

BEACON ROOFING SUPPLY INC
Form 10-Q
August 09, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO.: 000-50924

BEACON ROOFING SUPPLY, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

36-4173371
(I.R.S. Employer
Identification No.)

One Lakeland Park Drive,
Peabody, Massachusetts 01960
(Address of principal executive offices) (Zip Code)

978-535-7668

(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of August 1, 2013, there were 48,896,121 outstanding shares of the registrant's common stock, \$.01 par value per share.

BEACON ROOFING SUPPLY, INC.

Quarterly Report on Form 10-Q

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BEACON ROOFING SUPPLY, INC.**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Consolidated Balance Sheets**

	(Unaudited) June 30, 2013	(Unaudited) June 30, 2012	(Note) September 30, 2012
	(Dollars in thousands)		
Assets			
Current assets:			
Cash and cash equivalents	\$26,375	\$31,243	\$40,205
Accounts receivable, less allowances of \$10,989 at June 30, 2013, \$14,560 at June, 2012, and \$13,464 at September 30, 2012	313,698	279,304	291,456
Inventories	335,438	284,412	222,740
Prepaid expenses and other assets	82,166	58,332	60,287
Deferred income taxes	14,424	14,258	16,087
Total current assets	772,101	667,549	630,775
Property and equipment, net	64,022	52,526	57,376
Goodwill	468,388	425,190	443,161
Other assets, net	100,852	76,822	85,670
Total assets	\$1,405,363	\$1,222,087	\$1,216,982
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	\$253,262	\$214,865	\$167,390
Accrued expenses	98,425	79,450	71,627
Borrowings under revolving lines of credit	45,006	44,900	41,300
Current portion of long-term obligations	15,585	15,255	15,632
Total current liabilities	412,278	354,470	295,949
Senior notes payable, net of current portion	199,688	210,938	208,125
Deferred income taxes	57,618	39,941	48,196
Long-term obligations under equipment financing and other, net of current portion	13,930	8,267	12,750

Commitments and contingencies

Stockholders' equity:

Common stock (voting); \$.01 par value; 100,000,000 shares authorized; 48,864,262 issued and 48,777,734 outstanding at June 30, 2013, 47,079,268 issued and 46,971,235 outstanding at June 30, 2012, and 47,775,180 issued and 47,667,147 outstanding at September 30, 2012	488	470	477
Undesignated preferred stock; 5,000,000 shares authorized, none issued or outstanding	-	-	-
Additional paid-in capital	308,422	266,007	280,184
Retained earnings	413,876	340,784	368,675
Accumulated other comprehensive income (loss)	(937)	1,210	2,626
Total stockholders' equity	721,849	608,471	651,962
Total liabilities and stockholders' equity	\$1,405,363	\$1,222,087	\$1,216,982

Note: The balance sheet at September 30, 2012

has been derived from the audited financial statements at that date.

The accompanying Notes are an integral part of the Consolidated Financial Statements.

BEACON ROOFING SUPPLY, INC.**Consolidated Statements of Operations**

	Three Months Ended June 30, 2013		Nine Months Ended June 30, 2013	
	2012	2012	2012	2012
Unaudited (Dollars in thousands, except per share data)				
Net sales	\$627,168	\$560,526	\$1,557,155	\$1,445,537
Cost of products sold	479,835	419,790	1,183,417	1,093,760
Gross profit	147,333	140,736	373,738	351,777
Operating expenses	99,380	89,459	291,588	256,407
Income from operations	47,953	51,277	82,150	95,370
Interest expense and other financing costs	2,701	8,158	6,597	14,717
Income before income taxes	45,252	43,119	75,553	80,653
Income tax expense	18,094	17,704	30,350	32,979
Net income	\$27,158	\$25,415	\$45,203	\$47,674
Net income per share:				
Basic	\$0.56	\$0.54	\$0.93	\$1.02
Diluted	\$0.55	\$0.53	\$0.92	\$1.00
Weighted average shares used in computing net income per share:				
Basic	48,717,686	46,910,336	48,355,285	46,542,158
Diluted	49,585,152	47,897,609	49,298,902	47,485,574

The accompanying Notes are an integral part of the Consolidated Financial Statements.

BEACON ROOFING SUPPLY, INC.**Consolidated Statements of Comprehensive Income**

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Net income	\$27,158	\$25,415	\$45,203	\$47,674
Foreign currency translation adjustment	(3,103)	(2,051)	(5,269)	2,695
Unrealized gain on financial derivatives	2,927	820	2,844	3,123
Tax effect	(1,171)	(324)	(1,138)	(1,203)
Unrealized gain on financial derivatives, net of tax	1,756	496	1,706	1,920
Comprehensive income	\$25,811	\$23,860	\$41,640	\$52,289

The accompanying Notes are an integral part of the Consolidated Financial Statements.

BEACON ROOFING SUPPLY, INC.**Consolidated Statements of Cash Flows**

	Nine Months Ended June 30,	
	2013	2012
	Unaudited (in thousands)	
Operating activities:		
Net income	\$45,203	\$47,674
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,429	17,795
Stock-based compensation	6,886	5,651
Adjustment of liability for contingent consideration	-	250
Certain interest expense and other financing costs	(1,816)	5,171
Gain on sale of assets	(729)	(899)
Deferred income taxes	1,441	254
Changes in assets and liabilities, net of the effects of businesses acquired:		
Accounts receivable	(7,485)	19,790
Inventories	(102,893)	(62,081)
Prepaid expenses and other assets	(10,041)	(19,393)
Accounts payable and accrued expenses	96,399	21,116
Net cash provided by operating activities	49,394	35,328
Investing activities:		
Purchases of property and equipment	(17,933)	(12,242)
Acquisition of businesses	(64,484)	(94,481)
Proceeds from sales of assets	885	996
Net cash used by investing activities	(81,532)	(105,727)
Financing activities:		
Borrowings under revolving lines of credit, net	3,706	44,872
Repayments under senior notes payable and other, net	(7,912)	(93,693)
Deferred financing costs	-	(5,088)
Proceeds from exercises of options	17,259	11,084
Income tax benefit from stock-based compensation deductions in excess of the associated compensation costs	4,093	1,020
Net cash provided (used) by financing activities	17,146	(41,805)
Effect of exchange rate changes on cash	1,162	420

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Net decrease in cash and cash equivalents	(13,830)	(111,784)
Cash and cash equivalents at beginning of year	40,205	143,027
Cash and cash equivalents at end of period	\$26,375	\$31,243
Cash paid during the year for:		
Interest	9,609	9,524
Income taxes, net of refunds	17,593	37,132

The accompanying Notes are an integral part of the Consolidated Financial Statements.

BEACON ROOFING SUPPLY, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

Beacon Roofing Supply, Inc. (the "Company") prepared the consolidated financial statements following the accounting principles generally accepted in the United States (GAAP) for interim financial information and the requirements of the Securities and Exchange Commission (SEC). As permitted under those rules, certain footnotes or other financial information have been condensed or omitted. The balance sheet as of June 30, 2012 has been presented for a better understanding of the impact of seasonal fluctuations on the Company's financial condition. Comprehensive income consists of net income and other gains and losses affecting stockholders' equity that, under GAAP, are excluded from net income.

In management's opinion, the financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of the Company's financial position and operating results. The results for the three-month period (third quarter) and the nine-month period (year-to-date) ended June 30, 2013 are not necessarily indicative of the results to be expected for the twelve months ending September 30, 2013 (fiscal year 2013 or "2013").

The Company's inventories are primarily comprised of finished goods valued at the lower of cost or market (net realizable value). Cost is determined using the moving weighted-average cost method.

The nine-month periods ended June 30, 2013 and June 30, 2012 had 189 and 188 business days, respectively, while the three-month periods ended June 30, 2013 and June 30, 2012 both had 64 business days.

You should also read the financial statements and notes included in the Company's fiscal year 2012 ("2012") Annual Report on Form 10-K. The accounting policies used in preparing these financial statements are the same as those described in that Annual Report.

Adoption of Recent Accounting Pronouncements

In July 2012, the FASB issued Accounting Standards No. 2012-02, *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* (“2012-02”), which permits an entity the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Subtopic 350-30. An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption was permitted and the Company chose to adopt 2012-02 in 2012 so it could set forth the qualitative assessment of its other intangible assets.

In June 2011, the FASB issued Accounting Standards No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (“2011-05”), which provides an entity with the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In a single continuous statement, the entity is required to present the components of net income and total net income, the components of other comprehensive income and a total for other comprehensive income, along with the total of comprehensive income in that statement. In the two-statement approach, an entity is required to present components of net income and total net income in the statement of net income. The statement of other comprehensive income should immediately follow the statement of net income and include the components of other comprehensive income and a total for other comprehensive income, along with a total for comprehensive income. These changes apply to both annual and interim financial statements. The amendments in 2011-05 should be applied retrospectively. For public entities, the amendments were effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, although Accounting Standards No. 2011-12, issued by the FASB in December 2011, deferred the effective date of the portions of 2011-05 that relate to the presentation of reclassification adjustments. The Company adopted 2011-05 in 2013 and the financial statements now include a separate statement of other comprehensive income following the statement of operations.

Notes to Condensed Consolidated Financial Statements (Unaudited) Cont'd

In May 2011, the FASB issued Accounting Standards No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("2011-04"), which changes the wording used to describe the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. 2011-04 was effective for public entities for interim and annual periods beginning after December 15, 2011, and should be applied prospectively. The adoption of 2011-04 in 2013 but it did not have a significant impact on the financial statements.

In December 2010, the FASB issued Accounting Standards No. 2010-29, *an amendment to Business Combinations (Topic 805) – Disclosure of Supplementary Pro Forma Information for Business Combinations* ("2010-29"), which specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in 2010-29 also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. 2010-29 was effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of 2010-29 in 2012 did not have an impact on the financial statements.

In December 2010, the FASB issued Accounting Standards No. 2010-28, *an amendment to —Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (a consensus of the FASB Emerging Issues Task Force)*. The new guidance modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and examples in paragraph 350-20-35-30, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendment was effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of this amendment in 2012 did not have an impact on the financial statements.

2. Income per Share

The Company calculates basic income per share by dividing net income by the weighted-average number of common shares outstanding. Diluted net income per share includes the dilutive effects of outstanding stock awards.

The following table reflects the calculation of weighted-average shares outstanding for each period presented:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Weighted-average common shares outstanding for basic	48,717,686	46,910,336	48,355,285	46,542,158
Dilutive effect of stock options and restricted stock awards	867,466	987,273	943,617	943,416
Weighted-average shares assuming dilution	49,585,152	47,897,609	49,298,902	47,485,574

3. Stock-Based Compensation

The Company accounts for employee and non-employee director stock-based compensation using the fair value method of accounting. Compensation cost arising from stock options and restricted stock awards granted to employees and non-employee directors is recognized using the straight-line method over the vesting period, which represents the requisite service or performance period. In calculating the expense related to stock-based compensation, the Company estimates option forfeitures and projects the number of restricted shares and units that are expected to vest based on the related performance measures.

The Company recorded stock-based compensation expense of \$2.2 million (\$1.3 million net of tax) and \$1.9 million (\$1.1 million net of tax) in the three months ended June 30, 2013 and 2012, respectively, and \$6.9 million (\$4.1 million net of tax) and \$5.7 million (\$3.4 million net of tax) in the nine months ended June 30, 2013 and 2012, respectively. At June 30, 2013, the Company had \$21.5 million of excess tax benefits available for potential deferred tax write-offs related to previously recognized stock-based compensation.

Notes to Condensed Consolidated Financial Statements (Unaudited) Cont'd

The amended and restated Beacon Roofing Supply, Inc. 2004 Stock Plan (the "Plan") provides for grants of stock options and restricted stock awards of up to 7,800,000 shares of common stock to key employees and directors. As of June 30, 2013, there were 1,376,539 shares of common stock available for awards under the Plan.

Stock options

As of June 30, 2013, there was \$9.8 million of total unrecognized compensation cost related to unvested stock options. That cost is expected to be recognized over a weighted-average period of 2.1 years. Except under certain conditions, the options are subject to continued employment and vest in one-third increments over a three-year period following the grant dates.

The fair values of the options granted during the year-to-date periods presented were estimated on the dates of grants using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Nine Months Ended June 30,	
	2013	2012
Risk-free interest rate	0.63 %	0.94 %
Expected life in years	6.0	6.5
Expected volatility	46.00%	47.00%
Dividend yield	0.00 %	0.00 %

Expected lives of options granted are based primarily on historical activity, while expected volatilities are based on historical volatilities of the Company's stock and consideration of comparable public companies' stock. Estimated forfeiture rates vary by grant and range up to 10.0% as of June 30, 2013.

The following table summarizes stock options outstanding as of June 30, 2013, as well as activity during the nine months then ended:

Weighted- Average	Weighted- Average Remaining	Aggregate
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	Number of Shares	Exercise Price	Contractual Life (in Years)	Intrinsic Value (in Millions)
Outstanding at September 30, 2012	3,067,080	\$ 16.36		
Granted	668,086	30.32		
Exercised	(1,094,897)	(16.33)		
Forfeited	(45,068)	(21.76)		
Outstanding at June 30, 2013	2,595,201	\$ 19.87	7.1	\$ 46.7
Vested or Expected to Vest at June 30, 2013	2,495,694	\$ 19.69	7.1	\$ 45.4
Exercisable at June 30, 2013	1,264,353	\$ 15.58	5.4	\$ 28.2

The aggregate intrinsic values above include only in-the-money options. The weighted-average grant date fair values of stock options granted during the nine months ended June 30, 2013 and June 30, 2012 were \$13.27 and \$8.78, respectively. The intrinsic values of stock options exercised were \$19.6 million and \$8.2 million during the nine months ended June 30, 2013 and June 30, 2012, respectively.

Restricted stock awards

As of June 30, 2013, there was \$4.6 million of total unrecognized compensation cost related to unvested restricted stock awards. That cost is expected to be recognized over a weighted-average period of 2.2 years.

Notes to Condensed Consolidated Financial Statements (Unaudited) Cont'd

The total fair values of the restricted stock awards were determined based upon the number of shares or units and the closing prices of the Company's common stock on the dates of the grants. The restricted stock awards granted to management are subject to continued employment, except under certain conditions, and will vest if the Company attains a targeted rate of return on invested capital at the end of a three-year period. The actual number of shares or units that will vest can range from 0% to 125% of the management grants depending upon actual Company performance below or above the target level and the Company estimates that performance in determining the projected number of shares or units that will vest and the related compensation cost. The restricted stock awards granted to non-employee directors are also subject to continued service, vest at the end of one year (except under certain conditions) and the underlying common shares will not be distributed until six months after the director separates from the Company.

The following table summarizes restricted shares and units outstanding as of June 30, 2013, as well as the activity during the nine months then ended:

	Number of Shares/Units	Weighted- Average Grant Price	Weighted- Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (in Millions)
Outstanding at September 30, 2012	278,613	\$ 18.54		
Granted	135,291	31.68		
Lapse of restrictions/conversions	(42,074)	17.37		
Canceled	(868)	16.96		
Outstanding at June 30, 2013	370,962	\$ 23.47	2.2	\$ 14.1
Vested or Expected to Vest at June 30, 2013	370,962	\$ 23.47	2.2	\$ 14.1
Exercisable at June 30, 2013	-		-	-

4. Acquisitions

On December 28, 2012, the Company purchased certain assets of Ford Wholesale Co. of San Jose ("Ford Wholesale") and Construction Materials Supply ("CMS"), distributors of residential and commercial roofing products with a combined five locations in Northern California and recent annual sales of approximately \$60 million. On November 1, 2012, the Company purchased the stock of McClure-Johnston Company ("McClure-Johnston"), a distributor of

residential and commercial roofing products and related accessories headquartered in the Pittsburgh suburb of Braddock, Pa. McClure-Johnston has 14 locations with eight in Pennsylvania, three in West Virginia, one in Western Maryland and two in Georgia. Recent annual sales were approximately \$85 million. The aggregate purchase price of these three acquisitions totaled approximately \$64.5 million, with resulting goodwill of approximately \$26.4 million.

In 2012, the Company acquired twenty-two branches from the five following acquisitions at a total cost of \$141.1 million, with resulting goodwill of \$59.9 million:

In August 2012, the Company purchased certain assets of Contractors Roofing & Supply Co. ("CRS"), a distributor of residential roofing products and related accessories. CRS has one location in the St. Louis suburb of O'Fallon, MO and recent annual sales of approximately \$14 million.

In July 2012, the Company purchased certain assets of Structural Materials Co. ("Structural"), a distributor of residential and commercial roofing products and related accessories headquartered in Santa Ana, CA. Structural has six locations in Los Angeles and Orange Counties and in the surrounding areas, with annual sales of approximately \$81 million in 2011.

In June 2012, the Company purchased certain assets of Cassady Pierce Company ("Cassady Pierce"), a distributor of residential and commercial roofing products and related accessories headquartered in Pittsburgh, PA. Cassady Pierce has six locations in the Pittsburgh area and recent annual sales of approximately \$52 million.

In November 2011, the Company purchased all of the stock of Fowler & Peth, Inc. ("F&P"), a distributor of residential and commercial roofing products and related accessories. F&P had six branches in Colorado, two in Wyoming and one in Nebraska, with recent annual sales of approximately \$60 million. The Company and the selling stockholders mutually agreed to file a Section 338 election with the Internal Revenue Service to treat the transaction for tax purposes as an asset purchase.

Notes to Condensed Consolidated Financial Statements (Unaudited) Cont'd

In October 2011, the Company purchased all of the stock of CCP Atlantic Specialty Products, Inc. d/b/a The Roofing Connection, a distributor of mostly residential roofing products and related accessories with one location in Dartmouth, Nova Scotia, a suburb of Halifax.

In May 2011, the Company purchased all of the stock of Enercon Products ("Enercon"), including an earn-out amount discussed herein. Enercon is a roofing distributor with six locations in Western Canada. The purchase price included an additional payout of up to approximately \$5.5 million if certain earn-out targets (based on defined EBITDA) were achieved for the twelve-month period ended in May 2012. In July 2012, the earn-out was settled for \$4.9 million and included payment of \$1.3 million in excess of the March 31, 2012 liability. This additional expense was recorded in the third quarter of 2012, following a \$1.0 million reduction in the liability earlier last year, resulting in a net expense of \$0.3 million for the nine months ended June 30, 2012. Both adjustments were included in operating expenses. These adjustments did not affect taxable income and therefore were treated as permanent differences for income tax reporting purposes.

5. Financing Arrangements

The Company currently has the following credit facilities:

- a senior secured credit facility in the U.S.;
- a senior secured credit facility in Canada; and
- an equipment financing facility.

Senior Secured Credit Facility

On April 5, 2012, the Company entered into a five-year senior secured credit facility that includes a \$550 million U.S. credit facility and a C\$15 million (\$15.1 million) Canadian credit facility with Wells Fargo Bank, National Association, and a syndicate of other lenders (combined, the "Credit Facility"). The \$550 million U.S. credit facility consists of a revolving credit facility of \$325 million (the "U.S. Revolver"), which includes a sub-facility of \$20 million for letters of credit, and a \$225 million term loan (the "Term Loan"). Substantially all of the Company's assets, including the capital stock and assets of wholly-owned subsidiaries, secure obligations under the Credit Facility. The term loan has required amortization of 5% per year that is payable in quarterly installments, with the balance due on March 31, 2017. The Company may increase the Credit Facility by up to \$200 million under certain conditions. As of June 30, 2013, there was \$37.4 and \$210.9 million outstanding under the U.S. Revolver and Term Loan, respectively, and \$7.6 million outstanding under the Canadian credit facility.

Borrowings under the Credit Facility carry interest at a margin above the LIBOR (London Interbank Offered Rate). The current margin is 1.75% per annum and can range from 1.50% to 2.50% per annum depending upon the Company's Consolidated Total Leverage Ratio, as defined in the Credit Facility. The Credit Facility also provides for a US base rate, defined in the agreement as the higher of the Prime Rate, or the Federal Funds Rate plus 0.50%, plus a margin above that rate. The current unused commitment fees on the revolving credit facilities are 0.375% per annum. The unused commitment fees can range from 0.35% to 0.50% per annum, again depending upon the Company's Consolidated Total Leverage Ratio.

On April 5, 2012, the Company paid off outstanding debt of \$304 million under its prior credit facility with the proceeds of \$225 million from the Credit Facility and from cash on hand. In the third quarter of fiscal year 2012, the Company recorded a charge of approximately \$1.2 million (\$0.7 million net of tax), included in interest expense and other financing costs, associated with this transaction. In addition, this transaction impacted the effectiveness of the Company's interest rate swaps existing as of the refinancing date and therefore the fair value (\$4.9 million at the time of the refinancing) was recognized in interest expense and other financing costs and subsequent changes in the fair value of those swaps were recognized in interest expense and other financing costs (Note 6).

Notes to Condensed Consolidated Financial Statements (Unaudited) Cont'd

Equipment Financing Facilities

As of June 30, 2013, there was a total of \$11.8 million outstanding under current and prior equipment financing facilities, with fixed interest rates ranging from 2.5% to 6.8% and payments due through June 2020. The Company's current facility provides financing for up to \$30 million of purchased transportation and material handling equipment through October 1, 2014 at an interest rate approximately 1.26% above the 3-year term swap rate for 5-year loans and 1.21% above the 4-year swap rate for 7-year loans. No further amounts can be drawn on the prior facilities.

6. Financial Instruments

Financial Derivatives

The Company uses derivative financial instruments to manage its exposure related to fluctuating cash flows from changes in interest rates. Use of derivative financial instruments in hedging programs subjects the Company to certain risks, such as market and credit risks. Market risk represents the possibility that the value of the derivative instrument will change. In a hedging relationship, the change in the value of the derivative is offset to a great extent by the change in the value of the underlying hedged item. Credit risk related to derivatives represents the possibility that the counterparty will not fulfill the terms of the contract. The notional, or contractual, amount of the Company's derivative financial instruments is used to measure interest to be paid or received and does not represent the Company's exposure due to credit risk. The Company's current derivative instruments are with large financial counterparties rated highly by nationally recognized credit rating agencies.

The Company uses interest rate derivative instruments to manage the risk related to fluctuating cash flows from interest rate changes by converting a portion of its variable-rate borrowings into fixed-rate borrowings. On April 9, 2012, the Company entered into an interest rate derivative instrument consisting of a \$213.8 million interest rate swap with monthly interest payments at a fixed rate of 1.38%, which commenced on March 28, 2013. This interest rate swap is designated as a cash flow hedge and amortizes at \$2.8 million per quarter beginning on June 28, 2013 and expires on June 30, 2017.

For derivative instruments designated as cash flow hedges, the Company records the effective portions of changes in their fair value, net of taxes, in other comprehensive income. The effectiveness of the hedges is periodically assessed by the Company during the lives of the hedges by 1) comparing the current terms of the hedges with the related hedged debt to assure they continue to coincide and 2) through an evaluation of the ability of the counterparties to the hedges to honor their obligations under the hedges. Any ineffective portions of the hedges are recognized in earnings through interest expense and other financing costs. The Company's refinancing transaction on April 5, 2012, resulted in hedge ineffectiveness on prior derivative instruments that expired in April 2013, as the underlying term debt being

hedged was repaid before the expiration of the derivative instruments. There was a decline of \$2.6 million in the fair value of the ineffective swaps in the first half of fiscal year 2013 and a \$1.1 million decline in the third quarter of 2012. These changes in fair value were recognized as reductions to interest expense and other financing costs.

The Company records any differences paid or received on its interest rate hedges as adjustments to interest expense. The table below presents the combined fair values of the interest rate derivative instruments:

Instrument	Location on Balance Sheet	Unrealized Losses			Fair Value Hierarchy
		June 30, 2013	June 30, 2012	September 30, 2012	
Designated interest rate swaps (effective)	Accrued expenses	\$3,160	\$4,112	\$ 6,005	Level 2
Non-designated interest rate swaps (ineffective)	Accrued expenses	-	3,715	2,621	Level 2
		\$3,160	\$7,827	\$ 8,626	

The fair values of the interest rate hedges were determined through the use of pricing models, which utilize verifiable inputs such as market interest rates that are observable at commonly quoted intervals (generally referred to as the “LIBOR Curve”) for the full terms of the hedge agreements. These values reflect a Level 2 measurement under the applicable fair value hierarchy.

Notes to Condensed Consolidated Financial Statements (Unaudited) Cont'd

The table below presents the amounts of gain (loss) on the interest rate derivative instruments recognized in other comprehensive income (OCI):

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Amount of Gain (Loss) Recognized in OCI (net of tax)				
Designated interest rate swaps	\$1,756	\$(2,488)	\$1,706	\$(1,064)
Non-designated interest rate swaps (reclassified from accumulated OCI)	-	2,984	-	2,984
	\$1,756	\$496	\$1,706	\$1,920

The table below presents the amounts of gain (loss) on the interest rate derivative instruments recognized in interest expense and other financing costs:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Amount of Gain (Loss) Recognized in Interest Expense				
Designated interest rate swaps	\$-	\$-	\$-	\$-
Non-designated interest rate swaps	-	1,138	2,621	1,138
Non-designated interest rate swaps (reclassified from accumulated OCI)	-	(4,932)	-	(4,932)
	\$-	\$(3,794)	\$2,621	\$(3,794)

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents also include unsettled credit card transactions. Cash equivalents have been comprised of money market funds, which invest primarily in commercial paper or bonds with a rating of A-1 or better, and bank certificates of deposit. The carrying values of the cash equivalents for the periods presented equaled the fair values, which were determined under Level 1 of the Fair Value Hierarchy.

7. Foreign Net Revenue

Foreign (Canadian) net revenue totaled \$114.1 and \$112.5 million in the nine months ended June 30, 2013 and 2012, respectively.

8. Indianapolis Branch Fire

On June 15, 2013, the Company's Indianapolis branch, including \$2.1 million of inventory (at cost, net of reserves) and certain other assets, was completely destroyed by a fire. The Company believes it has sufficient insurance to cover the losses and incremental expenses and therefore these losses and expenses were not recorded in the Company's third quarter results of operations. The net book values of the lost inventory and fixed assets, along with incremental expenses incurred in June, were reclassified to other current assets as an insurance receivable of approximately \$2.1 million. An insurance recovery advance of \$0.5 million was received in July. The Company has opened a replacement branch. The Company also expects insurance coverage for any lost income, which will be recognized as payments are received.

9. Recent Accounting Pronouncements

In July 2013, the FASB issued Accounting Standards No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This Update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this Update require an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except under certain conditions. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company does not expect the adoption of this Update to have an impact on the financial statements.

In July 2013, the FASB issued Accounting Standards No. 2013-10, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*. The amendments in this Update permit the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to U.S. government (UST) and the London Interbank Offered Rate (LIBOR). The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The Company does not expect the adoption of this Update to have an impact on the financial statements.

Notes to Condensed Consolidated Financial Statements (Unaudited) Cont'd

In April 2013, the FASB issued Accounting Standards No. 2013-07- *Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting*. The amendments in this Update require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. The amendments require financial statements prepared using the liquidation basis of accounting to present relevant information about an entity's expected resources in liquidation by measuring and presenting assets at the amount of the expected cash proceeds from liquidation. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. The Company does not expect the adoption of this Update to have an impact on the financial statements.

In March 2013, the FASB issued Accounting Standards No. 2013-05— *Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity Consolidation*. This Update applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. In addition, the amendments in this Update resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. The amendments in this Update are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. The Company does not expect the adoption of this Update to have an impact on the financial statements.

In February 2013, the FASB issued Accounting Standards No. 2013-02— *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is reclassified to a balance sheet account (for example, inventory) instead of directly to income or expense in the same reporting period. ASU 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012. Early adoption is permitted. The Company does not expect the adoption of this Update to have an impact on the financial statements.

In October 2012, the FASB issued Accounting Standards No. 2012-04— *Technical Corrections and Improvements*, which includes certain corrections to the Accounting Standards Codification and amendments that identify when the use of fair value should be linked to the definition of fair value in Topic 820, *Fair Value Measurement*. This Update contains conforming amendments to the Codification to reflect the measurement and disclosure requirements of Topic 820. The amendments in this Update that will not have transition guidance are effective upon issuance. The amendments that are subject to the transition guidance will be effective for fiscal years beginning after December 15, 2012. This new guidance may only affect the way in which the Company references and reports accounting and reporting standards.

In December 2011, the FASB issued Accounting Standards No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*, which requires an entity to disclose certain information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments in this Update for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company does not expect the adoption of this Update to have an impact on the financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with Management's Discussion and Analysis included in our 2012 Annual Report on Form 10-K. Unless otherwise specifically indicated, all references to "2013" and "YTD 2013" refer to the three months (third quarter) and nine months (year-to-date) ended June 30, 2013, respectively, of our fiscal year ending September 30, 2013, and all references to "2012" and "YTD 2012" refer to the three months (third quarter) and nine months (year-to-date) ended June 30, 2012, respectively, of our fiscal year ended September 30, 2012. Certain tabular information may not foot due to rounding and certain reclassifications are made to prior year sales by product line to conform to the current year presentation.

Overview

We are one of the largest distributors of residential and non-residential roofing materials in the United States and Canada. We also distribute other complementary building products, including siding, windows, specialty lumber products and waterproofing systems for residential and non-residential building exteriors. We purchase products from a large number of manufacturers and then distribute these goods to a customer base consisting of contractors and, to a lesser extent, general contractors, retailers and building materials suppliers.

We distribute up to 11,000 SKUs through 229 branches in the United States and Canada at June 30, 2013. We had 2,966 employees as of that date, including our sales and marketing team of 1,142 employees (which includes branch management).

In fiscal year 2012, approximately 93% of our net sales were in the United States. We stock one of the most extensive assortments of high-quality branded products in the industry, enabling us to deliver products to our customers on a timely basis.

Execution of the operating plan at each of our branches drives our financial results. Revenues are impacted by the relative strength of the residential and non-residential roofing markets we serve. We allow each of our branches to develop its own marketing plan and mix of products based upon its local market. We differentiate ourselves from the competition by providing customer services, including job site delivery, tapered insulation layouts and design and metal fabrication, and by providing credit. We consider customer relations and our employees' knowledge of roofing and exterior building materials to be very important to our ability to increase customer loyalty and maintain customer satisfaction. We invest significant resources in training our employees in sales techniques, management skills and product knowledge. Although we consider these attributes important drivers of our business, we continually pay close attention to controlling operating costs.

Our growth strategy includes both internal growth (opening branches, growing sales with existing customers, adding new customers and introducing new products) and acquisition growth. Our main acquisition strategy is to target market leaders in geographic areas that we do not service or that complement our existing operations in an area. Our November 2012 acquisition of McClure-Johnston is an example of an acquisition that complements our existing markets. McClure-Johnston is a distributor of residential and commercial roofing products and related accessories, which was headquartered in the Pittsburgh area and had 14 branches at the time of acquisition, including eight in Pennsylvania, three in West Virginia, one in Western Maryland and two in Georgia. Our December 2012 acquisition of Ford Wholesale Co., a distributor of residential and commercial roofing and related accessories with three locations in Northern California, is an example of an entry into a new geographic market with no branch overlap with our existing operations.

Results of Operations

The following table presents, for the periods indicated, information derived from our consolidated statements of operations expressed as a percentage of net sales for the periods presented. Percentages may not foot due to rounding.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	76.5	74.9	76.0	75.7
Gross profit	23.5	25.1	24.0	24.3
Operating expenses	15.8	16.0	18.7	17.7
Income from operations	7.6	9.1	5.3	6.6
Interest expense	(0.4)	(1.5)	(0.4)	(1.0)
Income before income taxes	7.2	7.7	4.9	5.6
Income tax expense	(2.9)	(3.2)	(1.9)	(2.3)
Net income	4.3 %	4.5 %	2.9 %	3.3 %

In managing our business, we consider all growth, including the opening of new branches, to be internal (organic) growth unless it results from an acquisition. When we refer to growth in existing markets or internal growth, we include growth from existing and newly opened branches but exclude growth from acquired branches until they have been under our ownership for at least four full fiscal quarters at the start of the fiscal reporting period. When we refer to regions, we are referring to our geographic regions. At June 30, 2013, we had a total of 229 branches in operation. Our existing market calculations for 2013 include 196 branches and exclude 33 branches because they were acquired after the start of last year's third quarter. Acquired markets for 2013 include Cassidy Pierce, Structural Materials, CRS, McClure-Johnston, Ford Wholesale and Construction Materials Supply (See Note 4 to the Condensed Consolidated Financial Statements). Acquired markets for YTD 2013 include those same acquisitions plus The Roofing Connection and Fowler & Peth acquired in the first quarter of last year. Our existing market calculations for YTD 2013 include 186 branches and exclude 43 branches because they were acquired after the start of last year.

When we refer to our net product costs, we are referring to our invoice cost less the impact of short-term buying programs (also referred to as "special buys" given the manner in which they are offered).

Three Months Ended June 30, 2013 ("2013") Compared to the Three Months Ended June 30, 2012 ("2012")

Existing and Acquired Markets

	Existing Markets		Acquired Markets		Consolidated	
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,
	2013	2012	2013	2012	2013	2012
	(dollars in thousands)					
Net Sales	\$562,160	\$555,659	\$65,008	\$4,867	\$627,168	\$560,526
Gross Profit	130,601	139,351	16,732	1,385	147,333	140,736
Gross Margin	23.2%	25.1%	25.7%	28.5%	23.5%	25.1%
Operating Expenses	84,585	88,344	14,795	1,115	99,380	89,459
Operating Expenses as a % of Net Sales	15.0%	15.9%	22.8%	22.9%	15.8%	16.0%
Operating Income	\$46,016	\$51,007	\$1,937	\$270	\$47,953	\$51,277
Operating Margin	8.2%	9.2%	3.0%	5.5%	7.6%	9.1%

The third quarter operating expenses in acquired markets above for 2013 and 2012 include \$1.6 and \$0.1 million of amortization of intangible assets recorded under purchase accounting, respectively.

Net Sales

Consolidated net sales increased \$66.6 million, or 11.9%, to \$627.2 million in 2013 from \$560.5 million in 2012. Existing market sales improved \$6.5 million or 1.2%, while acquired market sales increased \$60.1 million. There were 64 business days in both 2013 and 2012. The slight increase in our 2013 existing market sales was influenced primarily by an increase of 5.2% in our complementary sales, partially offset by the impact of severe weather conditions on our roofing sales. Heavy rains in several of our regions during a significant portion of this year's third quarter, along with some harsh Spring snow storms, delayed roofing activities. In addition, there was a lower beneficial impact from hail storms occurring in fiscal 2013 compared to last year.

We opened two new branches during the third quarter of this year, and had one branch close due to a fire, while we opened one branch during last year's third quarter. We estimate the impact of inflation or deflation on our existing market sales and gross profit by looking at changes in our average selling prices and gross margins. Average overall selling prices increased slightly in 2013 compared to 2012, with an estimated favorable impact of \$8 million on existing market sales. Prices of residential and non-residential products were generally flat. Complementary product prices were up 4-5%. We estimate the negative impact on existing market sales from volume decreases was approximately \$2 million. Existing market net sales by geographical area increased (decreased) as follows: Northeast 8.0%; Mid-Atlantic (6.7%); Southeast 39.6%; Southwest 9.8%; Midwest (15.8%); West 0.7%; and Canada (1.3%). These variations were primarily caused by short-term factors such as local economic conditions, weather conditions and storm activity.

Product group sales for our existing markets were as follows:

For the Three Months Ended

	June 30, 2013	Mix	June 30, 2012	Mix	Change	% Change Based On Average Sales Per Business Day	
	(dollars in thousands)						
Residential roofing products	\$284,777	50.7 %	\$284,095	51.1 %	\$682	0.2%	0.2 %
Non-residential roofing products	204,870	36.4 %	202,617	36.5 %	2,253	1.1	1.1
Complementary building products	72,513	12.9 %	68,947	12.4 %	3,566	5.2	5.2
Total existing market sales	\$562,160	100.0%	\$555,659	100.0%	\$6,501	1.2%	1.2 %

For 2013, our acquired markets recognized sales of \$25.7, \$23.5 and \$15.8 million in residential roofing products, non-residential roofing products and complementary building products, respectively. The 2013 existing market sales of \$562.2 million plus the sales from acquired markets of \$65.0 million agrees to our reported total 2013 sales of \$627.2 million. We believe the existing market information is useful to investors because it helps explain organic growth or decline.

Gross Profit**For the Three Months Ended**

	June 30, 2013	June 30, 2012	Change	
	(dollars in millions)			
Gross profit	\$147.3	\$140.7	\$6.6	4.7%
Existing markets	130.6	139.4	(8.8)	-6.3%
Gross margin	23.5%	25.1%		-1.6%
Existing markets	23.2%	25.1%		-1.9%

The lower gross margins in 2013 were due primarily to an increase in the net product costs of our residential roofing sales, not consistently passed through to customers, and a slight decline in our mix of those residential roofing sales,

which generally have higher gross margins than our other products. Gross margins were higher in our non-residential roofing sales in the third quarter of 2013 but slightly lower in our complementary product sales.

Direct sales (products shipped by our vendors directly to our customers), which typically have substantially lower gross margins and operating expenses compared to our warehouse sales, represented 17.2% and 18.7% of our net sales in 2013 and 2012, respectively. This decrease in the percentage of direct sales was primarily attributable to a lower mix of roofing sales to lumber yards and other building material suppliers, which are more commonly facilitated by direct shipment. Our Midwest region was most impacted by the decline in direct sales and this contributed to a decline in its net operating results compared to last year.

Operating Expenses

For the Three Months Ended

	June 30, 2013	June 30, 2012	Change	
	(dollars in millions)			
Operating expenses	\$99.4	\$89.5	\$9.9	11.0%
Existing markets	84.6	88.3	(3.7)	-4.2%
Operating expenses as a % of sales	15.8%	16.0%	-0.2%	
Existing markets	15.0%	15.9%	-0.9%	

The primary factors for the lower operating expenses in our existing markets were as follows:

- decreased bad debt expense (\$1.7 million) due primarily to continued improvement in accounts receivable aging and continuing very low historical write-offs; and
- lower bonus and profit-sharing expense (\$1.2 million) due to below-plan operating results.

Existing market operating expenses in 2012 were unfavorably impacted by a \$1.3 million increase in the liability for Enercon's contingent consideration as discussed in Note 4. In 2013, we expensed a total of \$3.5 million for the amortization of intangible assets recorded under purchase accounting compared to \$2.3 million in 2012. That increase, most of which is included in our acquired market results, was due to the impact of the acquisitions completed since last year's third quarter. Our existing market operating expenses decreased as a percentage of the related net sales in 2013 due to the decline in the expenses discussed above and the favorable impact from the slight increase in our existing market sales.

Interest Expense and Other Financing Costs

Interest expense and other financing costs were \$2.7 million in 2013 compared to \$8.2 million in 2012. Last year's interest expense included charges of \$3.7 million (net) for the recognition of the fair value of prior interest rate derivatives and \$1.2 million resulting from the refinancing of our debt. Interest expense would have been \$0.7 and \$3.7 million lower in 2013 and 2012, respectively, without the impact of our interest rate derivatives.

Income Taxes

Income tax expense was \$18.1 million in 2013, an effective rate of 40.0%, compared to \$17.7 million in 2012, an effective rate of 41.1%. The prior year rate included the impact from certain discrete items. We currently expect our annual tax rate to be approximately 40%.

Nine Months Ended June 30, 2013 ("YTD 2013") Compared to the June 30, 2012 ("YTD 2012")

Existing and Acquired Markets

	Existing Markets		Acquired Markets		Consolidated	
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,
	2013	2012	2013	2012	2013	2012
	(dollars in thousands)					
Net Sales	\$1,379,459	\$1,407,097	\$177,696	\$38,440	\$1,557,155	\$1,445,537

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Gross Profit	326,582	341,677	47,156	10,100	373,738	351,777
Gross Margin	23.7%	24.3%	26.5%	26.3%	24.0%	24.3%
Operating Expenses	241,381	244,397	50,207	12,010	291,588	256,407
Operating Expenses as a % of Net Sales	17.5%	17.4%	28.3%	31.2%	18.7%	17.7%
Operating Income (Loss)	\$85,201	\$97,280	\$(3,051)	\$(1,910)	\$82,150	\$95,370
Operating Margin	6.2%	6.9%	-1.7%	-5.0%	5.3%	6.6%

The nine month operating expenses in acquired markets above for 2013 and 2012 include \$5.5 and \$1.1 million of amortization of intangible assets recorded under purchase accounting, respectively.

Net Sales

Consolidated net sales increased \$111.6 million, or 7.7%, to \$1.56 billion in YTD 2013 from \$1.45 billion in YTD 2012. Existing market sales declined \$27.6 million or 2.0% (2.5% on a sales per day basis), while acquired market sales increased \$139.3 million. There were 189 business days in YTD 2013 compared to 188 in YTD 2012. We estimate the favorable impact on existing market sales from the increase in the number of business days was approximately \$7 million. We believe the decline in our YTD 2013 existing market sales was influenced primarily by the impact of less favorable weather conditions, including fewer hail storms, on our roofing sales (see discussion above for the third quarter), and a lower level of commercial roofing projects in the first half of the year, partially offset by an increase in our complementary product sales.

We opened three branches, closed two branches, and acquired nineteen branches in YTD 2013, while in YTD 2012 we opened two branches, closed two branches and acquired fifteen branches. The impact of inflation on our sales and gross profit during YTD 2013 as compared to YTD 2012 was similar to the effects noted above for the third quarter, with an estimated favorable impact of \$7 million on existing market sales. We estimate the unfavorable impact on existing market sales from volume decreases was approximately \$42 million. Existing YTD 2013 market net sales by geographical area increased (decreased) as follows: Northeast (8.2%); Mid-Atlantic (9.9%); Southeast 16.5%; Southwest 12.6%; Midwest (11.0%); West (8.4%); and Canada 2.5%. These variations were primarily caused by short-term factors such as local economic conditions, weather conditions and storm activity.

Product group sales for our existing markets were as follows:

For the Nine Months Ended

	June 30,		June 30,		% Change Based On Average Sales Per Business Day
	2013		2012		
	Sales	Mix	Sales	Mix	Change
	(dollars in thousands)				
Residential roofing products	\$684,089	49.6%	\$695,143		