$47.5 million in aggregate principal amount of 6.75% senior secured notes due 2027 (“2027 notes”), and repayment of \$52.0 million of our senior secured term loan facility due 2024 (“2024 term loan”). The repayments of our 2024 notes and 2027 notes were funded with the proceeds of the issuance of \$550.0 million in aggregate principal amount of 5.00% unsecured senior notes due 2030 (“2030 notes”) and borrowings on our \$900.0 million revolving credit facility (“2023 facility”). The repayment of our 2024 term loan was funded with cash on hand. The Company also issued an additional \$350.0 million in aggregate principal amount of our 2027 notes.

On January 29, 2021, the Company amended the 2023 facility to, among other things, increase the total commitments by an aggregate amount of \$500.0 million resulting in a new \$1.4 billion amended credit facility, and extended the maturity date from November 2023 to January 2026.

On February 16, 2021, pursuant to the optional call feature in the 2027 Indenture, the Company gave notice that on March 3, 2021, \$82.5 million of 2027 notes will be redeemed at a redemption price equal to 103% of the principal amount of the notes, plus accrued and unpaid interest.

These transactions are described in Notes 9 and 18 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K. Collectively, these transactions have extended our debt maturity. From time to time, based on market conditions and other factors and subject to compliance with applicable laws and regulations, the Company may repurchase or call our notes, repay debt, repurchase shares of our common stock or otherwise enter into transactions regarding its capital structure.

Retirement of President and Chief Executive Officer

In January 2020, Mr. Chad Crow notified our Board of his decision to retire as President and Chief Executive Officer of the Company during 2020 after assisting the Board in hiring his replacement. Mr. Crow will continue to serve as the Company's Chief Executive Officer for a transition period of 90 days after the BMC Merger, following which BMC's former Chief Executive Officer, and the recently appointed President of the Company, Mr. Dave Flitman, will succeed Mr. Crow as Chief Executive Officer of the Company.

Composition of the Board of Directors of the Company

As a result of the BMC Merger, effective January 1, 2021, the size of the board of directors was increased to twelve directors, with seven directors designated by the Company and five directors designated by BMC.

CURRENT OPERATING CONDITIONS AND OUTLOOK

According to the U.S. Census Bureau, actual U.S. total housing starts for the year ended December 31, 2020 were 1.4 million, an increase of 7.0% compared to the year ended December 31, 2019. Actual U.S. single-family housing starts for the year ended December 31, 2020 were 1.0 million, an increase of 11.7% compared to the year ended December 31 2019. A composite of third party sources, including the NAHB, are forecasting 1.5 million U.S. total housing starts and 1.1 million U.S. single-family housing starts for 2021, which are increases of 6.0% and 11.0%, respectively, from 2020. In addition, in its September 2020 semi-annual forecast, the Home Improvement Research Institute ("HIRI") forecasted sales in the professional repair and remodel end market to increase approximately 5.3% in 2021 compared to 2020.

Our net sales for the year ended December 31, 2020 increased 17.6% over the same period last year. Commodity price inflation increased our net sales in 2020 by an estimated 9.0%, while acquisitions and one more selling day increased our sales by 2.5% and 0.5%, respectively. Excluding the impact of commodity price inflation, acquisitions and the impact of one more selling day, we achieved 5.6% net sales growth in the single-family, multi-family and repair and remodel/other end markets. Our gross margin percentage decreased by 1.2% during the year ended December 31, 2020 compared to the year ended December 31, 2019, primarily attributable to margin pressures as a result of commodity price inflation. Our selling, general and administrative expenses, as a percentage of net sales, were 19.6% in 2020, a 2.2% decrease from 21.8% in 2019, primarily driven by the effect of leverage from commodity price inflation in our net sales in the year ended December 31, 2020 compared to the year ended December 31, 2019.

We believe the long-term outlook for the housing industry is positive due to growth in the underlying demographics compared to historical new construction levels. We feel we are well-positioned to take advantage of the construction activity in our markets and to increase our market share, which may include strategic acquisitions. We will continue to focus on working capital by closely monitoring the credit exposure of our customers, remaining focused on maintaining the right level of inventory and by working with our vendors to improve payment terms and pricing on our products. We strive to achieve the appropriate balance of short-term expense control while maintaining the expertise and capacity to grow the business as market conditions continue to improve. In addition, optimization of our capital structure will continue to be a key area of focus for the Company.

RESULTS OF OPERATIONS

A discussion regarding our financial condition and results of operations for the year ended December 31, 2020 compared to the year ended December 31, 2019 is presented below. A discussion regarding our financial condition and results of operations for the year ended December 31, 2019 compared to the year ended December 31, 2018 can be found under Item 7 of Part II of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on February 21, 2020.

2020 Compared with 2019

The following table sets forth the percentage relationship to net sales of certain costs, expenses and income items for the years ended December 31:

	2020	2019
Net sales	100.0%	100.0%
Cost of sales	74.0%	72.8%
Gross margin	26.0%	27.2%
Selling, general and administrative expenses	19.6%	21.8%
Income from operations	6.4%	5.4%
Interest expense, net	1.6%	1.5%
Income tax expense	1.1%	0.8%
Net income	3.7%	3.1%

Net Sales. Net sales for the year ended December 31, 2020 were \$8,558.9 million, a 17.6% increase from net sales of \$7,280.4 million for 2019. Core organic growth increased net sales by 5.6%, commodity price inflation accounted for another 9.0% of the change, while acquisitions and one additional selling day accounted for 2.5% and 0.5%, respectively, of the increase. Core organic growth came primarily from increased sales volume within our single-family end market.

The following table shows net sales classified by major product category for the years ended December 31, (dollars in millions):

	2020		2019		% Change
	Net sales	% of Sales	Net sales	% of Sales	
Lumber & lumber sheet goods	\$ 3,076.4	35.9%	\$ 2,251.6	30.9%	36.6%
Manufactured products	1,640.5	19.2%	1,449.5	19.9%	13.2%
Windows, doors & millwork	1,629.2	19.0%	1,542.9	21.2%	5.6%
Gypsum, roofing & insulation	514.6	6.0%	528.6	7.3%	(2.6)%
Siding, metal & concrete products	773.6	9.0%	712.6	9.8%	8.6%
Other building products & services	924.6	10.9%	795.2	10.9%	16.3%
Total sales	\$ 8,558.9	100.0%	\$ 7,280.4	100.0%	17.6%

We achieved increased net sales in all our product categories, except in the gypsum, roofing & insulation category, in part due to higher sales volumes in our single-family end market and as a result of our continued efforts to focus on higher margin opportunities through both acquisition targets and core organic growth, as well as the impact of commodity price inflation, primarily on the lumber & lumber sheet goods category, in the period.

Gross Margin. Gross margin increased \$245.8 million to \$2,222.6 million. Our gross margin percentage decreased to 26.0% in 2020 from 27.2% in 2019, a 1.2% decrease. The decrease was primarily attributable to the impact of commodity price inflation during the year ended December 31, 2020 relative to our short-term customer pricing commitments.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$94.2 million, or 5.9%, and as a percentage of net sales decreased to 19.6% from 21.8% in 2019. This increase in selling, general and administrative expenses was primarily driven by higher variable compensation expense, professional service expense, and depreciation expense, which were partially offset by lower fuel costs, as well as lower travel and entertainment costs, resulting from changed behavior during the pandemic. We expect these variable costs to increase post pandemic. Contributing to the decrease as a percentage of net sales was the effect of commodity price inflation on our net sales in the year ended December, 31 2020.

Interest Expense, Net. Interest expense was \$135.7 million in 2020, an increase of \$26.1 million from 2019. This increase in interest expense is primarily due to one-time charges of \$29.4 million related to debt transactions executed in 2020, compared to one-time charges of \$10.2 million related to debt transactions executed in 2019. Adjusting for the one-time charges, interest expense increased for the year ended December 31, 2020 due to higher outstanding debt balance as compared to the year ended December 31, 2019, partially offset by the effect of lower interest rates.

Income Tax Expense. We recorded income tax expense of \$94.6 million during the year ended December 31, 2020 compared to income tax expense of \$60.9 million during the year ended December 31, 2019, an increase of \$33.7 million, primarily as a result of our higher profitability in 2020 compared to 2019. Our effective tax rate was 23.2% for the year ended December 31, 2020 compared to 21.6% for the year ended December 31, 2019.

Results by Reportable Segment

The following tables show net sales and income before income taxes by reportable segment excluding the “All Other” caption as shown in Note 15 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K (dollars in thousands):

	Year ended December 31,									
	Net sales					Income before income taxes				
	2020	% of net sales	2019	% of net sales	% change	2020	% of net sales	2019	% of net sales	% change
Northeast	\$ 1,323,972	16.0%	\$ 1,293,472	18.6%	2.4%	\$ 56,574	4.3%	\$ 56,573	4.4%	—
Southeast	1,947,888	23.6%	1,599,426	23.0%	21.8%	139,017	7.1%	83,722	5.2%	66.0%
South	2,346,160	28.4%	1,860,653	26.7%	26.1%	163,224	7.0%	113,359	6.1%	44.0%
West	2,639,133	32.0%	2,205,224	31.7%	19.7%	156,744	5.9%	89,206	4.0%	75.7%
	<u>\$ 8,257,153</u>	<u>100%</u>	<u>\$ 6,958,775</u>	<u>100.0%</u>		<u>\$ 515,559</u>	<u>6.2%</u>	<u>\$ 342,860</u>	<u>4.9%</u>	

We have four reportable segments based on an aggregation of the geographic regions in which we operate. While there is some geographic similarity between our reportable segments and the regions as defined by the U.S. Census Bureau, our reportable segments do not necessarily fully align with any single U.S. Census Bureau region.

According to the U.S. Census Bureau, actual single-family housing starts for the year ended December 31, 2020 increased 7.4%, 13.6%, 11.4%, and 12.4% in the Northeast, Midwest, South and West regions, respectively, compared to the year ended December 31, 2019. For the year ended December 31, 2020, our net sales increased in the Northeast, Southeast, South and West reportable segments primarily due to an increase in sales volume across the majority of our product categories, and commodity price inflation compared to the year ended December 31, 2019. We achieved increased profitability in our Southeast, South, and West reportable segments largely due to sales volume growth. However, profitability declined in our Northeast reportable segment largely due to the impact of the COVID-19 pandemic on net sales and the impact of gross margin compression from commodity price inflation.

LIQUIDITY AND CAPITAL RESOURCES

Our primary capital requirements are to fund working capital needs and operating expenses, meet required interest and principal payments, and to fund capital expenditures and potential future growth opportunities. Our capital resources at December 31, 2020 consist of cash on hand and borrowing availability under our 2023 facility.

Our 2023 facility will be primarily used for working capital, general corporate purposes, and funding capital expenditures and growth opportunities. In addition, we may use the 2023 facility to facilitate debt consolidation. Availability under the 2023 facility is determined by a borrowing base. Our borrowing base consists of trade accounts receivable, inventory, other receivables which include progress billings and credit card receivables, and qualified cash that all meet specific criteria contained within the credit agreement, minus agent specified reserves. Net excess borrowing availability is equal to the maximum borrowing amount minus outstanding borrowings and letters of credit.

The following table shows our borrowing base and excess availability as of December 31, 2020 and 2019 (in millions):

	As of	
	December 31, 2020	December 31, 2019
Accounts Receivable Availability	\$ 608.8	\$ 413.0
Inventory Availability	514.7	370.0
Other Receivables Availability	50.9	29.8
Gross Availability	1,174.4	812.8
Less:		
Agent Reserves	(40.6)	(26.6)
Plus:		
Cash in Qualified Accounts	413.9	4.2
Borrowing Base	1,547.7	790.4
Aggregate Revolving Commitments	900.0	900.0
Maximum Borrowing Amount (lesser of Borrowing Base and Aggregate Revolving Commitments)	900.0	790.4
Less:		
Outstanding Borrowings	(75.0)	(27.0)
Letters of Credit	(78.0)	(82.2)
Net Excess Borrowing Availability on Revolving Facility	\$ 747.0	\$ 681.2

As of December 31, 2020, we had \$75.0 million in outstanding borrowings under our 2023 facility and our net excess borrowing availability was \$747.0 million after being reduced by outstanding letters of credit of approximately \$78.0 million. Excess availability must equal or exceed a minimum specified amount, currently \$90.0 million, or we are required to meet a fixed charge coverage ratio of 1:00 to 1:00. We were not in violation of any covenants or restrictions imposed by any of our debt agreements at December 31, 2020.

Liquidity

Our liquidity at December 31, 2020 was \$1,170.8 million, which consists of net borrowing availability under the 2023 facility and cash on hand.

Our level of indebtedness results in significant interest expense and could have the effect of, among other things, reducing our flexibility to respond to changing business and economic conditions. From time to time, based on market conditions and other factors and subject to compliance with applicable laws and regulations, the Company may repurchase or call our notes, repay debt, or otherwise enter into transactions regarding its capital structure.

Should the current industry conditions deteriorate or we pursue additional acquisitions, we may be required to raise additional funds through the sale of capital stock or debt in the public capital markets or in privately negotiated transactions. There can be no assurance that any of these financing options would be available on favorable terms, if at all. Alternatives to help supplement our liquidity position could include, but are not limited to, idling or permanently closing additional facilities, adjusting our headcount in response to current business conditions, attempts to renegotiate leases, managing our working capital and/or divesting of non-core businesses. There are no assurances that these steps would prove successful or materially improve our liquidity position.

On January 29, 2021, the Company amended the 2023 facility to, among other things, increase the total commitments by an aggregate amount of \$500.0 million resulting in a new \$1.4 billion amended credit facility, and extended the maturity date from November 2023 to January 2026.

Consolidated Cash Flows

A discussion regarding our consolidated cash flows for the year ended December 31, 2020 compared to the year ended December 31, 2019 is presented below. A discussion regarding our consolidated cash flows for the year ended December 31, 2019 compared to the year ended December 31, 2018 can be found under Item 7 of Part II of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on February 21, 2020.

2020 Compared with 2019

Cash provided by operating activities was \$260.1 million and \$504.0 million in 2020 and 2019, respectively. The \$243.9 million decrease in cash provided by operations was largely the result of a working capital increase of \$263.2 million in 2020 compared to a working capital decrease of \$106.2 million in 2019. This change in working capital was primarily due to the timing and impact of changes in commodity prices on the value of cash received from customers, inventory purchases and cash paid to vendors during the year ended December 31, 2020 compared to the year ended December 31, 2019.

Cash used in investing activities was \$136.2 million and \$199.2 million in 2020 and 2019, respectively. This decrease in cash used in investing activities was primarily due to \$32.6 million in cash used for our acquisitions of Bianchi and KBS in 2020, compared to \$92.9 million in cash used for our acquisitions of Sun State Components, Raney Components, LLC and Raney Construction, Inc. in 2019.

Cash provided by financing activities was \$285.9 million in 2020, compared to cash used in financing activities of \$300.9 million in 2019. Cash provided by financing activities for the year 2020 was primarily related to the net proceeds received from the Company's financing transactions during the period, including the issuance of \$550.0 million of 2030 notes and the issuance of \$350.0 million of 2027 notes. The proceeds from these issuances were offset by the redemption of the remaining \$503.9 million in outstanding aggregate principal amount of 2024 notes, \$47.5 million in aggregate principal amount of senior secured notes due 2027, and the repayment of the remaining \$52.0 million term loan.

Capital Expenditures

Capital expenditures vary depending on prevailing business factors, including current and anticipated market conditions. Historically, capital expenditures have for the most part remained at relatively low levels in comparison to the operating cash flows generated during the corresponding periods. Following the BMC Merger, we expect our 2021 capital expenditures to be in the range of approximately \$210 million to \$230 million primarily related to rolling stock, equipment and facility improvements to support our operations.

DISCLOSURES OF CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following summarizes our contractual obligations as of December 31, 2020 (in thousands):

Contractual obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	\$ 1,402,500	\$ —	\$ 75,000	\$ —	\$ 1,327,500
Interest on long-term debt(1)	607,797	86,534	172,368	159,963	188,932
Other finance obligations(2)	258,796	17,196	33,629	33,671	174,300
Finance lease obligations(2)	25,446	13,242	11,887	317	—
Operating leases (2)	342,117	76,567	113,425	67,166	84,959
Total contractual cash obligations	<u>\$ 2,636,656</u>	<u>\$ 193,539</u>	<u>\$ 406,309</u>	<u>\$ 261,117</u>	<u>\$ 1,775,691</u>

(1) We had \$75.0 million in outstanding borrowings under the 2023 facility as of December 31, 2020. Borrowings under the 2023 facility bear interest at a variable rate. Therefore, actual interest may differ from the amounts presented above due to interest rate changes or any future borrowing activity under the 2023 facility.

(2) Future commitments for other finance obligations, finance lease obligations and operating lease obligations associated with real estate, vehicle, and other various equipment.

Purchase orders entered into in the ordinary course of business are excluded from the above table because they are payable within one year. Amounts for which we are liable under purchase orders are reflected on our consolidated balance sheet as accounts payable. Where it makes economic sense to do so, we plan to lease certain equipment during 2021 to support anticipated sales growth.

OTHER CASH OBLIGATIONS NOT REFLECTED IN THE BALANCE SHEET

In addition to the lease obligations included in the above table, we have residual value guarantees on certain equipment leases. Under these leases we have the option of (1) purchasing the equipment at the end of the lease term, (2) arranging for the sale of the equipment to a third party, or (3) returning the equipment to the lessor to sell the equipment. If the sales proceeds in either case are less than the residual value, then we are required to reimburse the lessor for the deficiency up to a specified level as stated in each lease agreement. The guarantees under these leases for the residual values of equipment at the end of the respective operating lease periods approximated \$4.5 million as of December 31, 2020.

Based upon the expectation that none of these leased assets will have a residual value at the end of the lease term that is materially less than the value specified in the related operating lease agreement or that we will purchase the equipment at the end of the lease term, we do not believe it is probable that we will be required to fund any amounts under the terms of these guarantee arrangements. Accordingly, no accruals have been recognized for these guarantees.

In addition, the Company is party to certain agreements related to its other finance obligations which commit the Company to perform certain repairs and maintenance obligations under the leases in a specified manner and timeframe. As of December 31, 2020 our obligations under these agreements have largely been completed with the remainder expected to be completed within the next year.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies are those that both are important to the accurate portrayal of a company's financial condition and results, and require subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

In order to prepare financial statements that conform to generally accepted accounting principles, we make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may be significantly different from our expectations.

We have identified the following accounting policy that requires us to make the most subjective or complex judgments in order to fairly present our consolidated financial position and results of operations.

Goodwill. Goodwill represents the excess of the amount we paid to acquire businesses over the estimated fair value of tangible assets and identifiable intangible assets acquired, less liabilities assumed. At December 31, 2020, our goodwill balance was \$785.3 million, representing 18.8% of our total assets.

We test goodwill for impairment in the fourth quarter of each year or at any other time when impairment indicators exist. Examples of such indicators that could cause us to test goodwill for impairment between annual tests include a significant change in the business climate, unexpected competition or a significant deterioration in market share. We may also consider market capitalization relative to our net assets. Housing starts are a significant sales driver for us. If there is a significant decline or an expected decline in housing starts, this could adversely affect our expectations for a reporting unit and the value of that reporting unit.

The process of evaluating goodwill for impairment involves the determination of the fair value of our reporting units. Our reporting units are aligned with our nine geographic regions which are also determined to be our operating segments. In evaluating goodwill for impairment, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If it is concluded that it is more likely than not that the fair value of the reporting unit is not less than its carrying amount, then no further testing of the goodwill is required.

However, if we determine that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, we perform a quantitative goodwill impairment test. This test identifies both the existence of and the amount of goodwill impairment by comparing the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount goodwill is not impaired. If the carrying amount of a reporting unit exceeds its fair value an impairment loss is recognized in amount equal to that excess, limited to the amount of goodwill allocated to that reporting unit.

In performing our annual goodwill impairment tests at December 31, 2020, we first assessed qualitative factors relative to each of our reporting units to determine if it was more likely than not that the fair value of our reporting units were less than their carrying amounts. Examples of such factors we considered in this assessment included the amount of cushion from prior quantitative goodwill impairment tests, significant changes in the goodwill balance, the presence of any known or forecasted declines in operating performance, market conditions, market share or any other negative factors.

For reporting units where we determined that it was more likely than not that the fair values were less than their carrying amounts, we performed a quantitative goodwill impairment test. In evaluating our goodwill for impairment at December 31, 2020, \$77.1 million of our goodwill balance was assessed utilizing a quantitative assessment. In performing the quantitative impairment test at December 31, 2020, we developed the fair value using a discounted cash flow methodology. Inherent in such fair value determinations are significant assumptions relating to future cash flows, expected future revenues, expected future profitability, the discount rate, the terminal value, and our interpretation of current economic indicators and market conditions and their impact on our strategic plans and operations. Due to the uncertainties associated with such estimates, interpretations and assumptions, actual results could differ from projected results, which could result in impairment of goodwill being recorded.

Significant information and assumptions utilized in estimating future cash flows for quantitative goodwill impairment analyses include projections of revenue growth utilizing publicly available industry information such as lumber commodity prices and housing start forecasts developed by industry forecasters, including the NAHB. Expected future profitability reflects current headcount levels and cost structure and are flexed in future years based upon historical trends at various revenue levels. Long-term growth was based upon terminal value earnings before interest, taxes, depreciation and amortization (“EBITDA”) multiples of 6.0x to reflect the relevant expected acquisition price. A discount rate of 11.0% was used and is intended to reflect the weighted average cost of capital for a potential market participant and includes all risks of ownership and the associated risks of realizing the stream of projected future cash flows. Decreasing the long-term growth to an EBITDA multiple of 5.0x, or increasing the discount rate by 1.0% to 12.0%, would not have changed the results of our impairment testing.

At December 31, 2020, the fair values of each of our reporting units were substantially in excess of their respective carrying amounts. Factors that could negatively impact the estimated fair value of our reporting units and potentially trigger additional impairment include, but are not limited to, unexpected competition, lower than expected housing starts, an increase in market participant weighted average cost of capital, increases in material or labor cost, and significant declines in our market capitalization. Future impairment of goodwill would have the effect of decreasing our earnings or increasing our losses in such period, but would not impact our current outstanding debt obligations or compliance with covenants contained in the related debt agreements. We did not have any goodwill impairments in 2020, 2019 or 2018.

RECENTLY ISSUED ACCOUNTING STANDARDS

Information regarding recent accounting pronouncements is discussed in Note 2 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We may experience changes in interest expense if changes in our debt occur. Changes in market interest rates could also affect our interest expense. Our 2027 notes and 2030 notes bear interest at a fixed rate, therefore, our interest expense related to these notes would not be affected by an increase in market interest rates. Borrowings under the 2023 facility bear interest at either a base rate or eurodollar rate, plus, in each case, an applicable margin. A 1.0% increase in interest rates on the 2023 facility would result in approximately \$0.8 in additional interest expense annually based on our \$75.0 million in outstanding borrowings as of December 31, 2020. The 2023 facility also assesses variable commitment and outstanding letter of credit fees based on quarterly average loan utilization.

We purchase certain materials, including lumber products, which are then sold to customers as well as used as direct production inputs for our manufactured products that we deliver. Short-term changes in the cost of these materials and the related in-bound freight costs, some of which are subject to significant fluctuations, are sometimes, but not always, passed on to our customers. Delays in our ability to pass on material price increases to our customers can adversely impact our operating results.

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Builders FirstSource, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheet of Builders FirstSource, Inc. and its subsidiaries (the “Company”) as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive income, of changes in stockholders’ equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill Quantitative Impairment Test

As described in Notes 2 and 6 to the consolidated financial statements, the Company's consolidated goodwill balance was \$785.3 million as of December 31, 2020, and \$77.1 million of the goodwill balance was assessed utilizing a quantitative assessment. Goodwill is tested for impairment on an annual basis and between annual tests whenever impairment is indicated. This annual test takes place as of December 31 each year. Impairment losses are recognized whenever the carrying amount of a reporting unit exceeds its fair value. In performing the quantitative impairment test, management developed the fair value using a discounted cash flow methodology. The significant assumptions used in the discounted cash flow methodology are the discount rate, the terminal value and the expected future revenues and profitability.

The principal considerations for our determination that performing procedures relating to the goodwill quantitative impairment test is a critical audit matter are the significant judgment by management when determining the fair value of any reporting unit where a goodwill quantitative impairment test was performed; this in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's significant assumptions related to the terminal value and expected future profitability.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment test, including management's controls over the goodwill quantitative impairment test. These procedures also included, among others, testing management's process for determining the fair value of any reporting unit where a goodwill quantitative impairment test was performed; evaluating the appropriateness of the discounted cash flow methodology; testing the completeness, accuracy, and relevance of underlying data used in the discounted cash flow methodology; and evaluating the reasonableness of significant assumptions related to the terminal value and expected future profitability. Evaluating management's assumptions related to the terminal value and expected future profitability involved evaluating whether the assumptions used were reasonable considering the current and past performance of the reporting unit, relevant industry forecasts, consistency with evidence obtained in other areas of the audit, and in the case of terminal value, consideration of relevant market transactions.

/s/ PricewaterhouseCoopers LLP

Dallas, Texas
February 26, 2021

We have served as the Company's auditor since 1999.

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

	Years Ended December 31,		
	2020	2019	2018
	<i>(In thousands, except per share amounts)</i>		
Net sales	\$ 8,558,874	\$ 7,280,431	\$ 7,724,771
Cost of sales	6,336,290	5,303,602	5,801,831
Gross margin	2,222,584	1,976,829	1,922,940
Selling, general and administrative expenses	1,678,730	1,584,523	1,553,972
Income from operations	543,854	392,306	368,968
Interest expense, net	135,688	109,551	108,213
Income before income taxes	408,166	282,755	260,755
Income tax expense	94,629	60,946	55,564
Net income	\$ 313,537	\$ 221,809	\$ 205,191
Comprehensive income	\$ 313,537	\$ 221,809	\$ 205,191
<i>Net income per share:</i>			
Basic	\$ 2.69	\$ 1.92	\$ 1.79
Diluted	\$ 2.66	\$ 1.90	\$ 1.76
<i>Weighted average common shares outstanding:</i>			
Basic	116,611	115,713	114,586
Diluted	117,917	117,025	116,554

The accompanying notes are an integral part of these consolidated financial statements.

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	December 31,	
	2020	2019
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 423,806	\$ 14,096
Accounts receivable, less allowances of \$17,637 and \$13,492 at December 31, 2020 and 2019, respectively	880,018	614,946
Other receivables	76,436	77,447
Inventories, net	784,527	561,255
Other current assets	58,895	39,123
Total current assets	2,223,682	1,306,867
Property, plant and equipment, net	749,130	721,887
Operating lease right-of-use assets, net	274,562	292,684
Goodwill	785,305	769,022
Intangible assets, net	119,882	128,388
Deferred income taxes	4,653	8,417
Other assets, net	16,457	22,225
Total assets	<u>\$ 4,173,671</u>	<u>\$ 3,249,490</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	600,357	436,823
Accrued liabilities	385,536	308,950
Current portion of operating lease liabilities	61,625	61,653
Current maturities of long-term debt	27,335	13,875
Total current liabilities	1,074,853	821,301
Noncurrent portion of operating lease liabilities	219,239	236,948
Long-term debt, net of current maturities, debt discount, premium and issuance costs	1,596,905	1,277,398
Deferred income taxes	49,495	36,645
Other long-term liabilities	80,396	52,245
Total liabilities	3,020,888	2,424,537
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 10,000 shares authorized; zero shares issued and outstanding	—	—
Common stock, \$0.01 par value, 300,000 and 200,000 shares authorized at December 31, 2020 and 2019, respectively; 116,829 and 116,052 shares issued and outstanding at December 31, 2020 and 2019, respectively	1,168	1,161
Additional paid-in capital	589,241	574,955
Retained earnings	562,374	248,837
Total stockholders' equity	1,152,783	824,953
Total liabilities and stockholders' equity	<u>\$ 4,173,671</u>	<u>\$ 3,249,490</u>

The accompanying notes are an integral part of these consolidated financial statements.

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended December 31,		
	2020	2019	2018
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 313,537	\$ 221,809	\$ 205,191
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	116,566	100,038	97,906
Amortization of debt discount, premium and issuance costs	3,508	3,880	4,642
Loss (gain) on extinguishment of debt	6,700	8,189	(3,170)
Deferred income taxes	16,614	50,994	51,823
Stock compensation expense	17,022	12,239	14,420
Net gain on sales of assets and asset impairments	(1,067)	(949)	(1,393)
Changes in assets and liabilities, net of assets acquired and liabilities assumed:			
Receivables	(259,543)	42,789	(9,221)
Inventories	(220,101)	44,202	(5,425)
Other current assets	(19,743)	4,674	(10,356)
Other assets and liabilities	50,370	1,611	5,637
Accounts payable	160,947	4,070	(89,392)
Accrued liabilities	75,257	10,500	22,168
Net cash provided by operating activities	<u>260,067</u>	<u>504,046</u>	<u>282,830</u>
Cash flows from investing activities:			
Purchases of property, plant and equipment	(112,082)	(112,870)	(101,411)
Proceeds from sale of property, plant and equipment	8,500	6,545	4,753
Cash used for acquisitions	(32,643)	(92,855)	—
Net cash used in investing activities	<u>(136,225)</u>	<u>(199,180)</u>	<u>(96,658)</u>
Cash flows from financing activities:			
Borrowings under revolving credit facility	891,000	1,040,000	1,662,000
Repayments under revolving credit facility	(843,000)	(1,192,000)	(1,833,000)
Proceeds from long-term debt and other loans	895,625	478,375	3,818
Repayments of long-term debt and other loans	(618,542)	(610,834)	(65,312)
Payments of debt extinguishment costs	(22,686)	(2,301)	(134)
Payments of loan costs	(13,800)	(8,618)	—
Exercise of stock options	1,424	4,873	3,945
Repurchase of common stock	(4,153)	(10,392)	(4,895)
Net cash provided by (used in) financing activities	<u>285,868</u>	<u>(300,897)</u>	<u>(233,578)</u>
Net increase (decrease) in cash and cash equivalents	409,710	3,969	(47,406)
Cash and cash equivalents at beginning of period	14,096	10,127	57,533
Cash and cash equivalents at end of period	<u>\$ 423,806</u>	<u>\$ 14,096</u>	<u>\$ 10,127</u>
Supplemental disclosures of cash flow information:			
Cash paid for interest (1)	\$ 110,600	\$ 100,354	\$ 107,668
Cash paid for income taxes	43,400	18,107	3,153
Supplemental disclosure of non-cash activities:			
Accrued purchases of property, plant and equipment	\$ 1,962	\$ 3,378	\$ 2,350
Acquisition of assets under operating lease obligations	42,606	86,373	—
Acquisition of assets under finance and capital lease obligations	16,964	16,462	10,198

(1) Includes \$22.7 million, \$2.3 million and \$0.1 million in payments of debt extinguishment costs which are classified as financing outflows in the accompanying consolidated statement of cash flows for the years ended December 31 2020, 2019, and 2018, respectively. These payments were recorded to interest expense in the accompanying consolidated statement of operations and comprehensive income for their respective years.

The accompanying notes are an integral part of these consolidated financial statements.

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid in Capital (In thousands)	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount			
Balance at December 31, 2017	113,572	\$ 1,136	\$ 546,766	\$ (171,693)	\$ 376,209
Vesting of restricted stock units	975	10	(10)	—	—
Shares withheld for restricted stock units vested	(239)	(2)	(4,893)	—	(4,895)
Exercise of stock options	770	7	3,938	—	3,945
Stock compensation expense	—	—	14,420	—	14,420
Cumulative effect adjustment	—	—	—	1,468	1,468
Net income	—	—	—	205,191	205,191
Balance at December 31, 2018	115,078	1,151	560,221	34,966	596,338
Vesting of restricted stock units	735	7	(7)	—	—
Shares withheld for restricted stock units vested	(196)	(2)	(2,448)	—	(2,450)
Repurchase of common stock (1)	(460)	(4)	—	(7,938)	(7,942)
Exercise of stock options	895	9	4,950	—	4,959
Stock compensation expense	—	—	12,239	—	12,239
Net income	—	—	—	221,809	221,809
Balance at December 31, 2019	116,052	1,161	574,955	248,837	824,953
Vesting of restricted stock units	732	7	(7)	—	—
Shares withheld for restricted stock units vested	(190)	(2)	(4,151)	—	(4,153)
Exercise of stock options	235	2	1,422	—	1,424
Stock compensation expense	—	—	17,022	—	17,022
Net income	—	—	—	313,537	313,537
Balance at December 31, 2020	116,829	\$ 1,168	\$ 589,241	\$ 562,374	\$ 1,152,783

- (1) During the year ended December 31, 2019, we repurchased and retired 460,000 shares of our common stock, at an average price of \$17.24 per share, for \$7.9 million pursuant to the repurchase program authorized by our board of directors in February 2019. The primary purpose of the repurchase program was to offset dilution from employee stock awards.

The accompanying notes are an integral part of these consolidated financial statements.

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Business

Builders FirstSource, Inc., a Delaware corporation formed in 1998, is a leading supplier of building materials, manufactured components and construction services to professional contractors, sub-contractors, and consumers. Following the merger with BMC Stock Holdings, Inc. on January 1, 2021, which is discussed in more detail in Note 18, the company operates approximately 550 locations in 40 states across the United States.

In this annual report, references to the “Company,” “we,” “our,” “ours” or “us” refer to Builders FirstSource, Inc. and its consolidated subsidiaries, unless otherwise stated or the context otherwise requires.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements present the results of operations, financial position, and cash flows of Builders FirstSource, Inc. and its wholly-owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

Estimates are used when accounting for items such as revenue, vendor rebates, allowance for returns, discounts and doubtful accounts, employee compensation programs, depreciation and amortization periods, income taxes, inventory values, insurance programs, goodwill, other intangible assets and long-lived assets.

Revenue Recognition

We recognize revenue as performance obligations are satisfied by transferring control of a promised good or service to a customer in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We generally classify our revenues into two types: (i) distribution sales; or (ii) sales related to contracts with service elements.

Distribution sales typically consist of the sale of building products we manufacture and the resale of purchased building products. We recognize revenue related to distribution sales at a point in time upon delivery of the ordered goods to our customers. Payment terms related to distribution sales are not significant as payment is generally received shortly after the point of sale.

Our contracts with service elements primarily relate to installation and construction services. We evaluate whether multiple contracts should be combined and accounted for as a single contract and whether a single or combined contract should be accounted for as a single performance obligation or multiple performance obligations. If a contract is separated into more than one performance obligation, we allocate the transaction price to each performance obligation generally based on observable standalone selling prices of the underlying goods or services. Revenue related to contracts with service elements is generally recognized over time based on the extent of progress towards completion of the performance obligation because of continuous transfer of control to the customer. We consider costs incurred to be indicative of goods and services delivered to the customer. As such, we use a cost-based input method to recognize revenue on our contracts with service elements as it best depicts the transfer of assets to our customers. Payment terms related to sales for contracts with service elements are specific to each customer and contract. However, they are considered to be short-term in nature as payments are normally received either throughout the life of the contract or shortly after the contract is complete.

Contract costs include all direct material and labor, equipment costs and those indirect costs related to contract performance. Provisions for estimated losses on uncompleted contracts are recognized in the period in which such losses are determinable. Prepayments for materials or services are deferred until such materials have been delivered or services have been provided. All sales recognized are net of allowances for discounts and estimated returns, based on historical experience. The Company records sales incentives provided to customers as a reduction of revenue. We present all sales tax on a net basis in our consolidated financial statements.

Costs to obtain contracts are expensed as incurred as our contracts are typically completed in one year or less, and where applicable, we generally would incur these costs whether or not we ultimately obtain the contract. We do not disclose the value of our remaining performance obligations on uncompleted contracts as our contracts generally have a duration of one year or less.

Cash and Cash Equivalents & Checks Outstanding

Cash and cash equivalents consist of cash on hand and all highly liquid investments with an original maturity date of three months or less. Also included in cash and cash equivalents are proceeds due from credit card transactions that generally settle within two business days. We maintain cash at financial institutions in excess of federally insured limits. Further, we maintain various banking relationships with different financial institutions. Accordingly, when there is a negative net book cash balance resulting from outstanding checks that had not yet been paid by any single financial institution, they are reflected in accounts payable on the accompanying consolidated balance sheets.

Accounts Receivable

We extend credit to qualified professional homebuilders and contractors, in many cases on a non-collateralized basis. Accounts receivable potentially expose us to concentrations of credit risk. Because our customers are dispersed among our various markets, our credit risk to any one customer or geographic economy is not significant. Other receivables consist primarily of vendor rebates receivable.

Our customer mix is a balance of large national homebuilders, regional homebuilders, local and custom homebuilders and repair and remodeling contractors as well as multi-family builders. For the year ended December 31, 2020, our top 10 customers accounted for approximately 15.8% of our net sales, and no single customer accounted for more than 6% of net sales.

The allowance for doubtful accounts is based on management's assessment of the amount which may become uncollectible in the future and is estimated using specific review of problem accounts, overall portfolio quality, current and forecasted economic conditions that may affect the customer's ability to pay, and historical experience. Accounts receivable are written off when deemed uncollectible.

We also establish reserves for credit memos and customer returns. The reserve balance was \$11.9 million and \$7.6 million at December 31, 2020 and 2019, respectively. The activity in this reserve was not significant for each year presented.

Accounts receivable consisted of the following at December 31:

	2020	2019
	(In thousands)	
Accounts Receivable	\$ 897,655	\$ 628,438
Less: allowances for returns and doubtful accounts	17,637	13,492
Accounts receivable, net	<u>\$ 880,018</u>	<u>\$ 614,946</u>

The following table shows the changes in our allowance for doubtful accounts:

	2020	2019	2018
	(In thousands)		
Balance at January 1,	\$ 5,936	\$ 6,195	\$ 4,973
Additions	4,720	5,811	5,284
Deductions (write-offs, net of recoveries)	(4,882)	(6,070)	(4,062)
Balance at December 31,	<u>\$ 5,774</u>	<u>\$ 5,936</u>	<u>\$ 6,195</u>

Inventories

Inventories consist principally of materials purchased for resale, including lumber, lumber sheet goods, windows, doors and millwork, as well as certain manufactured products and are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method, the use of which approximates the first-in, first-out method. We accrue for shrink based on the actual historical shrink results of our most recent physical inventories adjusted, if necessary, for current economic conditions. These estimates are compared with actual results as physical inventory counts are taken and reconciled to the general ledger.

During the year, we monitor our inventory levels by market and record provisions for excess inventories based on slower moving inventory. We define potential excess inventory as the amount of inventory on hand in excess of the historical usage, excluding special order items purchased in the last six months. We then apply our judgment as to forecasted demand and other factors, including liquidation value, to determine the required adjustments to net realizable value. Our inventories are generally not susceptible to technological obsolescence.

Our arrangements with vendors provide for rebates of a specified amount of consideration, payable when certain measures, generally related to a stipulated level of purchases, have been achieved. We account for estimated rebates as a reduction of the prices of the vendor's inventory until the product is sold, at which time such rebates reduce cost of sales in the accompanying consolidated statement of operations and comprehensive income. Throughout the year we estimate the amount of the rebates based upon the expected level of purchases. We continually evaluate and revise these estimates as necessary based on actual purchase levels.

We source products from a large number of suppliers. No materials purchased from any single supplier represented more than 6% of our total materials purchased in 2020.

Shipping and Handling Costs

Handling costs incurred in manufacturing activities are included in cost of sales. All other shipping and handling costs are included in selling, general and administrative expenses in the accompanying consolidated statement of operations and comprehensive income and totaled \$347.7 million, \$332.5 million and \$322.9 million in 2020, 2019 and 2018, respectively.

Income Taxes

We account for income taxes utilizing the liability method described in the *Income Taxes* topic of the FASB Accounting Standards Codification ("Codification"). Deferred income taxes are recorded to reflect consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which differences are expected to affect taxable earnings. We record a valuation allowance to reduce deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Warranty Expense

We have warranty obligations with respect to most manufactured products; however, the liability for the warranty obligations is not significant as a result of third-party inspection and acceptance processes.

Debt Issuance Costs and Debt Discount/Premium

Loan costs are capitalized upon the issuance of long-term debt and amortized over the life of the related debt. Debt issuance costs associated with term debt are presented as a reduction to long-term debt. Debt issuance costs associated with revolving debt arrangements are presented as a component of other assets. Debt issuance costs incurred in connection with revolving debt arrangements are amortized using the straight-line method. Debt issuance costs incurred in connection with term debt are amortized using the effective interest method. Debt discounts and premiums are amortized over the life of the related debt using the effective interest method. Amortization of debt issuance costs, discounts and premiums are included in interest expense. Upon changes to our debt structure, we evaluate debt issuance costs, discounts and premiums in accordance with the *Debt* topic of the Codification. We adjust debt issuance costs, discounts and premiums as necessary based on the results of this evaluation, as discussed in Note 9.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. The estimated lives of the various classes of assets are as follows:

Buildings and improvements	10 to 40 years
Machinery and equipment	3 to 10 years
Furniture and fixtures	3 to 5 years
Leasehold improvements	The shorter of the estimated useful life or the remaining lease term

Major additions and improvements are capitalized, while maintenance and repairs that do not extend the useful life of the property are charged to expense as incurred. Gains or losses from dispositions of property, plant and equipment are recorded in the period incurred. We also capitalize certain costs of computer software developed or obtained for internal use, including interest, provided that those costs are not research and development, and certain other criteria are met. Internal use computer software costs are included in machinery and equipment and generally depreciated using the straight-line method over the estimated useful lives of the assets, generally three years.

We periodically evaluate the commercial and strategic operation of the land, related buildings and improvements of our facilities. In connection with these evaluations, some facilities may be consolidated, and others may be sold or leased. Nonoperating assets primarily related to land and building real estate assets associated with location closures that are actively being marketed for sale within a year are classified as assets held for sale and recorded at fair value, usually the quoted market price obtained from an independent third-party less the cost to sell. Until the assets are sold, an estimate of the fair value is reassessed at each reporting period. Net gains or losses related to the sale of real estate and equipment or impairment adjustments related to assets held for sale are recorded as selling, general and administrative expenses in the accompanying consolidated statement of operations and comprehensive income.

Leases

We lease certain land, buildings, rolling stock and other types of equipment for use in our operations. These leases typically have initial terms ranging from five to 15 years. Many of our leases contain renewal options which are exercisable at our discretion. These renewal options generally have terms ranging from one to five years. We also lease certain properties from related parties, including current employees and non-affiliate stockholders.

We determine if an arrangement is a lease at the inception of the arrangement. Lease liabilities are recognized based on the present value of lease payments over the lease term at the arrangement's commencement date. Right-of-use assets are recognized based on the amount of the measurement of the lease liability adjusted for any lease payments made to the lessor at or before the commencement date, minus any lease incentives received and any initial direct costs incurred. Renewal options are included in the calculation of our right-of-use assets and lease liabilities when it is determined that they are reasonably certain of exercise based on an analysis of the relevant facts and circumstances. As the implicit rate of return of our lease agreements is usually not readily determinable, we generally use our incremental borrowing rate in determining the present value of lease payments. We determine our incremental borrowing rate based on information available to us at the lease commencement date. Certain of our lease arrangements contain lease and non-lease components. We have elected to account for non-lease components as a part of the related lease components for all of our leases. Leases with an initial term of 12 months or less are not recognized on our balance sheet. We recognize the expense for these leases on a straight-line basis over the lease term.

Certain of our leases are subject to variable lease payments based on various measures, such as rent escalations determined by percentage changes in the consumer price index. As these types of variable lease payments are determined on a basis other than an index or a rate, they are generally excluded from the calculation of lease liabilities and right-of-use assets and are expensed as incurred.

In addition, we have residual value guarantees on certain equipment leases. Under these leases, we have the option of (a) purchasing the equipment at the end of the lease term, (b) arranging for the sale of the equipment to a third party, or (c) returning the equipment to the lessor to sell the equipment. If the sales proceeds in any case are less than the residual value, we are required to reimburse the lessor for the deficiency up to a specified level as stated in each lease agreement. If the sales proceeds exceed the residual value, we are entitled to all of such excess amounts.

In February 2016, the FASB issued an update to the existing guidance under the Leases topic of the Codification. Under the new guidance, lessees are now required to recognize the following for all leases, with the exception of short-term leases, at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

We adopted this guidance on January 1, 2019 by applying the provisions of this guidance on a modified retrospective basis as of the effective date. As such, comparative periods have not been restated and the disclosures required under the new standard have not been provided for periods prior to January 1, 2019. We elected the package of practical expedients whereby we were not required to: i) reassess whether any expired or existing contracts are or contain leases, ii) reassess the lease classification of existing leases and iii) reassess initial direct costs for any existing leases. We did not elect the hindsight practical expedient or the practical expedient related to land easements. We have assessed and updated our business processes, systems and controls to ensure compliance with the recognition and disclosure requirements of the new standard.

Long-Lived Assets

We evaluate our long-lived assets, other than goodwill, for impairment when events or changes in circumstances indicate, in our judgment, that the carrying amount of such assets may not be recoverable. The determination of whether or not impairment exists is based on our estimate of undiscounted future cash flows before interest attributable to the assets as compared to the net carrying amount of the assets. If impairment is indicated, the amount of the impairment recognized is determined by estimating the fair value of the assets based on estimated discounted future cash flows and recording a provision for loss if the carrying amount is greater than estimated fair value. The net carrying amount of assets identified to be disposed of in the future is compared to their estimated fair value, usually the quoted market price obtained from an independent third-party less the cost to sell, to determine if impairment exists. Until the assets are disposed of, an estimate of the fair value is reassessed when related events or circumstances change.

Insurance

We have established insurance programs to cover certain insurable risks consisting primarily of physical loss to property, business interruptions resulting from such loss, workers' compensation, employee healthcare, and comprehensive general and auto liability. Third party insurance coverage is obtained for exposures above predetermined deductibles as well as for those risks required to be insured by law or contract. On a quarterly basis, we engage an external actuarial professional to independently assess and estimate the total liability outstanding. Provisions for losses are developed from these valuations which rely upon our past claims experience, which considers both the frequency and settlement of claims. We discount our workers' compensation liability based upon estimated future payment streams at our risk-free rate. Our total insurance reserve balances were \$90.8 million and \$87.0 million as of December 31, 2020 and 2019, respectively. Of these balances \$52.1 million and \$49.0 million were recorded as other long-term liabilities as of December 31, 2020 and 2019, respectively. Included in these reserve balances as of December 31, 2020 and 2019, were approximately \$5.7 million and \$8.6 million, respectively, of claims that exceeded stop-loss limits and are expected to be recovered under insurance policies which are also recorded as other receivables and other assets in the accompanying consolidated balance sheet.

Net Income per Common Share

Net income per common share, or earnings per share ("EPS"), is calculated in accordance with the *Earnings per Share* topic of the Codification which requires the presentation of basic and diluted EPS. Basic EPS is computed using the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of potential common shares.

The table below presents the calculation of basic and diluted EPS for the years ended December 31:

	2020	2019	2018
	(In thousands, except per share amounts)		
Numerator:			
Net income	\$ 313,537	\$ 221,809	\$ 205,191
Denominator:			
Weighted average shares outstanding, basic	116,611	115,713	114,586
Dilutive effect of options and RSUs	1,306	1,312	1,968
Weighted average shares outstanding, diluted	<u>117,917</u>	<u>117,025</u>	<u>116,554</u>
Net income per share:			
Basic	<u>\$ 2.69</u>	<u>\$ 1.92</u>	<u>\$ 1.79</u>
Diluted	<u>\$ 2.66</u>	<u>\$ 1.90</u>	<u>\$ 1.76</u>
Antidilutive and contingent options and RSUs excluded from diluted EPS	<u>291</u>	<u>402</u>	<u>682</u>

Goodwill and Other Intangible Assets

Intangibles subject to amortization

We recognize an acquired intangible asset apart from goodwill whenever the intangible asset arises from contractual or other legal rights, or whenever it can be separated or divided from the acquired entity and sold, transferred, licensed, rented, or exchanged, either individually or in combination with a related contract, asset or liability. Impairment losses are recognized if the carrying amounts of an intangible asset subject to amortization is not recoverable from expected future cash flows and its carrying amount exceeds its estimated fair value.

Goodwill

We recognize goodwill as the excess cost of an acquired entity over the net amount assigned to assets acquired and liabilities assumed. Goodwill is tested for impairment on an annual basis and between annual tests whenever impairment is indicated. This annual test takes place as of December 31 each year. Impairment losses are recognized whenever the carrying amount of a reporting unit exceeds its fair value.

Stock-based Compensation

We have four stock-based employee compensation plans, which are described more fully in Note 11. We issue new common stock shares upon exercises of stock options and vesting of RSUs. We recognize the effect of pre-vesting forfeitures in the period they actually occur.

We did not grant any options during the years ended December 31, 2020, 2019, or 2018.

The fair value of RSU awards which are subject to or contain market conditions is estimated on the date of grant using the Monte Carlo simulation model with the following weighted average assumptions for the year ended December 31:

	2020	2019	2018
Expected volatility (company)	40.0%	38.3%	53.9%
Expected volatility (peer group median)	40.0%	33.2%	28.4%
Correlation between the company and peer group median	0.5	0.5	0.39
Expected dividend yield	0.0%	0.0%	0.0%
Risk-free rate	0.9%	2.6%	2.3%

The expected volatilities and correlation are based on the historical daily returns of our common stock and the common stocks of the constituents of the Company's peer group over the most recent period equal to the measurement period. The expected dividend yield is based on our history of not paying regular dividends in the past and our current intention to not pay regular dividends in the foreseeable future. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant and has a term equal to the measurement period.

Fair Value

The *Fair Value Measurements and Disclosures* topic of the Codification provides a framework for measuring the fair value of assets and liabilities and establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy can be summarized as follows:

Level 1 — unadjusted quoted prices for identical assets or liabilities in active markets accessible by us

Level 2 — inputs that are observable in the marketplace other than those inputs classified as Level 1

Level 3 — inputs that are unobservable in the marketplace and significant to the valuation

If a financial instrument uses inputs that fall in different levels of the hierarchy, the instrument will be categorized based upon the lowest level of input that is significant to the fair value calculation.

As of December 31, 2020 and 2019 the Company does not have any financial instruments which are measured at fair value on a recurring basis. We have elected to report the value of our 6.75% senior secured notes due 2027 (“2027 notes”), 5.00% senior secured notes due 2030 (“2030 notes”) and \$900.0 million revolving credit facility (“2023 facility”) at amortized cost. The fair values of the 2027 notes and 2030 notes at December 31, 2020 were approximately \$844.5 million and \$593.3 million, respectively, and were determined using Level 2 inputs based on market prices. The carrying amount of the 2023 facility at December 31, 2020 approximates fair value as the rates are comparable to those at which we could currently borrow under similar terms, are variable and incorporate a measure of our credit risk. As such, the fair value of the 2023 facility was also classified as Level 2 in the hierarchy.

Comprehensive Income

Comprehensive income is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It consists of net income and other gains and losses affecting stockholders’ equity that, under GAAP, are excluded from net income. We had no items of other comprehensive income for the years ended December 31, 2020, 2019, and 2018.

Recently Issued Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2020-04, Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The purpose of ASU 2020-04 is to provide optional guidance for a period of time related to accounting for reference rate reform on financial reporting. It is intended to reduce the potential burden of reviewing contract modifications related to discontinued rates. The amendments and expedients in this update are effective as of March 12, 2020 through December 31, 2022 and may be elected by topic. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

In December 2019, the FASB issued an update to existing guidance under the *Income Taxes* topic of the FASB Accounting Standards Codification (“Codification”). This updated guidance simplifies the accounting for income taxes by removing certain exceptions to the general principles in the *Income Taxes* topic. This guidance is effective for public companies annual and interim periods beginning after December 15, 2020 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 modifies the disclosure requirements on fair value measurements by removing, modifying and adding certain disclosure requirements in ASC 820. ASU 2018-13 is effective for the Company’s annual and interim periods beginning on January 1, 2020. Certain disclosures in ASU 2018-13 are required to be applied prospectively, while others require retrospective application. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In June 2016, the FASB issued an update to existing guidance under the Investments topic of the Codification. This update introduced a new impairment model for financial assets, known as the current expected credit losses (“CECL”) model that is based on expected losses rather than incurred losses. The CECL model requires an entity to estimate credit losses on financial assets, including trade accounts receivable, based on historical information, current information and reasonable and supportable forecasts. Under this guidance companies record an allowance through earnings for expected credit losses upon initial recognition of the financial asset. We adopted the aspects of this guidance applicable to us on a modified retrospective basis as of January 1, 2020. The adoption of this guidance did not have a material impact on our consolidated financial statements.

3. Revenue

The following table disaggregates our net sales by product category for the years ended December 31:

	2020	2019	2018
	(In thousands)		
Lumber & lumber sheet goods	\$ 3,076,376	\$ 2,251,580	\$ 2,902,155
Manufactured products	1,640,460	1,449,550	1,392,043
Windows, doors & millwork	1,629,179	1,542,924	1,445,858
Gypsum, roofing & insulation	514,638	528,571	528,439
Siding, metal & concrete products	773,640	712,644	697,744
Other building & product services	924,581	795,162	758,532
Total net sales	<u>\$ 8,558,874</u>	<u>\$ 7,280,431</u>	<u>\$ 7,724,771</u>

Information regarding disaggregation of net sales by segment is discussed in Note 15 to the condensed consolidated financial statements. Sales related to contracts with service elements represents less than 10% of the Company's net sales for each period presented.

The timing of revenue recognition, billings and cash collections results in accounts receivable, unbilled receivables, contract assets and contract liabilities. Contract asset balances were not significant as of December 31, 2020 or December 31, 2019. Contract liabilities consist of deferred revenue and customer advances and deposits. Contract liability balances are included in accrued liabilities on our consolidated balance sheet and were \$58.5 million and \$38.6 million as of December 31, 2020 and December 31, 2019, respectively.

4. Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31:

	2020	(In thousands)		2019
Land	\$	206,321	\$	198,123
Buildings and improvements		386,922		374,909
Machinery and equipment		517,543		439,449
Furniture, fixtures and computer equipment		102,309		92,094
Construction in progress		16,568		29,175
Finance lease right-of-use assets		43,256		37,153
Property, plant and equipment		1,272,919		1,170,903
Less: accumulated depreciation		523,789		449,016
Property, plant and equipment, net	\$	<u>749,130</u>	\$	<u>721,887</u>

Depreciation expense was \$94.5 million, \$84.0 million and \$74.4 million, of which \$20.8 million, \$19.7 million and \$18.6 million was included in cost of sales, for the years ended December 31, 2020, 2019, and 2018, respectively.

Included in property, plant and equipment are certain assets held under other finance obligations. These assets are recorded at the present value of the lease payments and include land, buildings and equipment. Amortization charges associated with assets held under other finance obligations are included in depreciation expense.

The following balances held under other finance obligations are included on the accompanying consolidated balance sheet as of December 31:

	2020	(In thousands)		2019
Land	\$	116,638	\$	118,403
Buildings and improvements		131,390		136,620
Assets held under other finance obligations		248,028		255,023
Less: accumulated amortization		25,015		18,741
Assets held under other finance obligations, net	\$	<u>223,013</u>	\$	<u>236,282</u>

5. Business Combinations

On January 9, 2020, we acquired certain assets and operations of Bianchi & Company, Inc. ("Bianchi") for \$15.9 million in cash. Located in Charlotte, North Carolina, Bianchi is a supplier and installer of interior and exterior millwork. This acquisition was funded with a combination of cash on hand and borrowings under our 2023 facility.

On November 2, 2020 we acquired certain assets and operations of Kansas Building Supply Company, Inc. ("KBS") for \$16.8 million in cash. Located in Overland Park, Kansas, KBS is a supplier for interior and exterior doors, windows, millwork cabinetry, and hardware. This acquisition was funded with cash on hand.

These transactions were accounted for by the acquisition method, and accordingly their results of operations have been included in the Company's consolidated financial statements from their respective acquisition dates. The purchase price was allocated to the assets acquired and liabilities assumed based on estimated fair values at the acquisition date, with the excess of purchase price over the estimated fair value of the net assets acquired recorded as goodwill. The fair value of acquired intangible assets of \$13.6 million,

primarily related to customer relationships, was estimated by applying an income approach. That measure is based on significant Level 3 inputs not observable in the market. Key assumptions developed based on the Company's historical experience, future projections and comparable market data include future cash flows, long-term growth rates, attrition rates and discount rates.

The operating results of the acquisitions have been included in the consolidated statements of operations and comprehensive income from their acquisition dates through December 31, 2020. Net sales and net income attributable these acquisitions were \$29.2 million and \$2.5 million, respectively, for the year ended December 31, 2020.

Pro forma results of operations attributable to these acquisitions are not presented as they did not have a material impact on our results of operations, individually or in the aggregate. We did not incur any significant acquisition related costs attributable to these transactions.

The following table summarizes the aggregate fair values of the assets acquired and liabilities assumed for these acquisitions during the year ended December 31, 2020, (in thousands):

Accounts receivable	\$	4,518
Inventory		3,171
Other current assets		28
Property, plant and equipment (includes finance lease right-of-use assets)		275
Operating lease right-of-use assets		3,422
Goodwill (Note 6)		16,284
Intangible assets (Note 7)		13,570
Total assets acquired		<u>41,268</u>
Accounts payable and accrued liabilities		(5,203)
Operating lease liabilities		(3,422)
Total liabilities assumed		<u>(8,625)</u>
Total net assets acquired	\$	<u><u>32,643</u></u>

In connection with the acquisition of Bianchi and KBS, we entered into real estate leases with the sellers for Bianchi's and KBS's operating locations. The purchase agreement for Bianchi also contains an earn-out provision contingent upon continued employment and the achievement of specified revenue and profitability targets through fiscal year 2022. This earn-out provision could result in an additional cash payment to the seller ranging from zero to \$1.5 million depending on the level of achievement of the specified targets. Future payments related to this earn-out provision will be included as compensation expense in the consolidated statement of operations and comprehensive income over the period earned.

6. Goodwill

The following table sets forth the changes in the carrying amount of goodwill by reportable segment for the years ended December 31, 2020 and 2019 (in thousands):

	Northeast	Southeast	South	West	Total
Balance as of December 31, 2018					
Goodwill	\$ 97,102	\$ 60,691	\$ 329,662	\$ 297,592	\$ 785,047
Accumulated impairment losses	(494)	(615)	(43,527)	—	(44,636)
	<u>96,608</u>	<u>60,076</u>	<u>286,135</u>	<u>297,592</u>	<u>740,411</u>
Acquisitions	—	—	14,257	14,354	28,611
Balance as of December 31, 2019					
Goodwill	\$ 97,102	\$ 60,691	\$ 343,919	\$ 311,946	\$ 813,658
Accumulated impairment losses	(494)	(615)	(43,527)	—	(44,636)
	<u>96,608</u>	<u>60,076</u>	<u>300,392</u>	<u>311,946</u>	<u>769,022</u>
Acquisitions	—	8,261	8,022	—	16,284
Balance as of December 31, 2020					
Goodwill	\$ 97,102	\$ 68,952	\$ 351,941	\$ 311,946	\$ 829,941
Accumulated impairment losses	(494)	(615)	(43,527)	—	(44,636)
	<u>\$ 96,608</u>	<u>\$ 68,337</u>	<u>\$ 308,414</u>	<u>\$ 311,946</u>	<u>\$ 785,305</u>

In 2020, the change in the carrying amount of goodwill was attributable to our acquisitions of Bianchi and KBS. The amount allocated to goodwill is attributable to the assembled workforces acquired, expected synergies, and expected growth from the new markets the Company entered into. All of the goodwill recognized from these acquisitions is expected to be tax deductible and will be amortized ratably over a 15-year period for tax purposes.

We closely monitor trends in economic factors and their effects on operating results to determine if an impairment trigger was present that would warrant a reassessment of the recoverability of the carrying amount of goodwill prior to the required annual impairment test in accordance with the *Intangibles – Goodwill and Other* topic of the Codification.

In evaluating goodwill for impairment, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If it is concluded that it is more likely than not that the fair value of the reporting unit is not less than its carrying value, then no further testing of the goodwill is required. However, if we determine that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, we perform a quantitative goodwill impairment test. This test identifies both the existence of and the amount of goodwill impairment by comparing the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount goodwill is not impaired. If the carrying amount of a reporting unit exceeds its fair value an impairment loss is recognized in amount equal to that excess, limited to the amount of goodwill allocated to that reporting unit.

The process of evaluating goodwill for impairment involves the determination of the fair value of our reporting units. Our reporting units are aligned with our nine geographic regions which are also determined to be our operating segments. Inherent in such fair value determinations are certain judgments and estimates relating to future cash flows, including our interpretation of current economic indicators and market valuations and assumptions about our strategic plans with regard to our operations. Due to the uncertainties associated with such estimates, actual results could differ from such estimates resulting in further impairment of goodwill.

In evaluating our goodwill for impairment at December 31, 2020, \$77.1 million of our goodwill balance was assessed utilizing a quantitative assessment. In performing the quantitative impairment test at December 31, 2020, we developed the fair value using a discounted cash flow methodology. The discounted cash flow methodology establishes fair value by estimating the present value of the projected future cash flows to be generated from the reporting unit. The discount rate applied to the projected future cash flows to arrive at the present value is intended to reflect all risks of ownership and the associated risks of realizing the stream of projected future cash flows. The discounted cash flow methodology uses our projections of financial performance for a five-year period. The significant assumptions used in the discounted cash flow methodology are the discount rate, the terminal value and the expected future revenues and profitability.

We recorded no goodwill impairment charges in 2020, 2019, and 2018.

7. Intangible Assets

The following table presents intangible assets as of December 31:

	2020		2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Customer relationships	\$ 195,435	\$ (94,690)	\$ 183,445	\$ (77,016)
Trade names	52,061	(38,138)	51,361	(36,082)
Subcontractor relationships	5,440	(1,944)	4,700	(131)
Non-compete agreements	3,719	(2,001)	3,579	(1,468)
Total intangible assets	<u>\$ 256,655</u>	<u>\$ (136,773)</u>	<u>\$ 243,085</u>	<u>\$ (114,697)</u>

During the years ended December 31, 2020, 2019, and 2018, we recorded amortization expense in relation to the above-listed intangible assets of \$22.1 million, \$16.1 million, and \$23.5 million, respectively. We recorded no intangible asset impairment charges for the years ended December 31, 2020, 2019 or 2018.

In connection with the acquisitions of Bianchi and KBS, we recorded intangible assets of \$13.6 million, which includes \$12.0 million of customer relationships, \$0.8 million of subcontractor relationships, \$0.1 million of non-compete agreements and \$0.7 million of trade names. The weighted average useful lives of the acquired assets are 7.8 years in total, 8.5 years for customer relationships, 3.0 years for subcontractor relationships, 3.0 years for non-compete agreements and 3.0 years for trade names, respectively.

The following table presents the estimated amortization expense for intangible assets for the years ending December 31 (in thousands):

2021	\$	21,120
2022		19,427
2023		16,050
2024		14,640
2025		12,439
Thereafter		36,206
Total future net intangible amortization expense	\$	<u>119,882</u>

8. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	December 31, 2020	December 31, 2019
Accrued payroll and other employee related expenses	\$ 176,379	\$ 152,869
Contract liabilities	58,455	38,559
Customer obligations	18,592	11,612
Self-insurance reserves	38,642	37,955
Accrued business taxes	58,953	32,604
Accrued interest	13,567	12,256
Other	20,948	23,095
Total accrued liabilities	<u>\$ 385,536</u>	<u>\$ 308,950</u>

9. Long-Term Debt

Long-term debt consisted of the following (in thousands):

	December 31, 2020	December 31, 2019
2023 facility (1)	\$ 75,000	\$ 27,000
2024 notes	—	503,923
2024 term loan (2)	—	52,000
2027 notes	777,500	475,000
2030 notes	550,000	—
Other finance obligations (Note 10)	216,072	221,726
Finance lease obligations (Note 10)	23,873	20,333
	<u>1,642,445</u>	<u>1,299,982</u>
Unamortized debt discount/premium and debt issuance costs	(18,205)	(8,709)
	<u>1,624,240</u>	<u>1,291,273</u>
Less: current maturities of long-term debt and lease obligations	27,335	13,875
Long-term debt, net of current maturities	<u>\$ 1,596,905</u>	<u>\$ 1,277,398</u>

(1) The weighted average interest rate was 3.8% and 4.4% as of December 31, 2020 and 2019, respectively.

(2) The weighted average interest rate was 4.3% and 5.6% as of December 31, 2020 and 2019, respectively.

2018 Debt Transactions

In the fourth quarter of 2018, the Company executed a series of open market purchases of its 2024 notes. These transactions resulted in \$53.6 million in aggregate principal amount of the 2024 notes being repurchased at prices ranging from 91.5% to 94.25% of par value. Following these transactions, there was \$696.4 million of 2024 notes which remain outstanding.

These repurchases of the 2024 notes were considered to be debt extinguishments. As such, we recognized a gain on debt extinguishment of \$3.2 million which was recorded as a component of interest expense in the accompanying consolidated statement of operations and comprehensive income for the year ended December 31, 2018. Of this gain, approximately \$3.7 million was attributable to the repurchase of the notes at a discount to par value which was partially offset by a \$0.5 million write-off of unamortized debt issuance costs associated with the 2024 Notes repurchased.

2019 Debt Transactions

Note Repurchase Transactions

In the first quarter of 2019, the Company executed a series of open market purchases of its 2024 notes. These transactions resulted in \$20.4 million in aggregate principal amount of the 2024 notes being repurchased at prices ranging from 94.9% to 95.9% of par value.

These repurchases of the 2024 notes were considered to be debt extinguishments. As such, we recognized a gain on debt extinguishment of \$0.7 million which was recorded as a component of interest expense in the first quarter of 2019. Of this gain, approximately \$0.9 million was attributable to the repurchase of the notes at a discount to par value which was partially offset by a \$0.2 million write-off of unamortized debt issuance costs associated with the 2024 notes repurchased.

Refinancing Transactions

In April 2019, the Company extended the maturity date of its revolving credit facility by 20 months to November 22, 2023. All other material terms of the 2023 facility remain unchanged from those of the previous agreement.

In connection with the 2023 facility amendment we incurred \$1.2 million in lender and third-party fees which, together with \$5.9 million in remaining unamortized debt issuance costs, have been recorded as other assets and are being amortized over the remaining contractual life of the 2023 facility on a straight-line basis.

In May 2019, we completed a private offering of \$400.0 million in aggregate principal amount of 2027 notes at an issue price equal to 100% of their par value. The proceeds from the issuance of the 2027 notes were used, together with cash on hand, to purchase \$97.0 million in aggregate principal amount of 2024 notes, to repay \$300.0 million of the 2024 term loan and to pay related transaction fees and expenses.

In connection with the issuance of the 2027 notes, we incurred \$6.1 million of various third-party fees and expenses. Of these costs, \$2.1 million were recorded to interest expense in the second quarter of 2019. The remaining \$4.0 million in costs incurred have been recorded as a reduction to long-term debt and are being amortized over the contractual life of the 2027 notes using the effective interest method. Further, we recorded an additional \$2.2 million to interest expense in the second quarter of 2019 related to the write-off of unamortized debt discount and debt issuance costs in connection with the partial repayment of the 2024 term loan.

In July 2019, we completed a private offering of an additional \$75.0 million in aggregate principal amount of 2027 notes at an issue price of 104.5% of their par value. The proceeds from the issuance of the 2027 notes were used together with cash on hand to redeem an additional \$75.0 million in aggregate principal amount of 2024 notes and to pay related transaction fees and expenses.

The additional \$3.4 million in proceeds received in excess of par value represents a debt premium which has been recorded as an increase to long-term debt. In connection with the issuance of the additional 2027 notes, we incurred \$1.3 million of various third-party fees and expenses which have been recorded as a reduction to long-term debt. These third party costs and the debt premium are being amortized over the contractual life of the 2027 notes using the effective interest method.

The redemption of the 2024 notes was considered to be an extinguishment. As such, we recognized a loss on extinguishment of \$3.1 million which was recorded to interest expense in the third quarter of 2019. Of this loss, \$2.2 million was attributable to the call premium paid to the lenders and \$0.9 million was attributable to the write-off of unamortized debt issuance costs associated with the extinguished 2024 notes.

Term Loan Repayment

In November 2019, we repaid \$105.1 million of the 2024 term loan using cash on hand. In connection with this repayment we recognized a loss on extinguishment of \$3.5 million related to the write-off of unamortized debt discount and debt issuance costs. This loss on extinguishment was recorded to interest expense in the fourth quarter of 2019.

2020 Debt Transactions

As further described in more detail below, during the year ended December 31, 2020, the Company executed several debt transactions, including the redemption of \$503.9 million in outstanding aggregate principal amount of 5.625% senior secured notes due 2024 (“2024 notes”), the redemption of \$47.5 million in aggregate principal amount of 6.75% senior secured notes due 2027 (“2027 notes”), and repayment of \$52.0 million of our senior secured term loan facility due 2024 (“2024 term loan”). The repayments of our 2024 notes and 2027 notes were funded with the proceeds of the issuance of \$550.0 million in aggregate principal amount of 5.00% unsecured senior notes due 2030 (“2030 notes”) and borrowings on our \$900.0 million revolving credit facility (“2023 facility”). The repayment of our 2024 term loan was funded with cash on hand. The Company also issued an additional \$350.0 million in aggregate principal amount of our 2027 notes.

First Quarter 2020 Refinancing Transactions

In February 2020, the Company completed a private offering of \$550.0 million in aggregate principal amount of 2030 notes at an issue price equal to 100% of par value. The net proceeds from the issuance of the 2030 notes were used together with a borrowing on our \$900.0 million 2023 facility to redeem the remaining \$503.9 million in outstanding aggregate principal amount of 2024 notes and \$47.5 million in aggregate principal amount of 2027 notes and to pay related transaction fees and expenses.

In connection with the issuance of the 2030 notes, we incurred \$8.3 million of various third-party fees and expenses. These costs have been recorded as a reduction to long-term debt and are being amortized over the contractual life of the 2030 notes using the effective interest method.

As the Company concluded that the redemption of the 2024 notes and 2027 notes were debt extinguishments, the Company recorded a loss on extinguishment of \$28.0 million in interest expense in the first quarter of 2020. Of this loss, approximately \$22.7 million was attributable to the payment of redemption premiums on the extinguished notes and \$5.3 million was attributable to the write-off of unamortized debt issuance costs and debt premium.

Second Quarter 2020 Debt Transaction

In April 2020, the Company completed a private offering of an additional \$350.0 million in aggregate principal amount of 2027 notes at an issue price of 98.75% of par value. The net proceeds from the issuance of the 2027 notes were used to repay the funds borrowed under the 2023 facility and to pay related transaction fees and expenses, with the remaining net proceeds used for general corporate purposes.

The Company recognized the \$4.4 million in proceeds received below par value as a debt discount, which is recorded as a reduction to long-term debt. In connection with the issuance of the 2027 notes, we incurred \$5.5 million of various third-party fees and expenses, which have been recorded as a reduction to long-term debt. These third-party costs and the debt discount will be amortized over the contractual life of the 2027 notes using the effective interest method.

Fourth Quarter 2020 Term Loan Repayment

In November 2020, we repaid the remaining \$52.0 million of the 2024 term loan using cash on hand. In connection with this repayment we recognized a loss on extinguishment of \$1.4 million related to the write-off of unamortized debt discount and debt issuance costs. This loss on extinguishment was recorded to interest expense in the accompanying consolidated statement of operations and comprehensive income in the fourth quarter of 2020.

2023 Revolving Credit Facility

As of December 31, 2020, the 2023 facility provides for a \$900.0 million revolving credit line to be used for working capital, general corporate purposes and funding capital expenditures and growth opportunities. In addition, we may use the 2023 facility to facilitate debt repayment and consolidation. The available borrowing capacity, or borrowing base, is derived from a percentage of the

Company's eligible receivables and inventory, as defined by the agreement, subject to certain reserves. As of December 31, 2020, we had \$75.0 million in outstanding borrowings under our 2023 facility and our net excess borrowing availability was \$747.0 million after being reduced by outstanding letters of credit of approximately \$78.0 million.

As of December 31, 2020, borrowings under the 2023 facility bear interest, at our option, at either a eurodollar rate or a base rate, plus, in each case, an applicable margin. The applicable margin ranges from 1.25% to 1.75% per annum in the case of eurodollar rate loans and 0.25% to 0.75% per annum in the case of base rate loans. The margin in either case is based on a measure of availability under the 2023 facility. A variable commitment fee, currently 0.375% per annum, is charged on the unused amount of the revolver based on quarterly average loan utilization. Letters of credit under the 2023 facility are assessed at a rate equal to the applicable eurodollar margin, currently 1.25%, as well as a fronting fee at a rate of 0.125% per annum. These fees are payable quarterly in arrears at the end of March, June, September, and December.

All obligations under the 2023 facility are guaranteed jointly and severally by the Company and all other subsidiaries that guarantee the 2027 notes and 2030 notes. All obligations and the guarantees of those obligations are secured by substantially all of the assets of the Company and the guarantors subject to certain exceptions and permitted liens, including with respect to the 2023 facility, a first-priority security interest in such assets that constitute ABL Collateral (as defined below) and a second-priority security interest in such assets that constitute Notes Collateral (as defined below).

"ABL Collateral" includes substantially all presently owned and after-acquired accounts receivable, inventory, rights of unpaid vendors with respect to inventory, deposit accounts, commodity accounts, securities accounts and lock boxes, investment property, cash and cash equivalents, and general intangibles, books and records, supporting obligations and documents and related letters of credit, commercial tort claims or other claims related to and proceeds of each of the foregoing. "Notes Collateral" includes all collateral which is not ABL Collateral.

The 2023 facility contains restrictive covenants which, among other things, limit the Company's ability to incur additional indebtedness, incur liens, engage in mergers or other fundamental changes, sell certain assets, pay dividends, make acquisitions or investments, prepay certain indebtedness, change the nature of our business, and engage in certain transactions with affiliates. In addition, the 2023 facility also contains a financial covenant requiring the satisfaction of a minimum fixed charge ratio of 1.00 to 1.00 if our excess availability falls below the greater of \$80.0 million or 10% of the maximum borrowing amount, which was \$90.0 million as of December 31, 2020.

On January 29, 2021, the Company amended the 2023 facility to increase the total commitments by an aggregate amount of \$500.0 million resulting in a new \$1.4 billion amended credit facility, and extended the maturity date from November 2023 to January 2026. As amended, borrowings under the 2023 facility bear interest, at our option, at either the eurodollar rate or base rate plus, in each case, an applicable margin. The applicable margin ranges from 1.50% to 2.00% per annum in the case of eurodollar rate loans and 0.50% to 1.00% per annum in the case of base rate loans. The margin in either case is based on a measure of availability under the 2023 facility.

Senior Secured Notes due 2027

As of December 31, 2020, we have \$777.5 million outstanding in aggregate principal amount of the 2027 notes which mature on June 1, 2027. Interest accrues on the 2027 notes at a rate of 6.75% per annum and is payable semi-annually on June 1 and December 1 of each year.

The terms of the 2027 notes are governed by the indenture, dated as of the May 30, 2019 (the "2027 Indenture"), among the Company, the guarantors named therein and Wilmington Trust, National Association, as trustee and as notes collateral agent. The 2027 notes, subject to certain exceptions, are guaranteed, jointly and severally, on a senior secured basis, by certain of the Company's direct and indirect wholly owned subsidiaries (the "Guarantors"). All obligations under the 2027 notes, and the guarantees of those obligations, are secured by substantially all of the assets of the Company and the Guarantors subject to certain exceptions and permitted liens, including a first-priority security interest in such assets that constitute Notes Collateral and a second-priority security interest in such assets that constitute ABL Collateral.

The 2027 Indenture contains restrictive covenants that limit the ability of the Company and its restricted subsidiaries to, among other things, incur additional debt or issue preferred stock, create liens, create restrictions on the Company's subsidiaries' ability to make payments to the Company, pay dividends and make other distributions in respect of the Company's and its subsidiaries' capital stock, make certain investments or certain other restricted payments, guarantee indebtedness, designate unrestricted subsidiaries, sell certain kinds of assets, enter into certain types of transactions with affiliates, and effect mergers and consolidations.

At any time prior to June 1, 2022, the Company may redeem the 2027 notes in whole or in part at a redemption price equal to 100% of the principal amount of the 2027 notes plus the “applicable premium” set forth in the 2027 Indenture. At any time on or after June 1, 2022, the Company may redeem the 2027 notes at the redemption prices set forth in the 2027 Indenture, plus accrued and unpaid interest, if any, to the redemption date. At any time and from time to time during the 36-month period following the Closing Date, the Company may redeem up to 10% of the aggregate principal amount of the 2027 notes during each twelve-month period commencing on the Closing Date at a redemption price of 103% of the aggregate principal amount thereof plus accrued and unpaid interest to the redemption date. In addition, at any time prior to June 1, 2022, the Company may redeem up to 40% of the aggregate principal amount of the 2027 notes with the net cash proceeds of one or more equity offerings, as described in the 2027 Indenture, at a price equal to 106.750% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date. If the Company experiences certain change of control events, holders of the 2027 notes may require it to repurchase all or part of their 2027 notes at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

On February 16, 2021, pursuant to the optional call feature in the 2027 Indenture, the Company gave notice that on March 3, 2021, \$82.5 million of 2027 notes will be redeemed at a redemption price equal to 103% of the principal amount of the notes, plus accrued and unpaid interest.

Senior Secured Notes due 2030

As of December 31, 2020, we have \$550.0 million outstanding in aggregate principal amount of the 2030 notes, which mature on March 1, 2030. Interest accrues on the 2030 notes at a rate of 5.00% per annum and is payable semi-annually on March 1 and September 1 of each year, commencing on September 1, 2020.

The terms of the 2030 notes are governed by the indenture, dated as of the February 11, 2020 (the “2030 Indenture”), among the Company, the guarantors named therein and Wilmington Trust, National Association, as trustee. The 2030 notes, subject to certain exceptions, are guaranteed, jointly and severally, on a senior unsecured basis, by each of the Company’s direct and indirect wholly owned subsidiaries (the “Guarantors”) that guarantee its obligations under the Company’s 2023 Facility and the 2027 Secured Notes. Subject to certain exceptions, future subsidiaries that guarantee the Senior Secured Credit Facilities, the 2027 notes or certain other indebtedness will also guarantee the 2030 notes.

The 2030 notes constitute senior unsecured obligations of the Company and the Guarantors, *pari passu* in right of payment with all of the existing and future senior indebtedness of the Company, including indebtedness under the 2027 notes. The 2030 notes are also (i) effectively subordinated to all existing and future secured indebtedness of the Company and the Guarantors (including under the 2027 notes) to the extent of the value of the assets securing such indebtedness, (ii) senior to all of the future subordinated indebtedness of the Company and the Guarantors, and (iii) structurally subordinated to any existing and future indebtedness and other liabilities, including preferred stock, of the Company’s subsidiaries that do not guarantee the 2030 notes.

The 2030 Indenture contains restrictive covenants that limit the ability of the Company and its restricted subsidiaries to, among other things, incur additional debt or issue preferred stock, create liens, create restrictions on the Company’s subsidiaries’ ability to make payments to the Company, pay dividends and make other distributions in respect of the Company’s and its subsidiaries’ capital stock, make certain investments or certain other restricted payments, guarantee indebtedness, designate unrestricted subsidiaries, sell certain kinds of assets, enter into certain types of transactions with affiliates, and effect mergers and consolidations.

At any time prior to March 1, 2025, the Company may redeem the 2030 notes in whole or in part at a redemption price equal to 100% of the principal amount of the 2030 notes plus the “applicable premium” set forth in the 2030 Indenture. In addition, at any time prior to March 1, 2023, the Company may redeem up to 40% of the aggregate principal amount of the 2030 notes with the net cash proceeds of one or more equity offerings, as described in the 2030 Indenture, at a price equal to 105.0% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date. At any time on or after March 1, 2025, the Company may redeem the 2030 notes at the redemption prices set forth in the 2030 Indenture, plus accrued and unpaid interest, if any, to the redemption date. If the Company experiences certain change of control events, holders of the 2030 notes may require it to repurchase all or part of their 2030 notes at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

As of December 31, 2020 we were not in violation of any covenants or restrictions imposed by any of our debt agreements.

Future maturities of long-term debt as of December 31, 2020 were as follows (in thousands):

Year ending December 31,		
2021	\$	—
2022		—
2023		75,000
2024		—
2025		—
Thereafter		1,327,500
Total long-term debt (including current maturities)	\$	<u>1,402,500</u>

10. Leases and Other Finance Obligations

Right-of-use assets and lease liabilities consisted of the following as of December 31 (in thousands):

	2020	2019
Assets		
Operating lease right-of-use assets, net	\$ 274,562	\$ 292,684
Finance lease right-of-use assets, net (included in property, plant and equipment, net)	34,905	32,070
Total right-of-use assets	<u>\$ 309,467</u>	<u>\$ 324,754</u>
Liabilities		
Current		
Current portion of operating lease liabilities	\$ 61,625	\$ 61,653
Current portion of finance lease liabilities (included in current maturities of long-term debt)	12,178	10,378
Noncurrent		
Noncurrent portion of operating lease liabilities	\$ 219,239	\$ 236,948
Noncurrent portion of finance lease liabilities (included in long-term debt, net of current maturities)	11,695	9,955
Total lease liabilities	<u>\$ 304,737</u>	<u>\$ 318,934</u>

Total lease costs consisted of the following for the years ended December 31 (in thousands):

	2020	2019
Operating lease costs*	\$ 85,798	\$ 84,603
Finance lease costs:		
Amortization of finance lease right-of-use assets	6,325	5,177
Interest on finance lease liabilities	1,424	1,115
Variable lease costs	17,607	15,441
Total lease costs	<u>\$ 111,154</u>	<u>\$ 106,336</u>

* Includes short-term lease costs and sublease income which were not material for the years ended December 31, 2020 and December 31, 2019.

Future maturities of lease liabilities as of December 31, 2020 were as follows (in thousands):

	Finance Leases	Operating Leases
2021	\$ 13,242	\$ 76,567
2022	8,934	63,879
2023	2,953	49,546
2024	250	38,208
2025	67	28,958
Thereafter	—	84,959
Total lease payments	25,446	342,117
Less: amount representing interest	(1,573)	(61,253)
Present value of lease liabilities	23,873	280,864
Less: current portion	(12,178)	(61,625)
Long-term lease liabilities, net of current portion	\$ 11,695	\$ 219,239

Weighted average lease terms and discount rates as of December 31 were as follows:

	2020	2019
Weighted average remaining lease term (years)		
Operating leases	6.3	6.3
Finance leases	2.1	2.0
Weighted average discount rate		
Operating leases	6.3 %	6.6 %
Finance leases	5.9 %	6.0 %

The following table presents cash paid for amounts included in the measurement of lease liabilities for the years ended December 31 (in thousands):

	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 82,559	\$ 81,488
Operating cash flows from finance leases	1,424	1,115
Financing cash flows from finance leases	13,409	11,477

The guarantees under these leases for the residual values of equipment at the end of the respective operating lease periods approximated \$4.5 million as of December 31, 2020. Based upon the expectation that none of these leased assets will have a residual value at the end of the lease term that is materially less than the value specified in the related operating lease agreement or that we will purchase the equipment at the end of the lease term, we do not believe it is probable that we will be required to fund any amounts under the terms of these guarantee arrangements. Accordingly, these guarantees have not been recognized in the calculation of our right-of-use assets and lease liabilities. Our lease agreements do not impose any significant restrictions or covenants on us. As of December 31, 2020, future lease payments related to leases which have been signed, but have not yet commenced are not significant and are not reflected on our consolidated balance sheet as of December 31, 2020. Leases with related parties are not significant as of or for the years ended December 31, 2020, 2019 or 2018.

Other Finance Obligations

In addition to the operating and finance lease arrangements described above, the Company is party to 131 individual property lease agreements with a single lessor as of December 31, 2020. These lease agreements had initial terms ranging from nine to 15 years with renewal options in five-year increments providing for up to approximately 30-year total lease terms. A related agreement between the lessor and the Company gives the Company the right to acquire a limited number of the leased facilities at fair market value. These purchase rights represent a form of continuing involvement with these properties, which precluded sale-leaseback accounting. As a result, the Company treats all of the properties that it leases from this lessor as a financing arrangement. The Company is also party to certain additional agreements with the same lessor which commit the Company to perform certain repair and maintenance obligations under the leases in a specified manner and timeframe.

We were deemed the owner of certain of our facilities during their construction period based on an evaluation made in accordance with the *Leases* topic of the Codification. Effectively, a sale and leaseback of these facilities occurred when construction was completed and the lease term began. These transactions did not qualify for sale-leaseback accounting. As a result, the Company treats the lease of these facilities as a financing arrangement.

As of December 31, 2020, other finance obligations consist of \$216.1 million, with cash payments of \$20.9 million for the year ended December 31, 2020. These other finance obligations are included on the consolidated balance sheet as part of long-term debt. The related assets are recorded as components of property, plant, and equipment on the consolidated balance sheet.

Future maturities for other finance obligations as of December 31, 2020 were as follows (in thousands):

2021	\$	17,196
2022		16,811
2023		16,818
2024		16,835
2025		16,836
Thereafter		174,300
Total	\$	<u>258,796</u>

11. Employee Stock-Based Compensation

2014 Incentive Plan

Under our 2014 Incentive Plan (“2014 Plan”), as amended, the Company is authorized to grant awards in the form of incentive stock options, non-qualified stock options, restricted stock shares, restricted stock units, other common stock-based awards and cash-based awards. As of December 31, 2020, the Company had reserved 8.5 million shares of common stock for the grant of awards under the 2014 Plan, subject to adjustment as provided by the 2014 Plan. All shares under the Plan may be made subject to options, stock appreciation rights (“SARs”), or stock-based awards. Stock options and SARs granted under the 2014 Plan may not have a term exceeding 10 years from the date of grant. The 2014 Plan also provides that all awards will become fully vested and/or exercisable upon a change in control (as defined in the 2014 Plan) if those awards (i) are not assumed or equitably substituted by the surviving entity or (ii) have been assumed or equitably substituted by the surviving entity, and the grantee’s employment is terminated under certain circumstances. Other specific terms for awards granted under the 2014 Plan shall be determined by our Compensation Committee (or the board of directors if so determined by the board of directors). Awards granted under the 2014 Plan generally vest ratably over a three to four-year period or cliff vest after a period of three to four years. As of December 31, 2020, 2.6 million shares were available for issuance under the 2014 Plan. If it is assumed that shares will be issued at the target vesting amount for outstanding restricted stock units (“RSUs”) with variable payout provisions, an additional 0.8 million shares would be included in the shares available for future issuance under the 2014 Plan. In connection with the BMC Merger, an additional 6.6 million shares of common stock for the grant of awards were added to the 2014 Plan.

2007 Incentive Plan

Under our 2007 Incentive Plan (“2007 Plan”), the Company was authorized to grant awards in the form of incentive stock options, non-qualified stock options, restricted stock, other common stock-based awards and cash-based awards. Stock options and SARs granted under the 2007 Plan may not have a term exceeding 10 years from the date of grant. The 2007 Plan also provided that all awards will become fully vested and/or exercisable upon a change in control (as defined in the 2007 Plan). Historically, awards granted under the 2007 Plan generally vested ratably over a three to four-year period. As of May 24, 2017, no further grants will be made under the 2007 plan.

2005 Equity Incentive Plan

Under our 2005 Equity Incentive Plan (“2005 Plan”), we were authorized to grant stock-based awards in the form of incentive stock options, non-qualified stock options, restricted stock and other common stock-based awards. Stock options and SARs granted under the 2005 Plan could not have a term exceeding 10 years from the date of grant. The 2005 Plan also provided that all awards become fully vested and/or exercisable upon a change in control (as defined in the 2005 Plan). Historically, awards granted under the 2005 Plan generally vested ratably over a three-year period. As of June 27, 2015, no further grants will be made under the 2005 Plan.

1998 Stock Incentive Plan

Under the Builders FirstSource, Inc. 1998 Stock Incentive Plan (“1998 Plan”), we were authorized to issue shares of common stock pursuant to awards granted in various forms, including incentive stock options, non-qualified stock options and other stock-based awards. The 1998 Plan also authorized the sale of common stock on terms determined by our board of directors. Historically, stock options granted under the 1998 Plan generally cliff vested after a period of seven to nine years with certain option grants subject to acceleration if certain financial targets were met. As of January 1, 2005, no further grants will be made under the 1998 Plan.

Stock Options

The following table summarizes our stock option activity:

	Options (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Years	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2019	434	\$ 6.81		
Granted	—	\$ —		
Exercised	(235)	\$ 6.06		
Forfeited	—	\$ —		
Outstanding at December 31, 2020	<u>199</u>	\$ 7.68	4.1	\$ 6,590
Exercisable at December 31, 2020	<u>187</u>	\$ 7.34	4.0	\$ 6,249

The outstanding options at December 31, 2020 include 92,000 options under the 2014 plan, 54,000 options under the 2007 Plan, 25,000 options under the 2005 Plan and 28,000 options under the 1998 Plan. As of December 31, 2020, 80,000 options under the 2014 Plan and all the outstanding options under the 2007 Plan, the 2005 Plan and the 1998 Plan were exercisable. There were no options granted during the years ended December 31, 2020, 2019 or 2018. The total intrinsic value of options exercised during the years ended December 31, 2020, 2019 and 2018 were \$4.8 million, \$12.5 million and \$10.9 million, respectively. Vesting of all of our stock options is contingent solely on continuous employment over the requisite service period.

Outstanding and exercisable stock options at December 31, 2020 were as follows (shares in thousands):

Range of Exercise Prices	Outstanding			Exercisable		
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Years	Shares	Weighted Average Exercise Price	
\$3.15 - \$3.19	28	\$ 3.15	3.1	28	\$ 3.15	
\$6.35 - \$6.59	55	\$ 6.48	4.7	55	\$ 6.48	
\$7.67- \$12.94	116	\$ 9.36	4.1	104	\$ 8.94	
\$3.15 - \$12.94	<u>199</u>	\$ 7.68	4.1	<u>187</u>	\$ 7.34	

Restricted Stock Units

The outstanding RSUs at December 31, 2020 include 2,349,000 units granted under the 2014 Plan.

The following table summarizes activity for RSUs subject solely to service conditions for the year ended December 31, 2020 (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2019	1,131	\$ 15.73
Granted	739	\$ 19.54
Vested	(464)	\$ 16.14
Forfeited	(5)	\$ 15.78
Nonvested at December 31, 2020	<u>1,401</u>	\$ 17.60

The weighted average grant date fair value of RSUs for which vesting is subject solely to service conditions granted during the years ended December 31, 2020, 2019 and 2018 were \$19.54, \$14.29, and \$20.23, respectively.

The following table summarizes activity for RSUs for which vesting is subject to both performance and service conditions for the year ended December 31, 2020 (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2019	692	\$ 16.11
Granted	272	\$ 23.18
Vested	(135)	\$ 15.77
Forfeited	—	\$ —
Nonvested at December 31, 2020	<u>829</u>	<u>\$ 18.48</u>

The weighted average grant date fair value of RSUs for which vesting is subject to both performance and service conditions granted during the years ended December 31, 2020, 2019 and 2018 were \$23.18, \$14.42 and \$21.15, respectively.

The following table summarizes activity for RSUs for which vesting is subject to both market and service conditions for the year ended December 31, 2020 (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2019	253	\$ 17.31
Granted	—	\$ —
Vested	(134)	\$ 12.81
Forfeited	—	\$ —
Nonvested at December 31, 2020	<u>119</u>	<u>\$ 22.39</u>

The weighted average grant date fair value of RSUs for which vesting is subject to both market and service conditions granted during the year ended December 31, 2018 was \$21.96. There were no RSUs granted during the year ended December 31, 2020 or 2019 for which vesting was subject to both market and service conditions.

Our results of operations include stock compensation expense of \$17.0 million, \$12.2 and \$14.4 for the years ended December 31, 2020, 2019 and 2018, respectively. We recognized excess tax benefits for stock options exercised and RSUs vested of \$2.1 million, \$2.2 million and \$4.2 million for the years ended December 31, 2020, 2019 and 2018, respectively. The total fair value of options vested during the years ended December 31, 2020, 2019, and 2018 were \$0.1 million, \$0.3 million and \$2.7 million, respectively. The total fair value of RSUs vested during the years ended December 31, 2020, 2019 and 2018 were \$11.3 million, \$9.8 million and \$10.4 million, respectively.

As of December 31, 2020, there was approximately \$21.6 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted-average period of 2.1 years.

12. Income Taxes

The components of income tax expense included in continuing operations were as follows for the years ended December 31:

	2020	2019	2018
	(In thousands)		
Current:			
Federal	\$ 66,017	\$ 3,678	\$ (1,831)
State	11,998	6,274	5,572
	<u>78,015</u>	<u>9,952</u>	<u>3,741</u>
Deferred:			
Federal	16,270	45,955	45,934
State	344	5,039	5,889
	<u>16,614</u>	<u>50,994</u>	<u>51,823</u>
Income tax expense	<u>\$ 94,629</u>	<u>\$ 60,946</u>	<u>\$ 55,564</u>

Temporary differences, which give rise to deferred tax assets and liabilities, were as follows as of December 31:

	2020	2019
	(In thousands)	
Deferred tax assets related to:		
Accrued expenses	\$ 19,182	\$ 8,219
Insurance reserves	16,582	14,277
Stock-based compensation expense	3,549	3,325
Accounts receivable	4,726	3,799
Inventories	6,152	5,394
Operating loss and credit carryforwards	10,812	13,821
Operating lease liabilities	70,216	74,650
Other	3,746	1,677
	<u>134,965</u>	<u>125,162</u>
Valuation allowance	(2,409)	(2,409)
Total deferred tax assets	<u>132,556</u>	<u>122,753</u>
Deferred tax liabilities related to:		
Prepaid expenses	(3,914)	(2,393)
Goodwill and other intangible assets	(47,490)	(37,426)
Property, plant and equipment	(57,353)	(37,991)
Operating lease right-of-use assets	(68,641)	(73,171)
Total deferred tax liabilities	<u>(177,398)</u>	<u>(150,981)</u>
Net deferred tax liability	<u>\$ (44,842)</u>	<u>\$ (28,228)</u>

A reconciliation of the statutory federal income tax rate to our effective rate for continuing operations is provided below for the years ended December 31:

	2020	2019	2018
Statutory federal income tax rate	21.0%	21.0%	21.0%
State income taxes, net of federal income tax	3.7	2.8	4.3
Stock compensation windfall benefit	(0.5)	(0.8)	(1.6)
Permanent difference – 162(m) limitation	0.5	0.4	0.6
Permanent difference – credits	(1.7)	(2.3)	(4.6)
Permanent difference – other	0.3	0.7	1.4
Other	(0.1)	(0.2)	0.2
	<u>23.2%</u>	<u>21.6%</u>	<u>21.3%</u>

We have \$201.7 million of state net operating loss carryforwards and \$3.6 million of state tax credit carryforwards expiring at various dates through 2037. We evaluate our deferred tax assets on a quarterly basis to determine whether a valuation allowance is required. In accordance with the *Income Taxes* topic of the Codification we assess whether it is more likely than not that some or all of

our deferred tax assets will not be realized. Significant judgment is required in estimating valuation allowances for deferred tax assets and in making this determination, we consider all available positive and negative evidence and make certain assumptions. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in the applicable carryforward period. Changes in our estimates of future taxable income and tax planning strategies will affect our estimate of the realization of the tax benefits of these tax carryforwards.

We base our estimate of deferred tax assets and liabilities on current tax laws and rates. In certain cases, we also base our estimate on business plan forecasts and other expectations about future outcomes. Changes in existing tax laws or rates could affect our actual tax results, and future business results may affect the amount of our deferred tax liabilities or the valuation of our deferred tax assets over time. Due to uncertainties in the estimation process, particularly with respect to changes in facts and circumstances in future reporting periods, as well as the residential homebuilding industry's cyclical nature and sensitivity to changes in economic conditions, it is possible that actual results could differ from the estimates used in previous analyses.

The balance for uncertain tax positions, excluding penalties and interest, was \$9.2 million and \$2.0 million as of December 31, 2020 and 2019, respectively, with \$7.2 million recorded in the Company's consolidated statement of operations and comprehensive income for the year ended December 31, 2020, and with no significant amounts recorded in the years ended December 31, 2019 or 2018. We accrue interest and penalties on our uncertain tax positions as a component of our provision for income taxes. We accrued no significant interest and penalties in 2020, 2019 or 2018.

We are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. Based on completed examinations and the expiration of statutes of limitations, we have concluded all U.S. federal income tax matters for years through 2014. We are currently under IRS audit for various aspects of our 2015, 2016 and 2017 tax years. We report in 41 states with various years open to examination.

13. Employee Benefit Plans

We maintain one active defined contribution 401(k) plan. Our employees are eligible to participate in the plans subject to certain employment eligibility provisions. Participants can contribute up to 75% of their annual compensation, subject to federally mandated maximums. Participants are immediately vested in their own contributions. We match a certain percentage of the contributions made by participating employees, subject to IRS limitations. Our matching contributions are subject to a pro-rata five-year vesting schedule. We recognized expense of \$8.1 million, \$7.8 million and \$6.8 million in 2020, 2019 and 2018, respectively, for contributions to the plan.

The Company contributes to multiple collectively bargained union retirement plans including multiemployer plans. The Company does not administer the multiemployer plans, and contributions are determined in accordance with the provisions of negotiated labor contracts. The risks of participating in multiemployer plans are different from single-employer plans. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to a multiemployer plan, the unfunded obligations of that multiemployer plan may be borne by the remaining participating employers. If the Company chooses to stop participating in a multiemployer plan, the Company may be required to pay that plan an amount ("withdrawal liability") based on the plan's formula and the underfunded status of the plan attributable to the Company. Contributions to the plans for the years ended December 31, 2020, 2019 and 2018 were not significant.

14. Commitments and Contingencies

As of December 31, 2020, we had outstanding letters of credit totaling \$78.0 million under our 2023 facility that principally support our self-insurance programs.

The Company has a number of known and threatened construction defect legal claims. While these claims are generally covered under the Company's existing insurance programs to the extent any loss exceeds the deductible, there is a reasonable possibility of loss that is not able to be estimated at this time because (i) many of the proceedings are in the discovery stage, (ii) the outcome of future litigation is uncertain, and/or (iii) the complex nature of the claims. Although the Company cannot estimate a reasonable range of loss based on currently available information, the resolution of these matters could have a material adverse effect on the Company's financial position, results of operations or cash flows.

In addition, we are involved in various other claims and lawsuits incidental to the conduct of our business in the ordinary course. We carry insurance coverage in such amounts in excess of our self-insured retention as we believe to be reasonable under the circumstances and that may or may not cover any or all of our liabilities in respect of such claims and lawsuits. Although the ultimate disposition of these other proceedings cannot be predicted with certainty, management believes the outcome of any such claims that

are pending or threatened, either individually or on a combined basis, will not have a material adverse effect on our consolidated financial position, cash flows or results of operations. However, there can be no assurances that future adverse judgments and costs would not be material to our results of operations or liquidity for a particular period.

15. Segment and Product Information

We offer an integrated solution to our customers providing manufacturing, supply, and installation of a full range of structural and related building products. We provide a wide variety of building products and services directly to homebuilder customers. We manufacture floor trusses, roof trusses, wall panels, stairs, millwork, windows, and doors. We also provide a full range of construction services. For the period ended December 31, 2020, these product and service offerings are distributed across approximately 400 locations operating in 40 states across the United States, which have been organized into nine geographical regions. Centralized financial and operational oversight, including resource allocation and assessment of performance on an income from continuing operations before income taxes basis, is performed by our CEO, whom we have determined to be our chief operating decision maker (“CODM”).

The Company has nine operating segments aligned with its nine geographical regions (Regions 1 through 9). While all of our operating segments have similar categories of products, distribution methods and customers, certain of our operating segments have been aggregated due to also containing similar economic characteristics, resulting in the following composition of reportable segments:

- Regions 1 and 2 have been aggregated to form the “Northeast” reportable segment
- Regions 3 and 5 have been aggregated to form the “Southeast” reportable segment
- Regions 4 and 6 have been aggregated to form the “South” reportable segment
- Region 7, 8 and 9 have been aggregated to form the “West” reportable segment

In addition to our reportable segments, our consolidated results include corporate overhead, other various operating activities, including closed locations, that are not internally allocated to a geographical region nor separately reported to the CODM, and certain reconciling items primarily related to allocations of corporate overhead and rent expense, which have collectively been presented as “All Other”. The accounting policies of the segments are consistent with those described in Note 2, except for noted reconciling items.

The following tables present Net sales, Income before income taxes and certain other measures for the reportable segments, reconciled to consolidated total operations, for the years ended December 31, (in thousands):

Reportable segments	2020			
	Net Sales	Depreciation & Amortization	Interest	Income before income taxes
Northeast	\$ 1,323,972	\$ 14,271	\$ 21,899	\$ 56,574
Southeast	1,947,888	15,908	25,602	139,017
South	2,346,160	27,904	26,971	163,224
West	2,639,133	31,160	41,073	156,744
Total reportable segments	8,257,153	89,243	115,545	515,559
All other	301,721	27,323	20,143	(107,393)
Total consolidated	\$ 8,558,874	\$ 116,566	\$ 135,688	\$ 408,166

Reportable segments	2019			
	Net Sales	Depreciation & Amortization	Interest	Income before income taxes
Northeast	\$ 1,293,472	\$ 13,060	\$ 20,994	\$ 56,573
Southeast	1,599,426	12,517	21,580	83,722
South	1,860,653	19,714	22,218	113,359
West	2,205,224	26,978	36,475	89,206
Total reportable segments	6,958,775	72,269	101,267	342,860
All other	321,656	27,769	8,284	(60,105)
Total consolidated	\$ 7,280,431	\$ 100,038	\$ 109,551	\$ 282,755

Reportable segments	2018			
	Net Sales	Depreciation & Amortization	Interest	Income before income taxes
Northeast	\$ 1,304,855	\$ 13,318	\$ 23,740	\$ 36,382
Southeast	1,684,842	11,622	25,373	67,424
South	2,015,807	20,746	25,764	111,308
West	2,394,253	26,744	38,804	108,181
Total reportable segments	7,399,757	72,430	113,681	323,295
All other	325,014	25,476	(5,468)	(62,540)
Total consolidated	\$ 7,724,771	\$ 97,906	\$ 108,213	\$ 260,755

Asset information by segment is not reported internally or otherwise reviewed by the CODM nor does the company earn revenues or have long-lived assets located in foreign countries.

16. Related Party Transactions

Certain members of the Company's board of directors also serve on the board of directors of one of our suppliers, PGT, Inc. In addition, as of January 1, 2021 a new member of the Company's board of directors is an executive officer of one of our customers, Ashton Woods USA, L.L.C. Further, the Company has entered into certain leases of land and buildings with certain employees or non-affiliate stockholders. Activity associated with these related party transactions was not significant as of or for the years ended December 31, 2020, 2019 or 2018.

Transactions between the Company and other related parties occur in the ordinary course of business. However, the Company carefully monitors and assesses related party relationships. Management does not believe that any of these transactions with related parties had a material impact on the Company's results for the years ended December 31, 2020, 2019 or 2018.

17. Unaudited Quarterly Financial Data

The following tables summarize the consolidated quarterly results of operations for 2020 and 2019 (in thousands, except per share amounts):

	2020			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$ 1,787,021	\$ 1,945,643	\$ 2,295,450	\$ 2,530,760
Gross margin	465,413	517,332	570,651	669,188
Net income	8,767	78,924	85,932	139,914
Net income per share				
Basic	\$ 0.08	\$ 0.68	\$ 0.74	\$ 1.20
Diluted	\$ 0.07	\$ 0.67	\$ 0.73	\$ 1.18

	2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$ 1,631,300	\$ 1,904,523	\$ 1,981,035	\$ 1,763,573
Gross margin	441,975	517,156	541,142	476,556
Net income	35,708	66,604	78,130	41,367
Net income per share				
Basic	\$ 0.31	\$ 0.58	\$ 0.68	\$ 0.36
Diluted	\$ 0.31	\$ 0.57	\$ 0.67	\$ 0.35

Earnings per share is computed independently for each of the quarters presented; therefore, the sum of the quarterly earnings per share may not equal the annual earnings per share.

18. Subsequent Events

Business Combination

On January 1, 2021, we completed our previously announced all stock merger transaction with BMC Stock Holdings, Inc., a Delaware corporation (“BMC”), issuing approximately 89.6 million shares of common stock, pursuant to the Agreement and Plan of Merger, dated as of August 26, 2020 (as amended, restated, supplemented, or otherwise modified from time to time, the “Merger Agreement”), by and among Builders FirstSource, Inc., Boston Merger Sub I Inc., a Delaware corporation and direct wholly owned subsidiary of Builders FirstSource, Inc. (“Merger Sub”) and BMC. On the terms and subject to the conditions set forth in the Merger Agreement, on January 1, 2021, Merger Sub merged with and into BMC, with BMC continuing as the surviving corporation and a wholly owned subsidiary of the Company (the “BMC Merger”).

The BMC Merger will be accounted for using the acquisition method of accounting, and Builders FirstSource, Inc. will be treated as the accounting acquirer. The operating results of BMC will be reported as part of the Company beginning on the closing date of the BMC Merger.

The accounting for the BMC Merger has not been completed at the date of this filing given the proximity to the acquisition date and the ongoing assessment of the value and allocation of the purchase price to the assets acquired and liabilities assumed of BMC. The purchase price will be allocated to the net assets acquired based on estimated fair values at the acquisition date, with the excess of purchase price over the estimated fair value of the net assets acquired recorded as goodwill.

Debt Transactions

As discussed in Note 9, on January 29, 2021, the Company amended the 2023 facility to, among other things, increase the total commitments by an aggregate amount of \$500.0 million resulting in a new \$1.4 billion amended credit facility, and extended the maturity date from November 2023 to January 2026.

As discussed in Note 9, on February 16, 2021, pursuant to the optional call feature in the 2027 Indenture, the Company gave notice that on March 3, 2021, \$82.5 million of 2027 notes will be redeemed at a redemption price equal to 103% of the principal amount of the notes, plus accrued and unpaid interest.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls Evaluation and Related CEO and CFO Certifications. Our management, with the participation of our principal executive officer ("CEO") and principal financial officer ("CFO") conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this annual report.

Certifications of our CEO and our CFO, which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), are attached as exhibits to this annual report. This "Controls and Procedures" section includes the information concerning the controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

Limitations on the Effectiveness of Controls. We do not expect that our disclosure controls and procedures will prevent all errors and all fraud. A system of controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Because of the limitations in all such systems, no evaluation can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Furthermore, the design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how unlikely. Because of these inherent limitations in a cost-effective system of controls and procedures, misstatements or omissions due to error or fraud may occur and not be detected.

Scope of the Controls Evaluation. The evaluation of our disclosure controls and procedures included a review of their objectives and design, the Company's implementation of the controls and procedures and the effect of the controls and procedures on the information generated for use in this annual report. In the course of the evaluation, we sought to identify whether we had any data errors, control problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken if needed. This type of evaluation is performed on a quarterly basis so that conclusions concerning the effectiveness of our disclosure controls and procedures can be reported in our quarterly reports on Form 10-Q. Many of the components of our disclosure controls and procedures are also evaluated by our internal audit department, our legal department and by personnel in our finance organization. The overall goals of these various evaluation activities are to monitor our disclosure controls and procedures on an ongoing basis, and to maintain them as dynamic systems that change as conditions warrant.

Conclusions regarding Disclosure Controls. Based on the required evaluation of our disclosure controls and procedures, our CEO and CFO have concluded that, as of December 31, 2020, we maintained disclosure controls and procedures that were effective in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles ("GAAP"). Internal control over financial reporting includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with existing policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework set forth in *Internal Control — Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2020.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2020, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control over Financial Reporting. During the quarter ended December 31, 2020, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders to be held June 16, 2021 under the captions “Proposal 1 — Election of Directors,” “Continuing Directors,” “Information Regarding the Board and Its Committees,” “Corporate Governance,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Executive Officers of the Registrant,” which information is incorporated herein by reference.

Code of Business Conduct and Ethics

Builders FirstSource, Inc. and its subsidiaries endeavor to do business according to the highest ethical and legal standards, complying with both the letter and spirit of the law. Our board of directors approved a Code of Business Conduct and Ethics that applies to our directors, officers (including our principal executive officer, principal financial officer and principal accounting officer) and employees. Our Code of Business Conduct and Ethics is administered by a compliance committee made up of representatives from our legal, human resources, finance and internal audit departments.

Our employees are encouraged to report any suspected violations of laws, regulations and the Code of Business Conduct and Ethics, and all unethical business practices. We provide continuously monitored hotlines for anonymous reporting by employees.

Our board of directors has also approved a Supplemental Code of Ethics for the Chief Executive Officer, President, and Senior Financial Officers of Builders FirstSource, Inc., which is administered by our general counsel.

Both of these policies are listed as exhibits to this annual report on Form 10-K and can be found in the “Investors” section of our corporate Web site at: www.bldr.com.

Stockholders may request a free copy of these policies by contacting the Corporate Secretary, Builders FirstSource, Inc., 2001 Bryan Street, Suite 1600, Dallas, Texas 75201, United States of America.

In addition, within four business days of:

- Any amendment to a provision of our Code of Business Conduct and Ethics or our Supplemental Code of Ethics for Chief Executive Officer, President and Senior Financial Officers of Builders FirstSource, Inc. that applies to our chief executive officer, chief financial officer or chief accounting officer as it relates to one or more of the items set forth in Item 406(b) of Regulation S-K; or
- The grant of any waiver, including an implicit waiver, from a provision of one of these policies to one of these officers that relates to one or more of the items set forth in Item 406(b) of Regulation S-K,

we will provide information regarding any such amendment or waiver (including the nature of any waiver, the name of the person to whom the waiver was granted and the date of the waiver) on our Web site at the Internet address above, and such information will be available on our Web site for at least a 12-month period. In addition, we will disclose any amendments and waivers to our Code of Business Conduct and Ethics or our Supplemental Code of Ethics for Chief Executive Officer, President and Senior Financial Officers of Builders FirstSource, Inc. as required by the listing standards of the NASDAQ Stock Market LLC.

Item 11. Executive Compensation

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders to be held June 16, 2021, under the captions “Executive Compensation and Other Information,” “Information Regarding the Board and its Committees — Compensation of Directors,” and “Compensation Committee Interlocks and Insider Participation,” which information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders to be held on June 16, 2021, under the caption “Ownership of Securities” and “Equity Compensation Plan Information,” which information is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders to be held June 16, 2021, under the caption “Election of Directors and Management Information,” “Information Regarding the Board and its Committees,” and “Certain Relationships and Related Party Transactions,” which information is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services*

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders to be held June 16, 2021, under the caption “Proposal 3 — Ratification of Selection of Independent Registered Public Accounting Firm — Fees Paid to PricewaterhouseCoopers LLP,” which information is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

- (a) (1) See the index to consolidated financial statements provided in Item 8 for a list of the financial statements filed as part of this report.
- (2) Financial statement schedules are omitted because they are either not applicable or not material.
- (3) The following documents are filed, furnished or incorporated by reference as exhibits to this report as required by Item 601 of Regulation S-K.

Exhibit Number	Description
2.1	<u>Agreement and Plan of Merger, dated August 26, 2020, by and among Builders FirstSource, Inc., BMC Stock Holdings, Inc., and Boston Merger Sub I Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 27, 2020, File Number 0-51357)</u>
3.1	<u>Amended and Restated Certificate of Incorporation of Builders FirstSource, Inc. (incorporated by reference to Exhibit 3.1 to Amendment No. 4 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on June 6, 2005, File Number 333-122788)</u>
3.2	<u>Amendment to Amended and Restated Certificate of Incorporation of Builders FirstSource, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 4, 2021, File Number 0-51357)</u>
3.3	<u>Amended and Restated By-Laws of Builders FirstSource, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 14, 2020, File Number 0-51357)</u>
4.1	<u>Indenture, dated as of May 30, 2019, among Builders FirstSource, Inc., the guarantors party thereto, and Wilmington Trust, National Association, as trustee and notes collateral agent (form of Note included therein) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 31, 2019, File Number 0-51357)</u>
4.2	<u>First Supplemental Indenture, dated as of July 25, 2019, among Builders FirstSource, Inc., the guarantors party thereto, and Wilmington Trust, National Association, as trustee and notes collateral agent (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 30, 2019, File Number 0-51357)</u>
4.3	<u>Second Supplemental Indenture, dated as of April 24, 2020, among Builders FirstSource, Inc., the guarantors named therein and Wilmington Trust, National Association, as trustee and as notes collateral agent (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 24, 2020, File Number 0-51357)</u>
4.4	<u>Indenture, dated as of February 11, 2020, among Builders FirstSource, Inc., the guarantors party thereto, and Wilmington Trust, National Association, as trustee (form of Note included therein) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 11, 2020, File Number 0-51357)</u>
4.5*	<u>Description of Capital Stock</u>
10.1	<u>Amended and Restated ABL Credit Agreement, dated as of July 31, 2015, among Builders FirstSource, Inc., SunTrust Bank, as administrative agent and collateral agent, and the lenders and financial institutions party thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on August 6, 2015, File Number 0-51357)</u>
10.2	<u>Amendment No. 1 to Credit Agreement, dated as of March 22, 2017, among Builders FirstSource, Inc., SunTrust Bank, as administrative agent and collateral agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 28, 2017, File Number 0-51357)</u>

Exhibit Number	Description
10.3	<u>Amendment No. 2 to Credit Agreement, dated as of April 24, 2019, among Builders FirstSource, Inc., Truist Bank (as successor by merger to SunTrust Bank), as administrative agent and collateral agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 30, 2019, File Number 0-51357)</u>
10.4	<u>Amendment No. 3 to Credit Agreement, dated as of January 29, 2021, among Builders FirstSource, Inc., SunTrust Bank, as administrative agent and collateral agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 3 2021, File Number 0-51357)</u>
10.5	<u>ABL/Bond Intercreditor Agreement, dated as of May 29, 2013, among Builders FirstSource, Inc. and certain of its subsidiaries, as grantors, SunTrust Bank, as ABL agent, and Wilmington Trust, National Association, as notes collateral agent (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on June 3, 2013, File Number 0-51357)</u>
10.6	<u>Amended and Restated ABL Collateral Agreement, dated as of July 31, 2015, among the Company, certain of its subsidiaries, and SunTrust Bank (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on August 6, 2015, File Number 0-51357)</u>
10.7	<u>Notes Collateral Agreement, dated as of May 30, 2019, among Builders FirstSource, Inc., certain of its subsidiaries, and Wilmington Trust, National Association, as trustee (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 31, 2019, File Number 0-51357)</u>
10.8	<u>Amended and Restated ABL Guarantee Agreement, dated as of July 31, 2015, among the Guarantors (as defined therein) and SunTrust Bank (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on August 6, 2015, File Number 0-51357)</u>
10.9	<u>Lease and Master Agreement Guaranty, dated as of July 31, 2015, by the Company in favor of LN Real Estate LLC (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, filed with the Securities and Exchange Commission on November 9, 2015, File Number 0-51357)</u>
10.10+	<u>Builders FirstSource, Inc. 2007 Incentive Plan (incorporated by reference to Annex D of the Company's Definitive Proxy Statement on Schedule 14A, filed with the Securities and Exchange Commission on December 15, 2009, File Number 0-51357)</u>
10.11+	<u>2014 Form of Builders FirstSource, Inc. 2007 Incentive Plan Restricted Stock Unit Award Certificate (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, filed with the Securities and Exchange Commission on August 1, 2014, File Number 0-51357)</u>
10.12+	<u>Builders FirstSource, Inc. 2014 Incentive Plan (incorporated herein by reference to Appendix A of the Company's Definitive Proxy Statement on Schedule 14A, filed with the Securities and Exchange Commission on April 11, 2014, File Number 0-51357)</u>
10.13+	<u>Amendment to the Builders FirstSource, Inc. 2014 Incentive Plan (incorporated by reference to Appendix A of the Company's Definitive Proxy Statement on Schedule 14A, filed with the Securities and Exchange Commission on April 14, 2016, File Number 0-51357)</u>
10.14+*	<u>Second Amendment to the Builders FirstSource, Inc. 2014 Incentive Plan</u>
10.15+	<u>2014 Form of Builders FirstSource, Inc. 2014 Incentive Plan Restricted Stock Unit Award Certificate (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, filed with the Securities and Exchange Commission on August 1, 2014, File Number 0-51357)</u>
10.16+	<u>2015 Form of Builders FirstSource, Inc. 2014 Incentive Plan Non-Statutory Stock Option Award Certificate (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission on March 3, 2015, File Number 0-51357)</u>
10.17+	<u>2016 Form of Builders FirstSource, Inc. 2014 Incentive Plan Restricted Stock Unit Award Certificate (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, filed with the Securities and Exchange Commission on May 6, 2016, File Number 0-51357)</u>

Exhibit Number	Description
10.18+	2017 Form of Builders FirstSource, Inc. 2014 Incentive Plan Director Restricted Stock Unit Award Certificate (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, filed with the Securities and Exchange Commission on November 9, 2017, File Number 0-51357)
10.19+	2017 Form of Builders FirstSource, Inc. 2014 Incentive Plan Restricted Stock Unit Award Certificate (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission on March 1, 2018, File Number 0-51357)
10.20+	2019 Form of Builders FirstSource, Inc. 2014 Incentive Plan Restricted Stock Unit Award Certificate (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, filed with the Securities and Exchange Commission on May 3, 2019, File Number 0-51357)
10.21+	Stock Building Supply Holdings, Inc. 2013 Incentive Compensation Plan (incorporated by reference to Exhibit 10.21 to Amendment No. 2 to the Registration Statement of BMC Stock Holdings, Inc. on Form S-1, filed with the Commission on July 29, 2013, File Number 333-189368)
10.22+	Form of Nonqualified Stock Option Agreement Pursuant to the Stock Building Supply Holdings, Inc. 2013 Incentive Compensation Plan (incorporated by reference to Exhibit 10.23 to Amendment No. 2 to the Registration Statement of Stock Building Supply Holdings, Inc. on Form S-1, filed with the Securities and Exchange Commission on July 29, 2013, File Number 333-189368)
10.23*+	Builders FirstSource, Inc. Director Compensation Policy
10.24+	Builders FirstSource, Inc. Form of Director Indemnification Agreement (incorporated by reference to Exhibit 10.13 to Amendment No. 3 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on May 26, 2005, File Number 333-122788)
10.25+	Amended and Restated Employment Agreement, dated December 29, 2017, between Builders FirstSource, Inc. and M. Chad Crow (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission on March 1, 2018, File Number 0-51357)
10.26+	Employment Agreement, dated January 15, 2004, between Builders FirstSource, Inc. and Donald F. McAleenan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed with the Securities Exchange Commission on November 2, 2005, File Number 0-51357)
10.27+	Amendment to Employment Agreement, dated October 29, 2008, between Builders FirstSource, Inc. and Donald F. McAleenan (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 2, 2009, File Number 0-51357)
10.28+	Second Amendment to Employment Agreement, dated as of May 19, 2017, between Builders FirstSource, Inc. and Donald F. McAleenan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed with the Securities Exchange Commission on August 4, 2017, File Number 0-51357)
10.29+	Employment Agreement, dated November 14, 2016, between Builders FirstSource, Inc. and Peter M. Jackson (incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission on March 1, 2017, File Number 0-51357)
10.30+	First Amendment to Employment Agreement, dated as of May 19, 2017, between Builders FirstSource, Inc. and Peter M. Jackson (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed with the Securities Exchange Commission on August 4, 2017, File Number 0-51357)
10.31+	Employment Agreement between Builders FirstSource, Inc. and Scott L. Robins dated effective as of February 20, 2018 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, filed with the Securities and Exchange Commission on November 2, 2018, File Number 0-51357)
10.32+	Employment Agreement between Builders FirstSource, Inc. and David E. Rush dated effective as of November 29, 2018 (incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission on March 1, 2019, File Number 0-51357)
10.33*+	Amended and Restated Employment Agreement, dated as of January 1, 2021, between Builders FirstSource, Inc. and David E. Rush

Exhibit Number	Description
10.34+	Amended and Restated Employment Agreement, dated as of August 26, 2020, between David E. Flitman, Builders FirstSource, Inc., and BMC Stock Holdings, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 27, 2020, File Number 0-51357)
14.1	Builders FirstSource, Inc. Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission on March 1, 2019, File Number 0-51357)
14.2	Builders FirstSource, Inc. Supplemental Code of Ethics (incorporated by reference to Exhibit 14.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission on March 13, 2006, File Number 0-51357)
21.1*	Subsidiaries of the Registrant
23.1*	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
24.1*	Power of Attorney (included as part of signature page)
31.1*	Certification of Chief Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by M. Chad Crow as Chief Executive Officer
31.2*	Certification of Chief Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Peter M. Jackson as Chief Financial Officer
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by M. Chad Crow as Chief Executive Officer and Peter M. Jackson as Chief Financial Officer
101*	The following financial information from Builders FirstSource, Inc.'s Form 10-K filed on February 26, 2021, formatted in Inline eXtensible Business Reporting Language ("Inline XBRL"): (i) Consolidated Statement of Operations and Comprehensive Income for the years ended December 31, 2020, 2019, and 2018, (ii) Consolidated Balance Sheet at December 31, 2020 and 2019, (iii) Consolidated Statement of Cash Flows for the years ended December 31, 2020, 2019, and 2018, (iv) Consolidated Statement of Changes in Stockholders' Equity for the years ended December 31, 2020, 2019, and 2018, and (v) the Notes to Consolidated Financial Statements.
104*	The cover page from the Company's Annual Report on Form 10-K for the year ended December 31, 2020 has been formatted in Inline XBRL.

* Filed herewith

** Builders FirstSource, Inc. is furnishing, but not filing, the written statement pursuant to Title 18 United States Code 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, of M. Chad Crow, our Chief Executive Officer, and Peter M. Jackson, our Chief Financial Officer.

+ Indicates a management contract or compensatory plan or arrangement

(b) A list of exhibits filed, furnished or incorporated by reference with this Form 10-K is provided above under Item 15(a)(3) of this report. **Builders FirstSource, Inc. will furnish a copy of any exhibit listed above to any stockholder without charge upon written request to Timothy D. Johnson, Executive Vice President, General Counsel and Corporate Secretary, 2001 Bryan Street, Suite 1600, Dallas, Texas 75201.**

(c) Not applicable

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 26, 2021

BUILDERS FIRSTSOURCE, INC.

/s/ M. CHAD CROW

M. Chad Crow
Chief Executive Officer

The undersigned hereby constitute and appoint Timothy D. Johnson and his substitutes our true and lawful attorneys-in-fact with full power to execute in our name and behalf in the capacities indicated below any and all amendments to this report and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and hereby ratify and confirm all that such attorney-in-fact or his substitutes shall lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ M. CHAD CROW M. Chad Crow	Chief Executive Officer (Principal Executive Officer)	February 26, 2021
/s/ PETER M. JACKSON Peter M. Jackson	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 26, 2021
/s/ JAMI COULTER Jami Coulter	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 26, 2021
/s/ DAVID E. FLITMAN David E. Flitman	President and Director	February 26, 2021
/s/ PAUL S. LEVY Paul S. Levy	Chairman and Director	February 26, 2021
/s/ DANIEL AGROSKIN Daniel Agroskin	Director	February 26, 2021
/s/ MARK ALEXANDER Mark Alexander	Director	February 26, 2021
/s/ CORY J. BOYDSTON Cory J. Boydston	Director	February 26, 2021
/s/ DAVID W. BULLOCK David W. Bullock	Director	February 26, 2021
/s/ CLEVELAND A. CHRISTOPHE Cleveland A. Christophe	Director	February 26, 2021
/s/ WILLIAM B. HAYES William B. Hayes	Director	February 26, 2021
/s/ BRETT N. MILGRIM Brett N. Milgrim	Director	February 26, 2021
/s/ JAMES O'LEARY James O'Leary	Director	February 26, 2021

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ FLOYD F. SHERMAN</u> Floyd F. Sherman	Director	February 26, 2021
<u>/s/ CRAIG A. STEINKE</u> Craig A. Steinke	Director	February 26, 2021

DESCRIPTION OF CAPITAL STOCK

The following description of our capital stock does not purport to be complete and is subject to, and qualified in its entirety by, our amended and restated certificate of incorporation and amended and restated bylaws, which are incorporated by reference into this Description of Capital Stock, and by the Delaware General Corporation Law (the “DGCL”).

General Matters

Our certificate of incorporation, as amended, provides that we are authorized to issue 300,000,000 shares of common stock, par value \$0.01 per share, and 10,000,000 shares of undesignated preferred stock, par value \$0.01 per share.

Common Stock

Shares of our common stock have the following rights, preferences, and privileges:

- *Voting rights.* Each outstanding share of common stock entitles its holder to one vote on all matters submitted to a vote of our stockholders, including the election of directors. There are no cumulative voting rights. Generally, all matters to be voted on by stockholders must be approved by a majority of the votes entitled to be cast by all shares of common stock present or represented by proxy.
- *Dividends.* Holders of common stock are entitled to receive dividends as, when, and if dividends are declared by our board of directors out of assets or funds legally available for the payment of dividends, subject to any preferential dividend rights of any outstanding preferred stock.
- *Liquidation.* In the event of a liquidation, dissolution, or winding up of our affairs, whether voluntary or involuntary, after payment of our liabilities and obligations to creditors, our remaining assets will be distributed ratably among the holders of shares of common stock on a per share basis.
- *Rights and preferences.* Our common stock has no preemptive, redemption, conversion or subscription rights. The rights, powers, preferences and privileges of holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.
- *Listing.* Our common stock is listed on NASDAQ under the symbol “BLDR.”
- *Transfer Agent and Registrar.* The transfer agent and registrar for our common stock is Computershare Shareowner Services LLC, and its telephone number is (877) 219-7020.

Preferred Stock

Under our certificate of incorporation, without further stockholder action, the board of directors is authorized, subject to any limitations prescribed by the law of the State of Delaware, to provide for the issuance of the shares of preferred stock in one or more series, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and any qualifications, limitations or restrictions thereof.

Anti-Takeover Effects of Certain Provisions of Our Certificate of Incorporation and Bylaws

Our certificate of incorporation and bylaws contain provisions that are intended to enhance the likelihood of continuity and stability in the composition of the board of directors and that may have the effect of delaying, deferring or preventing a future takeover or change in control of our company unless the takeover or change in control is approved by our board of directors. These provisions include the following:

Staggered board of directors. Our certificate of incorporation and bylaws provide for a staggered board of directors, divided into three classes, with our stockholders electing one class each year. Between stockholders' meetings, the board of directors will be able to appoint new directors to fill vacancies or newly created directorships so that no more than the number of directors in any given class could be replaced each year and it would take three successive annual meetings to replace all directors.

Elimination of stockholder action through written consent. Our certificate of incorporation and bylaws provide that stockholder action can be taken only at an annual or special meeting of stockholders and cannot be taken by written consent in lieu of a meeting.

Elimination of the ability to call special meetings. Our certificate of incorporation and bylaws provide that, except as otherwise required by law, special meetings of our stockholders can only be called pursuant to a resolution adopted by a majority of our board of directors, a committee of the board of directors that has been duly designated by the board of directors and whose powers and authority include the power to call such meetings or by our chief executive officer or the chairman of our board of directors. Stockholders are not permitted to call a special meeting or to require our board to call a special meeting.

Advance notice procedures for stockholder proposals. Our bylaws establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board. Stockholders at our annual meeting may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of our board or by a stockholder who was a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has given to our secretary timely written notice, in proper form, of the stockholder's intention to bring that business before the meeting.

Removal of directors; board of directors vacancies. Our certificate of incorporation and bylaws provide that members of our board of directors may not be removed without cause and the affirmative vote of holders of at least a majority of the voting power of our then-outstanding capital stock entitled to vote on the election of directors. Our bylaws further provide that only our board of directors may fill vacant directorships, except in limited circumstances. These provisions would prevent a stockholder from gaining control of our board of directors by removing incumbent directors and filling the resulting vacancies with such stockholder's own nominees.

Amendment of certificate of incorporation and bylaws. The DGCL provides generally that the affirmative vote of a majority of the outstanding shares entitled to vote is required to amend or repeal a corporation's certificate of incorporation or bylaws, unless the certificate of incorporation requires a greater percentage. Our certificate of incorporation requires the approval of the holders of at least two-thirds of the voting power of the issued and outstanding shares of our capital stock entitled to vote in connection with the election of directors to amend certain provisions of our certificate of incorporation relating to the directors, including their authority to amend our by-laws, the size of our board of directors, provision for a staggered board of directors, the removal of directors, and vacancies on the board of

directors, as well as our authority to provide indemnification for our directors and officers. Our bylaws provide that a majority of our board of directors or, in most cases, the holders of at least a majority of the voting power of the issued and outstanding shares of our capital stock entitled to vote thereon have the power to amend or repeal our bylaws, except that, in the case of amendments or repeals approved by stockholders, the affirmative vote of holders of at least two-thirds of the voting power of the issued and outstanding shares of our capital stock entitled to vote thereon shall be required to amend or repeal provisions of our bylaws relating to meetings of stockholders, including the provision that stockholders may not take action by written consent in lieu of a meeting, the nomination and election of directors, vacancies on the board of directors, and our authority to provide indemnification for our directors and officers.

The foregoing provisions of our certificate of incorporation and bylaws could discourage potential acquisition proposals and could delay or prevent a change in control. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by our board of directors and to discourage certain types of transactions that may involve an actual or threatened change of control. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for our shares, and, as a consequence, they also may inhibit fluctuations in the market price of the common stock that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in our management or delaying or preventing a transaction that might benefit you or other minority stockholders.

Limitations on Liability and Indemnification of Officers and Directors

Our certificate of incorporation and bylaws provide indemnification for our directors and officers to the fullest extent permitted by the DGCL. We have entered into indemnification agreements with each of our directors that are, in some cases, broader than the specific indemnification provisions contained under Delaware law. In addition, as permitted by Delaware law, our certificate of incorporation includes provisions that eliminate the personal liability of our directors for monetary damages resulting from breaches of certain fiduciary duties as a director. The effect of this provision is to restrict our rights and the rights of our stockholders in derivative suits to recover monetary damages against a director for breach of fiduciary duties as a director, except that a director will be personally liable for:

- any breach of his duty of loyalty to us or our stockholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- any transaction from which the director derived an improper personal benefit; or
- improper distributions to stockholders.

These provisions may not be held to be enforceable for violations of the federal securities laws of the United States.

**SECOND AMENDMENT TO THE
BUILDERS FIRSTSOURCE, INC.
2014 INCENTIVE PLAN**

This Second Amendment to the Builders FirstSource, Inc. 2014 Incentive Plan (the “Plan”), has been adopted by the Board of Directors of Builders FirstSource, Inc. (the “Company”), to be effective as of January 4, 2021.

1. The Plan is hereby amended by deleting Section 5.1 in its entirety and replacing it with the following:

“5.1. **NUMBER OF SHARES.** Subject to adjustment as provided in Sections 5.2 and Section 15.1, the aggregate number of Shares reserved and available for issuance pursuant to Awards granted under the Plan shall be (i) 8,500,000, plus (ii) an additional 6,568,530 Shares that were assumed by the Company in connection with the Company’s merger with BMC Stock Holdings, Inc. on January 1, 2021 (the “BMC Merger”), that may only be granted to Eligible Participants who were not employed by the Company or a Subsidiary immediately prior to the BMC Merger. The maximum number of Shares that may be issued upon exercise of Incentive Stock Options granted under the Plan shall be 1,000,000.”

2. The Plan is hereby amended by deleting the second sentence of Section 2.1(k) in and replacing it with the following:

“Continuous Service shall not be considered interrupted in the following cases: (i) a Participant transfers employment between the Company and an Affiliate or between Affiliates, or (ii) in the discretion of the Committee as specified at or prior to such occurrence, in the case of a spin-off, sale or disposition of the Participant’s employer from the Company or any Affiliate, (iii) a Participant transfers from being an employee of the Company or an Affiliate to being a director of the Company or of an Affiliate, or vice versa, (iv) a Participant transfers from being an employee of the Company or an Affiliate to being a consultant to the Company or of an Affiliate, or vice versa, or (v) any leave of absence authorized by the Company; provided, however, that for purposes of Incentive Stock Options, no such leave may exceed 90 days, unless reemployment upon expiration of such leave is guaranteed by statute or contract.”

3. The Plan is hereby amended by deleting Section 17.2 in its entirety and replacing it with the following:

“17.2. **WITHHOLDING.** The Company or any Affiliate shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company or such Affiliate, an amount sufficient to satisfy federal, state, and local taxes (including the Participant’s FICA obligation) required by law to be withheld with respect to any exercise, lapse of restriction or other taxable event arising as a result of the Plan. The obligations of the Company under the Plan will be

conditioned on such payment or arrangements and the Company or such Affiliate will, to the extent permitted by law, have the right to deduct any such required tax withholding from any payment of any kind otherwise due to the Participant. Unless otherwise determined by the Committee at the time the Award is granted or thereafter, any such withholding requirement may be satisfied, in whole or in part, by withholding from the Award Shares having a Fair Market Value on the date of withholding equal to the amount of tax withholding (up to the maximum individual statutory rate in the applicable jurisdiction as may be permitted under then-current accounting principles to qualify for equity classification), in accordance with such procedures as the Committee establishes. All such elections shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

4. Except as expressly amended hereby, the terms of the Plan shall be and remain unchanged and the Plan as amended hereby shall remain in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed by its duly authorized representative on the day and year first above written.

BUILDERS FIRSTSOURCE, INC.

By: /s/ Timothy D. Johnson
Executive Vice President,
General Counsel and Corporate Secretary

BUILDERS FIRSTSOURCE, INC.
DIRECTOR COMPENSATION POLICY
(as amended effective January 15, 2021)

The Board of Directors (the “Board”) of Builders FirstSource, Inc. (the “Company”) has adopted the following compensation policy for purposes of compensating those directors of the Company who meet the eligibility requirements described herein (the “Eligible Directors”). This compensation policy has been developed to compensate the Eligible Directors of the Company for their time, commitment and contributions to the Board. In order to qualify as an Eligible Director for purposes of receiving compensation under this policy, the director cannot concurrently be employed in any capacity by the Company or any of its subsidiaries, unless otherwise determined by the Nominating Committee.

CASH COMPENSATION (WITH ELECTION TO RECEIVE STOCK IN LIEU OF CASH)

Retainers for Serving on the Board

Eligible Directors shall be paid an annual retainer of \$100,000, payable in quarterly installments, for each year of his or her service on the Board (each a “Service Year”). In addition to the regular retainer for serving as a member of the Board, an Eligible Director who serves as Chairman of the Board shall be paid an annual cash retainer of \$100,000 for service in such role for each Service Year, payable in quarterly installments. Service Years will commence on the date of the Company’s annual meeting of stockholders each year.

Retainers for Serving as Chairpersons or Members of a Board Committee

An Eligible Director who serves as a chairperson or as a member of the Audit Committee, the Compensation Committee or the Nominating Committee of the Board shall be paid additional annual retainers for service in such roles for each Service Year, payable in quarterly installments, in the following amounts:

Name of Committee	Chairman	Member
Audit Committee	\$30,000	\$5,000
Compensation Committee	\$20,000	\$5,000
Nominating Committee	\$10,000	\$5,000

A chairperson of a committee shall not be paid an additional retainer for also serving as a member of that committee. Eligible Directors shall not be paid any additional retainers for attendance at meetings of the Board or its committees.

Election to Receive Stock in Lieu of Cash Compensation

In lieu of receiving annual cash retainer(s) and/or retainers for serving as a chairperson or as a member of the Audit Committee, the Compensation Committee or the Nominating Committee of the Board, an Eligible Director may elect to receive fully vested shares of the Company’s common stock having a value on the first day of the service quarter for which they are issued approximately equal to the amount of the cash retainer payment he or she would otherwise receive. Such stock grants in lieu of cash retainer payments will be awarded on a quarterly basis at the same time cash retainer payments would be made.

Pro Rata Cash Retainer Payment for New Eligible Director

Following (i) the initial appointment or election of an Eligible Director to the Board or (ii) a change in status which causes an ineligible director to qualify as an Eligible Director under this policy, a pro rata payment of the quarterly cash retainers (regular retainer(s) and retainers for committee service, as applicable) will be made to such Eligible Director, prorated to reflect that portion of the quarter for which such director will serve on the Board and qualify as an Eligible Director. Such pro rata retainer payment

will be made as of (i) the date of commencement of Board service for a new Eligible Director, or (ii) the date a serving director becomes an Eligible Director, or (iii) such other date as the Board shall determine.

EQUITY-BASED COMPENSATION

Annual Restricted Stock Unit Awards

At the start of each Service Year, Eligible Directors (“Grantees”) shall receive equity-based compensation awards with a value at the time of issuance of approximately \$150,000. Such awards shall be made in the form of restricted stock units related to the Company’s common stock and shall be granted by the Board pursuant to a form of restricted stock unit award agreement under the Company’s 2014 Incentive Plan (or any successor plans), as amended from time to time. The restricted stock units shall vest and convert to shares on the first anniversary of the grant date.

Pro Rata Restricted Stock Unit Award for New Eligible Director

Following (i) the initial appointment or election of an Eligible Director to the Board or (ii) a change in status which causes an ineligible director to qualify as an Eligible Director under this policy, a pro rata grant of restricted stock units related to the Company’s common stock will be made to such Eligible Director with a value at the time of issuance based on the approximately \$150,000 in value for regular annual restricted stock unit awards to Eligible Directors, but prorated for that portion of the Service Year in which such director will serve on the Board and qualify as an Eligible Director. Such grants shall be made as of (i) the date of commencement of Board service for a new Eligible Director, or (ii) the date a serving director becomes an Eligible Director, or (iii) such other date as the Board shall determine. The restricted stock units shall vest and convert to shares on the first anniversary of the grant date.

Vesting Upon Departure of a Director

If a Grantee shall cease to be a Director of the Company due to death, disability or retirement during the one-year vesting period applicable to any restricted stock units granted hereunder, all restricted stock units shall immediately vest and convert to shares. If the Grantee shall cease to be a Director of the Company for any other reason during such one-year vesting period, any unvested restricted stock units shall be forfeited by the Grantee and such restricted stock units shall be cancelled.

TRAVEL EXPENSE REIMBURSEMENT

Eligible Directors shall be entitled to receive reimbursement for reasonable travel expenses which they properly incur in connection with their functions and duties as directors.

AMENDMENTS, REVISION AND TERMINATION

This policy may be amended, revised or terminated by the Board of Directors at any time and from time-to-time.

**AMENDED AND RESTATED
EMPLOYMENT AGREEMENT**

This Amended and Restated Employment Agreement (this “Agreement”) is made effective as of January 1, 2021, by and between Builders FirstSource, Inc., a Delaware corporation (the “Company”), and David E. Rush (“Executive”).

RECITALS:

WHEREAS, reference is made to that certain Employment Agreement, by and between the Company and Executive dated November 29, 2018 (the “Prior Agreement”);

WHEREAS, on August 26, 2020, the Company, BMC Stock Holdings, Inc., a Delaware corporation (“BMC”), and Boston Merger Sub I Inc., a Delaware corporation and a direct wholly-owned subsidiary of the Company (“Merger Sub”), entered into an Agreement and Plan of Merger (the “Merger Agreement”), pursuant to which Merger Sub will merge with and into BMC (the “Merger”) on the date of the Merger (the “Effective Date”);

WHEREAS, the Board of Directors of the Company (the “Board”) desires to amend and restate the Prior Agreement in its entirety to appoint Executive as Executive Vice President – Integration of the Company and to set forth the terms and conditions of Executive’s employment with the Company, effective as of, and subject to the occurrence of, the Effective Date;

WHEREAS, this Agreement shall become effective as of the Effective Date; provided that the consummation of the Merger shall be a condition precedent to the effectiveness of this Agreement, and, in the event the Merger Agreement is terminated prior to the consummation of the Merger, this Agreement shall be null and void, *ab initio*, and of no force or effect; and

WHEREAS, as of the Effective Date, this Agreement shall amend and restate the Prior Agreement in its entirety, and this Agreement shall set forth the terms and conditions of Executive’s employment with the Company from and after the Effective Date.

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein, the Company and Executive hereby agreement as follows:

AGREEMENT:

1. Employment. The Company hereby employs Executive, and Executive hereby accepts employment with the Company, upon the terms and subject to the conditions set forth herein.

2. Term. The term of employment by the Company of Executive pursuant to this Agreement (the “Term”) shall commence on the Effective Date (as defined in the Merger Agreement) and terminate on the second anniversary thereof (the “Second Anniversary”); provided, however, after the Second Anniversary, the Term shall automatically renew on a month-to-month basis for up to one (1) year (such period beyond the Second Anniversary is the “Extended Term”). During the Extended Term, either party may give thirty (30) days prior written notice of

its intent to end the Term at the next monthly renewal date, and the delivery of such notice shall constitute a termination pursuant to the provisions of Section 10(l).

3. Position. During the Term, Executive shall serve as Executive Vice President – Integration of the Company, supervising the integration of the business and operations of the Company and BMC and performing such other duties reasonably related thereto as the Board shall determine.

4. Duties. During the Term, Executive shall devote his full time and attention during normal business hours to the business and affairs of the Company, except vacations in accordance with the Company's policies and for illness or incapacity, in accordance with Section 6 hereof.

5. Salary and Bonus.

(a) *Base Salary*. During the Term, the Company shall pay to Executive a base salary at the rate of \$525,000 per year (the "Base Salary"), subject to adjustments pursuant to the terms of Section 5(b) hereof.

(b) *Base Salary Adjustment*. The Board or the Compensation Committee of the Board (the "Compensation Committee") shall annually review the Base Salary and may, in its sole discretion, increase the Base Salary based upon performance and merit. Executive's Base Salary shall not be decreased below the amount set forth in Section 5(a) hereof. The Base Salary shall be payable to Executive in substantially equal installments in accordance with the Company's normal payroll practices, but in no event less often than semi-monthly.

(c) *Cash Bonus*. During the Term, Executive shall be eligible to receive a target cash bonus in the amount of \$1,500,000 (the "Conversion Bonus"), which amount shall be increased or decreased based on the achievement of run rate synergies in accordance with the scale set forth on Exhibit A hereto. Promptly following the first anniversary of the Effective Date (the "First Anniversary"), the Company shall determine the run rate synergies achieved on the First Anniversary and shall pay Executive the corresponding Conversion Bonus (the "First Anniversary Bonus Payment"). Promptly following the Second Anniversary, the Company shall determine the run rate synergies achieved on the Second Anniversary and shall pay Executive an amount equal to the corresponding Conversion Bonus less the amount of the First Anniversary Bonus Payment (the "Second Anniversary Bonus Payment"). If the Term extends beyond the Second Anniversary pursuant to Section 2 hereof, upon termination of the Extended Term, the Company shall determine the run rate synergies achieved on the termination date of such Extended Term and shall pay an amount equal to the corresponding Conversion Bonus less the amount of the First Anniversary Bonus Payment and the Second Anniversary Payment. Any such payments shall be paid within thirty (30) days of the determination of the amount owed. For the avoidance of doubt, the maximum cash bonus that Executive may be entitled to receive pursuant to the terms of this Section 5(c) is \$1,800,000. The Conversion Bonuses shall be fully earned and not subject to any contingency on the First Anniversary Date, Second Anniversary Date, or the date of the termination of the Extended Term, as applicable, regardless of the date the final calculation of such bonus amount is determined.

(d) *Equity Grant.* On the Effective Date, Executive shall be granted a restricted stock unit award having a grant date fair value of approximately \$3,000,000 (the “RSUs”). Such RSUs shall be (i) convertible into the Company’s common stock on a one-for-one basis on the vesting date (subject the following conditions), (ii) issued pursuant to and consistent with the terms and conditions of the Company’s 2014 Incentive Plan, and (iii) be subject to the terms and conditions set forth in the form restricted stock unit award certificate adopted by the Compensation Committee as modified by the provisions hereof. Subject to Executive’s continued employment with the Company on the vesting date, (i) one-half of the RSUs shall vest in two equal installments on the First Anniversary and the Second Anniversary (the “Time-Based RSUs”), and (ii) one-half of the RSUs shall vest on the Second Anniversary based on the Company’s achievement of the run rate synergies as set forth on Exhibit A hereto (the “Performance-Based RSUs”). Executive may earn between 0% and 120% of the Performance-Based RSUs.

(e) *Other Cash Bonuses or Equity Compensation.* For the avoidance of doubt, Executive shall not be eligible to receive any other cash bonus or new equity grant from the Company during the Term; provided, however, that:

(i) Executive shall be entitled to receive his cash bonus pursuant to the Company’s annual cash incentive plan (“Annual Incentive Plan”) for 2020 previously approved by the Compensation Committee.

(ii) If the Effective Date has not occurred on or before January 31, 2021, Executive shall be entitled to receive a cash bonus for fiscal year 2021 prorated for the period from January 1, 2021 to the Effective Date. Such bonus shall have an annual target payout equal to 100% of Executive’s Base Salary and otherwise be in form consistent with the bonuses provided to the Company’s other executive officers for 2021.

(iii) If the Company’s executive team members receive bonuses for completion of the Merger, Executive will be entitled to receive a bonus comparable to the Merger completion bonuses received by the Company’s other executives with similar levels of responsibility (the “Deal Bonus”) in addition to any other compensation he receives hereunder.

6. Vacation, Holidays and Sick Leave. During the Term, Executive shall be entitled to paid vacation, paid holidays and sick leave in accordance with the Company’s standard policies for its senior executive officers.

7. Business Expenses. During the Term, Executive shall be reimbursed for all reasonable and necessary business expenses incurred by him in connection with his employment, including, without limitation, expenses for travel and entertainment incurred in conducting or promoting business for the Company upon timely submission by Executive of receipts and other documentation as required by the Internal Revenue Code of 1986, as amended (the “Code”), and in accordance with the Company’s normal expense reimbursement policies. With respect to Executive’s rights under this Section 7, (i) the amount reimbursable in any one calendar year shall not affect the amount reimbursable in any other calendar year, (ii) the reimbursement of an eligible business expense must be made no later than December 31 of the year after the year in which the business expense was incurred, and (iii) such rights shall not be subject to liquidation or exchange

for another benefit.

8. Health, Welfare and Related Benefits. During the Term, Executive and eligible members of his family shall be eligible to participate fully in all (a) health and dental benefits and insurance programs; (b) life and short- and long-term disability benefits and insurance programs; and (c) defined contribution and equity compensation programs, all as available to senior executive officers of the Company generally.

9. Confidentiality, Non-Competition, Non-Solicitation.

(a) Executive acknowledges that: (i) the Executive has, and his employment hereunder will require that Executive continue to have, access to and knowledge of Confidential Information (as hereinafter defined); (ii) the direct and indirect disclosure of any such Confidential Information to existing or potential competitors of the Company or its subsidiaries would place the Company at a competitive disadvantage and would do damage, monetary or otherwise, to the Company's businesses; and (iii) the engaging by Executive in any of the activities prohibited by this Section 9 may constitute improper appropriation and/or use of such Confidential Information. Executive expressly acknowledges that the Confidential Information constitutes a protectable business interest of the Company.

As used herein, the term "Confidential Information" shall mean information of any kind, nature or description which is disclosed to or otherwise known to the Executive as a direct or indirect consequence of his association with the Company and its subsidiaries, which information is not generally known to the public or in the businesses in which such entities are engaged or which information relates to specific investment opportunities within the scope of their business which were considered by the Company or its subsidiaries during the Term. Assuming the foregoing criteria are met, Confidential Information includes, but is not limited to, information (including without limitation compilations) concerning the Company's and its subsidiaries' financial plans and performance, potential acquisitions, business plans and strategies, personnel information, information technology processes, research, development, and manufacturing of Company or its subsidiaries' products, existing or prospective customers, proposals made to existing or prospective customers or other information contained in bids or offers to such customers, the terms of any arrangements or agreements with customers, including the amounts paid for services or how pricing was developed by the Company or its subsidiaries, the layout, design and implementation of customer specific projects, the identity of suppliers or subcontractors, information regarding supplier or subcontractor pricing or contract terms, the composition or description of future services that are or may be provided by the Company or any of its subsidiaries, the Company's or any of its subsidiaries' financial, marketing and sales information, and technical expertise, formulas, source codes and know how developed by the Company or any of its subsidiaries, including the unique manner in which the Company or any of its subsidiaries conducts its business. Confidential Information also includes information disclosed to the Company or any of its subsidiaries by a third party that the Company or such subsidiary is required to treat as confidential. Notwithstanding the foregoing, "Confidential Information" shall not be deemed to include information which (i) is or becomes generally available to the public other than as a result of a disclosure by the Executive, (ii) becomes available to the Executive on a non-confidential basis from a source other than the Company or any of its subsidiaries, provided that such source is not bound by any contractual, legal or fiduciary

obligation with respect to such information or (iii) was in the Executive's possession prior to being furnished by the Company or any of its subsidiaries.

(b) During the Term of this Agreement and for a period of one year after the termination of Executive's employment hereunder (upon expiration of the Term or otherwise), Executive shall not, directly or indirectly, whether individually, as a director, stockholder, owner, manager, member, partner, employee, consultant, principal or agent of any business, or in any other capacity, use for his own account, utilize or make known, disclose, furnish or make available to any person, firm or corporation any of the Confidential Information, other than to authorized officers, directors and employees of the Company or its subsidiaries in the proper performance of the duties contemplated herein, or as required by a court of competent jurisdiction or other administrative or legislative body; provided that, prior to disclosing any of the Confidential Information to a court or other administrative or legislative body, Executive shall promptly notify the Company so that the Company may seek a protective order or other appropriate remedy. Executive agrees to return all Confidential Information, including all photocopies, extracts and summaries thereof, and any such information stored electronically on tapes, computer disks or in any other manner to the Company at any time upon request by the Company and upon the termination of his employment for any reason. Notwithstanding the foregoing, nothing in this Agreement is intended to limit Executive's right to: (i) make disclosures to, or participate in communications with, the Securities and Exchange Commission or any other government agency regarding possible violations of law, without prior notice to the Company; (ii) disclose a trade secret (as defined by 18 U.S.C. § 1839) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, in either event solely for the purpose of reporting or investigating a suspected violation of law; or (iii) disclose a trade secret (as defined by 18 U.S.C. § 1839) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

(c) During the Term of this Agreement and for a period of one year after termination of Executive's employment hereunder (upon expiration of the Term or otherwise), Executive shall not engage in competition (or assist any other Person in engaging in competition) with the Company or any of its subsidiaries, directly or indirectly (either individually, by any form of ownership, or as a director, manager, member, officer, principal, agent, employee, employer, advisor, consultant, lender, member, shareholder, partner, or other representative in a Competing Business), in the Business of the Company in a Prohibited Location by either (i) performing services that are the same as or substantially similar to those services Executive performed for the Company or its subsidiaries at any time during the last two years of Executive's employment with the Company or its subsidiaries or (ii) serving as the chief executive officer, president, chief operating officer, chief financial officer, or regional vice president (or similar role) in charge of any operational region of any entity engaged in competition in the Business of the Company in a Prohibited Location. "Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or other entity. "Competing Business" means any business, regardless of form, that is directly engaged, in whole or in relevant part, in any business or enterprise that is the same as, or substantially the same as, the Business of the Company. The "Business of the Company" means the business of supplying, manufacturing, designing, constructing or installing structural and related building products, including without limitation roof and floor trusses, wall panels, stairs, windows, doors, engineered wood products, lumber and lumber sheet goods, millwork, kitchen

cabinets, gypsum, siding, roofing, insulation, hardware and other building products. A "Prohibited Location" means any location within fifty (50) miles of any of the Company's or any of its subsidiaries' physical locations over which Executive had management responsibility or about which Executive had access to Confidential Information. For the purposes of this Agreement, the parties agree that homebuilders and any vendors supplying building products or services to the Company shall be deemed to be Competing Businesses.

(d) During the Term of this Agreement and for a period of two years after termination of Executive's employment hereunder (upon expiration of the Term or otherwise), Executive shall not directly or indirectly solicit or divert, or attempt to solicit or divert, (either on behalf of the Executive or any other Person) any person employed by the Company or any of its subsidiaries with whom Executive had contact in the course of his employment with the Company or its subsidiaries (each, a "Company Employee") to leave or reduce their employment with the Company or any of its subsidiaries or to work for Executive or any other Person, including, without limitation, a Competing Business. During the Term of this Agreement and for a period of two years after termination of Executive's employment hereunder (upon expiration of the Term or otherwise), Executive shall not directly or indirectly (either on behalf of the Executive or any other Person) hire any Company Employee or respond to inquiries seeking employment from any Company Employee. This paragraph only applies to persons who are actively employed as Company Employees or were Company Employees within one (1) year of the time of any such actual or attempted solicitation, hiring or inquiry.

(e) Executive acknowledges that (A) in connection with rendering the services to be rendered by Executive hereunder, Executive will have access to and knowledge of Confidential Information, the disclosure of which would place the Company or its subsidiaries at a competitive disadvantage, causing irreparable injury, and (B) the services to be rendered by Executive hereunder are of a special and unique character, which gives this Agreement a peculiar value to the Company, the loss of which may not be reasonably or adequately compensated for by damages in an action at law, and that a material breach or threatened breach by Executive of any of the provisions contained in this Section 9 will cause the Company irreparable injury. Executive, therefore, agrees that the Company shall be entitled, in addition to any other right or remedy, to a temporary, preliminary and permanent injunction, without the necessity of proving the inadequacy of monetary damages or the posting of any bond or security, enjoining or restraining Executive from any such violation or threatened violations.

(f) Executive further acknowledges and agrees that due to the uniqueness of his services and confidential nature of the information he will possess, the covenants set forth herein are reasonable and necessary for the protection of the business and goodwill of the Company; and it is the intent of the parties hereto that if, in the opinion of any court of competent jurisdiction, any provision set forth in this Section 9 is not reasonable in any respect, such court shall have the right, power and authority to modify any and all such provisions in such a manner as to such court shall appear not unreasonable and to enforce the remainder of this Section 9 as so modified.

10. Termination of Agreement. The employment by the Company of Executive pursuant to this Agreement shall not be terminated prior to the end of the Term, except as set forth in this Section 10.

(a) By Mutual Consent.

(i) The employment by the Company of Executive pursuant to this Agreement may be terminated at any time by the mutual written agreement of the Company and Executive.

(ii) In the event that (i) Executive's employment is terminated by mutual consent pursuant to this Section 10(a), and (ii) Executive and the Company determine at that time that it is in their mutual best interest for Executive to continue to be bound after his termination by the provisions of Section 9 of this Agreement for the periods set forth therein, then the parties may enter into an agreement to that effect, in exchange for which Executive would be entitled to the compensation provided for in Section 10(e) hereof.

(b) Death. The employment by the Company of Executive pursuant to this Agreement shall be terminated upon the death of Executive, in which event Executive's spouse or heirs shall receive Executive's Base Salary and benefits to be paid or provided to Executive under this Agreement through the Date of Termination ("Accrued Obligations"), payable no later than thirty (30) days after the Date of Termination.

(c) Disability. The employment by the Company of Executive pursuant to this Agreement may be terminated by written notice to Executive at the option of the Company in the event that as a result of the Executive's incapacity due to physical or mental illness (which physical or mental illness shall be confirmed in writing by a physician or other medical expert acceptable to both parties), the Executive is unable to perform his duties, services and responsibilities hereunder or shall have been absent from his duties hereunder on a full-time basis for ninety (90) consecutive days or for an aggregate of ninety (90) days or more in any six (6) month period, and within thirty (30) days after notice is given by the Company (which notice may be delivered no earlier than thirty days prior to the expiration of such ninety (90) consecutive days or six month period, as the case may be), the Executive shall not have returned to the performance of his duties hereunder on a full-time basis. In the event the employment by the Company of Executive is terminated pursuant to this Section 10(c), Executive shall be entitled to receive the Accrued Obligations, payable no later than thirty (30) days after the Date of Termination.

(d) By the Company for Cause. The employment of Executive pursuant to this Agreement may be terminated by the Company by written notice to Executive ("Notice of Termination") for Cause (as hereafter defined). In the event the employment by the Company of Executive is terminated pursuant to this Section 10(d), Executive shall be entitled to receive the Accrued Obligations through the Date of Termination, payable no later than thirty (30) days after the Date of Termination, and no more.

(e) By the Company Without Cause. The employment by the Company of Executive pursuant to this Agreement may be terminated by the Company at any time without Cause by delivery of a Notice of Termination to Executive. In the event the employment by the Company of Executive is terminated pursuant to this Section 10(e), Executive shall be entitled to receive the following, subject to Section 24 hereof, but only if, with respect to the payments and benefits described in clauses (ii) through (vii), within 45 days after the Date of Termination, Executive shall have executed and not revoked a full release of claims in a form satisfactory to the

Company (the “Release”): (i) the Accrued Obligations, payable no later than thirty (30) days after the Date of Termination, (ii) continuation of his Base Salary for a period of one (1) year after the Date of Termination, (iii) continuation of the health benefits provided for pursuant to Section 8(a) hereof at active employee rates for a period of one (1) year after the Date of Termination, (iv) continuation of welfare benefits provided for pursuant to Section 8(b) hereof (the “Welfare Benefits”) for a period of one (1) year after the Date of Termination, (v) an amount equal to his Average Bonus Compensation (as hereafter defined), payable in accordance with Section 10(j), (vi) Executive shall become fully vested in the Time-Based RSUs, and (vii) Executive shall become fully vested in 100% of the Performance-Based RSUs (i.e. payout at target performance).

(f) By Executive. The employment of Executive by the Company pursuant to this Agreement may be terminated by Executive by written notice to the Company of his resignation (a “Notice of Resignation”) at any time.

(i) In the event the employment by the Company of Executive is terminated pursuant to this Section 10(f) (except as set forth in Sections 10(f)(ii) and (iii) below), Executive shall be entitled to receive the Accrued Obligations, payable no later than thirty (30) days after the Date of Termination, and no more.

(ii) If Executive terminates his employment due to (x) a material adverse diminution (a “Material Diminution”) of Executive’s job title or responsibilities from those currently in effect (for the sake of clarity, (A) a change in reporting structure by itself does not constitute a Material Diminution, (B) a change to a different position that is of comparable status within the Company does not constitute a Material Diminution, (C) any changes generally implemented with regard to a broad group of senior executives does not constitute a Material Diminution, and (D) any change consented to by Executive is not a Material Diminution) or (y) a relocation of Executive’s principal place of employment more than 100 miles from its current location without his consent, then Executive shall instead be entitled to the compensation provided for in clauses (i) through (vii) of Section 10(e) hereof, subject to (A) the requirement set forth therein to execute and not revoke the Release and (B) Executive using reasonable efforts to insure an orderly transition of his duties.

(iii) If Executive terminates his employment due to Executive’s reasonable determination that he has irreconcilable differences with the Company’s executive management, subject to the determination by the Compensation Committee that Executive put in a good faith effort to do his job, then, subject to (A) the requirement to execute and not revoke the Release, (B) Executive giving the Company written notice of such issue and thirty (30) days within which to remedy such situation before terminating, and (C) Executive using reasonable efforts to insure an orderly transition of his duties, Executive shall instead be entitled to the following compensation:

(1) If Executive terminates his employment prior to the First Anniversary, Executive shall be entitled to the compensation provided for in clauses (i) through (iv) and (vi) of Section 10(e) hereof, and no more.

(2) If Executive terminates his employment on or after the First

Anniversary, Executive shall be entitled to the compensation provided for in clauses (i) through (iv) of Section 10(e) hereof, and no more.

(g) Upon Termination of Merger Agreement. In the event the Merger Agreement is terminated prior to the consummation of the Merger, (i) this Agreement shall be null and void, *ab initio*, and of no force or effect, (ii) the Prior Agreement shall remain in full force and effect, and (iii) Executive shall continue as Chief Operating Officer – East of the Company.

(h) Previously Earned Bonus. Notwithstanding any other provision of this Section 10, in the event that Executive's employment pursuant to this Agreement is terminated at a time when Executive shall have earned a bonus under the Annual Incentive Plan for performance during the prior fiscal year which has not yet been paid, Executive shall be paid such bonus in addition to the amounts otherwise provided for in this Section 10. Such bonus shall be paid in the fiscal year following the fiscal year for which it is earned, and not later than March 15 of such year, in accordance with the Company's normal practices. For the sake of clarity, any bonus of Executive under the Company's Annual Incentive Plan shall be deemed to have been earned on December 31 of the year upon whose performance such bonus is based if Executive has been continuously employed by the Company through December 31 of such year.

(i) Date of Termination. Executive's Date of Termination shall be: (i) if the parties hereto mutually agree to terminate this Agreement pursuant to Section 10(a) hereof, the date designated by the parties in such agreement; (ii) if Executive's employment by the Company is terminated pursuant to Section 10(b), the date of Executive's death; (iii) if Executive's employment by the Company is terminated pursuant to Section 10(c), the last day of the applicable period referred to in Section 10(c) hereof; (iv) if Executive's employment by the Company is terminated pursuant to Section 10(d), the date on which a Notice of Termination is given; and (v) if Executive's employment by the Company is terminated pursuant to Sections 10(e), 10(f) or 10(g), the date the Notice of Termination or Notice of Resignation, as the case may be, is given.

(j) Payment of Post-Termination Compensation. After Executive's Date of Termination, all payments of Base Salary and Average Bonus Compensation to Executive pursuant to this Section 10 shall be paid in accordance with the Company's normal payroll practices, but in no event less often than semi-monthly. In the event of a breach by Executive of Section 9 of this Agreement during the applicable period following his Date of Termination, Executive agrees (i) that the Company shall have no further obligation to make any payments to Executive under Section 10 of the Agreement and (ii) that any payments of Base Salary or Average Bonus Compensation previously made to Executive after his Date of Termination shall be returned to the Company.

(k) Continuation of Welfare Benefits. With respect to Executive's rights to continuation of Welfare Benefits provided for in Sections 10 (e) and (g), (i) the benefits provided in any one calendar year shall not affect the benefits provided in any other calendar year, (ii) the reimbursement of an eligible expense must be made no later than December 31 of the year after the year in which the business expense was incurred, and (iii) such rights shall not be subject to liquidation or exchange for another benefit. Notwithstanding any other provision of this Agreement to the contrary, in lieu of providing continuation of any Welfare Benefit to Executive

following his Date of Termination, the Company may elect to pay directly to Executive cash payments in an aggregate amount equal to the cost of providing such Welfare Benefit, payable in equal installments for a period of one (1) year after the Date of Termination.

(l) Role Upon Conclusion of Term. If the Company does not offer Executive a position with the Company upon the conclusion of the Term that is substantially equivalent in level of authority, responsibilities, and compensation to the positions of Chief Operating Officer – East or Executive Vice President – Integration, Executive shall be entitled to the compensation provided for in clauses (i) through (v) of Section 10(e) hereof, subject to the requirement set forth therein to execute and not revoke the Release.

(m) No Right to Acceleration. As provided by resolution of the Compensation Committee, all equity awards under the Company’s 2014 Equity Plan (the “2014 Plan”) that were outstanding on December 15, 2020, shall be deemed, as a result of the Merger, to have been subject to a “Change in Control” (as such term is defined in Section 2.1(g) of the Plan) for a period of eighteen (18) months after the closing of the Merger. As a result, and as provided under the terms of the 2014 Plan, all outstanding equity awards under the 2014 plan, including restricted stock units held by Executive (“Executive’s Pre-Existing Awards”), as of December 15, 2020 will be subject to accelerated vesting (the “Equity Acceleration”) on the termination of an award recipient’s employment with the Company without Cause (as defined in the 2014 Plan) by the Company or for Good Reason (as defined in the 2014 Plan) by the award recipient during the eighteen (18) months after the closing of the Merger. The parties to this Agreement have agreed to the consideration provided for herein with the understanding that Executive will not be entitled to any Equity Acceleration of his Pre-Existing Awards upon termination of his employment. Accordingly, Executive hereby waives any right to the Equity Acceleration with regard to Executive’s Pre-Existing Awards; provided, however, that nothing contained herein shall limit the vesting of Executive’s Pre-Existing Awards other than in connection with an Equity Acceleration.

11. Representations.

(a) The Company represents and warrants that this Agreement has been authorized by all necessary corporate action of the Company and is a valid and binding agreement of the Company enforceable against the Company in accordance with its terms.

(b) Executive represents and warrants that he is not a party to any agreement or instrument which would prevent him from entering into or performing his duties in any way under this Agreement and that this Agreement is a valid and binding agreement of Executive enforceable against Executive in accordance with its terms.

12. Successors. This Agreement is a personal contract and the rights and interests of Executive hereunder may not be sold, transferred, assigned, pledged, encumbered, or hypothecated by him, except as otherwise expressly permitted by the provisions of this Agreement. This Agreement shall inure to the benefit of and be enforceable by Executive and his personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Executive should die while any amount would still be payable to him hereunder had Executive continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to his devisee, legatee or other designee or, if there is no such

designee, to his estate.

13. Entire Agreement. This Agreement contains all the understandings between the parties hereto pertaining to the matters referred to herein, and supersedes any other undertakings and agreements (other than any written stock option or restricted stock agreements between Executive and the Company), whether oral or in writing, previously entered into by them with respect thereto. Notwithstanding the foregoing, any non-competition, non-solicitation, and/or confidentiality obligations that Executive has previously entered into with the Company or its subsidiaries or predecessors shall continue in full force and effect in accordance with their terms and the Company and its subsidiaries shall be entitled to enforce, at the Company's election, such provisions in this Agreement and/or any such prior agreement so that it is afforded the maximum level of protection. Executive represents that, in executing this Agreement, he does not rely and has not relied upon any representation or statement made by the Company not set forth herein with regard to the subject matter or effect of this Agreement or otherwise.

14. Termination; Amendment or Modification; Waiver.

(a) This Agreement may be terminated at any time by mutual written consent of the Company and Executive.

(b) No provision of this Agreement may be amended or waived unless such amendment or waiver is agreed to in writing, signed by Executive and by a duly authorized officer of the Company. No waiver by any party hereto of any breach by another party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time.

15. Notices. All notices and other communications required or permitted to be given hereunder shall be in writing and shall be (i) delivered by hand, (ii) delivered by a nationally recognized commercial overnight delivery service, (iii) mailed postage prepaid by certified first class mail, return receipt requested, or (iv) transmitted by facsimile transmitted to the party concerned at the address or telecopier number set forth below:

To Executive at:

9809 Riva Ridge Lane
Waxhaw, NC 28173

To the Company at:

Builders FirstSource, Inc.
2001 Bryan Street, Suite 1600
Dallas, Texas 75201
Attention: General Counsel

Such notices shall be effective: (i) in the case of hand deliveries when received; (ii) in the case of an overnight delivery service, on the next business day after being placed in the possession of such delivery service, with delivery charges prepaid; (iii) in the case of mail, seven (7) days

after deposit in the postal system, certified first class mail, postage prepaid, return receipt requested; and (iv) in the case of facsimile notices, when electronic confirmation of receipt is received by the sender. Any party may change its address and telecopy number by written notice to the other given in accordance with this Section 15; provided, however, that such change shall be effective when received.

16. Severability. If any provision or clause of this Agreement or the application of any such provision or clause to any party or circumstances shall be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this Agreement or the application of such provision or clause to such person or circumstances other than those to which it is so determined to be invalid and unenforceable, shall not be affected thereby, and each provision or clause hereof shall be validated and shall be enforced to the fullest extent permitted by law.

17. Survivorship. The respective rights and obligations of the parties hereunder shall survive any termination of this Agreement to the extent necessary to the intended preservation of such rights and obligations.

18. Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Delaware, without regard to its conflicts of law principles.

19. Headings. All descriptive headings of sections and paragraphs in this Agreement are intended solely for convenience, and no provision of this Agreement is to be construed by reference to the heading of any section or paragraph.

20. Withholding. All payments to Executive under this Agreement shall be reduced by all applicable withholding required by federal, state or local law.

21. Specific Performance. Each party hereto acknowledges that money damages would be both incalculable and an insufficient remedy for any breach of this Agreement by such party and that any such breach would cause the other parties, irreparable harm. Accordingly, each party hereto also agrees that, in the event of any breach or threatened breach of the provisions of this Agreement by such party, the other parties shall be entitled to equitable relief without the requirement of posting a bond or other security, including in the form of injunctions and orders for specific performance, in addition to all other remedies available to such other parties at law or in equity.

22. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

23. Definitions.

(a) “Cause” means the determination, in good faith, by the Board, after notice to Executive, that one or more of the following events has occurred: (i) any act of gross negligence, fraud, willful misconduct or moral turpitude by Executive materially injuring the interest, business or reputation of the Company, or any of its parents, subsidiaries or affiliates; (ii) Executive’s commission or conviction of any felony; (iii) Executive’s violation of the Company’s drug policy or material violation of its Code of Conduct; (iv) any misappropriation or embezzlement of the

property of the Company, or any of its parents, subsidiaries or affiliates; or (v) any material breach by Executive of this Agreement, including, without limitation, a material breach of Section 9 hereof, which breach, to the extent it is capable of being cured, remains uncorrected for a period of thirty (30) days after receipt by Executive of written notice from the Company setting forth such breach.

(b) “Average Bonus Compensation” shall mean an amount equal to the average of the two most recent full-year annual bonus amounts earned by Executive (i.e. excluding any partial year bonuses), whether under the Annual Incentive Plan or as a Conversion Bonus (but excluding any Deal Bonus).

24. Code Section 409A.

(a) Notwithstanding anything in this Agreement to the contrary, to the extent that any amount or benefit that would constitute non-exempt “deferred compensation” for purposes of Section 409A of the Code would otherwise be payable or distributable hereunder by reason of the occurrence of Executive’s separation from service, such amount or benefit will not be payable or distributable to Executive by reason of such separation from service unless (i) the circumstances giving rise to such separation from service meet any description or definition of “separation from service” in Section 409A of the Code and applicable regulations (without giving effect to any elective provisions that may be available under such definition), or (ii) the payment or distribution of such amount or benefit would be exempt from the application of Section 409A of the Code by reason of the short-term deferral exemption or otherwise. This provision does not prohibit the vesting of any amount upon a separation from service, however defined. If this provision prevents the payment or distribution of any amount or benefit, such payment or distribution shall be made on the date, if any, on which an event occurs that constitutes a Section 409A-compliant “separation from service.”

(b) Notwithstanding anything in this Agreement to the contrary, if any amount or benefit specified herein as “subject to Section 24 hereof,” or any other amount or benefit that would otherwise constitute non-exempt “deferred compensation” for purposes of Section 409A of the Code would otherwise be payable or distributable under this Agreement by reason of the Executive’s separation from service during a period in which he is a Specified Employee (as defined below), then, subject to any permissible acceleration of payment by the Company under Treas. Reg. Section 1.409A-3(j)(4)(ii) (domestic relations order), (j)(4)(iii) (conflicts of interest), or (j)(4)(vi) (payment of employment taxes):

(i) if the payment or distribution is payable in a lump sum, Executive’s right to receive payment or distribution of such non-exempt deferred compensation will be delayed until the earlier of Executive’s death or the first day of the seventh month following Executive’s separation from service (the “Delay Period”); and

(ii) if the payment or distribution is payable over time, the amount of such non-exempt deferred compensation that would otherwise be payable during the six-month period immediately following Executive’s separation from service will be accumulated and Executive’s right to receive payment or distribution of such accumulated amount will be delayed until the earlier of Executive’s death or the end of the Delay Period, whereupon the accumulated amount

will be paid or distributed to Executive and the normal payment or distribution schedule for any remaining payments or distributions will resume; and

(iii) to the extent that this Section 24(b) applies to the provision of Welfare Benefits, Executive shall be entitled to pay the full cost of premiums to maintain the Welfare Benefits during the Delay Period, and the Company shall pay to Executive an amount equal to the amount of such premiums promptly following the end of the Delay Period.

For purposes of this Agreement, the term "Specified Employee" has the meaning given such term in Code Section 409A and the final regulations thereunder.

25. Forum Selection; Consent to Jurisdiction. The exclusive forum for any action to enforce this Agreement, as well as any action relating to or arising out of this Agreement, shall be the state or federal courts of the State of Texas. With respect to any such court action, Executive and the Company hereby (a) irrevocably submit to the personal jurisdiction of such courts; (b) consent to service of process; (c) consent to venue; and (d) waive any other requirement (whether imposed by statute, rule of court, or otherwise) with respect to personal jurisdiction, service of process, or venue. Executive and the Company further agree that the state and federal courts of the State of Texas are convenient forums for any dispute that may arise from this Agreement and that neither party shall raise as a defense that such courts are not convenient forums.

[SIGNATURE PAGE FOLLOWS]

EXHIBIT A**CASH BONUS AND PRSU PAYOUT LEVELS**

Annual Run Rate Synergies Achieved	% of Target Cash Bonus Earned¹	% of Target PRSUs Earned¹	Total Cash Bonus Payment
Less than \$30,000,000	0%	0%	--
\$30,000,000 - \$99,999,999	Sliding Scale ²	Sliding Scale ³	\$210,000 - \$700,000
\$100,000,000	60%	60%	\$900,000
\$110,000,000	70%	70%	\$1,050,000
\$120,000,000	80%	80%	\$1,200,000
\$130,000,000	90%	90%	\$1,350,000
\$140,000,000	100%	100%	\$1,500,000
\$150,000,000	105%	105%	\$1,575,000
\$160,000,000	110%	110%	\$1,650,000
\$170,000,000	115%	115%	\$1,725,000
\$180,000,000	120%	120%	\$1,800,000

(1) Payout for run rate synergies above \$100,000,000 is linear between levels.

(2) The cash bonus payout equals the Annual Run Rate Synergy Achieved x 0.7% (e.g. the cash bonus for achieving \$30,000,000 in synergies is $\$30,000,000 \times 0.007 = \$210,000$).

(3) The PRSU vesting percentage equals the Annual Run Rate Synergy Achieved x 0.7%/\$1,500,000 (e.g. the percentage PRSU payout for achieving \$30,000,000 in synergies is $\$30,000,000 \times 0.007/\$1,500,000 = 14.0\%$).

**Builders FirstSource, Inc.
Subsidiaries**

Builders FirstSource, Inc. (Delaware)

Builders FirstSource, Inc. SUBSIDIARIES

Builders FirstSource Holdings, LLC (Delaware)

Builders FirstSource – Northeast Group, LLC (Delaware)

Builders FirstSource – Texas GenPar, LLC (Delaware)

Builders FirstSource – MBS, LLC (Delaware)

Builders FirstSource – Texas Group, L.P. (Texas)

BFS Texas, LLC (Delaware)

BFS IP, LLC (Delaware)

Builders FirstSource – South Texas, L.P. (Texas)

Builders FirstSource – Intellectual Property, L.P. (Texas)

Builders FirstSource – Texas Installed Sales, L.P. (Texas)

Builders FirstSource – Dallas, LLC (Delaware)

Builders FirstSource – Florida, LLC (Delaware)

Builders FirstSource – Florida Design Center, LLC (Delaware)

Builders FirstSource – Ohio Valley, LLC (Delaware)

BFS, LLC (Delaware)

Builders FirstSource – Atlantic Group, LLC (Delaware)

Builders FirstSource – Southeast Group, LLC (Delaware)

CCWP, Inc. (South Carolina)

Builders FirstSource – Raleigh, LLC (Delaware)

Builders FirstSource – Colorado Group, LLC (Delaware)

Builders FirstSource – Colorado, LLC (Delaware)

ProBuild Holdings LLC (Delaware)

ProBuild Company LLC (Delaware)

Spenard Builders Supply LLC (Alaska)

Dixieline Builders Fund Control, Inc. (California)

Timber Roots, LLC (Washington)

ProBuild North Transportation, LLC (Washington)

ProBuild Real Estate Holdings, LLC (Delaware)

Builder's Capital, LLC (New York)

BFS Pay, LLC (Maryland)

BMC Stock Holdings, Inc. (Delaware)

BMC Corporate Services, LLC (Delaware)

BMC Design Services, LLC (Delaware)

BMC East, LLC (North Carolina)

BMC Procurement, LLC (Delaware)

BMC Window & Door Southeast, LLC (Delaware)

Old CFC, LLC (Delaware)

Stock Building Supply Midwest, LLC (Delaware)

SelectBuild Construction, Inc. (Delaware)

BMC West, LLC (Delaware)

PC BMC POA, Inc. (Texas)

BMC Texas Sales, LLC (Delaware)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-216400, 333-128430, 333-147107, 333-169001 and 333-196363) of Builders FirstSource, Inc. of our report dated February 26, 2021, relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Dallas, Texas
February 26, 2021

**Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, M. Chad Crow, certify that:

1. I have reviewed this report on Form 10-K of Builders FirstSource, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ M. CHAD CROW

M. Chad Crow

Chief Executive Officer

Date: February 26, 2021

**Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Peter M. Jackson, certify that:

1. I have reviewed this report on Form 10-K of Builders FirstSource, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ PETER M. JACKSON

Peter M. Jackson

Executive Vice President and Chief Financial Officer

Date: February 26, 2021

**Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350
(Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)**

In connection with the annual report of Builders FirstSource, Inc. (the "Company") on Form 10-K for the period ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, M. Chad Crow, as Chief Executive Officer of the Company, and Peter M. Jackson, as Executive Vice President and Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ M. CHAD CROW

M. Chad Crow

Chief Executive Officer

/s/ PETER M. JACKSON

Peter M. Jackson

Executive Vice President and Chief Financial Officer

Date: February 26, 2021

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.