

BlueLinx Holdings Inc.  
Form 10-Q  
November 01, 2006

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2006**

**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: 1-32383**

**BlueLinx Holdings Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State of Incorporation)

**77-0627356**

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

**4300 Wildwood Parkway, Atlanta, Georgia**

(Address of principal executive offices)

**30339**

(Zip Code)

**(770) 953-7000**

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 October 30, 2006 there were 30,886,983 shares of BlueLinx Holdings Inc. common stock, par value \$0.01, outstanding.

**BLUELINX HOLDINGS INC.**  
**Form 10-Q**  
*For the Quarterly Period Ended September 30, 2006*  
**INDEX**

	<b>PAGE</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements – BlueLinx Holdings Inc. (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Operations</u>	3
<u>Condensed Consolidated Balance Sheets</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	33
<u>Item 4. Controls and Procedures</u>	33
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	33
<u>Item 1A. Risk Factors</u>	34
<u>Item 6. Exhibits</u>	34
<u>Signatures</u>	35
<u>Exhibit Index</u>	
<u>EX-31.1 SECTION 302 CERTIFICATION OF CEO</u>	
<u>EX-31.2 SECTION 302 CERTIFICATION OF CFO</u>	
<u>EX-32.1 SECTION 906 CERTIFICATION OF CEO</u>	
<u>EX-32.2 SECTION 906 CERTIFICATION OF CFO</u>	

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)**

**BLUELINX HOLDINGS INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)  
(unaudited)

	<b>Third Quarter</b>	
	<b>Period from July 2, 2006 to September 30, 2006</b>	<b>Period from July 3, 2005 to October 1, 2005</b>
Net sales	\$ 1,203,578	\$ 1,454,217
Cost of sales	1,082,672	1,317,180
Gross profit	120,906	137,037
Operating expenses:		
Selling, general, and administrative	99,615	97,926
Depreciation and amortization	5,217	4,993
Total operating expenses	104,832	102,919
Operating income	16,074	34,118
Non-operating expenses:		
Interest expense	12,046	11,216
Other income, net	(29)	(295)
Income before provision for income taxes	4,057	23,197
Provision for income taxes	1,765	9,301
Net income	\$ 2,292	\$ 13,896
Basic weighted average number of common shares outstanding	30,662	30,199
Basic net income per share applicable to common stock	\$ 0.07	\$ 0.46
Diluted weighted average number of common shares outstanding	30,782	30,493
Diluted net income per share applicable to common stock	\$ 0.07	\$ 0.46
Dividends declared per share of common stock	\$ 0.125	\$ 0.125

See accompanying notes.

**Table of Contents**

**BLUELINX HOLDINGS INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except share and per share data)  
(unaudited)

	Nine Months Ended	
	Period from January 1, 2006 to September 30, 2006	Period from January 2, 2005 to October 1, 2005
Net sales	\$ 3,959,134	\$ 4,292,812
Cost of sales	3,571,833	3,920,766
Gross profit	387,301	372,046
Operating expenses:		
Selling, general, and administrative	295,004	277,309
Depreciation and amortization	15,323	13,793
Total operating expenses	310,327	291,102
Operating income	76,974	80,944
Non-operating expenses:		
Interest expense	35,505	31,206
Charges associated with mortgage refinancing	4,864	
Other (income) expense, net	(17)	58
Income before provision for income taxes	36,622	49,680
Provision for income taxes	14,925	19,615
Net income	\$ 21,697	\$ 30,065
Basic weighted average number of common shares outstanding	30,576	30,180
Basic net income per share applicable to common stock	\$ 0.71	\$ 1.00
Diluted weighted average number of common shares outstanding	30,762	30,459
Diluted net income per share applicable to common stock	\$ 0.71	\$ 0.99
Dividends declared per share of common stock	\$ 0.375	\$ 0.375

See accompanying notes.

**Table of Contents**

**BLUELINX HOLDINGS INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except per share data)

	September 30, 2006 (unaudited)	December 31, 2005
<b>Assets:</b>		
Current assets:		
Cash	\$ 24,182	\$ 24,320
Receivables, net	435,052	399,093
Inventories, net	471,229	473,068
Deferred income taxes	8,204	6,678
Other current assets	46,904	44,909
Total current assets	985,571	948,068
Property, plant, and equipment:		
Land and land improvements	56,979	56,521
Buildings	95,291	93,381
Machinery and equipment	61,362	54,200
Construction in progress	1,506	2,350
Property, plant, and equipment, at cost	215,138	206,452
Accumulated depreciation	(34,605)	(22,403)
Property, plant, and equipment, net	180,533	184,049
Other non-current assets	28,412	25,523
Total assets	\$ 1,194,516	\$ 1,157,640
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	\$ 252,451	\$ 327,004
Bank overdrafts	68,569	62,392
Accrued compensation	12,679	13,494
Current maturities of long-term debt	71,008	
Other current liabilities	14,897	15,195
Total current liabilities	419,604	418,085
Non-current liabilities:		
Long-term debt	561,500	540,850
Deferred income taxes	1,241	1,911
Other long-term liabilities	14,815	12,942
Total liabilities	997,160	973,788
<b>Shareholders Equity:</b>		

Edgar Filing: BlueLinx Holdings Inc. - Form 10-Q

Common Stock, \$0.01 par value, 100,000,000 shares authorized; 30,866,544 and 30,251,019 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	311	303
Additional paid-in-capital	137,066	132,346
Accumulated other comprehensive income (loss)	(361)	1,023
Retained earnings	60,340	50,180
Total shareholders' equity	197,356	183,852
Total liabilities and shareholders' equity	\$ 1,194,516	\$ 1,157,640

See accompanying notes.

5

---

**Table of Contents**

**BLUELINX HOLDINGS INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(unaudited)

	<b>Nine Months Ended</b>	
	<b>Period from January 1, 2006 to September 30, 2006</b>	<b>Period from January 2, 2005 to October 1, 2005</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 21,697	\$ 30,065
Adjustments to reconcile net income to cash provided by (used in) operations:		
Depreciation and amortization	15,323	13,793
Amortization of debt issue costs	2,018	2,704
Write-off of unamortized debt financing costs	4,864	
Deferred income tax benefit	(1,876)	(1,027)
Stock-based compensation	2,209	1,701
Changes in assets and liabilities:		
Receivables	(33,396)	(158,401)
Inventories	5,961	91,976
Accounts payable	(74,959)	54,485
Changes in other working capital	(3,368)	(10,911)
Other	(2,237)	3,998
Net cash provided by (used in) operating activities	(63,764)	28,383
<b>Cash flows from investing activities:</b>		
Acquisitions, net of cash acquired	(9,353)	(17,021)
Property, plant and equipment investments	(7,267)	(10,034)
Proceeds from sale of assets	465	814
Net cash used in investing activities	(16,155)	(26,241)
<b>Cash flows from financing activities:</b>		
Issuance of common stock, net		8,541
Proceeds from stock options exercised	1,744	151
Excess tax benefits from stock-based compensation	882	49
Net increase (decrease) in revolving credit facility	(38,342)	1,834
Proceeds from new mortgage	295,000	
Debt financing costs	(6,668)	(570)
Retirement of old mortgage	(165,000)	
Prepayment fees associated with old mortgage	(2,475)	
Increase in bank overdrafts	6,177	11,920
Common stock dividends paid	(11,537)	(11,319)

Edgar Filing: BlueLinx Holdings Inc. - Form 10-Q

Net cash provided by financing activities	79,781	10,606
Increase (decrease) in cash	(138)	12,748
Balance, beginning of period	24,320	15,572
Balance, end of period	\$ 24,182	\$ 28,320

See accompanying notes.

6

---

**Table of Contents**

**BLUELINX HOLDINGS INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
SEPTEMBER 30, 2006**

**1. Basis of Presentation and Background**

***Basis of Presentation***

BlueLinx Holdings Inc. has prepared the accompanying Unaudited Condensed Consolidated Financial Statements, including its accounts and the accounts of its wholly-owned subsidiaries, in accordance with the instructions to Form 10-Q and therefore they do not include all of the information and notes required by United States generally accepted accounting principles ( GAAP ). These interim financial statements should be read in conjunction with the financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2005, as filed with the Securities and Exchange Commission ( SEC ). Our fiscal year is a 52- or 53-week period ending on the Saturday closest to the end of the calendar year. Fiscal year 2005 contained 52 weeks. BlueLinx Corporation is the wholly-owned operating subsidiary of BlueLinx Holdings Inc. and is referred to herein as the operating subsidiary when necessary.

We believe the accompanying Unaudited Condensed Consolidated Financial Statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our financial position, results of operations and cash flows for the periods presented. The preparation of the consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates and such differences could be material. In addition, the operating results for interim periods may not be indicative of the results of operations for a full year. We are exposed to fluctuations in quarterly sales volumes and expenses due to seasonal factors, with the second and third quarters typically accounting for the highest sales volumes. These seasonal factors are common in the building products distribution industry.

We were created on March 8, 2004 as a Georgia corporation named ABP Distribution Holdings Inc. On May 7, 2004, we and our operating subsidiary acquired the assets of the Building Products Distribution Division (the Distribution Division ) of Georgia-Pacific Corporation ( Georgia-Pacific ), pursuant to an asset purchase agreement. On August 30, 2004, ABP Distribution Holdings Inc. merged into BlueLinx Holdings Inc., a Delaware corporation.

We are a leading distributor of building products in North America with more than 3,400 employees. We offer approximately 10,000 products from over 750 suppliers to service more than 12,000 customers nationwide, including dealers, industrial manufacturers, manufactured housing producers and home improvement retailers. We operate our distribution business from sales centers in Atlanta and Denver, and our network of more than 70 warehouses.

**2. Summary of Significant Accounting Policies**

***Earnings per Common Share***

Basic and diluted earnings per share are computed by dividing net income by the weighted average number of common shares outstanding for the period. Except when the effect would be anti-dilutive, the diluted earnings per share calculation includes the dilutive effect of the assumed exercise of stock options and restricted stock using the treasury stock method.

***Common Stock Dividends***

On February 14, 2006, our Board of Directors declared a quarterly dividend of \$0.125 per share on our common stock. The dividend was paid on March 31, 2006, to shareholders of record as of March 15, 2006. Our controlling shareholder, Cerberus ABP Investor LLC ( Cerberus ), received a dividend of approximately \$2.3 million as a result of its ownership of 18,100,000 shares of our common stock as of the record date.

On May 3, 2006, our Board of Directors declared a quarterly dividend of \$0.125 per share on our common stock. The dividend was paid on June 30, 2006, to shareholders of record as of June 15, 2006. Our controlling shareholder, Cerberus, received a dividend of approximately \$2.3 million as a result of its ownership of 18,100,000 shares of our common stock as of the record date.

**Table of Contents**

On August 8, 2006, our Board of Directors declared a quarterly dividend of \$0.125 per share on our common stock. The dividend was paid on September 29, 2006, to shareholders of record as of September 15, 2006. Our controlling shareholder, Cerberus, received a dividend of approximately \$2.3 million as a result of its ownership of 18,100,000 shares of our common stock as of the record date.

***Stock-Based Compensation***

We have two stock-based compensation plans covering officers, directors and certain employees and consultants; the 2004 Long Term Equity Incentive Plan (the 2004 Plan ) and the 2006 Long Term Equity Incentive Plan (the 2006 Plan ). The plans are designed to motivate and retain individuals who are responsible for the attainment of our primary long-term performance goals. The plans provide a means whereby our employees and directors develop a sense of proprietorship and personal involvement in our development and financial success and encourage them to devote their best efforts to our business.

The 2004 Plan provides for the grant of nonqualified stock options, incentive stock options for shares of our common stock and restricted shares of our common stock to participants of the plan selected by our Board of Directors or a committee of the Board who administer the 2004 Plan. We reserved 2,222,222 shares of common stock for issuance under the 2004 Plan. The terms and conditions of awards under the 2004 Plan are determined by the administrator for each grant.

Unless otherwise determined by the administrator or as set forth in an award agreement, upon a Liquidity Event, all unvested awards will become immediately exercisable and the administrator may determine the treatment of all vested awards at the time of the Liquidity Event. A Liquidity Event is defined as (1) an event in which any person who is not an affiliate of us becomes the beneficial owner, directly or indirectly, of fifty percent or more of the combined voting power of our then outstanding securities or (2) the sale, transfer or other disposition of all or substantially all of our business, whether by sale of assets, merger or otherwise, to a person other than Cerberus.

On May 12, 2006 our shareholders approved the 2006 Plan. The 2006 Plan permits the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, cash-based awards, and other stock-based awards. We reserved 1,700,000 shares of our common stock for issuance under the 2006 Plan. The terms and conditions of awards under the 2006 Plan are determined by the administrator for each grant. Awards issued under the 2006 Plan are subject to accelerated vesting in the event of a change in control as such event is defined in the 2006 Plan.

On June 5, 2006, the Board of Directors Compensation Committee granted certain of our executive officers awards in the form of restricted shares of our common stock and options to purchase shares of our common stock. Additionally, the Board granted certain other key employees restricted stock units equivalent in cash value to restricted shares with respect to our common stock. The stock option and restricted stock awards were granted pursuant to and are subject to the terms of the 2006 Plan. The restricted stock unit awards were granted pursuant to the terms of the 2006 Long-Term Incentive Plan for Key Senior Managers.

The stock option awards vest over a five year term, with 20% of the award vesting each January 3<sup>rd</sup> after the grant date.

The restricted stock and restricted stock unit awards vest on June 5, 2011, five years after the grant date. However, the awards may vest earlier in their entirety (or portion, as appropriate) upon the attainment of certain minimum performance goals. Upon vesting of all or any portion of the restricted stock units, we will pay a cash amount equivalent to the fair market value of the shares of our common stock. The fair market value will be determined on the date when the award vests.

On January 1, 2006, we adopted Statement of Financial Accounting Standards ( SFAS ) 123R, *Share-Based Payment*, using the modified prospective transition method. Prior to 2006, we accounted for stock awards granted to employees under SFAS No. 123, *Accounting for Stock-Based Compensation*. Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative.

Under the modified prospective transition method, compensation expense recognized in the third quarter included: (a) compensation expense for all unvested share-based awards granted prior to January 1, 2006, based on the grant

date fair value estimated in accordance with SFAS No. 123 and (b) compensation expense for all share-based awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with SFAS No. 123R. Results of prior periods have not been restated.

**Table of Contents**

Through December 31, 2005, we accrued compensation expense assuming that all stock options granted were expected to vest. The effect of actual forfeitures was recognized as forfeitures occurred. Under SFAS No. 123R, we are required to estimate forfeitures in calculating the expense related to stock-based compensation. The adoption of SFAS No. 123R did not have a material impact on our results of operations.

Compensation expense arising from stock-based awards granted to employees and non-employee directors is recognized as expense using the straight-line method over the vesting period. As of September 30, 2006, there was \$6.6 million, \$1.8 million and \$1.1 million of total unrecognized compensation expense related to stock options, restricted stock and restricted stock units. The unrecognized compensation expense for stock options is expected to be recognized over a period of 3.71 years.

For restricted stock and restricted stock units, the unrecognized compensation expense will be recognized over a period of 3.00 years. For the third quarter of fiscal 2006 and for the first nine months of fiscal 2006, our total stock-based compensation expense was \$1.0 million and \$2.2 million, respectively. We also recognized related income tax benefits of \$0.4 million and \$0.9 million for the third quarter of fiscal 2006 and for the first nine months of fiscal 2006, respectively.

For the third quarter of fiscal 2005 and for the first nine months of fiscal 2005, our total stock-based compensation expense was \$0.3 million and \$1.7 million, respectively. In addition, we recognized related income tax benefits of \$0.1 million and \$0.7 million for the third quarter of fiscal 2005 and for the first nine months of fiscal 2005, respectively.

Cash proceeds from the exercise of stock options totaled \$0.3 million and \$1.7 million for the third quarter of fiscal 2006 and for the first nine months of fiscal 2006, respectively. In addition, SFAS No. 123R requires us to reflect the benefits of tax deductions in excess of recognized compensation expense as both a financing cash inflow and an operating cash outflow upon adoption. We included \$0.02 million and \$0.9 million of excess tax benefits in cash flows from financing activities for the third quarter of fiscal 2006 and for the first nine months of fiscal 2006, respectively.

For the third quarter of fiscal 2005 and for the first nine months of fiscal 2005, cash proceeds from the exercise of stock options totaled \$0.1 million and \$0.2 million, respectively. In addition, we recognized related income tax benefits of \$0.04 million and \$0.05 million for the third quarter of fiscal 2005 and for the first nine months of fiscal 2005, respectively.

The following table depicts the weighted average assumptions used in connection with the Black-Scholes-Merton option pricing model to estimate the fair value of stock options granted during the third quarter of fiscal 2006:

	<b>Period from July 2, 2006 to September 30, 2006 Time Based Options*</b>
Risk free interest rate	5.05%
Expected dividend yield	4.20%
Expected life	7 years
Expected volatility	50%
Weighted average fair value	\$ 4.14

\* Exercise price exceeded market price at date of grant

There were no options granted during the third quarter of fiscal 2005.

Edgar Filing: BlueLinx Holdings Inc. - Form 10-Q

The following table depicts the weighted average assumptions used in connection with the Black-Scholes-Merton option pricing model to estimate the fair value of stock options granted during the first nine months of fiscal 2006:

	<b>Nine Months Ended September 30, 2006</b>		
	<b>Time Based Options*</b>	<b>Time Based Options**</b>	<b>Performance-Based Options***</b>
Risk free interest rate	4.36%	4.72%	4.60%
Expected dividend yield	4.43%	3.85%	3.19%
Expected life	7 years	7 years	1 year
Expected volatility	50%	50%	50%
Weighted average fair value	\$3.69	\$ 5.11	\$ 11.47

9

**Table of Contents**

\* Exercise price exceeded market price at date of grant.

\*\* Exercise price equaled market price at date of grant.

\*\*\* Exercise price was less than the market price at date of grant.

The following table depicts the weighted average assumptions used in connection with the Black-Scholes-Merton option pricing model to estimate the fair value of stock options granted during the first nine months of fiscal 2005:

	<b>Nine Months Ended October 1, 2005 Time Based Options*</b>
Risk free interest rate	4.12%
Expected dividend yield	4.26%
Expected life	7 years
Expected volatility	45%
Weighted average fair value	\$ 4.00

\* Exercise price equaled market price at date of grant

All options granted during the first nine months of fiscal 2005 occurred during the second quarter.

In determining the expected life, we did not rely on our historical exercise data as it does not provide a reasonable basis upon which to estimate future expected lives due to limited experience of employee exercises. Instead, we followed a simplified method based on the vesting term and contractual term as permitted under SEC Staff Accounting Bulletin No. 107.

The expected volatility is based on the historical volatility of our common stock.

The range of risk-free rates used for the first nine months of fiscal 2006 and for the first nine months of fiscal 2005 was from 4.34% to 5.05% and 3.93% to 4.22%, respectively. These rates were based on the U.S. Treasury yield with a term that is consistent with the expected life of the stock options.

Performance-based options are those options that only vest upon achievement of certain financial targets established by the Board of Directors, or a committee thereof. On February 1, 2006, the Board of Directors set the financial target for performance-based options subject to vesting criteria in 2006.

Additional information related to our existing employee stock options for the period from July 2, 2006 to September 30, 2006, excluding performance-based options totaling 136,050 for which the financial targets have not been set, follows:

	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
Options outstanding at December 31, 2005	1,695,682	\$ 8.23
Options granted	667,705	12.25
Options exercised	(465,181)	3.75
Options forfeited	(57,902)	3.75
Options outstanding at September 30, 2006	1,840,304	10.95
Options exercisable at September 30, 2006	144,629	\$ 4.57

<b>Price Range</b>	<b>Number of Options</b>	<b>Outstanding</b>	<b>Remaining Contractual Life (in Years)</b>	<b>Exercisable</b>	<b>Exercise Price</b>
		<b>Weighted Average Exercise Price</b>		<b>Weighted Average Exercise Price</b>	
\$ 3.75	448,437	\$ 3.75	1.31	129,729	\$ 3.75
\$10.29 - \$15.10	1,391,867	13.27	9.23	14,900	11.73
	1,840,304			144,629	

10

**Table of Contents**

The following tables summarize the activity for our restricted stock awards and restricted stock unit awards during the first nine months of fiscal 2006:

	<b>Restricted Stock Awards</b>	<b>Weighted Average Grant Date Fair Value</b>
Restricted stock awards at December 31, 2005		\$
Granted	148,912	13.99
Vested		
Forfeited	(1,500)	14.01
Restricted stock awards outstanding at September 30, 2006	147,412	\$ 13.99

	<b>Restricted Stock Unit Awards</b>	<b>Weighted Average Grant Date Fair Value</b>
Restricted stock unit awards at December 31, 2005		\$
Granted	122,600	14.01
Vested		
Forfeited	(400)	14.01
Restricted stock unit awards outstanding at September 30, 2006	122,200	\$ 14.01

The fair value of the restricted stock units will be marked-to-market each reporting period through the date of settlement. On September 30, 2006, the fair value of these awards was based on the closing price of our common stock of \$9.52.

At September 30, 2006, the aggregate intrinsic value of stock-based awards outstanding and options exercisable was \$5.2 million and \$0.7 million, respectively (the intrinsic value of a stock-based award is the amount by which the market value of the underlying award exceeds the exercise price of the award). The intrinsic value of stock options exercised during the third quarter of fiscal 2006 and during the first nine months of fiscal 2006 was \$0.5 million and \$5.0 million, respectively. For the third quarter of fiscal 2005 and for the first nine months of fiscal 2005, the intrinsic value of stock options exercised was \$0.3 million and \$0.4 million, respectively.

**3. Comprehensive Income**

The calculation of comprehensive income is as follows (in thousands):

	<b>Third Quarter</b>	
	<b>Period from July 2, 2006 to September 30, 2006</b>	<b>Period from July 3, 2005 to October 1, 2005</b>
Net income	\$ 2,292	\$ 13,896
Other comprehensive income:		
Foreign currency translation, net of taxes	(6)	473
Unrealized loss from cash flow hedge, net of taxes	(2,112)	

Comprehensive income	\$ 174	\$ 14,369
----------------------	--------	-----------

	<b>Nine Months Ended</b>	
	<b>Period from January 1, 2006 to September 30, 2006</b>	<b>Period from January 2, 2005 to October 1, 2005</b>
Net income	\$ 21,697	\$ 30,065
Other comprehensive income:		
Foreign currency translation, net of taxes	331	281
Unrealized loss from cash flow hedge, net of taxes	(1,715)	
Comprehensive income	\$ 20,313	\$ 30,346

**Table of Contents****4. Employee Benefits****Defined Benefit Pension Plans**

Most of our hourly employees participate in noncontributory defined benefit pension plans. These include a plan that is administered solely by us (the hourly pension plan) and union-administered multiemployer plans. Our funding policy for the hourly pension plan is based on actuarial calculations and the applicable requirements of federal law. We do not expect to make any contributions to the hourly pension plan in fiscal 2006. Benefits under the majority of plans for hourly employees (including multiemployer plans) are primarily related to years of service.

Net periodic pension cost for our pension plans included the following:

	<b>Third Quarter</b>	
	<b>Period from July 2, 2006 to September 30, 2006</b>	<b>Period from July 3, 2005 to October 1, 2005</b>
	<b>(In thousands)</b>	
Service cost	\$ 672	\$ 650
Interest cost on projected benefit obligation	1,011	970
Expected return on plan assets	(1,300)	(1,208)
Amortization of unrecognized prior service cost	1	
Net periodic pension cost	\$ 384	\$ 412
	<b>Nine Months Ended</b>	
	<b>Period from January 1, 2006 to September 30, 2006</b>	<b>Period from January 2, 2005 to October 1, 2005</b>
	<b>(In thousands)</b>	
Service cost	\$ 2,016	\$ 1,950
Interest cost on projected benefit obligation	3,033	2,910
Expected return on plan assets	(3,900)	(3,624)
Amortization of unrecognized prior service cost	3	
Net periodic pension cost	\$ 1,152	\$ 1,236

**5. Revolving Credit Facility**

As of September 30, 2006, we had outstanding borrowings of \$338 million and excess availability of \$303 million under the terms of our revolving credit facility. Based on borrowing base limitations, we classify the lowest projected balance of the credit facility over the next twelve months of \$267 million as long-term debt. The revolving credit facility contains customary negative covenants and restrictions for asset based loans, with which we are in compliance.

On August 4, 2006, we reached an agreement with Wachovia Bank, National Association and the other signatories thereto to amend the terms of our existing revolving credit agreement. The Amended and Restated Loan and Security Agreement dated August 4, 2006, added certain of our operating company's subsidiaries and affiliates to the credit agreement as borrowers and/or guarantors and also allows us to form future subsidiaries, if necessary, for structuring potential future acquisitions.

On June 12, 2006, we entered into an interest rate swap agreement with Goldman Sachs Capital Markets (GSCM), to hedge against interest rate risks related to our variable rate revolving credit facility. The interest rate swap has a notional amount of \$150 million and the terms call for us to receive interest monthly at a variable rate equal to the 30-day LIBOR and to pay interest monthly at a fixed rate of 5.4%. This interest rate swap is designated as a cash flow hedge.

We expect the hedge to be highly effective in offsetting changes in expected cash flows, as, at inception, the critical terms of the interest rate swap generally match the critical terms of the variable rate revolving credit facility. In accordance with the provisions of SFAS 133 *Accounting for Derivative Instruments and Hedging Activities*, we will use the Hypothetical Derivative Method to measure hedge effectiveness. Fluctuations in the fair value of the ineffective portion, if any, of the cash flow hedge will be reflected in the current period earnings. There were no amounts recognized in earnings for the third quarter and first nine months of fiscal 2006.

**Table of Contents**

At September 30, 2006, the fair value of the interest rate swap was a liability of \$2.8 million and was included in Other long-term liabilities on the Condensed Consolidated Balance Sheet. Accumulated other comprehensive income at September 30, 2006 included the net loss on the cash flow hedge (net of tax) of \$1.7 million, which reflects the amount of comprehensive loss recognized for the first nine months of fiscal 2006 in connection with the change in fair value of the swap.

As of September 30, 2006, we had outstanding letters of credit totaling \$11.0 million, primarily for the purposes of securing collateral requirements under the casualty insurance programs for us and for guaranteeing payment of international purchases based on the fulfillment of certain conditions.

**6. Mortgage**

On June 9, 2006, certain special purpose entities that are wholly-owned subsidiaries of us entered into a \$295 million new mortgage loan with the German American Capital Corporation. The new mortgage has a term of ten years and is secured by 57 distribution facilities and 1 office building owned by the special purpose entities. The stated interest rate on the new mortgage is fixed at 6.35%. German American Capital Corporation assigned half of its interest in the new mortgage loan to Wachovia Bank, National Association.

Simultaneously with the execution of the new mortgage loan, we paid off in full our existing \$165 million mortgage loan agreement with Column Financial, Inc. dated as of October 26, 2004. In connection with the termination of the existing mortgage loan, we incurred charges of \$4.9 million during the second quarter of fiscal 2006, which includes unamortized debt financing costs of \$3.2 million.

The new mortgage loan requires interest-only payments for the first five years followed by level monthly payments of principal and interest based on an amortization period of thirty years. The balance of the loan outstanding at the end of ten years will then become due and payable. The principal will be paid in the following increments (in thousands):

2011	\$ 1,511
2012	3,172
2013	3,437
2014	3,665
2015	3,908
Thereafter	\$279,307

**7. Related Party Transactions*****Temporary Staffing Provider***

We use Tandem Staffing Solutions, or Tandem, an affiliate of Cerberus, as the temporary staffing company for our office located in Atlanta, Georgia. We incurred total expenses of \$521,258 and \$1.7 million for the third quarter of fiscal 2006 and for the first nine months of fiscal 2006, respectively.

For the third quarter of fiscal 2005 and for the first nine months of fiscal 2005, we incurred total expenses of \$468,005 and \$1.4 million, respectively.

As of September 30, 2006 and December 31, 2005, we had accounts payable in the amount of \$52,868 and \$48,733 to Tandem, respectively.

***Consulting***

For the third quarter of fiscal 2006 and for the first nine months of fiscal 2006, we incurred expenses in the amount of \$8,000 and \$33,000, respectively, for consulting services provided to us by consultants on retainer to Cerberus.

For the third quarter of fiscal 2005 and for the first nine months of fiscal 2005, we incurred expenses of \$173,000 and \$273,600, respectively.

As of September 30, 2006 and December 31, 2005, we had accounts payable in the amount of \$0 and \$417,850 for these services, respectively.

**Table of Contents**

***Overhead Expense Reimbursement***

We incurred total expenses related to reimbursements to Cerberus for various overhead expenses directly related to our business of \$20,745 for the third quarter of fiscal 2006 and the first nine months of fiscal 2006.

For the third quarter of fiscal 2005 and the first nine months of fiscal 2005, these expenses totaled \$16,626 and \$60,301, respectively.

As of September 30, 2006 and December 31, 2005, we had accounts payable related to these expenses of \$0 and \$70,100, respectively.

***Other SG&A***

We use ATC Associates, Inc. (ATC) and SBI Group (SBI), Cerberus affiliates, for real estate surveys and information technology consulting. These expenses totaled \$1,330 and \$140,780 for the third quarter of fiscal 2006 and for the first nine months of fiscal 2006, respectively.

For the third quarter of fiscal 2005 and for the first nine months of fiscal 2005, we incurred expenses in the amount of \$18,000 and \$90,076, respectively.

***Rental Car***

For the third quarter of fiscal 2006 and for the first nine months of fiscal 2006, we incurred expenses for car rentals in the amount of \$69,948 and \$287,997, respectively. These services were provided by Alamo Rent-A-Car and National Car Rental, affiliates of Cerberus.

For the third quarter of fiscal 2005 and for the first nine months of fiscal 2005, we incurred expenses of \$129,774 and \$306,643, respectively.

As of September 30, 2006 and December 31, 2005, we had accounts payable in the amount of \$10,719 and \$41,445, respectively, related to these expenses.

**8. Commitments and Contingencies**

***Environmental and Legal Matters***

We are involved in various proceedings incidental to our businesses and are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. Although the ultimate outcome of these proceedings cannot be determined with certainty, based on presently available information management believes that adequate reserves have been established for probable losses with respect thereto. Management further believes that the ultimate outcome of these matters could be material to operating results in any given quarter but will not have a materially adverse effect on our long-term financial condition, our results of operations, or our cash flows.

***Collective Bargaining Agreements***

As of September 30, 2006, approximately 34% of our total work force is covered by collective bargaining agreements. Collective bargaining agreements representing approximately 8.9% of our work force will expire within one year.

***Preference Claim***

On November 19, 2004, we received a letter from Wickes Lumber, or Wickes, asserting that approximately \$16 million in payments received by the Distribution Division of Georgia-Pacific Corporation during the 90-day period prior to Wickes' January 20, 2004 Chapter 11 filing were preferential payments under section 547 of the United States Bankruptcy Code. On October 14, 2005, Wickes Inc. filed a lawsuit in the United States Bankruptcy Court for the Northern District of Illinois titled *Wickes Inc. v. Georgia Pacific Distribution Division (BlueLinx)*, (Bankruptcy Adversary Proceeding No. 05-2322) asserting its claim. On November 14, 2005, we filed our answer to the complaint denying liability. Although the ultimate outcome of this matter cannot be determined with

**Table of Contents**

certainly, we believe Wickes' assertion to be without merit and, in any event, subject to one or more complete defenses, including, but not limited to, that the payments were made and received in the ordinary course of business and were a substantially contemporaneous exchange for new value given to Wickes. Accordingly, we have not recorded a reserve with respect to the asserted claim.

***Hurricane Katrina***

Hurricane Katrina caused significant damage at our distribution center in New Orleans, Louisiana. The facility ceased operations prior to the arrival of the storm on August 29, 2005 and has not reopened. There was approximately \$2.4 million in inventory located at the facility that has been declared a total loss by our insurer. Damage to the building and furniture, fixtures and equipment is expected to exceed \$2.0 million. The loss recognized by us in fiscal 2005 related to the damage was \$250,000, which is the amount of our insurance deductible. While certain amounts have been recovered from the insurance carriers, we still have claims pending for additional recoveries.

**9. Subsequent Events**

On October 31, 2006, our Board of Directors declared a quarterly dividend of \$0.125 per share on our common stock. The dividend is payable on December 29, 2006 to stockholders of record as of December 15, 2006.

On October 31, 2006, David Morris announced his decision to resign from his position as Chief Financial Officer and Treasurer on or about December 31, 2006. Mr. Morris will continue to serve as our Chief Financial Officer until his departure. We have retained the services of an executive recruiting firm and a search for a new chief financial officer is underway.

**10. Unaudited Supplemental Condensed Consolidating Financial Statements**

The unaudited condensed consolidating financial information as of September 30, 2006 and December 31, 2005 and for the periods from July 2, 2006 to September 30, 2006, January 1, 2006 to September 30, 2006, July 3, 2005 to October 1, 2005 and January 2, 2005 to October 1, 2005 is provided due to restrictions in our revolving credit facility that limit distributions by BlueLinx Corporation, our wholly-owned operating subsidiary, to us, which, in turn, may limit our ability to pay dividends to holders of our common stock (see our Annual Report on Form 10-K for the year ended December 31, 2005, for a more detailed discussion of these restrictions and the terms of the facility). Also included in the supplemental condensed consolidated financial statements are sixty-one single member limited liability companies, which are wholly owned by us (the LLC subsidiaries). The LLC subsidiaries own certain warehouse properties that are occupied by BlueLinx Corporation, each under the terms of a master lease agreement. Certain of the warehouse properties collateralize a mortgage loan and none of the properties are available to satisfy the debts and other obligations of either BlueLinx Corporation or us.

**Table of Contents**

The condensed consolidating statement of operations for BlueLinx Holdings Inc. for the period from July 2, 2006 to September 30, 2006 follows (in thousands):

	<b>BlueLinx Holdings Inc.</b>	<b>BlueLinx Corporation</b>	<b>LLC Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 1,203,578	\$ 7,598	\$ (7,598)	\$ 1,203,578
Cost of sales		1,082,672			1,082,672
Gross profit		120,906	7,598	(7,598)	120,906
Operating expenses:					
Selling, general and administrative	332	106,679	202	(7,598)	99,615
Depreciation and amortization		4,159	1,058		5,217
Total operating expenses	332	110,838	1,260	(7,598)	104,832
Operating income (loss)	(332)	10,068	6,338		16,074
Non-operating expenses:					
Interest expense		7,064	4,982		12,046
Charges associated with mortgage refinancing					
Other expense (income), net		(12)	(17)		(29)
Income before provision for (benefit from) income taxes	(332)	3,016	1,373		4,057
Provision for (benefit from) income taxes	(129)	1,359	535		1,765
Equity in income (loss) of subsidiaries	2,495			(2,495)	
Net income (loss)	\$ 2,292	\$ 1,657	\$ 838	\$ (2,495)	\$ 2,292

The condensed consolidating statement of operations for BlueLinx Holdings Inc. for the period from July 3, 2005 to October 1, 2005 follows (in thousands):

	<b>BlueLinx Holdings Inc.</b>	<b>BlueLinx Corporation</b>	<b>LLC Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 1,454,217	\$ 4,900	\$ (4,900)	\$ 1,454,217
Cost of sales		1,317,180			1,317,180
Gross profit		137,037	4,900	(4,900)	137,037
Operating expenses:					
Selling, general and administrative	416	102,307	103	(4,900)	97,926
Depreciation and amortization		3,918	1,075		4,993

Edgar Filing: BlueLinx Holdings Inc. - Form 10-Q

Total operating expenses	416	106,225	1,178	(4,900)	102,919
Operating income (loss)	(416)	30,812	3,722		34,118
Non-operating expenses:					
Interest expense		8,557	2,659		11,216
Other expense, net		(185)	(110)		(295)
Income before provision for (benefit from) income taxes	(416)	22,440	1,173		23,197
Provision for (benefit from) income taxes	(163)	9,005	459		9,301
Equity in income (loss) of subsidiaries	14,149			(14,149)	
Net income (loss)	\$ 13,896	\$ 13,435	\$ 714	\$ (14,149)	\$ 13,896

The condensed consolidating statement of operations for BlueLinx Holdings Inc. for the period from January 1, 2006 to September 30, 2006 follows (in thousands):

	<b>BlueLinx Holdings Inc.</b>	<b>BlueLinx Corporation</b>	<b>LLC Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 3,959,134	\$ 18,053	\$ (18,053)	\$ 3,959,134
Cost of sales		3,571,833			3,571,833
Gross profit		387,301	18,053	(18,053)	387,301
Operating expenses:					
Selling, general and administrative	1,139	311,197	721	(18,053)	295,004
Depreciation and amortization		12,149	3,174		15,323

**Table of Contents**

	<b>BlueLinx Holdings Inc.</b>	<b>BlueLinx Corporation</b>	<b>LLC Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Total operating expenses	1,139	323,346	3,895	(18,053)	310,327
Operating income (loss)	(1,139)	63,955	14,158		76,974
Non-operating expenses:					
Interest expense		23,730	11,775		35,505
Charges associated with new mortgage			4,864		4,864
Other expense (income), net		68	(85)		(17)
Income before provision for (benefit from) income taxes	(1,139)	40,157	(2,396)		36,622
Provision for (benefit from) income taxes	(444)	16,303	(934)		14,925
Equity in income (loss) of subsidiaries	22,392			(22,392)	
Net income (loss)	\$ 21,697	\$ 23,854	\$ (1,462)	\$ (22,392)	\$ 21,697

The condensed consolidating statement of operations for BlueLinx Holdings Inc. for the period from January 2, 2005 to October 1, 2005 follows (in thousands):

	<b>BlueLinx Holdings Inc.</b>	<b>BlueLinx Corporation</b>	<b>LLC Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 4,292,812	\$ 14,700	\$ (14,700)	\$ 4,292,812
Cost of sales		3,920,766			3,920,766
Gross profit		372,046	14,700	(14,700)	372,046
Operating expenses:					
Selling, general and administrative	1,299	290,400	310	(14,700)	277,309
Depreciation and amortization		10,567	3,226		13,793
Total operating expenses	1,299	300,967	3,536	(14,700)	291,102
Operating income (loss)	(1,299)	71,079	11,164		80,944
Non-operating expenses:					
Interest expense		23,511	7,695		31,206
Other expense, net		168	(110)		58
Income before provision for (benefit from) income taxes	(1,299)	47,400	3,579		49,680
Provision for (benefit from) income taxes	(507)	18,725	1,397		19,615

Edgar Filing: BlueLinx Holdings Inc. - Form 10-Q

Equity in income (loss) of subsidiaries	30,857			(30,857)	
Net income (loss)	\$ 30,065	\$ 28,675	\$ 2,182	\$ (30,857)	\$ 30,065

**Table of Contents**

The condensed consolidating balance sheet for BlueLinx Holdings Inc. as of September 30, 2006 follows (in thousands):

	<b>BlueLinx Holdings Inc.</b>	<b>BlueLinx Corporation</b>	<b>LLC Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Assets:					
Current assets:					
Cash	\$	\$ 24,166	\$ 16	\$	\$ 24,182
Receivables		435,052			435,052
Inventories		471,229			471,229
Deferred income taxes		8,283		(79)	8,204
Other current assets	221	49,189		(2,506)	46,904
Intercompany receivable	444		2,510	(2,954)	
Total current assets	665	987,919	2,526	(5,539)	985,571
Property, plant and equipment:					
Land and land improvements		2,760	54,219		56,979
Buildings		5,944	89,347		95,291
Machinery and equipment		61,362			61,362
Construction in progress		1,506			1,506
Property, plant and equipment, at cost		71,572	143,566		215,138
Accumulated depreciation		(24,434)	(10,171)		(34,605)
Property, plant and equipment, net		47,138	133,395		180,533
Investment in subsidiaries	196,820			(196,820)	
Deferred income taxes		1,485		(1,485)	
Other non-current assets		22,316	6,096		28,412
Total assets	\$ 197,485	\$ 1,058,858	\$ 142,017	\$ (203,844)	\$ 1,194,516
Liabilities :					
Current liabilities:					
Accounts payable	\$ 50	\$ 252,312	\$ 2,595	\$ (2,506)	\$ 252,451
Bank overdrafts		68,569			68,569
Accrued compensation		12,679			12,679
Current maturities of long-term debt		71,008			71,008
Deferred income taxes	79			(79)	
Other current liabilities		13,939	958		14,897
Intercompany payable		2,510	444	(2,954)	
Total current liabilities	129	421,017	3,997	(5,539)	419,604

Edgar Filing: BlueLinx Holdings Inc. - Form 10-Q

Non-current liabilities :					
Long-term debt		266,500	295,000		561,500
Deferred income taxes			2,726	(1,485)	1,241
Other long-term liabilities		14,815			14,815
Total liabilities	129	702,332	301,723	(7,024)	997,160
Shareholders' Equity/Parents					
Investment	197,356	356,526	(159,706)	(196,820)	197,356
Total liabilities and equity	\$ 197,485	\$ 1,058,858	\$ 142,017	\$ (203,844)	\$ 1,194,516

**Table of Contents**

The condensed consolidating balance sheet for BlueLinx Holdings Inc. as of December 31, 2005 follows (in thousands):

	<b>BlueLinx Holdings Inc.</b>	<b>BlueLinx Corporation</b>	<b>LLC Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Assets:					
Current assets:					
Cash	\$ 13	\$ 24,307	\$	\$	\$ 24,320
Receivables		399,093			399,093
Inventories		473,068			473,068
Deferred income taxes		7,069		(391)	6,678
Other current assets	1,003	43,906			44,909
Intercompany receivable	683	1,578		(2,261)	
Total current assets	1,699	949,021		(2,652)	948,068
Property, plant and equipment:					
Land and land improvements		2,360	54,161		56,521
Buildings		4,034	89,347		93,381
Machinery and equipment		54,200			54,200
Construction in progress		2,350			2,350
Property, plant and equipment, at cost		62,944	143,508		206,452
Accumulated depreciation		(15,405)	(6,998)		(22,403)
Property, plant and equipment, net		47,539	136,510		184,049
Investment in subsidiaries	184,177			(184,177)	
Deferred income taxes		1,311		(1,311)	
Other non-current assets		21,532	3,991		25,523
Total assets	\$ 185,876	\$ 1,019,403	\$ 140,501	\$ (188,140)	\$ 1,157,640
Liabilities:					
Current liabilities:					
Accounts payable	\$ 55	\$ 326,949	\$	\$	\$ 327,004
Bank overdrafts		62,392			62,392
Accrued compensation		13,494			13,494
Current maturities of long-term debt					
Deferred income taxes	391			(391)	
Other current liabilities		12,835	2,360		15,195
Intercompany payable	1,578		683	(2,261)	
Total current liabilities	2,024	415,670	3,043	(2,652)	418,085

Edgar Filing: BlueLinx Holdings Inc. - Form 10-Q

Non-current liabilities:					
Long-term debt		375,850	165,000		540,850
Deferred income taxes			3,222	(1,311)	1,911
Other long-term liabilities		12,117	825		12,942
Total liabilities	2,024	803,637	172,090	(3,963)	973,788
Shareholders' Equity/Parents					
Investment	183,852	215,766	(31,589)	(184,177)	183,852
Total liabilities and equity	\$ 185,876	\$ 1,019,403	\$ 140,501	\$ (188,140)	\$ 1,157,640

**Table of Contents**

The condensed consolidating statement of cash flows for BlueLinx Holdings Inc. for the period from January 1, 2006 to September 30, 2006 follows (in thousands):

	<b>BlueLinx Holdings Inc.</b>	<b>BlueLinx Corporation</b>	<b>LLC Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Cash flows from operating activities:</b>					
Net income (loss)	\$ 21,697	\$ 23,854	\$ (1,462)	\$ (22,392)	\$ 21,697
Adjustments to reconcile net income (loss) to cash provided by (used in) operations:					
Depreciation and amortization		12,150	3,173		15,323
Amortization of debt issue costs		1,441	577		2,018
Write-off of unamortized debt financing costs			4,864		4,864
Deferred income tax benefit	(312)	(1,068)	(496)		(1,876)
Stock-based compensation	48	2,161			2,209
Equity in earnings of subsidiaries	(22,392)			22,392	
Changes in assets and liabilities:					
Receivables		(33,396)			(33,396)
Inventories		5,961			5,961
Accounts payable	(5)	(75,043)	2,595	(2,506)	(74,959)
Changes in other working capital	782	(5,254)	(1,402)	2,506	(3,368)
Intercompany receivable	239	1,578	(2,510)	693	
Intercompany payable	(1,578)	2,510	(239)	(693)	
Other		(2,551)	314		(2,237)
Net cash provided by (used in) operating activities	(1,521)	(67,657)	5,414		(63,764)
<b>Cash flows from investing activities:</b>					
Investment in subsidiaries	10,419			(10,419)	
Acquisitions, net of cash acquired		(9,353)			(9,353)
Property, plant and equipment investments		(7,267)			(7,267)
Proceeds from sale of assets		465			465
Net cash provided by (used in) investing activities	10,419	(16,155)		(10,419)	(16,155)
<b>Cash flows from financing activities:</b>					

Edgar Filing: BlueLinx Holdings Inc. - Form 10-Q

Net transactions with Parent		116,236	(126,655)	10,419	
Proceeds from stock options exercised	1,744				1,744
Excess tax benefits from stock-based compensation	882				882
Net decrease in revolving credit facility		(38,342)			(38,342)
Proceeds from new mortgage			295,000		295,000
Debt financing costs		(400)	(6,268)		(6,668)
Retirement of old mortgage			(165,000)		(165,000)
Prepayment fees associated with new mortgage			(2,475)		(2,475)
Increase in bank overdrafts		6,177			6,177
Common dividends paid	(11,537)				(11,537)
Net cash provided by (used in) financing activities	(8,911)	83,671	(5,398)	10,419	79,781
Increase (decrease) in cash	(13)	(141)	16		(138)
Balance, beginning of period	13	24,307			24,320
Balance, end of period	\$	\$ 24,166	\$ 16	\$	\$ 24,182

**Table of Contents**

The condensed consolidating statement of cash flows for BlueLinx Holdings Inc. for the period from January 2, 2005 to October 1, 2005 follows (in thousands):

	<b>BlueLinx Holdings Inc.</b>	<b>BlueLinx Corporation</b>	<b>LLC Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Cash flows from operating activities:</b>					
Net income	\$ 30,065	\$ 28,675	\$ 2,182	\$ (30,857)	\$ 30,065
Adjustments to reconcile net income (loss) to cash provided by (used in) operations:					
Depreciation and amortization		10,567	3,226		13,793
Amortization of debt issue costs		2,021	683		2,704
Deferred income tax benefit		(292)	(735)		(1,027)
Stock-based compensation		1,701			1,701
Equity in earnings of subsidiaries	(30,857)			30,857	
Changes in assets and liabilities:					
Receivables		(158,401)			(158,401)
Inventories		91,976			91,976
Accounts payable	(1,070)	55,555			54,485
Changes in other working capital	990	(13,372)	1,471		(10,911)
Intercompany receivable	(340)	4,012	1,653	(5,325)	
Intercompany payable	(4,012)	(1,653)	340	5,325	
Other	4	3,007	987		3,998
Net cash provided by (used in) operating activities	(5,220)	23,796	9,807		28,383
<b>Cash flows from investing activities:</b>					
Investment in subsidiaries	7,795			(7,795)	
Acquisitions, net of cash acquired		(17,021)			(17,021)
Property, plant and equipment investments		(10,034)			(10,034)
Proceeds from sale of assets		814			814
Net cash used in investing activities	7,795	(26,241)		(7,795)	(26,241)
<b>Cash flows from financing activities:</b>					
Net transactions with Parent		2,012	(9,807)	7,795	
Issuance of common stock, net	8,541				8,541

Edgar Filing: BlueLinx Holdings Inc. - Form 10-Q

Proceeds from stock option exercises	151				151
Excess tax benefits from stock option exercises	49				49
Net increase in revolving credit facility		1,834			1,834
Debt financing costs		(570)			(570)
Increase in bank overdrafts		11,920			11,920
Common dividends paid	(11,319)				(11,319)
Net cash provided by (used in) financing activities	(2,578)	15,196	(9,807)	7,795	10,606
Increase (decrease) in cash	(3)	12,751			12,748
Balance, beginning of period	3	15,569			15,572
Balance, end of period	\$	\$ 28,320	\$	\$	\$ 28,320

21

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) has been derived from our historical financial statements and is intended to provide information to assist you in better understanding and evaluating our financial condition and results of operations. We recommend that you read this MD&A section in conjunction with our condensed financial statements and notes to those statements included in Item 1 of this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the year ended December 31, 2005 as filed with the U.S. Securities and Exchange Commission (the SEC ). This MD&A section is not a comprehensive discussion and analysis of our financial condition and results of operations, but rather updates disclosures made in the aforementioned filing. The discussion below contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words believe, anticipate, expect, estimate, intend, project, plan, will be, will likely continue, words or phrases of similar meaning. All of these forward-looking statements are based on estimates and assumptions made by our management that, although believed by us to be reasonable, are inherently uncertain. Forward-looking statements involve risks and uncertainties, including, but not limited to, economic, competitive, governmental and technological factors outside of our control, that may cause our business, strategy or actual results to differ materially from the forward-looking statements. These risks and uncertainties may include those discussed under the heading Factors Affecting Future Results in our Annual Report on Form 10-K for the year ended December 31, 2005 as filed with the SEC and other factors, some of which may not be known to us. We operate in a changing environment in which new risks can emerge from time to time. It is not possible for management to predict all of these risks, nor can it assess the extent to which any factor, or a combination of factors, may cause our business, strategy or actual results to differ materially from those contained in forward-looking statements. Factors you should consider that could cause these differences include, among other things:

changes in the prices, supply and/or demand for products which we distribute;

the activities of competitors;

changes in significant operating expenses;

changes in the availability of capital;

our ability to identify acquisition opportunities and effectively and cost-efficiently integrate acquisitions;

general economic and business conditions in the United States;

adverse weather patterns or conditions;

acts of war or terrorist activities;

variations in the performance of the financial markets; and

the other factors described herein under Factors Affecting Future Results in our Annual Report on Form 10-K for the year ended December 31, 2005 as filed with the SEC.

Given these risks and uncertainties, we caution you not to place undue reliance on forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as required by law.

**Overview**

***Background***

We are a leading distributor of building products in the United States. We distribute approximately 10,000 products to more than 12,000 customers through our network of more than 70 warehouses and third-party operated warehouses which serve all major metropolitan

**Table of Contents**

markets in the United States. We distribute products in two principal categories: structural products and specialty products. Structural products include plywood, oriented strand board ( OSB ), rebar and remesh, lumber and other wood products primarily used for structural support, walls and flooring in construction projects. Structural products represented approximately 55% of our third quarter of fiscal 2006 gross sales. Specialty products include roofing, insulation, moulding, engineered wood, vinyl products (used primarily in siding) and metal products (excluding rebar and remesh). Specialty products accounted for approximately 45% of our third quarter of fiscal 2006 gross sales.

**Recent Developments**

On October 31, 2006, our Board of Directors declared a quarterly dividend of \$0.125 per share on our common stock. The dividend is payable on December 29, 2006 to stockholders of record as of December 15, 2006.

On October 31, 2006, David Morris announced his decision to resign from his position as Chief Financial Officer and Treasurer on or about December 31, 2006. Mr. Morris will continue to serve as our Chief Financial Officer until his departure. We have retained the services of an executive recruiting firm and a search for a new chief financial officer is underway.

**Supply Agreement with Georgia-Pacific**

On May 7, 2004, we entered into a multi-year supply agreement with Georgia-Pacific. Under the agreement, we have exclusive distribution rights on certain products and certain customer segments. Georgia-Pacific is our largest vendor, with Georgia-Pacific products representing approximately 28% of our purchases during fiscal 2005.

**Selected Factors Affecting Our Operating Results**

Our operating results are affected by housing starts, mobile home production, industrial production, repair and remodeling spending and non-residential construction. Our operating results are also impacted by changes in product prices. Structural product prices can vary significantly based on short-term and long-term changes in supply and demand. The prices of specialty products can also vary from time to time, although they are generally significantly less variable than structural products.

The following table sets forth changes in net sales by product category, sales variances due to changes in unit volume and dollar and percentage changes in unit volume and price versus comparable prior periods, in each case for the third quarter of fiscal 2006, the third quarter of fiscal 2005, the first nine months of fiscal 2006, the first nine months of fiscal 2005, fiscal 2005 and fiscal 2004 (the 2004 financial results reflect the combined results of BlueLinx Holdings Inc. and the Distribution Division for the applicable period).

	<b>Fiscal Q3 2006</b>	<b>Fiscal Q3 2005</b>	<b>Fiscal 2006 YTD (Dollars in millions) (Unaudited)</b>	<b>Fiscal 2005 YTD</b>	<b>Fiscal 2005</b>	<b>Fiscal 2004</b>
<i>Sales by Category</i>						
Structural Products(1)	\$ 667	\$ 910	\$ 2,279	\$ 2,733	\$ 3,548	\$ 3,656
Specialty Products(1)	554	560	1,737	1,603	2,143	1,960
Unallocated Allowances and Adjustments	(17)	(16)	(57)	(43)	(69)	(58)
<b>Total Sales</b>	<b>\$ 1,204</b>	<b>\$ 1,454</b>	<b>\$ 3,959</b>	<b>\$ 4,293</b>	<b>\$ 5,622</b>	<b>\$ 5,558</b>
<i>Sales Variances</i>						
Unit Volume \$ Change	\$ (176)	\$ 39	\$ (166)	\$ 154	\$ 216	\$ 351
Price/Other(2)	(74)	(95)	(168)	(212)	(152)	935
<b>Total \$ Change</b>	<b>\$ (250)</b>	<b>\$ (56)</b>	<b>\$ (334)</b>	<b>\$ (58)</b>	<b>\$ 64</b>	<b>\$ 1,286</b>
Unit Volume % Change	(12.0)%	2.6%	(3.8)%	3.5%	3.9%	8.2%

Edgar Filing: BlueLinx Holdings Inc. - Form 10-Q

Price/Other(2)	(5.2)%	(6.3)%	(4.0)%	(4.8)%	(2.8)%	21.9%
Total % Change	(17.2)%	(3.7)%	(7.8)%	(1.3)%	1.1%	30.1%

(1) For the quarter ended December 31, 2005, we began classifying metal rebar and remesh as structural product instead of specialty product. Fiscal 2005 and 2004 Sales by Category have been adjusted to reclassify sales of rebar/remesh from Specialty Products sales to Structural Products sales. This reclassification has no impact on Total Sales.

(2) Other includes unallocated allowances and discounts.

**Table of Contents**

The following table sets forth changes in gross margin dollars and percentages by product category, and percentage changes in unit volume growth by product, in each case for the third quarter of fiscal 2006, the third quarter of fiscal 2005, the first nine months of fiscal 2006, the first nine months of fiscal 2005, fiscal 2005 and fiscal 2004 (the 2004 financial results reflect the combined results of BlueLinx Holdings Inc. and the Distribution Division for the applicable period).

	<b>Fiscal Q3 2006</b>	<b>Fiscal Q3 2005</b>	<b>Fiscal 2006 YTD (Dollars in millions) (Unaudited)</b>	<b>Fiscal 2005 YTD</b>	<b>Fiscal 2005</b>	<b>Fiscal 2004</b>
<i>Gross Margin \$ s by Category</i>						
Structural Products(1)	\$ 47	\$ 67	\$ 158	\$ 178	\$ 246	\$ 310
Specialty Products(1)	77	74	245	207	284	280
Other (2)	(3)	(4)	(16)	(13)	(18)	(29)
Total Gross Margin \$ s	\$ 121	\$ 137	\$ 387	\$ 372	\$ 512	\$ 561
<i>Gross Margin % s by Category</i>						
Structural Products	7.0%	7.3%	6.9%	6.5%	6.9%	8.5%
Specialty Products	14.0%	13.3%	14.1%	12.9%	13.3%	14.3%
Other (2)	NA	NA	NA	NA	NA	NA
Total Gross Margin % s	10.0%	9.4%	9.8%	8.7%	9.1%	10.1%
<i>Unit Volume Growth by Product</i>						
Structural Products	(17.0)%	0.9%	(9.9)%	5.1%	3.2%	8.6%
Specialty Products	(3.9)%	5.8%	6.5%	1.2%	5.1%	7.6%
Total Unit Volume Growth % s	(12.0)%	2.6%	(3.8)%	3.5%	3.9%	8.2%

(1) For the quarter ended December 31, 2005, we began classifying metal rebar and remesh as structural product instead of specialty product. Fiscal 2005 and 2004 Sales by

Category have been adjusted to reclassify sales of rebar/remesh from Specialty Products sales to Structural Products sales. This reclassification has no impact on Total Sales.

- (2) Other includes unallocated allowances and discounts.

The following table sets forth changes in net sales and gross margin by channel and percentage changes in gross margin by channel, in each case for the third quarter of fiscal 2006, the third quarter of fiscal 2005, the first nine months of fiscal 2006, the first nine months of fiscal 2005, fiscal 2005 and fiscal 2004 (the 2004 financial results reflect the combined results of BlueLinx Holdings Inc. and the Distribution Division for the applicable period).

	<b>Fiscal Q3 2006</b>	<b>Fiscal Q3 2005</b>	<b>Fiscal 2006 YTD (Dollars in millions) (Unaudited)</b>	<b>Fiscal 2005 YTD</b>	<b>Fiscal 2005</b>	<b>Fiscal 2004</b>
<i>Sales by Channel</i>						
Warehouse/Reload	\$ 841	\$ 981	\$ 2,641	\$ 2,838	\$ 3,704	\$ 3,819
Direct	380	489	1,375	1,498	1,987	1,797
Unallocated Allowances and Adjustments	(17)	(16)	(57)	(43)	(69)	(58)
<b>Total</b>	<b>\$ 1,204</b>	<b>\$ 1,454</b>	<b>\$ 3,959</b>	<b>\$ 4,293</b>	<b>\$ 5,622</b>	<b>\$ 5,558</b>
<i>Gross Margin by Channel</i>						
Warehouse/Reload	\$ 100	\$ 116	\$ 326	\$ 314	\$ 429	\$ 489
Direct	24	25	77	71	101	101
Unallocated Allowances and Adjustments	(3)	(4)	(16)	(13)	(18)	(29)
<b>Total</b>	<b>\$ 121</b>	<b>\$ 137</b>	<b>\$ 387</b>	<b>\$ 372</b>	<b>\$ 512</b>	<b>\$ 561</b>
	<b>Fiscal Q2 2006</b>	<b>Fiscal Q2 2005</b>	<b>Fiscal 2006 YTD (Dollars in millions) (Unaudited)</b>	<b>Fiscal 2005 YTD</b>	<b>Fiscal 2005</b>	<b>Fiscal 2004</b>
<i>Gross Margin % by Channel</i>						

Edgar Filing: BlueLinx Holdings Inc. - Form 10-Q

Warehouse/Reload	11.9%	11.8%	12.3%	11.1%	11.6%	12.8%
Direct	6.3%	5.1%	5.6%	4.7%	5.1%	5.6%
Unallocated Allowances and Adjustments	(0.2)%	(0.3)%	(0.4)%	(0.3)%	(0.3)%	(0.5)%
Total	10.0%	9.4%	9.8%	8.7%	9.1%	10.1%

**Table of Contents****Fiscal Year**

Our fiscal year is a 52- or 53-week period ending on the Saturday closest to the end of the calendar year. Fiscal years 2005 and 2004 contain 52 weeks.

**Results of Operations****Third Quarter of Fiscal 2006 Compared to Third Quarter of Fiscal 2005**

The following table sets forth our results of operations for the third quarter of fiscal 2006 and third quarter of fiscal 2005.

	Period from July 2, 2006 to September 30, 2006 (Unaudited)	% of Net Sales	Period from July 3, 2005 to October 1, 2005 (Unaudited)	% of Net Sales
<b>(Dollars in thousands)</b>				
Net sales	\$ 1,203,578	100.0%	\$ 1,454,217	100.0%
Gross profit	120,906	10.0%	137,037	9.4%
Selling, general & administrative	99,615	8.3%	97,926	6.7%
Depreciation and amortization	5,217	0.4%	4,993	0.3%
Operating income	16,074	1.3%	34,118	2.3%
Interest expense	12,046	1.0%	11,216	0.8%
Other expense, net	(29)	0.0%	(295)	0.0%
Income before provision for income taxes	4,057	0.3%	23,197	1.6%
Income tax provision	1,765	0.1%	9,301	0.6%
Net income	\$ 2,292	0.2%	\$ 13,896	1.0%

*Net Sales.* For the third quarter of fiscal 2006, net sales decreased by 17.2%, or \$251 million, to \$1.2 billion. Sales during the quarter were negatively impacted by a 19% decline in housing starts. New home construction represents approximately 50% of our end-use markets; our other end-use markets grew slightly. Specialty sales, primarily consisting of roofing, specialty panels, insulation, moulding, engineered wood products, vinyl siding, composite decking and metal products (excluding rebar and remesh) decreased by \$6.4 million or 1.1% compared to the third quarter of fiscal 2005, reflecting a 3.9% decline in unit volume, partially offset by higher product prices. Structural sales, including plywood, OSB, lumber and metal rebar, decreased by \$244 million, or 26.8% from a year ago, primarily as a result of a decrease in unit volume of 17.0%. A decline in structural product prices also contributed to the overall decline in our structural sales.

*Gross Profit.* Gross profit for the third quarter of fiscal 2006 was \$121 million, or 10.0% of sales, compared to \$137 million, or 9.4% of sales, in the prior year period. The decrease in gross profit dollars compared to the third quarter of fiscal 2005 was driven primarily by decreases in structural product prices and a slowdown in the housing market. Gross margin increased by 0.6% to 10.0%, reflecting growth in higher-margin specialty products and effective management of structural product inventory in a declining price environment for wood-based structural products.

*Selling, general, and administrative.* Operating expenses for the third quarter of fiscal 2006 were \$99.6 million, or 8.3% of net sales, compared to \$97.9 million, or 6.7% of net sales, during the third quarter of fiscal 2005. Excluding expenses associated with acquired operations, operating expenses for the third quarter of fiscal 2006 were approximately \$99.1 million. The increase in operating expenses was primarily the result of higher payroll-related costs which included a \$2.3 million charge related to severance costs associated with headcount reductions during the

third quarter of fiscal 2006.

*Depreciation and Amortization.* Depreciation and amortization expense totaled \$5.2 million for the third quarter of fiscal 2006, compared with \$5.0 million for the third quarter of fiscal 2005.

*Operating Income.* Operating income for the third quarter of fiscal 2006 was \$16.1 million, or 1.3% of sales, versus \$34.1 million, or 2.3% of sales, in the third quarter of fiscal 2005, reflecting a decrease in gross profit and higher variable operating expenses.

*Interest Expense, net.* Interest expense totaled \$12.0 million, up \$0.8 million from the prior year reflecting higher interest rates partially offset by lower debt levels. Interest expense related to our revolving credit facility and new mortgage was \$6.6 million and

**Table of Contents**

\$4.7 million, respectively, during this period. Interest expense totaled \$11.2 million for the third quarter of fiscal 2005. Interest expense related to our revolving credit facility and mortgage was \$8.0 million and \$2.4 million, respectively, for this period. In addition, interest expense included \$0.7 million and \$0.8 million of debt issue cost amortization for the third quarter of fiscal 2006 and for the third quarter of fiscal 2005, respectively.

*Provision for Income Taxes.* The effective tax rate was 43.5% and 40.1% for the third quarter of fiscal 2006 and the third quarter of fiscal 2005, respectively. The increase in the effective tax rate resulted from the greater impact of permanent differences, such as meals and entertainment, on the lower third quarter fiscal 2006 earnings.

*Net Income.* Net income for the third quarter of fiscal 2006 was \$2.3 million compared to net income of \$13.9 million for the third quarter of fiscal 2005.

On a per-share basis, basic and diluted income applicable to common stockholders for the third quarter of fiscal 2006 were each \$0.07. Basic and diluted earnings per share for the third quarter of 2005 were each \$0.46.

**Year to Date Fiscal 2006 Compared to Year to Date Fiscal 2005**

The following table sets forth our results of operations for the first nine months of fiscal 2006 and the first nine months of fiscal 2005.

	<b>Period from January 1, 2006 to September 30, 2006 (Unaudited)</b>	<b>% of Net Sales</b>	<b>Period from January 2, 2005 to October 1, 2005 (Unaudited)</b>	<b>% of Net Sales</b>
<b>(Dollars in thousands)</b>				
Net sales	\$ 3,959,134	100.0%	\$ 4,292,812	100.0%
Gross profit	387,301	9.8%	372,046	8.7%
Selling, general & administrative	295,004	7.5%	277,309	6.5%
Depreciation and amortization	15,323	0.4%	13,793	0.3%
Operating income	76,974	1.9%	80,944	1.9%
Interest expense	35,505	0.9%	31,206	0.7%
Charges associated with mortgage refinancing	4,864	0.1%		0.0%
Other expense, net	(17)	0.0%	58	0.0%
Income before provision for income taxes	36,622	0.9%	49,680	1.2%
Income tax provision	14,925	0.4%	19,615	0.5%
Net income	\$ 21,697	0.5%	\$ 30,065	0.7%

*Net Sales.* For the first nine months of fiscal 2006, net sales decreased by 7.8%, or \$334 million, to \$4.0 billion. The decrease of \$334 million was caused primarily by price decreases amounting to \$168 million and structural product unit volume decreases of \$270 million. These decreases were partially offset by specialty product unit volume increases of \$104 million. Structural product sales fell 16.6% during the nine months, to \$2.3 billion, while sales for specialty products increased 8.3%, to \$1.7 billion.

*Gross Profit.* Gross profit for the first nine months of fiscal 2006 was \$387 million compared to \$372 million in the prior year period. The increase in gross profit of \$15.3 million or 4.1% compared to the first nine months of fiscal 2005 was driven primarily by an increase in specialty product margins from 12.9% in the first nine months of fiscal 2005 to 14.1% in the first nine months of fiscal 2006. In addition, structural product margins increased to 6.9% from

6.5% in the same period a year ago.

*Selling, general, and administrative.* Selling, general and administrative expenses for the first nine months of fiscal 2006 were \$295 million, or 7.5% of net sales, compared to \$277 million, or 6.5% of net sales, during the first nine months of fiscal 2005. Excluding expenses associated with acquired operations, operating expenses for the first nine months of fiscal 2006 and for the first nine months of fiscal 2005 were \$283 million and \$274 million, respectively. The increase in operating expenses was primarily the result of higher payroll related costs and increased fuel costs.

*Depreciation and Amortization.* Depreciation and amortization expense totaled \$15.3 million for the first nine months of fiscal 2006, while depreciation and amortization expense totaled \$13.8 million for the first nine months of fiscal 2005.

## **Table of Contents**

*Operating Income.* Operating income for the first nine months of fiscal 2006 was \$77.0 million, or 1.9% of sales, versus \$80.9 million, or 1.9% of sales, in the first nine months of fiscal 2005, as a result of higher variable operating expenses, partially offset by an increase in gross profit.

*Interest Expense.* Interest expense totaled \$35.5 million for the first nine months of fiscal 2006, which includes debt issue cost amortization of \$2.0 million. Interest expense related to our revolving credit facility, old mortgage and new mortgage was \$22.5 million, \$5.0 million and \$6.0 million, respectively. Interest expense totaled \$31.2 million for the first nine months of fiscal 2005. Interest expense related to our revolving credit facility and mortgage was \$21.8 million and \$6.6 million, respectively, for this period. Interest expense included \$2.8 million of debt issue cost amortization from a year ago.

Additionally, the first nine months of fiscal 2006 included charges of \$4.9 million associated with the mortgage refinancing, which includes unamortized debt financing costs of \$3.2 million.

*Provision for Income Taxes.* The effective tax rate was 40.8% and 39.5% for the first nine months of fiscal 2006 and the first nine months of fiscal 2005, respectively. The increase in the effective tax rate is due to the fact that during the second quarter of fiscal 2005, the State of Georgia approved us for a tax credit of \$515,000 related to the 2004 tax year. Without this credit, the effective tax rate would have been 40.5%.

*Net Income.* Net income for the first nine months of fiscal 2006 was \$21.7 million compared to net income of \$30.1 million for the first nine months of fiscal 2005.

On a per-share basis, basic and diluted income applicable to common stockholders for the first nine months of fiscal 2006 were each \$0.71. Basic and diluted earnings per share for the first nine months of 2005 were \$1.00 and \$0.99, respectively.

### **Seasonality**

We are exposed to fluctuations in quarterly sales volumes and expenses due to seasonal factors. These seasonal factors are common in the building products distribution industry. The first and fourth quarters are typically our slowest quarters due primarily to the impact of poor weather on the construction market. Our second and third quarters are typically our strongest quarters, reflecting a substantial increase in construction due to more favorable weather conditions. Our working capital and accounts receivable and payable generally peak in the third quarter, while inventory generally peaks in the second quarter in anticipation of the summer building season. We expect these trends to continue for the foreseeable future.

### **Liquidity and Capital Resources**

We depend on cash flow from operations and funds available under our revolving credit facility to finance working capital needs, capital expenditures, dividends and acquisitions. We believe that the amounts available from this and other sources will be sufficient to fund our routine operations and capital requirements for the foreseeable future.

Part of our growth strategy is to selectively pursue acquisitions. Accordingly, depending on the nature of the acquisition or currency, we may use cash or stock, or a combination of both, as acquisition currency. Our cash requirements may significantly increase and incremental cash expenditures will be required in connection with the integration of the acquired company's business and to pay fees and expenses in connection with acquisitions. To the extent that significant amounts of cash are expended in connection with acquisitions, our liquidity position may be adversely impacted. In addition, there can be no assurance that we will be successful in implementing our acquisition strategy. For a discussion of the risks associated with our acquisition strategy, see the risk factor on integrating acquisitions in our Annual Report on Form 10-K.

**Table of Contents**

The following tables indicate our working capital and cash flows for the periods indicated.

	<b>September 30, 2006 (Dollars in thousands) (Unaudited)</b>	<b>December 31, 2005</b>
Working capital	\$565,967	\$529,983
	<b>Period from January 1, 2006 to September 30, 2006 (Dollars in thousands) (Unaudited)</b>	<b>Period from January 2, 2005 to October 1, 2005</b>
Cash flows used for operating activities	\$(63,764)	\$ 28,383
Cash flows used for investing activities	(16,155)	(26,241)
Cash flows provided by financing activities	\$ 79,781	\$ 10,606

**Working Capital**

Working capital increased by \$36.0 million to \$566 million at September 30, 2006, primarily as a result of increases in accounts receivable of \$36.0 million and a decrease in accounts payable of \$74.6 million. These working capital increases were partially offset by an increase in current maturities of long-term debt of \$71.0 million. Additionally, cash decreased from \$24.3 million on December 31, 2005 to \$24.2 million at September 30, 2006. The \$24.2 million of cash on our balance sheet at September 30, 2006 primarily reflects customer remittances received in our lock boxes on Friday and Saturday that are not available until Monday, which is part of the following fiscal period.

**Operating Activities**

During the first nine months of fiscal 2006 and fiscal 2005, cash flows provided by (used in) operating activities totaled \$(63.8) million and \$28.4 million, respectively. The increase of \$92.1 million in cash flows used in operating activities was primarily the result of a higher use of cash related to changes in working capital of \$106 million for the first nine months of fiscal 2006 compared to \$22.9 million for the first nine months of fiscal 2005. Additionally, this increased use of cash was caused by a \$4.6 million decline in net income, as adjusted, from \$47.2 million to \$42.6 million. Adjustments included depreciation and amortization, debt issue cost amortization, charges associated with mortgage refinancing costs, deferred income tax benefit and stock-based compensation.

**Investing Activities**

During the first nine months of fiscal 2006 and fiscal 2005, cash flows used in investing activities totaled \$16.2 million and \$26.2 million, respectively.

On August 7, 2006, we completed the acquisition of the Texas-based hardwood lumber distribution company, Austin Hardwoods, LTD.

On July 22, 2005, we completed the acquisition of California-based hardwood lumber company Lane Stanton Vance, formerly a unit of privately-held Hampton Distribution Companies.

During the first nine months of fiscal 2006 and fiscal 2005, our expenditures for property and equipment were \$7.3 million and \$10.0 million, respectively. These expenditures were primarily for warehouse operating activities.

Proceeds from the sale of property and equipment totaled \$0.5 million and \$0.8 million for the first nine months of fiscal 2006 and fiscal 2005, respectively.

**Table of Contents*****Financing Activities***

Net cash provided by financing activities was \$79.8 million during the first nine months of fiscal 2006 compared to \$10.6 million during the first nine months of fiscal 2005. The \$69.1 million increase in cash provided by financing activities was primarily driven by proceeds from the new mortgage and stock option exercises, in the amount of \$295 million and \$1.6 million, respectively. These increases were partially offset by the retirement of the old mortgage of \$165 million and an increase in debt financing costs of \$6.1 million. In addition, there were decreases in the revolving credit facility, common stock issuances and bank overdrafts of \$40.1 million, \$8.5 million and \$5.7 million, respectively. Prepayment fees associated with the old mortgage in the first nine months of fiscal 2006 totaled \$2.5 million.

We paid dividends to our common stockholders in the aggregate amount of \$11.5 million and \$11.3 million in the first nine months of fiscal 2006 and the first nine months of fiscal 2005, respectively.

***Debt and Credit Sources***

On May 7, 2004, our operating subsidiary entered into a revolving credit facility. As of September 30, 2006, advances outstanding under the revolving credit facility were approximately \$338 million. Borrowing availability was approximately \$303 million and outstanding letters of credit on this facility were approximately \$11.0 million. As of September 30, 2006, the interest rate on outstanding balances under the revolving credit facility was 6.66%. For the third quarter and first nine months of fiscal 2006, interest expense related to the revolving credit facility was \$6.6 million and \$22.5 million, respectively. For the third quarter and first nine months of fiscal 2005, interest expense related to the revolving credit facility was \$8.0 million and \$21.8 million, respectively.

On August 4, 2006, we reached an agreement with Wachovia Bank, National Association and the other signatories thereto to amend the terms of our existing revolving credit agreement. The Amended and Restated Loan and Security Agreement dated August 4, 2006, added certain of our operating company's subsidiaries and affiliates to the credit agreement as borrowers and/or guarantors and also allows us to form future subsidiaries, if necessary, for structuring potential future acquisitions.

On June 9, 2006, certain special purpose entities that are wholly-owned subsidiaries of ours entered into a \$295 million new mortgage loan with the German American Capital Corporation. The new mortgage has a term of ten years and is secured by 57 distribution facilities and 1 office building owned by the special purpose entities. The stated interest rate on the new mortgage is fixed at 6.35%. German American Capital Corporation assigned half of its interest in the new mortgage loan to Wachovia Bank, National Association.

On June 12, 2006, we entered into an interest rate swap agreement with Goldman Sachs Capital Markets (GSCM), to hedge against interest rate risks related to our variable rate revolving credit facility. The interest rate swap has a notional amount of \$150 million and the terms call for us to receive interest monthly at a variable rate equal to the 30-day LIBOR and to pay interest monthly at a fixed rate of 5.4%. This interest rate swap is designated as a cash flow hedge.

We expect the hedge to be highly effective in offsetting changes in expected cash flows, as, at inception, the critical terms of the interest rate swap generally match the critical terms of the variable rate revolving credit facility. In accordance with the provisions of SFAS 133 *Accounting for Derivative Instruments and Hedging Activities*, we will use the Hypothetical Derivative Method to measure hedge effectiveness. Fluctuations in the fair value of the ineffective portion, if any, of the cash flow hedge will be reflected in the current period earnings. There were no amounts recognized in earnings for the third quarter and first nine months of fiscal 2006.

At September 30, 2006, the fair value of the interest rate swap was a liability of \$2.8 million and was included in Other long-term liabilities on the Condensed Consolidated Balance Sheet. Accumulated other comprehensive income at September 30, 2006 included the net loss on the cash flow hedge (net of tax) of \$1.7 million, which reflects the amount of comprehensive income recognized for the first nine months of fiscal 2006 in connection with the change in fair value of the swap.

***Contractual Obligations***

On June 9, 2006, certain special purpose entities that are wholly-owned subsidiaries of ours entered into a \$295 million new mortgage loan with the German American Capital Corporation. The new mortgage has a term of ten years and is secured by 57 distribution facilities and 1 office building owned by the special purpose entities. The

stated interest rate on the new mortgage is fixed at 6.35%.

**Table of Contents**

The new mortgage loan requires interest-only payments for the first five years followed by level monthly payments of principal and interest based on an amortization period of thirty years. The balance of the loan outstanding at the end of ten years will then become due and payable. The principal will be paid in the following increments (in thousands):

2011	\$ 1,511
2012	3,172
2013	3,437
2014	3,665
2015	3,908
Thereafter	\$279,307

Our existing \$165 million mortgage loan agreement was paid off in full. In connection with the termination of the existing mortgage loan, we incurred charges of \$4.9 million during the second quarter of fiscal 2006.

**Critical Accounting Policies**

Our significant accounting policies are more fully described in the notes to the consolidated financial statements. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. As with all judgments, they are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, current economic trends in the industry, information provided by customers, vendors and other outside sources and management's estimates, as appropriate.

The following are accounting policies that management believes are important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective or complex judgment.

**Revenue Recognition**

We recognize revenue when the following criteria are met: persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, our price to the buyer is fixed and determinable and collectibility is reasonably assured. Delivery is not considered to have occurred until the customer takes title and assumes the risks and rewards of ownership. The timing of revenue recognition is largely dependent on shipping terms. Revenue is recorded at the time of shipment for terms designated as FOB (free on board) shipping point. For sales transactions designated FOB destination, revenue is recorded when the product is delivered to the customer's delivery site.

All sales are recorded at gross in accordance with the guidance outlined by EITF 99-19 and in accordance with standard industry practice. The key indicators used to determine this are as follows:

We are the primary obligor responsible for fulfillment;

We hold title to all reload inventory and are responsible for all product returns;

We control the selling price for all channels;

We select the supplier; and

We bear all credit risk.

All revenues recognized are net of trade allowances, cash discounts and sales returns. Cash discounts and sales returns are estimated using historical experience. Trade allowances are based on the estimated obligations and historical experience. Adjustments to earnings resulting from revisions to estimates on discounts and returns have been insignificant for each of the reported periods.

**Allowance for Doubtful Accounts and Related Reserves**

We evaluate the collectibility of accounts receivable based on numerous factors, including past transaction history with customers and their creditworthiness. We maintain an allowance for doubtful accounts for each aging category on our aged trial balance based on our historical loss experience. This estimate is periodically adjusted when we become aware of specific customers' inability to meet



**Table of Contents**

their financial obligations (e.g., bankruptcy filing or other evidence of liquidity problems). As we determine that specific balances will be ultimately uncollectible, we remove them from our aged trial balance. Additionally, we maintain reserves for cash discounts that we expect customers to earn as well as expected returns. At September 30, 2006 and December 31, 2005 these allowances totaled \$11.5 million and \$10.9 million, respectively. Adjustments to earnings resulting from revisions to estimates on discounts and uncollectible accounts have been insignificant for each of the reported periods.

***Inventories***

Inventories are carried at the lower of cost or market. The cost of all inventories is determined by the moving average cost method. We evaluate our inventory value at the end of each quarter to ensure that first quality, actively moving inventory, when viewed by category, is carried at the lower of cost or market. The market value of our inventory exceeded its cost at September 30, 2006 and December 31, 2005.

Additionally, we maintain a reserve for the estimated value of impairment associated with damaged and inactive inventory. The inactive reserve includes inventory that has had no sales in the past six months or has turn days in excess of 365 days. At September 30, 2006 and December 31, 2005, our damaged and inactive inventory reserves totaled \$4.3 million and \$2.7 million, respectively. Adjustments to earnings resulting from revisions to inactive estimates have been insignificant.

***Consideration Received from Vendors***

Each year, we enter into agreements with many of our vendors providing for purchase rebates, generally based on achievement of specified volume purchasing levels and various marketing allowances that are common industry practice. We accrue for the receipt of vendor rebates based on purchases, and also reduce inventory value to reflect the net acquisition cost (purchase price less expected purchase rebates). At September 30, 2006, and December 31, 2005 the vendor rebate receivable totaled \$9.8 million and \$13.1 million, respectively. Adjustments to earnings resulting from revisions to rebate estimates have been insignificant for each of the reported periods.

***Impairment of Long-Lived Assets***

Long-lived assets, including property and equipment, are reviewed for possible impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. We use internal cash flow estimates, quoted market prices when available and independent appraisals as appropriate to determine fair value. We derive the required cash flow estimates from our historical experience and our internal business plans and apply an appropriate discount rate. If these projected cash flows are less than the carrying amount, an impairment loss is recognized based on the fair value of the asset less any costs of disposition. Our judgment regarding the existence of impairment indicators is based on market and operational performance. There have been no adjustments to earnings resulting from the impairment of long-lived assets for each of the reported periods.

***Recently Issued Accounting Pronouncements***

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which requires a company that sponsors one or more single-employer defined benefit pension and other postretirement benefit plans (benefit plans) to recognize in its balance sheet the funded status of a benefit plan, which is the difference between the fair value of plan assets and the benefit obligation, as a net asset or liability, with an offsetting adjustment to accumulated other comprehensive income in shareholders' equity. FASB Statement No. 158 requires additional financial statement disclosure regarding certain effects on net periodic benefit cost. FASB Statement No. 158 requires prospective application and the recognition and disclosure requirements are effective for fiscal years ending after December 15, 2006. We will adopt FASB Statement No. 158 as of December 31, 2006. We are currently evaluating the potential impact of the adoption of FASB Statement No. 158 on our consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for

**Table of Contents**

financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 157 on our consolidated financial position, results of operations and cash flows.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, which prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return (including a decision whether to file or not to file a return in a particular jurisdiction). The accounting provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. We are in the process of determining the effect, if any, the adoption of FIN 48 will have on our financial statements.

In May 2005, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 154, *Accounting Changes and Error Corrections – a replacement of APB No. 20 and FASB Statement No. 3* ( SFAS No. 154 ). SFAS No. 154 changes the requirements of accounting for and reporting a change in accounting principle and applies to all voluntary changes in accounting principle and changes required by an accounting pronouncement, in the event that the accounting pronouncement does not include specific transition provisions. SFAS No. 154 requires retrospective application of changes in accounting principle to prior periods' financial statements unless it is impracticable. SFAS No. 154 also requires that a change in the method of depreciation, amortization or depletion of long-lived, nonfinancial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. The guidance contained in APB Opinion No. 20, *Accounting Changes for reporting the correction of an error* was carried forward in SFAS No. 154 without change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Effective January 1, 2006, we began following SFAS 154, which did not have an impact on our results of operations.

In December 2004, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 123 (revised 2004), *Share-Based Payment* ( SFAS No. 123R ) which is a revision of SFAS No. 123. SFAS No. 123R supersedes APB No. 25 and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative. SFAS No. 123R is effective for fiscal year 2006.

SFAS No. 123R permits public companies to adopt its requirements using one of two methods:

1. A modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123R for all share-based payments granted after the effective date and (b) based on SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123R that remain unvested on the effective date.

2. A modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures either for (a) all prior periods presented or (b) prior interim periods in the year of adoption.

We adopted SFAS No. 123R using the modified prospective method. The adoption of SFAS No. 123R did not have a material impact on our results of operations.

Compensation expense arising from stock options granted to employees and non-employee directors is recognized as expense using the straight-line method over the vesting period. As of September 30, 2006, there was \$6.6 million, \$1.8 million and \$1.1 million of total unrecognized compensation expense related to stock options, restricted stock and restricted stock units. The unrecognized compensation expense for stock options is expected to be recognized over a period of 3.71 years. For restricted stock and restricted stock units, the unrecognized compensation expense will be recognized over a period of 3.00 years. For the third quarter of fiscal 2006 and for the first nine months of fiscal 2006, our total stock-based compensation expense was \$1.0 million and \$2.2 million, respectively.

During the third quarter of fiscal 2005 and for the first nine months of fiscal 2005, our total stock-based compensation expense was \$0.3 million and \$1.7 million, respectively.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs – an Amendment of ARB No. 43, Chapter 4* ( SFAS No. 151 ), which is the result of the FASB's efforts to converge U.S. accounting standards for inventory with International Accounting



**Table of Contents**

Standards. SFAS No. 151 requires abnormal amounts of idle facility expense, freight, handling costs, and wasted material to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005.

Effective January 1, 2006, we adopted SFAS 151, which did not have an impact on our results of operations.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in market risk from the information provided in Part II, Item 7A Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, other than those discussed below.

On June 9, 2006, certain special purpose entities that are wholly-owned subsidiaries of ours entered into a \$295 million new mortgage loan with the German American Capital Corporation. The new mortgage has a term of ten years and a fixed interest rate of 6.35%. By entering in this new mortgage, we will insulate ourselves from changes in market interest rates on a portion of our indebtedness.

On June 12, 2006, we entered into an interest rate swap agreement with Goldman Sachs Capital Markets (GSCM), to hedge against interest rate risks related to our variable rate revolving credit facility. The interest rate swap has a notional amount of \$150 million and the terms call for us to receive interest monthly at a variable rate equal to the 30-day LIBOR and to pay interest monthly at a fixed rate of 5.4%. This interest rate swap is designated as a cash flow hedge.

We expect the hedge to be highly effective in offsetting changes in expected cash flows, as, at inception, the critical terms of the interest rate swap generally match the critical terms of the variable rate revolving credit facility. The interest rate swap has the effect of fixing the interest rate on a \$150 million LIBOR strip.

Additionally, interest is capped pursuant to a rate cap agreement that caps 30-day LIBOR exposure at 6.0% on \$165 million of our variable rate revolving credit facility. The interest rate cap agreement expires in November 2007. Fluctuations in the fair value of the interest rate cap agreement will be recognized in current period earnings.

An increase of 100 basis points in market interest rates would increase annual interest expense by approximately \$1.3 million. A decrease of 100 basis points in market interest rates would decrease annual interest expense by approximately \$1.9 million.

**ITEM 4. CONTROLS AND PROCEDURES**

Our management performed an evaluation, as of the end of the period covered by this report on Form 10-Q, under the supervision of our chief executive officer and chief financial officer of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in rule 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934, as amended (the Exchange Act)). Based on that evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective in timely making known to them material information required to be disclosed in our reports filed or submitted under the Exchange Act.

There were no changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

During the quarter ended September 30, 2006, there were no material changes to our previously disclosed legal proceedings. Additionally, we are, and from time to time may be, a party to routine legal proceedings incidental to the operation of our business. The outcome of any pending or threatened proceedings is not expected to have a material adverse effect on our financial condition, operating results or cash flows, based on our current understanding of the relevant facts. Legal expenses incurred related to these contingencies are generally expensed as incurred.

**Table of Contents**

**ITEM 1A. RISK FACTORS**

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005 as filed with the SEC.

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

**BlueLinx Holdings Inc.**

*(Registrant)*

Date: November 1, 2006

/s/ David J. Morris

David J. Morris  
*Chief Financial Officer and Treasurer*  
*(Principal Accounting and Financial Officer)*

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.