

BlueLinx Holdings Inc.
Form 10-Q
November 04, 2011

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**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 October 1, 2011

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting
company

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

As of November 4, 2011 there were 61,811,862 shares of BlueLinx Holdings Inc. common stock, par value \$0.01, outstanding.

BLUELINX HOLDINGS INC.
Form 10-Q
For the Quarterly Period Ended October 1, 2011
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Table of Contents**PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS****BLUELINX HOLDINGS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(unaudited)**

| | Third Quarter | |
|--|--|--|
| | Period from July 3, 2011 to October 1, 2011 | Period from July 4, 2010 to October 2, 2010 |
| Net sales | \$ 472,898 | \$ 464,690 |
| Cost of sales | 414,620 | 414,748 |
| Gross profit | 58,278 | 49,942 |
| Operating expenses: | | |
| Selling, general, and administrative | 54,537 | 54,121 |
| Depreciation and amortization | 2,559 | 3,111 |
| Total operating expenses | 57,096 | 57,232 |
| Operating income (loss) | 1,182 | (7,290) |
| Non-operating expenses: | | |
| Interest expense | 6,963 | 9,121 |
| Changes associated with the ineffective interest rate swap | | (1,156) |
| Write off of debt issuance costs | | 183 |
| Other expense, net | 333 | 192 |
| Loss before provision for (benefit from) income taxes | (6,114) | (15,630) |
| Provision for (benefit from) income taxes | 94 | (778) |
| Net loss | \$ (6,208) | \$ (14,852) |
| Basic and diluted weighted average number of common shares outstanding | 51,183 | 30,714 |
| Basic and diluted net loss per share applicable to common stock | \$ (0.12) | \$ (0.48) |

See accompanying notes.

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

| | Nine Months Ended | |
|--|---|---|
| | Period from January 2, 2011 to October 1, 2011 | Period from January 3, 2010 to October 2, 2010 |
| Net sales | \$ 1,364,313 | \$ 1,436,521 |
| Cost of sales | 1,202,121 | 1,270,182 |
| Gross profit | 162,192 | 166,339 |
| Operating expenses: | | |
| Selling, general, and administrative | 159,760 | 167,724 |
| Depreciation and amortization | 8,120 | 10,289 |
| Total operating expenses | 167,880 | 178,013 |
| Operating loss | (5,688) | (11,674) |
| Non-operating expenses: | | |
| Interest expense | 23,754 | 24,641 |
| Changes associated with the ineffective interest rate swap | (1,751) | (3,217) |
| Write off of debt issuance costs | | 183 |
| Other expense, net | 485 | 443 |
| Loss before provision for (benefit from) income taxes | (28,176) | (33,724) |
| Provision for (benefit from) income taxes | 139 | (726) |
| Net loss | \$ (28,315) | \$ (32,998) |
| Basic and diluted weighted average number of common shares outstanding | 37,696 | 30,667 |
| Basic and diluted net loss per share applicable to common stock | \$ (0.75) | \$ (1.08) |

See accompanying notes.

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

| | October 1, 2011 (unaudited) | January 1, 2011 |
|---|--|----------------------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,890 | \$ 14,297 |
| Receivables, net | 184,737 | 119,202 |
| Inventories, net | 203,777 | 188,250 |
| Deferred income tax assets, net | 59 | 143 |
| Other current assets | 24,699 | 22,768 |
| Total current assets | 419,162 | 344,660 |
| Property, plant, and equipment: | | |
| Land and land improvements | 51,930 | 52,540 |
| Buildings | 97,825 | 96,720 |
| Machinery and equipment | 75,928 | 70,860 |
| Construction in progress | 282 | 2,028 |
| Property, plant, and equipment, at cost | 225,965 | 222,148 |
| Accumulated depreciation | (98,214) | (92,517) |
| Property, plant, and equipment, net | 127,751 | 129,631 |
| Other non-current assets | 24,390 | 50,728 |
| Total assets | \$ 571,303 | \$ 525,019 |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | \$ 89,468 | \$ 62,827 |
| Bank overdrafts | 30,322 | 23,089 |
| Accrued compensation | 4,373 | 4,594 |
| Current maturities of long-term debt | 36,029 | 1,190 |
| Other current liabilities | 21,115 | 16,792 |
| Total current liabilities | 181,307 | 108,492 |
| Non-current liabilities: | | |
| Long-term debt | 329,351 | 381,679 |
| Deferred income taxes, net | 40 | 192 |
| Other non-current liabilities | 27,845 | 33,665 |
| Total liabilities | 538,543 | 524,028 |

Stockholders Equity:

| | | | | |
|---|----|-------------|----|-------------|
| Common Stock, \$0.01 par value, 100,000,000 shares authorized; 61,811,862 and 32,667,504 shares issued at October 1, 2011 and January 1, 2011, respectively | | 618 | | 327 |
| Additional paid-in capital | | 207,238 | | 147,427 |
| Accumulated other comprehensive loss | | (7,376) | | (7,358) |
| Accumulated deficit | | (167,720) | | (139,405) |
| Total stockholders equity | | 32,760 | | 991 |
| Total liabilities and stockholders equity | \$ | 571,303 | \$ | 525,019 |

See accompanying notes.

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

| | Period from January 2, 2011 to October 1, 2011 | Nine Months Ended Period from January 3, 2010 to October 2, 2010 |
|--|---|---|
| Cash flows from operating activities: | | |
| Net loss | \$ (28,315) | \$ (32,998) |
| Adjustments to reconcile net loss to net cash used in operations: | | |
| Depreciation and amortization | 8,120 | 10,289 |
| Amortization of debt issue costs | 2,029 | 1,026 |
| Payment from terminating the Georgia-Pacific supply agreement | | 4,706 |
| Gain from sale of properties | (6,939) | |
| Gain from property insurance settlements | (1,230) | |
| Changes associated with the ineffective interest rate swap | (1,751) | (3,217) |
| Write-off debt issuance costs | | 183 |
| Gain on modification of lease agreement | (1,971) | |
| Deferred income tax benefit | (282) | (621) |
| Share-based compensation expense | 1,578 | 2,880 |
| Decrease in restricted cash related to the ineffective interest rate swap, insurance, and other | 443 | 6,009 |
| Changes in assets and liabilities: | | |
| Receivables | (65,535) | (47,294) |
| Inventories | (15,527) | (22,384) |
| Accounts payable | 26,641 | 16,071 |
| Changes in other working capital | 1,365 | 21,285 |
| Other | (2,174) | (3,849) |
| Net cash used in operating activities | (83,548) | (47,914) |
| Cash flows from investing activities: | | |
| Property, plant and equipment investments | (6,032) | (2,689) |
| Proceeds from disposition of assets | 8,994 | 689 |
| Net cash provided by (used in) investing activities | 2,962 | (2,000) |
| Cash flows from financing activities: | | |
| Repurchase of common stock | | (583) |
| Increase in borrowings from revolving credit facility | 21,235 | 45,996 |
| Payment of principal on mortgage | (38,724) | |
| Payment on capital lease obligations | (1,224) | (564) |
| Increase in bank overdrafts | 7,233 | 3,441 |

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| | | |
|--|----------|-----------|
| Decrease (increase) in restricted cash related to the mortgage | 27,724 | (8,397) |
| Debt financing costs | (2,647) | (6,521) |
| Proceeds from stock offering less expenses paid | 58,582 | |
| Other | | 6 |
| Net cash provided by financing activities | 72,179 | 33,378 |
| Decrease in cash | (8,407) | (16,536) |
| Balance, beginning of period | 14,297 | 29,457 |
| Balance, end of period | \$ 5,890 | \$ 12,921 |
| Noncash transactions: | | |
| Capital leases | \$ 3,147 | \$ 1,889 |

See accompanying notes.

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**BLUELINX HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 1, 2011**

1. Basis of Presentation and Background

Basis of Presentation

BlueLinx Holdings Inc. has prepared the accompanying Unaudited 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 January 1, 2011, 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 2011 and fiscal year 2010 each contain 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 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 are a leading distributor of building products in North America with approximately 1,900 employees. We offer approximately 10,000 products from over 750 suppliers to service more than 11,500 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 55 distribution centers.

2. Summary of Significant Accounting Policies

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 collectability 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 revenues are recorded at gross. The key indicators used to determine when and how revenue is recorded are as follows:

- We are the primary obligor responsible for fulfillment and all other aspects of the customer relationship.
- Title passes to BlueLinx and we carry all risk of loss related to warehouse and third-party (reload) inventory and inventory shipped directly from vendors to our customers.
- We are responsible for all product returns.
- We control the selling price for all channels.
- We select the supplier.
- We bear all credit risk.

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In addition, we provide inventory to certain customers through pre-arranged agreements on a consignment basis. Customer consigned inventory is maintained and stored by certain customers; however, ownership and risk of loss remains with us. When the inventory is sold by the customer, we recognize revenue on a gross basis.

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.

Cash and Cash Equivalents

Cash and cash equivalents include all highly-liquid investments with maturity dates of less than three months when purchased.

Restricted Cash

We had restricted cash of \$14.0 million and \$42.2 million at October 1, 2011 and January 1, 2011, respectively. Restricted cash primarily includes amounts held in escrow related to our mortgage and insurance for workers compensation, auto liability, and general liability. Restricted cash is included in Other current assets and Other non-current assets on the accompanying Consolidated Balance Sheets.

The table below provides the balances of each individual component in restricted cash as of October 1, 2011 and January 1, 2011 (in thousands):

| | October 1, 2011 | January 1, 2011 |
|-----------------|----------------------------|----------------------------|
| Cash in escrow: | | |
| Mortgage* | \$ 2,892 | \$ 30,616 |
| Insurance | 8,784 | 9,430 |
| Other | 2,326 | 2,124 |
| Total | \$ 14,002 | \$ 42,170 |

* As a condition of the amendment to the mortgage, entered into on July 14, 2011, a payment of \$38.3 million was made from cash held in escrow and applied to the mortgage principal in July 2011. See Note 8 below for more detail.

Allowance for Doubtful Accounts and Related Reserves

We evaluate the collectability 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, which is aged utilizing contractual terms, based on our historical loss experience. This estimate is periodically adjusted when we become aware of specific customers' inability to meet their financial obligations (e.g., bankruptcy filing or other evidence of liquidity problems). As we determine that specific balances will ultimately be 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 October 1, 2011 and January 1, 2011, these reserves totaled \$5.7 million. Adjustments to earnings resulting from revisions to estimates on discounts and uncollectible accounts have been insignificant.

Inventory Valuation

Inventories are carried at the lower of cost or market. The cost of all inventories is determined by the moving average cost method. We have included all material charges directly or indirectly incurred in bringing inventory to its existing condition and location. 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. At October 1, 2011 and January 1, 2011, the market value of our inventory exceeded its cost. Adjustments to earnings resulting from revisions to lower of cost or market estimates have been insignificant.

Additionally, we maintain a reserve for the estimated value impairment associated with damaged, excess and obsolete inventory. The damaged, excess and obsolete reserve generally includes discontinued items or inventory that has turn days in excess of 270 days, excluding new items during their product launch. At October 1, 2011 and January 1, 2011, our damaged, excess and obsolete inventory reserves were \$1.9 million and \$1.7 million, respectively. Adjustments to earnings resulting from revisions to damaged, excess and obsolete estimates have been insignificant.

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Consignment Inventory

We enter into consignment inventory agreements with our vendors. This vendor consignment inventory relationship allows us to obtain and store vendor inventory at our warehouses and reload facilities; however, ownership remains with the vendor and risk of loss generally remains with the vendor. When the inventory is sold, we are required to pay the vendor and we simultaneously take and transfer ownership from the vendor to the customer.

Consideration Received from Vendors and Paid to Customers

Each year, we enter into agreements with many of our vendors providing for inventory purchase rebates, generally based on achievement of specified volume purchasing levels, price protection 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 October 1, 2011 and January 1, 2011, the vendor rebate receivable totaled \$8.2 million and \$9.5 million, respectively. Adjustments to earnings resulting from revisions to rebate estimates have been insignificant.

In addition, we enter into agreements with many of our customers to offer customer rebates, generally based on achievement of specified volume sales levels and various marketing allowances that are a common industry practice. We accrue for the payment of customer rebates based on sales to the customer, and also reduce sales value to reflect the net sales (sales price less expected customer rebates). At October 1, 2011 and January 1, 2011, the customer rebate payable totaled \$7.7 million and \$6.4 million, respectively. Adjustments to earnings resulting from revisions to rebate estimates have been insignificant.

Net Loss per Common Share

We calculate our basic net loss per share by dividing net loss by the weighted average number of common shares and participating securities outstanding for the period. Restricted stock granted by us to certain management level employees and directors participate in dividends on the same basis as common shares and are non-forfeitable by the holder. The unvested restricted stock contains non-forfeitable rights to dividends or dividend equivalents. As a result, these share-based awards meet the definition of a participating security and are included in the weighted average number of common shares outstanding, pursuant to the two-class method, for the periods that present net income. The two-class method is an earnings allocation formula that treats a participating security as having rights to earnings that would otherwise have been available to common stockholders. Given that the restricted stockholders do not have a contractual obligation to participate in the losses and the inclusion of such unvested restricted shares in our basic and dilutive per share calculations would be anti-dilutive, we have not included these amounts in our weighted average number of common shares outstanding for periods in which we report a net loss. Therefore, we have not included 2,161,423 and 1,977,458 of unvested restricted shares that had the right to participate in dividends in our basic and dilutive calculations for the first nine months of fiscal 2011 and for the first nine months of fiscal 2010, respectively. 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 using the treasury stock method. Our restricted stock units are settled in cash upon vesting and are considered liability awards. Therefore, these restricted stock units are not included in the computation of the basic and diluted earnings per share.

As we experienced losses in all periods, for the third quarter of fiscal 2011 and for the first nine months of fiscal 2011, we excluded 3,076,739 unvested share-based awards from the diluted earnings per share calculation because they were anti-dilutive. For the third quarter of fiscal 2010 and for the first nine months of fiscal 2010, we excluded 3,127,459 unvested share-based awards from the diluted earnings per share calculation because they were anti-dilutive.

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We have two stock-based compensation plans covering officers, directors, certain employees and consultants: the 2004 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. Although we do not have a formal policy on the matter, we issue new shares of our common stock to participants, upon the exercise of options or granting of restricted stock, out of the total amount of common shares authorized for issuance under the 2004 Plan and the 2006 Plan. During the first nine months of fiscal 2011, the Compensation Committee granted 618,972 restricted shares of our common stock to certain of our officers and directors. Restricted shares of 364,303 vested in the first nine months of 2011 due to completion of the vesting term. We recognize compensation expense equal to the grant-date fair value for all share-based payment awards that are expected to vest. This expense is recorded on a straight-line basis over the requisite service period of the entire award, unless the awards are subject to market or performance conditions, in which case we recognize compensation expense over the requisite service period of each separate vesting tranche to the extent the occurrence of such conditions are probable. All compensation expense related to our share-based payment awards is recorded in Selling, general and administrative expense in the Consolidated Statements of Operations. For the third quarter of fiscal 2011 and for the first nine months of fiscal 2011, our total stock-based compensation expense was \$0.4 million and \$1.6 million, respectively. For the third quarter of fiscal 2010 and for the first nine months of fiscal 2010, our total stock-based compensation expense was \$1.1 million and \$2.9 million, respectively. We did not recognize related income tax benefits during these periods.

Income Taxes

Deferred income taxes are provided using the liability method. Accordingly, deferred income taxes are recognized for differences between the income tax and financial reporting bases of our assets and liabilities based on enacted tax laws and tax rates applicable to the periods in which the differences are expected to affect taxable income. We recognize a valuation allowance, when based on the weight of all available evidence, we believe it is more likely than not that some or all of our deferred tax assets will not be realized. In evaluating our ability to recover our deferred income tax assets, we considered available positive and negative evidence, including our past operating results, our ability to carryback losses against prior taxable income, the existence of cumulative losses in the most recent years, our forecast of future taxable income and an excess of appreciated assets over the tax basis of our net assets. In estimating future taxable income, we developed assumptions including the amount of future state and federal pretax operating and non-operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions required significant judgment about the forecasts of future taxable income. We considered all of the available positive and negative evidence during the third quarter of fiscal 2011 and based on the weight of available evidence, we recorded an additional deferred tax asset and valuation allowance of \$2.4 million relating to our current period net operating losses, which resulted in a total net deferred tax asset of \$57.4 million with a valuation allowance of a corresponding amount as of October 1, 2011.

If the realization of deferred tax assets in the future is considered more likely than not, a reduction to the valuation allowance related to the deferred tax assets would increase net income in the period that such a determination is made. The amount of the deferred tax asset considered realizable is based on significant estimates, and it is possible that changes in these estimates could materially affect the financial condition and results of operations. Our effective tax rate may vary from period to period based on changes in estimated taxable income or loss; changes to the valuation allowance; changes to federal or state tax laws; and as a result of acquisitions.

We generally believe that the positions taken on previously filed tax returns are more likely than not to be sustained by the taxing authorities. We have recorded income tax and related interest liabilities where we believe our position may not be sustained. Such amounts are disclosed in Note 5 in our Annual Report on Form 10-K for the year-ended January 1, 2011. There have been nominal changes to our tax positions during the first nine months of fiscal 2011.

Impairment of Long-Lived Assets

Long-lived assets, including property and equipment and intangible assets with definite useful lives, are reviewed for possible impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable.

We consider whether there were indicators of potential impairment on a quarterly basis. Indicators of impairment include current period losses combined with a history of losses, management's decision to exit a facility, reductions in the fair market value of real properties and changes in other circumstances that indicate the carrying amount of an asset may not be recoverable.

Our evaluation of long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual distribution facility. In the event of indicators of impairment, the assets of the distribution facility are evaluated by comparing the facility's undiscounted cash flows over the estimated useful life of the asset, which ranges between 5-40 years, to its carrying value. If the carrying value is greater than the undiscounted cash flows, an impairment loss is recognized for the difference between the carrying value of the asset and the estimated fair market value. Impairment losses are recorded as a component of Selling, general and administrative expenses in the Consolidated Statements of Operations.

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Our estimate of undiscounted cash flows is subject to assumptions that affect estimated operating income at a distribution facility level. These assumptions are related to future sales, margin growth rates, economic conditions, market competition and inflation. In the event that undiscounted cash flows do not exceed the carrying value of a facility, our estimates of fair market value are generally based on market appraisals and our experience with related market transactions. These assumptions used to determine impairment are considered to be level 3 measurements in the fair value hierarchy as defined in Note 13 of the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 1, 2011.

Our results for the first nine months of fiscal 2011 were negatively impacted by severe winter weather and a decrease in housing starts when compared to the first nine months of fiscal 2010. The higher number of housing starts in the first nine months of 2010 was due in part to the effect of the housing tax credit, which expired in April of 2010. The reduction in unit volume has not resulted in impairment indicators of a magnitude that would result in reductions to the underlying assumptions of our January 1, 2011 projected undiscounted cash flows, which exceeded our carrying value in all cases during the performance of our January 1, 2011 impairment analysis, due primarily to the increase in gross margin percentage and tightly managed variable costs.

During the first quarter of fiscal 2011 our Newtown, CT facility was damaged due to severe winter weather. As a result of the damage to the facility and its contents we have recorded a receivable in the amount of \$3.8 million. The receivable is comprised of a \$2.2 million receivable related to the building, \$2.2 million related to inventory, and \$0.5 million of operating expenses, net of cash received of \$1.1 million. We recognized an impairment of \$1.0 million on the building and recorded a corresponding insurance recovery for the same amount during the second fiscal quarter of fiscal 2011. In the third fiscal quarter of fiscal 2011, we recorded a \$1.2 million gain through Selling, general and administrative expenses related to the damaged building based on an agreement reached between our insurer and us prior to the end of the quarter regarding the recovery amount and the fact that we received a \$2.2 million payment for the building subsequent to quarter end. During the first nine months of fiscal 2011, we also recognized approximately \$1.9 million and \$0.3 million of impairment related to damaged inventory and consigned inventory, respectively and a corresponding insurance recovery of the same amount in Selling, general and administrative expenses. Additional operating expenses incurred related to servicing existing customers from a different location and the clean up of the facility site resulted in an insurance recovery, which was recorded for these additional operating expenses in Selling, general and administrative expenses, of \$0.3 million and \$0.5 million for the three and nine month periods ended October 1, 2011, respectively. We recorded the recovery of such losses at the time that the minimum expected proceeds under our insurance policy became probable and estimable. We recorded the gain associated with the amount to be paid in connection with the building at the time that all contingencies related to this part of the claim were resolved.

Self-Insurance

It is our policy to self-insure, up to certain limits, traditional risks including workers compensation, comprehensive general liability, and auto liability. Our self-insured deductible for each claim involving workers compensation, comprehensive general liability (including product liability claims), and auto liability is limited to \$0.8 million, \$0.8 million, and \$2.0 million, respectively. We are also self-insured up to certain limits for certain other insurable risks, primarily physical loss to property (\$0.1 million per occurrence) and the majority of our medical benefit plans (\$0.3 million per occurrence). Insurance coverage is maintained for catastrophic property and casualty exposures as well as those risks required to be insured by law or contract. A provision for claims under this self-insured program, based on our estimate of the aggregate liability for claims incurred, is revised and recorded annually. The estimate is derived from both internal and external sources including but not limited to actuarial estimates. The actuarial estimates are subject to uncertainty from various sources, including, among others, changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and economic conditions. Although, we believe that the actuarial estimates are reasonable, significant differences related to the items noted above could materially affect our self-insurance obligations, future expense and cash flow. At October 1, 2011 and January 1, 2011, the self-insurance reserves totaled \$8.2 million and \$7.6 million, respectively.

Table of Contents**3. Restructuring Charges**

We account for exit and disposal costs by recognizing a liability for costs associated with an exit or disposal activity at fair value in the period in which it is incurred or when the entity ceases using the right conveyed by a contract (i.e., the right to use a leased property). Our restructuring charges included accruals for estimated losses on facility costs based on our contractual obligations net of estimated sublease income based on current comparable market rates for leases. We reassess this liability periodically based on current market conditions. Revisions to our estimates of this liability could materially impact our operating results and financial position in future periods if anticipated events and key assumptions, such as the timing and amounts of sublease rental income, either do not materialize or change. These costs are included in Selling, general, and administrative expenses in the Consolidated Statements of Operations for the first nine months of fiscal 2011 and the first nine months of fiscal 2010, and Other current liabilities and Other non-current liabilities on the Consolidated Balance Sheets at October 1, 2011 and January 1, 2011.

We account for severance and outplacement costs by recognizing a liability for employees' rights to post-employment benefits at the time in which such costs become probable and estimable. These costs are included in Selling, general, and administrative expenses in the Consolidated Statements of Operations for the first nine months of fiscal 2011 and the first nine months of fiscal 2010, and in Accrued compensation on the Consolidated Balance Sheets for the periods ended October 1, 2011 and January 1, 2011.

2007 Facility Consolidation and Severance Costs

During fiscal 2007, we announced a plan to adjust our cost structure in order to manage our costs more effectively. The plan included the consolidation of our corporate headquarters and sales center to one building from two buildings and reduction in force initiatives which resulted in charges of \$17.1 million during the fourth quarter of fiscal 2007. As of October 1, 2011 and January 1, 2011, there was no remaining accrued severance related to reduction in force initiatives completed in fiscal 2007.

During the third quarter of fiscal 2011, we entered into an amendment to our corporate headquarters lease in Atlanta, GA related to the unoccupied 4100 building. This amendment released us from our obligations with respect to this unoccupied space as of January 31, 2012, in exchange for a \$5.0 million space remittance fee, due on or before that date. In addition, we are obligated to pay \$1.2 million on or before December 31, 2013 to be used for tenant improvements. The provisions relating to the occupied 4300 building remain unchanged. Under the existing provisions, the current term of the lease ends on January 31, 2019. The amendment resulted in a reduction of our restructuring reserve of approximately \$2.0 million, with the credit recorded in Selling, general, and administrative expenses in the Consolidated Statements of Operations.

The table below summarizes the balance of accrued facility consolidation reserve and changes in the accrual for the third quarter of fiscal 2011 (in thousands):

| | |
|---|----------|
| Balance at July 3, 2011 | \$ 9,416 |
| Payments | (530) |
| Amendment to lease and other assumption changes | (2,036) |
| Accretion of liability | 92 |
| Balance at October 1, 2011 | \$ 6,942 |

The table below summarizes the balance of accrued facility consolidation reserve and changes in the accrual for the first nine months of fiscal 2011 (in thousands):

| | |
|---|-----------|
| Balance at January 1, 2011 | \$ 10,227 |
| Payments | (1,604) |
| Amendment to lease and other assumption changes | (2,036) |
| Accretion of liability | 355 |
| Balance at October 1, 2011 | \$ 6,942 |

2010 Severance Costs

During fiscal 2010, we had certain reduction in force activities, which resulted in severance charges of \$1.1 million. The table below summarizes the balances of the accrued severance reserves and the changes in the accruals for the third quarter of fiscal 2011 (in thousands):

| | | |
|----------------------------|----|------|
| Balance at July 3, 2011 | \$ | 192 |
| Assumption Changes | | (25) |
| Payments | | (49) |
| Balance at October 1, 2011 | \$ | 118 |

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The table below summarizes the balances of the accrued severance reserves and the changes in the accruals for the first nine months of fiscal 2011 (in thousands):

| | | |
|----------------------------|----|-------|
| Balance at January 1, 2011 | \$ | 777 |
| Assumption Changes | | (278) |
| Payments | | (381) |
| Balance at October 1, 2011 | \$ | 118 |

2011 Severance Costs

During fiscal 2011, we had certain reduction in force activities, which resulted in severance charges of \$1.6 million. The table below summarizes the balances of the accrued severance reserves and the changes in the accruals for the third quarter of fiscal 2011 (in thousands):

| | | |
|----------------------------|----|-------|
| Balance at July 3, 2011 | \$ | 108 |
| Charges | | 1,167 |
| Payments | | (206) |
| Balance at October 1, 2011 | \$ | 1,069 |

The table below summarizes the balances of the accrued severance reserves and the changes in the accruals for the first nine months of fiscal 2011 (in thousands):

| | | |
|----------------------------|----|-------|
| Balance at January 1, 2011 | \$ | |
| Charges | | 1,628 |
| Payments | | (559) |
| Balance at October 1, 2011 | \$ | 1,069 |

4. Assets Held for Sale and Net Gain on Disposition

As part of our restructuring efforts to improve our cost structure and cash flow, we closed certain facilities and designated them as assets held for sale. At the time of designation, we ceased recognizing depreciation expense on these assets. As of October 1, 2011 and January 1, 2011, total assets held for sale were \$2.2 million and \$1.6 million respectively, and were included in Other current assets in our Consolidated Balance Sheets. During the first nine months of fiscal 2011, we sold certain real properties held for sale that resulted in a \$6.9 million gain recorded in

Selling, general, and administrative expenses in the Consolidated Statements of Operations. All of this activity occurred during the first quarter of 2011. We continue to actively market the remaining properties that are held for sale. Due to the fact that, as of October 1, 2011 the remaining properties are all primarily land, depreciation expense is not materially impacted.

5. Comprehensive Loss

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

| | |
|----------------|------------------------|
| | Third Quarter |
| Period | Period from |
| from | July 4, 2010 |
| July 3, | to |
| 2011 | October 2, 2010 |
| to | |

| | October 1, 2011 | |
|---|----------------------------|-------------|
| Net loss | \$ (6,208) | \$ (14,852) |
| Other comprehensive (loss) income: | | |
| Foreign currency translation | (602) | 627 |
| *Unrealized gain from cash flow hedge, net of taxes | | 324 |
| Comprehensive loss | \$ (6,810) | \$ (13,901) |

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| | Nine Months Ended | |
|---|--------------------------|------------------------|
| | Period | Period from |
| | from | January 3, 2010 |
| | January 2, | to |
| | 2011 | October 2, 2010 |
| | to | |
| | October 1, | |
| | 2011 | |
| Net loss | \$ (28,315) | \$ (32,998) |
| Other comprehensive income: | | |
| Foreign currency translation | (252) | 286 |
| *Unrealized gain from cash flow hedge, net of taxes | 234 | 973 |
| Comprehensive loss | \$ (28,333) | \$ (31,739) |

* For the third quarter of fiscal 2011 and for the first nine months of fiscal 2011, the income tax expense related to our interest rate swap was \$0.0 million and \$0.2 million, respectively. For the third quarter of fiscal 2010 and the first nine months of fiscal 2010, the income tax expense related to our interest rate swap was \$0.2 million and \$0.6 million, respectively.

6. 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 are required to make a \$3.3 million contribution to the hourly pension plan in fiscal 2011, all of which has been funded. 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 (in thousands):

| | Third Quarter | |
|---|----------------------|----------------------------|
| | Period | Period from July 4, |
| | from July | 2010 to October 2, |
| | 3, | 2010 to October 2, |
| | 2011 to | 2010 |
| | October 1, | |
| | 2011 | |
| Service cost | \$ 523 | \$ 498 |
| Interest cost on projected benefit obligation | 1,152 | 1,186 |
| Expected return on plan assets | (1,376) | (1,232) |
| Amortization of unrecognized loss | 145 | 123 |
| Net periodic pension cost | \$ 444 | \$ 575 |

Nine Months Ended

| | Period from January 2, 2011 to October 1, 2011 | Period from January 3, 2010 to October 2, 2010 |
|---|---|---|
| Service cost | \$ 1,569 | \$ 1,494 |
| Interest cost on projected benefit obligation | 3,456 | 3,558 |
| Expected return on plan assets | (4,128) | (3,696) |
| Amortization of unrecognized loss | 435 | 369 |
| Net periodic pension cost | \$ 1,332 | \$ 1,725 |

Table of Contents**7. Revolving Credit Facilities**

As of October 1, 2011, we had outstanding borrowings of \$115.6 million and excess availability of \$148.9 million under the terms of our U.S. revolving credit facility (the "U.S. revolving credit facility"). The interest rate on the U.S. revolving credit facility was 4.2% at October 1, 2011. As of October 1, 2011 and January 1, 2011, we had outstanding letters of credit totaling \$2.6 million and \$5.9 million, respectively, primarily for the purposes of securing collateral requirements under the interest rate swap (which was terminated in March of 2011), casualty insurance programs and for guaranteeing lease and certain other obligations.

On July 7, 2010, we reached an agreement with Wells Fargo Bank, National Association, successor by merger to Wachovia Bank, National Association, and the other signatories to our existing U.S. revolving credit facility, dated August 4, 2006, as amended, to amend the terms thereof. This amendment extended the date of final maturity of the facility to January 7, 2014 and decreased the maximum availability under the agreement from \$500 million to \$400 million. This amendment also includes an additional \$100 million uncommitted accordion credit facility, which will permit us to increase the maximum borrowing capacity up to \$500 million. As a result of reducing our maximum borrowing capacity from \$500 million to \$400 million, we recorded expense of \$0.2 million in fiscal 2010 for the write-off of debt issuance costs associated with the reduction in borrowing capacity. We also incurred \$6.5 million in new debt issuance costs, which we capitalized and will continue to amortize to interest expense over the renewed debt term.

On May 10, 2011, we entered into an amendment to our U.S. revolving credit facility, which became effective on July 29, 2011, following the successful completion of the rights offering described below. Certain components of the borrowing base calculation and excess liquidity calculation were adjusted as part of this amendment. The most significant of the changes included in the amendment are described in the discussion of the terms and covenants of the U.S. revolving credit facility below.

As of October 1, 2011, under the amended agreement, our U.S. revolving credit facility contains customary negative covenants and restrictions for asset based loans. Our most significant covenant is a requirement that we maintain a fixed charge coverage ratio of 1.1 to 1.0 in the event our excess availability falls below the greater of \$30 million or the amount equal to 15% of the lesser of the borrowing base or \$400 million (the "Excess Availability Threshold"). We are required to maintain the Excess Availability Threshold in order to avoid being required to meet certain financial ratios and triggering additional limits on capital expenditures. The amount of our eligible accounts receivable included in the calculation of the borrowing base is 87.5%. Under the amended U.S. revolving credit facility agreement, the applicable percentage of the net liquidation value of our eligible inventory included in the calculation of the borrowing base is 90% for the periods January to March 2012 and January to March 2013, subject to specified EBITDA targets. The percentage of the net liquidation value of our eligible inventory included in the borrowing remains the same as under the original agreement outside of the time period just specified. Also included in the calculation of our excess availability is certain cash on the balance sheet, which is subject to a deposit account control agreement. The fixed charge coverage ratio is calculated as EBITDA divided by the sum of cash payments for income taxes, interest expense, cash dividends, principal payments on debt, and capital expenditures. EBITDA is defined as BlueLinx Corporation's net income before interest and tax expense, depreciation and amortization expense, and other non-cash charges. The fixed charge coverage ratio requirement only applies to us when excess availability under our amended U.S. revolving credit facility is less than the Excess Availability Threshold on any date. As of October 1, 2011 and through the time of the filing of this Form 10-Q, we were in compliance with all covenants. We had \$148.9 million and \$103.4 million of availability as of October 1, 2011 and January 1, 2011, respectively. Our lowest level of fiscal month end availability in the last three years as of October 1, 2011 was \$94.0 million. We do not anticipate our excess availability in fiscal 2011 will drop below the Excess Availability Threshold. Should our excess availability fall below the Excess Availability Threshold on any date, however, we would not meet the required fixed charge coverage ratio with our current operating results. In addition, we must maintain a springing lock-box arrangement where customer remittances go directly to a lock-box maintained by our lenders and then are forwarded to our general bank accounts. Our outstanding borrowings are not reduced by these payments unless our excess availability falls below the greater of \$35 million or the amount equal to 15% of the lesser of the borrowing base or \$400 million on any date or in the event of default. Our amended U.S. revolving credit facility does not contain a subjective acceleration clause which would

allow our lenders to accelerate the scheduled maturities of our debt or to cancel our agreement.

On July 22, 2011, we concluded an offering of our common stock to our stockholders, pursuant to which we distributed to our common stockholders transferable rights to subscribe for and purchase up to \$60 million of our common stock. In conjunction with the rights offering, we entered into an investment agreement with Cerberus ABP Investor LLC, which beneficially owned approximately 55% of our common stock before giving effect to the rights offering, to backstop the rights offering, subject to certain conditions, by purchasing shares of common stock that related to any rights that remained unexercised at the expiration of the rights offering. The rights offering was fully subscribed and as a result the backstop provisions with Cerberus were not utilized. The rights offering resulted in gross proceeds of approximately \$60 million. The majority of the gross proceeds from the rights offering of approximately \$56 million were used to pay down the U.S. revolving credit facility. A payment on the U.S. revolving credit facility of \$50.0 million was made on July 29, 2011 and an additional payment of \$6.0 million was made on August 1, 2011. We accounted for the rights issued as a component of additional paid in capital as they were indexed to the Company's equity and there were no net cash settlement provisions. The amendment to our U.S. revolving credit facility, which was a condition to the rights offering, became effective upon the successful completion of the rights offering. In addition, as a condition to the rights offering, we entered into an amendment to our mortgage. The amendment to the mortgage is described further in Note 8.

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On August 12, 2011, our subsidiary BlueLinx Building Products Canada Ltd. (BlueLinx Canada) entered into a revolving credit agreement (the Canadian revolving credit facility) with CIBC Asset-Based Lending Inc., as lender, administrative agent and collateral agent (the Agent). The maturity date of this agreement is August 12, 2014. The Canadian revolving credit facility provides for an asset-based revolving credit facility with an aggregate lender commitment of up to \$10 million at any time outstanding, subject to borrowing base availability. In addition, the Canadian revolving credit facility provides for an additional \$5 million uncommitted accordion credit facility. Revolving loan (and letter of credit) availability under the facility is subject to a borrowing base. The amount of our eligible Canadian accounts receivable included in the calculation of the borrowing base is 85%. The amount of our eligible inventory included in the calculation of the borrowing base is 65%. The sum of items included in the borrowing base is reduced by \$0.5 million (the availability block) and other availability reserves. In addition to paying interest on outstanding principal under the facility, we are required to pay a fee in respect of committed but unutilized commitments equal to 0.25% per annum. As of October 1, 2011, we had outstanding borrowings of \$2.8 million and excess availability of \$1.8 million under the terms of our Canadian revolving credit facility. The interest rate on the Canadian revolving credit facility was 4.0% at October 1, 2011. The Canadian revolving credit facility contains customary covenants and events of default for asset-based credit agreements of this type, including the requirement for BlueLinx Canada to maintain a minimum adjusted tangible net worth of \$3.9 million and for that entity's capital expenditures not to exceed 120% of the amount budgeted in a given year. As of October 1, 2011 and through the time of the filing of this Form 10-Q, we were in compliance with all covenants.

We believe that the amounts available from our revolving credit facilities and other sources are sufficient to fund our routine operations and capital requirements for the next 12 months. If economic conditions, especially those related to the housing market, do not improve, we may need to seek additional sources of capital to support our operations.

8. Mortgage

On June 9, 2006, certain special purpose entities that are wholly-owned subsidiaries of ours entered into a \$295 million mortgage loan with the German American Capital Corporation. The mortgage has a term of ten years and is secured by 55 distribution facilities and 1 office building owned by the special purpose entities. The stated interest rate on the mortgage is fixed at 6.35%. German American Capital Corporation assigned half of its interest in the mortgage loan to Wachovia Bank, National Association and both lenders securitized their Notes in separate commercial mortgage backed securities pools in 2006.

On July 14, 2011, we entered into an amendment to the mortgage which (i) eliminated the requirement to obtain lender approval for any transfer of equity interests that would reduce Cerberus ABP Investor LLC's ownership in the Company and certain of our subsidiaries, directly or indirectly, to less than 51%, (ii) provided for the immediate prepayment of \$38.3 million of the indebtedness under the mortgage without incurring a prepayment premium from funds currently held as collateral under the mortgage and, if certain conditions are met, will allow for an additional prepayment on or after July 30, 2014 from funds held as collateral without incurrence of a prepayment premium, (iii) allow us, at the lenders' reasonable discretion, to use a portion of the cash held as collateral under the mortgage for specified alterations, repairs, replacements and other improvements to the mortgaged properties, and (iv) in the event certain financial conditions are met and the Company extends the Amended and Restated Master Lease by and among certain of our subsidiaries with respect to properties covered by the mortgage for an additional five years, we may request the lenders to disburse to the Company a portion of the cash held as collateral under the mortgage. In conjunction with the modification of our mortgage agreement we incurred approximately \$2.9 million in debt fees that were capitalized and are being amortized over the remaining term of the mortgage.

The mortgage loan required interest-only payments through June 2011, at which time we began making payments on the outstanding principal balance. 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 | \$ | 3,692 |
| 2012 | | 2,618 |
| 2013 | | 2,837 |
| 2014 | | 3,025 |

| | |
|------------|---------|
| 2015 | 3,225 |
| Thereafter | 231,548 |

Table of Contents**9. Derivatives**

On June 12, 2006, we entered into an interest rate swap agreement with Goldman Sachs Capital Markets, to hedge against interest rate risks related to our variable rate U.S. revolving credit facility. The interest rate swap was terminated in March of 2011. This interest rate swap was designated as a cash flow hedge. During fiscal 2009, our debt levels decreased below the interest rate swap notional, at which point the hedge became ineffective in offsetting future changes in expected cash flows during the remaining term of the interest rate swap.

Changes associated with the ineffective interest rate swap recognized in the Consolidated Statements of Operations for the period from January 1, 2011 to October 1, 2011 was approximately \$1.8 million of income and are comprised of amortization of the remaining accumulated other comprehensive loss of the ineffective swap of \$0.4 million offset by income of \$2.2 million related to reducing the fair value of the ineffective interest rate swap liability to zero. Due to the termination of the swap in the first quarter of 2011, there was no activity for the quarter ended October 1, 2011.

Changes associated with the ineffective interest rate swap recognized in the Consolidated Statements of Operations for the period from January 3, 2010 to October 2, 2010 were approximately \$3.2 million of income and are comprised of amortization of the remaining accumulated other comprehensive loss over the life of the ineffective swap of \$1.6 million offset by income of \$4.8 million related to current year changes in the fair value of the ineffective interest rate swap liability. Changes associated with the ineffective interest rate swap recognized in the Consolidated Statements of Operations for the period July 4, 2010 to October 2, 2010 were approximately \$1.2 million of income and are comprised of amortization of the remaining accumulated other comprehensive loss over the life of the ineffective swap of \$0.5 million offset by income of \$1.7 million related to current year changes in the fair value of the ineffective interest rate swap liability. The fair value of our swap liability at January 1, 2011 was \$2.2 million.

The following table presents a reconciliation of the unrealized losses related to our interest rate swap measured at fair value in accumulated other comprehensive loss as of October 1, 2011 (in thousands):

| | | |
|---|----|-------|
| Balance at January 1, 2011 | \$ | 444 |
| Amortization of accumulated other comprehensive loss recorded to interest expense | | (444) |
| Balance at October 1, 2011 | \$ | |

10. Fair Value Measurements

We determine a fair value measurement based on the assumptions a market participant would use in pricing an asset or liability. The fair value measurement guidance established a three level hierarchy making a distinction between market participant assumptions based on (i) unadjusted quoted prices for identical assets or liabilities in an active market (Level 1), (ii) quoted prices in markets that are not active or inputs that are observable either directly or indirectly for substantially the full term of the asset or liability (Level 2), and (iii) prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement (Level 3).

We had an ineffective interest rate swap that terminated in March of fiscal 2011. The swap is valued using a valuation model that has inputs other than quoted market prices that are both observable and unobservable.

The following table presents a reconciliation of the level 3 interest rate swap liability measured at fair value on a recurring basis as of October 1, 2011 (in thousands):

| | | |
|--|----|---------|
| Fair value at January 1, 2011 | \$ | (2,195) |
| Realized gains included in earnings, net | | 2,195 |
| Fair value at October 1, 2011 | \$ | |

The \$2.2 million realized gain is included in Changes associated with ineffective interest rate swap in the Consolidated Statements of Operations for the nine month period ended October 1, 2011.

Carrying amounts for our financial instruments are not significantly different from their fair value, with the exception of our mortgage. To determine the fair value of our mortgage, we used a discounted cash flow model. Assumptions

critical to our fair value in the period were present value factors used in determining fair value and an interest rate. At October 1, 2011, the carrying value and fair value of our mortgage was \$235.3 million and \$235.1 million, respectively.

Table of Contents**11. Related Party Transactions**

Cerberus Capital Management, L.P., our equity sponsor, retains consultants that specialize in operations management and support and who provide Cerberus with consulting advice concerning portfolio companies in which funds and accounts managed by Cerberus or its affiliates have invested. From time to time, Cerberus makes the services of these consultants available to Cerberus portfolio companies. We believe that the terms of these consulting arrangements are favorable to us, or, alternatively, are materially consistent with those terms that would have been obtained by us in an arrangement with an unaffiliated third party. We have normal service, purchase and sales arrangements with other entities that are owned or controlled by Cerberus. We believe that these transactions are at arms length terms and are not material to our results of operations or financial position.

On April 26, 2011, we entered into an investment agreement with Cerberus ABP Investor LLC (Cerberus) in connection with our rights offering, which expired on July 22, 2011. Pursuant to the investment agreement, Cerberus agreed to purchase from us, unsubscribed shares of our common stock, after the other stockholders had exercised their basic subscription rights and over-subscription privileges in connection with the rights offering, such that gross proceeds of the rights offering would be no less than \$60.0 million. The price per share paid by Cerberus for such common stock under the investment agreement was equal to the subscription price paid in the rights offering by all stockholders. As a result of the rights offering, Cerberus purchased only its *pro rata* share of the common stock issued in the rights offering.

12. Commitments and Contingencies***Legal Proceedings***

During the first nine months of fiscal 2011, 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.

Environmental Matters

From time to time, we are involved in various proceedings incidental to our businesses and we 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 October 1, 2011, approximately 30% of our employees were represented by various labor unions. As of October 1, 2011, we had 46 collective bargaining agreements, of which 4, covering approximately 40 total employees, are up for renewal in 2011, and one collective bargaining agreement expired in March 2010. We are in active negotiations with the subject union, and, in the interim, are operating under the terms and conditions of the expired agreement.

13. Subsequent Events

Subsequent to the quarter end, after an extensive evaluation, we made a decision to consolidate the Seattle, Washington facility into the Portland, Oregon facility and the Sacramento, California facility into the Fremont, California facility. We will continue to serve the Seattle and Sacramento markets from our Portland and Fremont facilities. We expect to service our customers from these consolidated neighboring full service facilities. We are actively marketing the Seattle and Sacramento properties and have no reason to believe that book value exceeds fair value.

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We are not aware of any other significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on our Consolidated Financial Statements.

14. Unaudited Supplemental Consolidating Financial Statements

The condensed consolidating financial information as of October 1, 2011 and January 1, 2011 and for the third quarters and first nine months of fiscal 2011 and fiscal 2010 is provided due to restrictions in our U.S. revolving credit facility that limit distributions by BlueLinx Corporation, our operating company and our wholly-owned 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 January 1, 2011, 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 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. The warehouse properties collateralize a mortgage loan and are not available to satisfy the debts and other obligations of either us or BlueLinx Corporation.

The consolidating statement of operations for BlueLinx Holdings Inc. for the period from July 3, 2011 to October 1, 2011 follows (in thousands):

| | BlueLinx Holdings Inc. | BlueLinx Corporation and Subsidiaries | LLC Subsidiaries | Eliminations | Consolidated |
|--|---------------------------------------|--|-----------------------------|---------------------|---------------------|
| Net sales | \$ | \$ 472,898 | \$ 7,429 | \$ (7,429) | \$ 472,898 |
| Cost of sales | | 414,620 | | | 414,620 |
| Gross profit | | 58,278 | 7,429 | (7,429) | 58,278 |
| Operating expenses: | | | | | |
| Selling, general and administrative | 1,029 | 61,884 | (947) | (7,429) | 54,537 |
| Depreciation and amortization | | 1,616 | 943 | | 2,559 |
| Total operating expenses | 1,029 | 63,500 | (4) | (7,429) | 57,096 |
| Operating (loss) income | (1,029) | (5,222) | 7,433 | | 1,182 |
| Non-operating expenses: | | | | | |
| Interest expense | | 2,700 | 4,263 | | 6,963 |
| Changes associated with ineffective interest rate swap | | | | | |
| Other (income) expense, net | (7) | 340 | | | 333 |
| (Loss) income before (benefit from) provision for income taxes | (1,022) | (8,262) | 3,170 | | (6,114) |
| (Benefit from) provision for income taxes | (1,631) | 489 | 1,236 | | 94 |
| Equity in loss of subsidiaries | (6,816) | | | 6,816 | |
| Net (loss) income | \$ (6,207) | \$ (8,751) | \$ 1,934 | \$ 6,816 | \$ (6,208) |

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The consolidating statement of operations for BlueLinx Holdings Inc. for the period from July 4, 2010 to October 2, 2010 follows (in thousands):

| | BlueLinx Holdings Inc. | BlueLinx Corporation and Subsidiaries | LLC Subsidiaries | Eliminations | Consolidated |
|--|---------------------------------------|--|-----------------------------|---------------------|---------------------|
| Net sales | \$ | \$ 464,690 | \$ 7,457 | \$ (7,457) | \$ 464,690 |
| Cost of sales | | 414,748 | | | 414,748 |
| Gross profit | | 49,942 | 7,457 | (7,457) | 49,942 |
| Operating expenses: | | | | | |
| Selling, general and administrative | 4,643 | 56,893 | 42 | (7,457) | 54,121 |
| Depreciation and amortization | | 2,151 | 960 | | 3,111 |
| Total operating expenses | 4,643 | 59,044 | 1,002 | (7,457) | 57,232 |
| Operating (loss) income | (4,643) | (9,102) | 6,455 | | (7,290) |
| Non-operating expenses: | | | | | |
| Interest expense | | 4,371 | 4,750 | | 9,121 |
| Changes associated with ineffective interest rate swap | | (1,156) | | | (1,156) |
| Write-off of debt issuance costs | | 183 | | | 183 |
| Other (income) expense, net | | 214 | (22) | | 192 |
| (Loss) income before (benefit from) provision for income taxes | (4,643) | (12,714) | 1,727 | | (15,630) |
| (Benefit from) provision for income taxes | (916) | (536) | 674 | | (778) |
| Equity in loss of subsidiaries | (11,125) | | | 11,125 | |
| Net (loss) income | \$ (14,852) | \$ (12,178) | \$ 1,053 | \$ 11,125 | \$ (14,852) |

The consolidating statement of operations for BlueLinx Holdings Inc. for the period from January 2, 2011 to October 1, 2011 follows (in thousands):

| | BlueLinx Holdings Inc. | BlueLinx Corporation and Subsidiaries | LLC Subsidiaries | Eliminations | Consolidated |
|---------------------|---------------------------------------|--|-----------------------------|---------------------|---------------------|
| Net sales | \$ | \$ 1,364,313 | \$ 22,286 | \$ (22,286) | \$ 1,364,313 |
| Cost of sales | | 1,202,121 | | | 1,202,121 |
| Gross profit | | 162,192 | 22,286 | (22,286) | 162,192 |
| Operating expenses: | | | | | |
| | 4,030 | 186,185 | (8,169) | (22,286) | 159,760 |

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| | | | | | |
|--|-------------|-------------|----------|-----------|-------------|
| Selling, general and administrative | | | | | |
| Depreciation and amortization | | 5,263 | 2,857 | | 8,120 |
| Total operating expenses | 4,030 | 191,448 | (5,312) | (22,286) | 167,880 |
| Operating (loss) income | (4,030) | (29,256) | 27,598 | | (5,688) |
| Non-operating expenses: | | | | | |
| Interest expense | | 9,992 | 13,762 | | 23,754 |
| Changes associated with the ineffective interest rate swap | | (1,751) | | | (1,751) |
| Other expense, net | | 495 | (10) | | 485 |
| (Loss) income before (benefit from) provision for income taxes | (4,030) | (37,992) | 13,846 | | (28,176) |
| (Benefit from) provision for income taxes | (6,972) | 1,711 | 5,400 | | 139 |
| Equity in loss of subsidiaries | (31,257) | | | 31,257 | |
| Net (loss) income | \$ (28,315) | \$ (39,703) | \$ 8,446 | \$ 31,257 | \$ (28,315) |

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The consolidating statement of operations for BlueLinx Holdings Inc. for the period from January 3, 2010 to October 2, 2010 follows (in thousands):

| | BlueLinx Holdings Inc. | BlueLinx Corporation and Subsidiaries | LLC Subsidiaries | Eliminations | Consolidated |
|--|---------------------------------------|--|-----------------------------|---------------------|---------------------|
| Net sales | \$ | \$ 1,436,521 | \$ 22,369 | \$ (22,369) | \$ 1,436,521 |
| Cost of sales | | 1,270,182 | | | 1,270,182 |
| Gross profit | | 166,339 | 22,369 | (22,369) | 166,339 |
| Operating expenses: | | | | | |
| Selling, general and administrative | 8,099 | 181,862 | 132 | (22,369) | 167,724 |
| Depreciation and amortization | | 7,408 | 2,881 | | 10,289 |
| Total operating expenses | 8,099 | 189,270 | 3,013 | (22,369) | 178,013 |
| Operating (loss) income | (8,099) | (22,931) | 19,356 | | (11,674) |
| Non-operating expenses: | | | | | |
| Interest expense | | 10,384 | 14,257 | | 24,641 |
| Changes associated with the ineffective interest rate swap | | (3,217) | | | (3,217) |
| Write-off of debt issuance costs | | 183 | | | 183 |
| Other expense, net | | 428 | 15 | | 443 |
| (Loss) income before (benefit from) provision for income taxes | (8,099) | (30,709) | 5,084 | | (33,724) |
| (Benefit from) provision for income taxes | (2,234) | (475) | 1,983 | | (726) |
| Equity in loss of subsidiaries | (27,133) | | | 27,133 | |
| Net (loss) income | \$ (32,998) | \$ (30,234) | \$ 3,101 | \$ 27,133 | \$ (32,998) |

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The consolidating balance sheet for BlueLinx Holdings Inc. as of October 1, 2011 follows (in thousands):

| | BlueLinx Holdings Inc. | BlueLinx Corporation and Subsidiaries | LLC Subsidiaries | Eliminations | Consolidated |
|--|---------------------------------------|--|-----------------------------|---------------------|---------------------|
| Assets: | | | | | |
| Current assets: | | | | | |
| Cash | \$ 787 | \$ 5,103 | \$ | \$ | \$ 5,890 |
| Receivables | | 184,737 | | | 184,737 |
| Inventories | | 203,777 | | | 203,777 |
| Deferred income tax assets | | 59 | | | 59 |
| Other current assets | 636 | 19,696 | 4,367 | | 24,699 |
| Intercompany receivable | 115,967 | 11,665 | 2,636 | (130,268) | |
| Total current assets | 117,390 | 425,037 | 7,003 | (130,268) | 419,162 |
| Property and equipment: | | | | | |
| Land and land improvements | | 2,983 | 48,947 | | 51,930 |
| Buildings | | 9,871 | 87,954 | | 97,825 |
| Machinery and equipment | | 75,928 | | | 75,928 |
| Construction in progress | | 282 | | | 282 |
| Property and equipment, at cost | | 89,064 | 136,901 | | 225,965 |
| Accumulated depreciation | | (69,558) | (28,656) | | (98,214) |
| Property and equipment, net | | 19,506 | 108,245 | | 127,751 |
| Investment in subsidiaries | (69,657) | | | 69,657 | |
| Non-current deferred income tax assets | | | | | |
| Other non-current assets | | 18,873 | 5,517 | | 24,390 |
| Total assets | \$ 47,733 | \$ 463,416 | \$ 120,765 | \$ (60,611) | \$ 571,303 |
| Liabilities: | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ 1,525 | \$ 87,943 | \$ | \$ | 89,468 |
| Bank overdrafts | | 30,322 | | | 30,322 |
| Accrued compensation | 20 | 4,353 | | | 4,373 |
| Current maturities of long-term debt | | 33,427 | 2,602 | | 36,029 |
| Other current liabilities | 239 | 19,633 | 1,244 | (1) | 21,115 |

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| | | | | | |
|--|-----------|------------|------------|-------------|------------|
| Intercompany payable | 13,185 | 117,086 | | (130,271) | |
| Total current liabilities | 14,969 | 292,764 | 3,846 | (130,272) | 181,307 |
| Non-current liabilities: | | | | | |
| Long-term debt | | 85,007 | 244,344 | | 329,351 |
| Non-current deferred income tax liabilities | | 40 | | | 40 |
| Other non-current liabilities | 3 | 27,842 | | | 27,845 |
| Total liabilities | 14,972 | 405,653 | 248,190 | (130,272) | 538,543 |
| Stockholders' (Deficit) Equity/Parent's Investment | 32,761 | 57,763 | (127,425) | 69,661 | 32,760 |
| Total liabilities and equity | \$ 47,733 | \$ 463,416 | \$ 120,765 | \$ (60,611) | \$ 571,303 |

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The consolidating balance sheet for BlueLinx Holdings Inc. as of January 1, 2011 follows (in thousands):

| | BlueLinx Holdings Inc. | BlueLinx Corporation and Subsidiaries | LLC Subsidiaries | Eliminations | Consolidated |
|---|---------------------------------------|--|-----------------------------|---------------------|---------------------|
| Assets: | | | | | |
| Current assets: | | | | | |
| Cash | \$ 384 | \$ 13,913 | \$ | \$ | \$ 14,297 |
| Receivables | | 119,202 | | | 119,202 |
| Inventories | | 188,250 | | | 188,250 |
| Deferred income tax assets, current | | 143 | | | 143 |
| Other current assets | 669 | 20,500 | 1,599 | | 22,768 |
| Intercompany receivable | 57,208 | 8,759 | | (65,967) | |
| Total current assets | 58,261 | 350,767 | 1,599 | (65,967) | 344,660 |
| Property and equipment: | | | | | |
| Land and land improvements | | 3,027 | 49,513 | | 52,540 |
| Buildings | | 8,069 | 88,651 | | 96,720 |
| Machinery and equipment | | 70,860 | | | 70,860 |
| Construction in progress | | 2,028 | | | 2,028 |
| Property and equipment, at cost | | 83,984 | 138,164 | | 222,148 |
| Accumulated depreciation | | (65,564) | (26,953) | | (92,517) |
| Property and equipment, net | | 18,420 | 111,211 | | 129,631 |
| Investment in subsidiaries | (47,943) | | | 47,943 | |
| Other non-current assets | | 19,602 | 31,126 | | 50,728 |
| Total assets | \$ 10,318 | \$ 388,789 | \$ 143,936 | \$ (18,024) | \$ 525,019 |
| Liabilities: | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ 59 | \$ 62,768 | \$ | \$ | 62,827 |
| Bank overdrafts | | 23,089 | | | 23,089 |
| Accrued compensation | | 4,594 | | | 4,594 |
| Current maturities of long-term debt | | | 1,190 | | 1,190 |
| Other current liabilities | | 15,065 | 483 | 1,244 | 16,792 |
| Intercompany payable | 9,264 | 57,947 | | (67,211) | |
| Total current liabilities | 9,323 | 163,463 | 1,673 | (65,967) | 108,492 |

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| | | | | | |
|---|-----------|------------|------------|-------------|------------|
| Non-current liabilities: | | | | | |
| Long-term debt | | 97,200 | 284,479 | | 381,679 |
| Non-current deferred income tax liabilities | | 192 | | | 192 |
| Other non-current liabilities | 4 | 33,661 | | | 33,665 |
| Total liabilities | 9,327 | 294,516 | 286,152 | (65,967) | 524,028 |
| Stockholders' Equity | | | | | |
| (Deficit)/Parent's Investment | 991 | 94,273 | (142,216) | 47,943 | 991 |
| Total liabilities and equity | \$ 10,318 | \$ 388,789 | \$ 143,936 | \$ (18,024) | \$ 525,019 |

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The consolidating statement of cash flows for BlueLinx Holdings Inc. for the period from January 2, 2011 to October 1, 2011 follows (in thousands):

| | BlueLinx Holdings Inc. | BlueLinx Corporation and Subsidiaries | LLC Subsidiaries | Eliminations | Consolidated |
|--|---------------------------------------|--|-----------------------------|---------------------|---------------------|
| Cash flows from operating activities: | | | | | |
| Net (loss) income | \$ (28,315) | \$ (39,703) | \$ 8,446 | \$ 31,257 | \$ (28,315) |
| Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities: | | | | | |
| Depreciation and amortization | | 5,413 | 2,707 | | 8,120 |
| Amortization of debt issuance costs | | 2,029 | | | 2,029 |
| Gain from the sale of properties | | | (6,939) | | (6,939) |
| Gain from property insurance settlement | | (1,230) | | | (1,230) |
| Changes associated with the ineffective interest rate swap | | (1,751) | | | (1,751) |
| Gain on modification of lease agreement | | (1,971) | | | (1,971) |
| Deferred income tax benefit | | (282) | | | (282) |
| Share-based compensation expense | | 1,578 | | | 1,578 |
| Decrease (increase) in restricted cash | | 443 | | | 443 |
| Equity in earnings of subsidiaries | 31,257 | | | (31,257) | |
| Changes in assets and liabilities: | | | | | |
| Receivables | | (65,535) | | | (65,535) |
| Inventories | | (15,527) | | | (15,527) |
| Accounts payable | 1,466 | 25,175 | | | 26,641 |
| Changes in other working capital | 271 | 5,227 | (4,133) | | 1,365 |
| Intercompany receivable | (58,759) | (2,906) | (1,392) | 63,057 | |
| Intercompany payable | 3,921 | 59,139 | | (63,060) | |
| Other | 17 | 80 | (2,271) | | (2,174) |
| Net cash provided by (used in) operating activities | (50,142) | (29,821) | (3,582) | (3) | (83,548) |

Cash flows from investing activities:

| | | | | | |
|---|---------|---------|--------|---|---------|
| Investment in subsidiaries | (8,038) | | 8,035 | 3 | |
| Property, plant and equipment investments | | (6,032) | | | (6,032) |
| Proceeds from disposition of assets | | | 8,994 | | 8,994 |
| Net cash (used in) provided by investing activities | (8,038) | (6,032) | 17,029 | 3 | 2,962 |

Cash flows from financing activities:

| | | | | | |
|--|--------|----------|----------|----|----------|
| Net transactions with Parent | | | | | |
| Repurchase of common stock | | | | | |
| Increase in revolving credit facility | | 21,235 | | | 21,235 |
| Debt financing costs | | (200) | (2,447) | | (2,647) |
| Payment of principal on mortgage | | | (38,724) | | (38,724) |
| Payments on capital lease obligations | | (1,224) | | | (1,224) |
| Increase in bank overdrafts | | 7,233 | | | 7,233 |
| Increase in restricted cash related to the mortgage | | | 27,724 | | 27,724 |
| Proceeds from stock rights offering less expenses paid | 58,582 | | | | 58,582 |
| Intercompany receivable | | | | | |
| Intercompany payable | | | | | |
| Other | | | | | |
| Net cash provided by (used in) financing activities | 58,582 | 27,044 | (13,447) | | 72,179 |
| Decrease in cash | 402 | (8,809) | | | (8,407) |
| Balance, beginning of period | 384 | 13,913 | | | 14,297 |
| Balance, end of period | \$ 786 | \$ 5,104 | \$ | \$ | \$ 5,890 |
| Noncash transactions | | | | | |
| Capital leases | \$ | \$ 3,147 | \$ | \$ | \$ 3,147 |

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The consolidating statement of cash flows for BlueLinx Holdings Inc. for the period from January 3, 2010 to October 2, 2010 follows (in thousands):

| | BlueLinx Holdings Inc. | BlueLinx Corporation and Subsidiaries | LLC Subsidiaries | Eliminations | Consolidated |
|---|---------------------------------------|--|-----------------------------|---------------------|---------------------|
| Cash flows from operating activities: | | | | | |
| Net (loss) income | \$ (32,998) | \$ (30,234) | \$ 3,101 | \$ 27,133 | \$ (32,998) |
| Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities: | | | | | |
| Depreciation and amortization | | 7,408 | 2,881 | | 10,289 |
| Amortization of debt issuance costs | | 525 | 501 | | 1,026 |
| Payments from terminating the Georgia-Pacific supply agreement | | 4,706 | | | 4,706 |
| Changes associated with the ineffective interest rate swap | | (3,217) | | | (3,217) |
| Write-off of debt issuance costs | | 183 | | | 183 |
| Deferred income tax benefit | | (621) | | | (621) |
| Share-based compensation expense | 1,361 | 1,519 | | | 2,880 |
| Decrease in restricted cash related to the ineffective interest rate swap, insurance, and other | | 6,009 | | | 6,009 |
| Equity in earnings of subsidiaries | 27,133 | | | (27,133) | |
| Changes in assets and liabilities: | | | | | |
| Receivables | | (47,294) | | | (47,294) |
| Inventories | | (22,384) | | | (22,384) |
| Accounts payable | 2,794 | 13,277 | | | 16,071 |
| Changes in other working capital | 212 | 20,758 | 315 | | 21,285 |
| Intercompany receivable | 9,460 | 903 | | (10,363) | |
| Intercompany payable | (903) | (9,433) | (27) | 10,363 | |
| Other | (3) | (3,820) | (26) | | (3,849) |
| Net cash provided by (used in) operating activities | 7,056 | (61,715) | 6,745 | | (47,914) |

Cash flows from investing activities:

| | | | | | |
|---|---------|---------|--|-------|---------|
| Investment in subsidiaries | (1,767) | | | 1,767 | |
| Property, plant and equipment investments | | (2,689) | | | (2,689) |
| Proceeds from disposition of assets | | 689 | | | 689 |
| Net cash (used in) provided by investing activities | (1,767) | (2,000) | | 1,767 | (2,000) |

Cash flows from financing activities:

| | | | | | |
|---|---------|-----------|---------|---------|-----------|
| Net transactions with Parent | | | 1,767 | (1,767) | |
| Repurchase of common stock | (583) | | | | (583) |
| Increase in revolving credit facility | | 45,996 | | | 45,996 |
| Payments on capital lease obligations | | (564) | | | (564) |
| Increase in bank overdrafts | | 3,441 | | | 3,441 |
| Increase in restricted cash related to the mortgage | | | (8,397) | | (8,397) |
| Debt financing costs | | (6,473) | (48) | | (6,521) |
| Intercompany receivable | (4,716) | | | 4,716 | |
| Intercompany payable | | 4,716 | | (4,716) | |
| Other | 6 | | | | 6 |
| Net cash (used in) provided by financing activities | (5,293) | 47,116 | (6,678) | (1,767) | 33,378 |
| Increase (decrease) in cash | (4) | (16,599) | 67 | | (16,536) |
| Balance, beginning of period | 32 | 29,129 | 296 | | 29,457 |
| Balance, end of period | \$ 28 | \$ 12,530 | \$ 363 | \$ | \$ 12,921 |
| Noncash transactions | | | | | |
| Capital leases | \$ | \$ 1,889 | \$ | \$ | \$ 1,889 |

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 consolidated 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 January 1, 2011 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, will likely r 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 Risk Factors in our Annual Report on Form 10-K for the year ended January 1, 2011 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, especially as a result of conditions in the residential housing market;
- inventory levels of new and existing homes for sale;
- general economic and business conditions in the United States;
- the financial condition and credit worthiness of our customers;
- the activities of competitors;
- changes in significant operating expenses;
- fuel costs;
- risk of losses associated with accidents;
- exposure to product liability claims;
- changes in the availability of capital and interest rates;
- immigration patterns and job and household formation;
- our ability to identify acquisition opportunities and effectively and cost-efficiently integrate acquisitions;
- our ability to finalize all necessary agreements for the launch of our privately branded engineered lumber line;
- customer acceptance of our privately branded engineered lumber line;
- adverse weather patterns or conditions;
- acts of war or terrorist activities;
- variations in the performance of the financial markets, including the credit markets;

the other factors described herein under and in our Annual Report on Form 10-K for the year ended January 1, 2011 as filed with the SEC.

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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 11,500 customers through our network of more than 55 distribution centers which serve all major metropolitan 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 39% of our third quarter of fiscal 2011 gross sales. Specialty products include roofing, insulation, moulding, engineered wood, vinyl products (used primarily in siding), outdoor living, and metal products (excluding rebar and remesh). Specialty products accounted for approximately 61% of our third quarter of fiscal 2011 gross sales.

Industry Conditions

As noted above, we operate in a changing environment in which new risks can emerge from time to time. A number of factors cause our results of operations to fluctuate from period to period. Many of these factors are seasonal or cyclical in nature. Conditions in the United States housing market continue to be at historically low levels. Our operating results have declined during the past several years as they are closely tied to U.S. housing starts. Additionally, the mortgage markets have experienced substantial disruption due to the number of defaults in the market. This disruption and the related defaults have increased the inventory of homes for sale and also have caused lenders to tighten mortgage qualification criteria which further reduces demand for new homes. We expect the downturn in new housing activity will continue to negatively impact our operating results for the foreseeable future. We continue to prudently manage our inventories, receivables and spending in this environment. However, along with many forecasters, we believe U.S. housing demand will improve in the long term based on population demographics and a variety of other factors.

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 2011, the third quarter of fiscal 2010, the first nine months of fiscal 2011, the first nine months of fiscal 2010, fiscal 2010 and fiscal 2009.

| | Fiscal Q3 2011 | Fiscal Q3 2010 | Fiscal 2011 YTD | Fiscal 2010 YTD | Fiscal 2010 | Fiscal 2009 |
|--------------------------|-------------------------------|-------------------------------|--------------------------------|--------------------------------|------------------------|------------------------|
| | (Dollars in millions) | | | | | |
| | (Unaudited) | | | | | |
| <i>Sales by Category</i> | | | | | | |
| Structural Products | \$ 187 | \$ 214 | \$ 542 | \$ 683 | \$ 838 | \$ 738 |
| Specialty Products | 297 | 264 | 849 | 783 | 1,005 | 948 |
| Other(1) | (11) | (13) | (27) | (29) | (39) | (40) |
| Total Sales | \$ 473 | \$ 465 | \$ 1,364 | \$ 1,437 | \$ 1,804 | \$ 1,646 |

Sales Variances

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| | | | | | | |
|-----------------------|------|--------|--------|-------|------|---------|
| Unit Volume \$ Change | \$ | \$ | \$ | \$ | \$ | \$ |
| Price/Other(1) | 8 | (6) | (71) | 52 | 36 | (1,036) |
| | | 22 | (2) | 105 | 122 | (98) |
| Total \$ Change | \$ | \$ | \$ | \$ | \$ | \$ |
| | 8 | 16 | (73) | 157 | 158 | (1,134) |
| Unit Volume % Change | 0.1% | (1.2)% | (4.9)% | 3.9% | 2.2% | (36.6)% |
| Price/Other(1) | 1.7% | 4.8% | (0.1)% | 8.4% | 7.4% | (4.2)% |
| Total % Change | 1.8% | 3.6% | (5.0)% | 12.3% | 9.6% | (40.8)% |

(1) Other includes unallocated allowances and discounts.

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The following table sets forth changes in gross margin dollars and percentage changes by product category, and percentage changes in unit volume growth by product, in each case for the third quarter of fiscal 2011, the third quarter of fiscal 2010, the first nine months of fiscal 2011, the first nine months of fiscal 2010, fiscal 2010 and fiscal 2009.

| | Fiscal Q3 2011 | Fiscal Q3 2010 | Fiscal 2011 YTD (Dollars in millions) (Unaudited) | Fiscal 2010 YTD (Dollars in millions) (Unaudited) | Fiscal 2010 | Fiscal 2009 |
|--|---------------------------|---------------------------|--|--|------------------------|------------------------|
| <i>Gross Margin \$ s by Category</i> | | | | | | |
| Structural Products | \$ 19 | \$ 16 | \$ 53 | \$ 62 | \$ 77 | \$ 73 |
| Specialty Products | 45 | 38 | 123 | 115 | 148 | 132 |
| Other (1) | (6) | (4) | (14) | (11) | (14) | (12) |
| Total Gross Margin \$ s | \$ 58 | \$ 50 | \$ 162 | \$ 166 | \$ 211 | \$ 193 |
| <i>Gross Margin % s by Category</i> | | | | | | |
| Structural Products | 10.0% | 7.4% | 9.8% | 9.1% | 9.1% | 9.9% |
| Specialty Products | 15.1% | 14.4% | 14.5% | 14.7% | 14.7% | 13.9% |
| Total Gross Margin % s | 12.3% | 10.7% | 11.9% | 11.6% | 11.7% | 11.7% |
| <i>Unit Volume Change by Product</i> | | | | | | |
| Structural Products | (14.0)% | (4.3)% | (19.2)% | 1.7% | (2.5)% | (40.3)% |
| Specialty Products | 11.4% | 1.3% | 7.7% | 5.7% | 5.7% | (32.8)% |
| Total Change in Unit Volume % s | 0.1% | (1.2)% | (4.8)% | 3.9% | 2.2% | (36.6)% |

(1) 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 2011, the third quarter of fiscal 2010, the first nine months of fiscal 2011, the first nine months of fiscal 2010, fiscal 2010 and fiscal 2009.

| | Fiscal Q3 2011 | Fiscal Q3 2010 | Fiscal 2011 YTD (Dollars in millions) (Unaudited) | Fiscal 2010 YTD (Dollars in millions) (Unaudited) | Fiscal 2010 | Fiscal 2009 |
|--------------------------------|---------------------------|---------------------------|--|--|------------------------|------------------------|
| <i>Sales by Channel</i> | | | | | | |
| Warehouse/Reload | \$ 384 | \$ 371 | \$ 1,091 | \$ 1,130 | \$ 1,429 | \$ 1,251 |
| Direct | 100 | 107 | 300 | 336 | 414 | 435 |
| Other(1) | (11) | (13) | (27) | (29) | (39) | (40) |
| Total | \$ 473 | \$ 465 | \$ 1,364 | \$ 1,437 | \$ 1,804 | \$ 1,646 |
| <i>Gross Margin by Channel</i> | | | | | | |
| Warehouse/Reload | \$ 57 | \$ 48 | \$ 156 | \$ 159 | \$ 201 | \$ 177 |

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| | | | | | | |
|----------|-------|-------|--------|--------|--------|--------|
| Direct | 7 | 6 | 20 | 18 | 24 | 28 |
| Other(1) | (6) | (4) | (14) | (11) | (14) | (12) |
| Total | \$ 58 | \$ 50 | \$ 162 | \$ 166 | \$ 211 | \$ 193 |

| | Fiscal Q3 2011 | Fiscal Q3 2010 | Fiscal 2011 YTD (Dollars in millions) (Unaudited) | Fiscal 2010 YTD | Fiscal 2010 | Fiscal 2009 |
|----------------------------------|-------------------------------|-------------------------------|--|--------------------------------|------------------------|------------------------|
| <i>Gross Margin % by Channel</i> | | | | | | |
| Warehouse/Reload | 14.8% | 12.9% | 14.3% | 14.1% | 14.1% | 14.1% |
| Direct | 7.0% | 5.6% | 6.7% | 5.4% | 5.8% | 6.4% |
| Total | 12.3% | 10.7% | 11.9% | 11.6% | 11.7% | 11.7% |

(1) Other includes unallocated allowances and adjustments.

Selling, general, and administrative expenses. Selling, general and administrative expenses were \$54.5 million, or 11.5% of net sales, for the third quarter of fiscal 2011, compared to \$54.1 million, or 11.6% of net sales, a \$0.4 million increase compared to the third quarter of fiscal 2010. The increase in selling, general, and administrative expense included a \$1.1 million net reduction in force charge, an increase in variable compensation of \$0.6 million and fuel of \$1.0 million. These increases were primarily offset by a \$2.0 million gain on the modification of the lease for our corporate headquarters in Atlanta, GA and a \$1.2 million gain from an insurance recovery on the Newtown, CT facility. Selling, general and administrative expenses for the third quarter of fiscal 2010 included \$3.0 million of tender offer expenses, which was offset by a gain of \$5.2 million from settlement of the class action lawsuit regarding oriented strand board in which we were a claimant.

Depreciation and amortization. Depreciation and amortization expense totaled \$2.6 million for the third quarter of fiscal 2011, compared to \$3.1 million for the third quarter of fiscal 2010. The \$0.5 million decrease in depreciation and amortization is primarily related to a portion of our property and equipment becoming fully depreciated during fiscal 2011 coupled with capital expenditures not keeping pace with our historical purchase levels of property and equipment.

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Operating income (loss). Operating income for the third quarter of fiscal 2011 was \$1.2 million, or 0.2% of sales, compared to operating loss of \$7.3 million, or (1.6)% of sales, in the third quarter of fiscal 2010, reflecting a increase in gross profit dollars of \$8.2 million, as a result of factors described above.

Interest expense. Interest expense totaled \$7.0 million for the third quarter of fiscal 2011 compared to \$9.1 million for the third quarter of fiscal 2010. The \$2.1 million decline is largely due to the termination of the ineffective interest rate swap in March of fiscal 2011, which resulted in reduced fees related to the ineffective interest rate swap classified as interest expense of \$1.9 million and a \$0.6 million reduction in interest expense due to reductions in principal related to the \$38.3 million payment made as a result of the mortgage amendment. This decrease was partially offset by a \$0.3 million increase in amortization of debt issuance costs and a \$0.2 million increase in interest expense incurred on the revolving credit facility. Interest expense included \$0.9 million and \$0.6 million of debt issue cost amortization for the third quarter of fiscal 2011 and the third quarter of fiscal 2010, respectively. During the third quarter of fiscal 2011, interest expense related to our revolving credit facility and mortgage was \$2.1 million and \$4.0 million, respectively. During the third quarter of fiscal 2010, interest expense related to our revolving credit facility and mortgage was \$1.9 million and \$4.6 million, respectively. See *Liquidity and Capital Resources* below for a description of amendments to both the U.S. revolving credit facility and the mortgage.

Changes associated with ineffective interest rate swap. The \$1.2 million of income for the third quarter of fiscal 2010 is related to the ineffective interest rate swap which was terminated in March of fiscal 2011.

Provision for (benefit from) income taxes. The effective tax rate was (1.5)% and 5.0% for the third quarter of fiscal 2011 and the third quarter of fiscal 2010, respectively. The effective tax rate in 2011 is driven by a full valuation allowance recorded against our third quarter federal and state benefit, tax expense related to gross receipts, Canadian and certain state taxes. The 5.0% effective rate in 2010 is driven by a full valuation allowance recorded against our third quarter federal and state benefit, tax expense related to gross receipts, Canadian and certain state taxes and income tax expense allocated to accumulated other comprehensive loss.

Net loss. Net loss for the third quarter of fiscal 2011 was \$(6.2) million compared to a net loss of \$(14.9) million for the third quarter of fiscal 2010 as a result of the above factors.

On a per-share basis, basic and diluted loss applicable to common stockholders for the third quarter of fiscal 2011 and for the third quarter of fiscal 2010 were each \$(0.12) and \$(0.48), respectively.

First nine months of Fiscal 2011 Compared to First nine months of Fiscal 2010

The following table sets forth our results of operations for the first nine months of fiscal 2011 and the first nine months of fiscal 2010.

| | First nine months of Fiscal 2011 (Unaudited) | % of Net Sales | First nine months of Fiscal 2010 (Unaudited) | % of Net Sales |
|--|---|-------------------------------|---|-------------------------------|
| | (Dollars in thousands) | | | |
| Net sales | \$ 1,364,313 | 100.0% | \$ 1,436,521 | 100.0% |
| Gross profit | 162,192 | 11.9% | 166,339 | 11.6% |
| Selling, general and administrative | 159,760 | 11.7% | 167,724 | 11.7% |
| Depreciation and amortization | 8,120 | 0.6% | 10,289 | 0.7% |
| Operating loss | (5,688) | (0.4)% | (11,674) | (0.8)% |
| Interest expense | 23,754 | 1.7% | 24,641 | 1.7% |
| Changes associated with the ineffective interest rate swap | (1,751) | (0.1)% | (3,217) | (0.2)% |
| Write-off of debt issuance costs | | 0.0% | 183 | 0.0% |
| Other expense, net | 485 | 0.0% | 443 | 0.0% |

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| | | | | |
|---|-------------|--------|-------------|--------|
| Loss before provision for income taxes | (28,176) | (2.1)% | (33,724) | (2.3)% |
| Provision for (benefit from) income taxes | 139 | 0.0% | (726) | (0.1)% |
| Net loss | \$ (28,315) | (2.1)% | \$ (32,998) | (2.3)% |

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Net sales. For the first nine months of fiscal 2011, net sales decreased by 5.0%, or \$72.2 million, to \$1.4 billion. Sales during the first nine months were negatively impacted by a decrease in housing starts and a decrease of 20.7% in structural sales, partially offset by an 8.4% increase in specialty sales. New home construction has a significant impact on our sales. Specialty sales, primarily consisting of roofing, specialty panels, insulation, moulding, engineered wood products, vinyl siding, composite decking and metal products (excluding rebar and remesh) increased by \$65.3 million or 8.4% compared to the first nine months of fiscal 2010, reflecting a 7.7% increase in unit volume and a 0.7% increase in product prices. Structural sales, including plywood, OSB, lumber and metal rebar, decreased by \$140.7 million, or 20.7% from a year ago, primarily due to a 19.2% decrease in unit volume and a 1.5% decrease in product prices.

Gross profit. Gross profit for the first nine months of fiscal 2011 was \$162.2 million, or 11.9% of sales, compared to \$166.3 million, or 11.6% of sales, in the prior year period. The decrease in gross profit dollars compared to the first nine months of fiscal 2010 was driven primarily by a decrease in structural sales of 20.7%, partially offset by an 8.4% increase in specialty sales. The decrease in structural sales is due to a 19.2% decrease in unit volume as a result of the reduced demand in 2011 compared to 2010, which primarily resulted from the expiration of the housing credit in April 2010, and a 1.5% reduction in product prices. The increase in specialty sales is due to a 0.7% increase in product prices and a 7.7% increase in unit volume, which resulted from our focus on growing our specialty sales. The gross margin percentage increased to 11.9% primarily due to a shift in sales mix resulting in an increase in the higher gross margin specialty product sales combined with increased margins in both specialty and structural products due to our efforts to manage gross margins across all product categories.

Selling, general, and administrative. Selling, general and administrative expenses for the first nine months of fiscal 2011 were \$159.8 million, or 11.7% of net sales, compared to \$167.7 million, or 11.7% of net sales, during the first nine months of fiscal 2010. The decrease in selling, general, and administrative expense included a \$2.0 million gain on the modification of the lease for our corporate headquarters in Atlanta, GA, a \$1.2 million gain from an insurance recovery on the Newtown, CT facility, and a \$6.9 million gain on the sale of real estate in the first nine months of fiscal 2011. These decreases in selling, general, and administrative expenses were partially offset by a \$1.3 million reduction in force charge. Selling, general and administrative expenses for the first nine months of fiscal 2010 included \$3.0 million of tender offer expenses, which was offset by a gain of \$5.2 million from settlement of the class action lawsuit regarding oriented strand board in which we were a claimant.

Depreciation and amortization. Depreciation and amortization expense totaled \$8.1 million for the first nine months of fiscal 2011, compared with \$10.3 million for the first nine months of fiscal 2010. The \$2.2 million decrease in depreciation and amortization is primarily related to a portion of our property and equipment becoming fully depreciated during fiscal 2011 coupled with capital expenditures not keeping pace with our historical purchase levels of property and equipment. In addition, certain depreciating assets were sold during the current period.

Operating loss. Operating loss for the first nine months of fiscal 2011 was \$(5.7) million, or (0.4)% of sales, compared to \$(11.7) million, or (0.8)% of sales, in the prior year period. The change in operating loss is a result of the above factors, including a 30 basis point increase in the gross margin percentage, a decrease in selling, general, and administrative expenses, and a decrease in depreciation resulting primarily from the sale of real estate in the first quarter of 2011.

Interest expense. Interest expense totaled \$23.8 million for the first nine months of fiscal 2011 compared to \$24.6 million for the first nine months of fiscal 2010. The \$0.8 million decrease is largely due to a \$3.7 million decrease in swap and other fixed charges due to the termination of the ineffective interest rate swap and a \$0.7 decrease in interest expense attributable to the mortgage. This decrease was offset by a \$2.4 million increase in interest expense from our U.S. revolving credit facility related to a higher average debt balance and a \$1.0 million increase in amortization of debt issuance costs related to the additional costs capitalized for the amendment of the U.S. revolving credit facility in 2010. Interest expense included \$2.0 million and \$1.0 million of debt issue cost amortization for the first nine months of fiscal 2011 and for the first nine months of fiscal 2010, respectively. During the first nine months of fiscal 2011, interest expense related to our U.S. revolving credit facility and mortgage was \$6.4 million and \$13.1 million, respectively. During the first nine months of fiscal 2010, interest expense related to our U.S. revolving credit facility and mortgage was \$4.0 million and \$13.8 million (includes the \$0.6 million

prepayment penalty), respectively. See Liquidity and Capital Resources below for a description of amendments to both the U.S. revolving credit facility and the mortgage.

Changes associated with ineffective interest rate swap. Changes associated with the ineffective interest rate swap totaled \$1.8 million of income for the first nine months of fiscal 2011 compared to \$3.2 million of income for the first nine months of fiscal 2010. The decrease is primarily related to the change in the swap's fair value and a decrease in amortization expense due to the termination of the swap in March 2011.

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Provision for(benefit from) income taxes. The effective tax rate was (0.5)% and 2.2% for the first nine months of fiscal 2011 and the first nine months of fiscal 2010, respectively. The effective tax rate in 2011 is driven by a full valuation allowance recorded against our year to date federal and state benefit, tax expense related to gross receipts, Canadian and certain state taxes. The 2.2% effective rate in 2010 is driven by a full valuation allowance recorded against our year to date federal and state benefit, tax expense related to gross receipts, Canadian and certain state taxes and income tax expense allocated to accumulated other comprehensive loss.

Net loss. Net loss for the first nine months of fiscal 2011 was \$(28.3) million compared to a net loss of \$(33.0) million for the first nine months of fiscal 2010 as a result of the above factors.

On a per-share basis, basic and diluted loss per share applicable to common stockholders for the first nine months of fiscal 2011 and for the first nine months of fiscal 2010 were \$(0.75) and \$(1.08), 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 to the impact of poor weather on the construction market. During fiscal year 2011 we experienced significant business disruption, in excess of normal seasonal fluctuations, due to the record snow fall in the Northeast in the winter months. 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 generally peaks in the third quarter, related to the building season.

Liquidity and Capital Resources

We depend on cash flow from operations and funds available under our revolving credit facilities to finance working capital needs and capital expenditures. We had approximately \$148.9 million of excess availability under our amended U.S. revolving credit facility and \$1.8 million under our Canadian revolving credit facility, described further below, as of October 1, 2011. As of the period ended October 1, 2011, under our amended U.S. revolving credit facility, we were required to maintain a fixed charge coverage ratio of 1.1 to 1.0 in the event our excess availability falls below the greater of \$30 million or the amount equal to 15% of the lesser of the borrowing base or \$400 million. If we fail to maintain this minimum excess availability, the amended U.S. revolving credit facility requires us to (i) maintain certain financial ratios, which we would not meet with current operating results, and (ii) limit our capital expenditures, which would have a negative impact on our ability to finance working capital needs and capital expenditures.

On July 22, 2011, we concluded an offering of our common stock to our stockholders, pursuant to which we distributed to our common stockholders transferable rights to subscribe for and purchase up to \$60 million of our common stock. In conjunction with the rights offering, we entered into an investment agreement with Cerberus ABP Investor LLC, which beneficially owned approximately 55% of our common stock before giving effect to the rights offering, to backstop the rights offering, subject to certain conditions, by purchasing shares of common stock that related to any rights that remained unexercised at the expiration of the rights offering. The rights offering was fully subscribed and as a result the back stop provisions with Cerberus were not utilized. The rights offering resulted in gross proceeds of approximately \$60 million. The majority of the gross proceeds from the rights offering of approximately \$56 million were used to pay down the U.S. revolving credit facility. We accounted for the rights issued as a component of additional paid in capital as they were indexed to the Company's equity and there were no net cash settlement provisions. The amendment to our U.S. revolving credit facility, which was a condition to the rights offering, became effective upon the successful completion of the rights offering. In addition, as a condition to the rights offering, we entered into an amendment to our mortgage. We believe that the amounts available from our revolving credit facilities and other sources are sufficient to fund our routine operations and capital requirements for the next 12 months. If economic conditions, especially those related to the housing market, do not improve, we may need to seek additional sources of capital to support our operations.

We may elect 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 any 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 completing acquisitions in the future. For a discussion of the risks associated with acquisitions, see the risk factor Integrating acquisitions may be time-consuming and create costs that could reduce our net income and cash flows set forth under Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended January 1, 2011, as filed with the SEC.

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

| | October 1, 2011 | January 1, 2011 |
|---|---|---|
| | (Dollars in thousands) | |
| | (Unaudited) | |
| Working capital | \$ 237,855 | \$ 236,168 |
| | First nine months of Fiscal 2011 | First nine months of Fiscal 2010 |
| | (Dollars in thousands) | |
| | (Unaudited) | |
| Cash flows used in operating activities | \$ (83,548) | \$ (47,914) |
| Cash flows provided by (used in) investing activities | 2,962 | (2,000) |
| Cash flows provided by financing activities | 72,179 | 33,378 |

Working Capital

Working capital increased by \$1.7 million to \$237.9 million at October 1, 2011 from \$236.2 million at January 1, 2011. The increase in working capital was primarily attributable to increases in receivables, inventory, and other current assets partially offset by increases in accounts payable, overdrafts, current maturities of long-term debt, and other current liabilities. We increased inventory levels to meet existing demand, and the increase in accounts receivable are due to seasonal factors common in the building products distribution industry. Our accounts payable and overdrafts increased as we purchased more products to meet existing demand. Current debt also increased due to reclassifying a portion of our long-term debt to current.

Operating Activities

During the first nine months of fiscal 2011, cash flows used in operating activities totaled \$83.5 million. The primary drivers of cash flow used in operations were increases in accounts receivable of \$65.5 million due to an increase in sales volume coupled with seasonal payment patterns and an increase in inventories of \$15.5 million due to an increase in purchases to meet current demand. These cash outflows were offset by an increase in accounts payable of \$26.6 million due the seasonality of our business and the related purchasing patterns.

During the first nine months of fiscal 2010, cash flows used in operating activities totaled \$47.9 million. The primary drivers of cash flow used in operations were increases in accounts receivable of \$47.3 million due to an increase in sales volume coupled with seasonal payment patterns and a increase in inventories of \$22.4 million due to an increase in purchases for new specialty programs and to meet increased demand associated with seasonality. In addition, we had a \$22.5 million decrease in cash flows in operating activities due to our net loss of \$33.0 million partially offset by non-cash charges of \$10.5 million. These cash outflows were offset by an increase in accounts payable of \$16.1 million due the seasonality of our business; a decrease in other working capital of \$21.3 million largely due to a federal tax refund of \$20.0 million received in fiscal 2010; and a decrease in restricted cash related to the interest rate swap and insurance of \$6.0 million.

Investing Activities

During the first nine months of fiscal 2011 and fiscal 2010, cash flows provided by (used in) investing activities totaled \$3.0 million and \$(2.0) million, respectively.

During the first nine months of fiscal 2011 and fiscal 2010, our expenditures for property and equipment were \$6.0 million and \$2.7 million, respectively. These expenditures were used primarily to purchase a replacement property for a facility sold during the first quarter of 2011, computer equipment and leasehold improvements. Our capital expenditures for fiscal 2011 are anticipated to be paid from our revolving credit facilities.

Proceeds from the disposition of property totaled \$9.0 million and \$0.7 million for the first nine months of fiscal 2011 and fiscal 2010, respectively. The proceeds from disposition of assets in the first nine months of fiscal 2011 were

primarily related to the sale of our Nashville facility for \$6.9 million.

Table of Contents***Financing Activities***

Net cash provided by financing activities was \$72.2 million and \$33.4 million during the first nine months of fiscal 2011 and the first nine months of fiscal 2010, respectively. The net cash provided by financing activities primarily reflected an increase in the balance of our revolving credit facilities of \$21.2 million, an increase in bank overdrafts of \$7.2 million, a decrease in restricted cash related to our mortgage of \$27.7 million, and an increase in cash flows attributable to the stock rights offering, net of expenses, which totaled \$58.6. These increases were offset by payments made on our mortgage totaling \$38.7 and debt financing costs of \$2.6 million. See Note 8 for discussion of future mortgage principal payments. The net cash provided by financing activities in the first nine months of fiscal 2010 primarily reflected an increase in the balance of our U.S. revolving credit facility of \$46.0 million and an increase in bank overdrafts of \$3.4 million partially offset by an increase in restricted cash related to our mortgage of \$8.4 million and debt financing costs of \$6.5 million.

Debt and Credit Sources

As of October 1, 2011, we had outstanding borrowings of \$115.6 million and excess availability of \$148.9 million under the terms of our U.S. revolving credit facility (the U.S. revolving credit facility). The interest rate on the U.S. revolving credit facility was 4.2% at October 1, 2011. As of October 1, 2011 and January 1, 2011, we had outstanding letters of credit totaling \$2.6 million and \$5.9 million, respectively, primarily for the purposes of securing collateral requirements under the interest rate swap (which was terminated in March of 2011), casualty insurance programs and for guaranteeing lease and certain other obligations.

On July 7, 2010, we reached an agreement with Wells Fargo Bank, National Association, successor by merger to Wachovia Bank, National Association, and the other signatories to our existing U.S. revolving credit facility, dated August 4, 2006, as amended, to amend the terms thereof. This amendment extended the date of final maturity of the facility to January 7, 2014 and decreased the maximum availability under the agreement from \$500 million to \$400 million. This amendment also includes an additional \$100 million uncommitted accordion credit facility, which will permit us to increase the maximum borrowing capacity up to \$500 million. As a result of reducing our maximum borrowing capacity from \$500 million to \$400 million, we recorded expense of \$0.2 million in fiscal 2010 for the write-off of debt issuance costs associated with the reduction in borrowing capacity. We also incurred \$6.5 million in new debt issuance costs, which we capitalized and will continue to amortize to interest expense over the renewed debt term.

On May 10, 2011, we entered into an amendment to our U.S. revolving credit facility, which became effective on July 29, 2011, following the successful completion of the rights offering described below. Certain components of the borrowing base calculation and excess liquidity calculation were adjusted as part of this amendment. The most significant of the changes included in the amendment are described in the discussion of the terms and covenants of the U.S. revolving credit facility below.

As of October 1, 2011, under the amended agreement, our U.S. revolving credit facility contains customary negative covenants and restrictions for asset based loans. Our most significant covenant is a requirement that we maintain a fixed charge coverage ratio of 1.1 to 1.0 in the event our excess availability falls below the greater of \$30 million or the amount equal to 15% of the lesser of the borrowing base or \$400 million (the Excess Availability Threshold). We are required to maintain the Excess Availability Threshold in order to avoid being required to meet certain financial ratios and triggering additional limits on capital expenditures. The amount of our eligible accounts receivable included in the calculation of the borrowing base is 87.5%. Under the amended U.S. revolving credit facility agreement, the applicable percentage of the net liquidation value of our eligible inventory included in the calculation of the borrowing base is 90% for the periods January to March 2012 and January to March 2013, subject to specified EBITDA targets. The percentage of the net liquidation value of our eligible inventory included in the borrowing remains the same as under the original agreement outside of the time period just specified. Also included in the calculation of our excess availability is certain cash on the balance sheet, which is subject to a deposit account control agreement. The fixed charge coverage ratio is calculated as EBITDA divided by the sum of cash payments for income taxes, interest expense, cash dividends, principal payments on debt, and capital expenditures. EBITDA is defined as BlueLinx Corporation's net income before interest and tax expense, depreciation and amortization expense, and other non-cash charges. The fixed charge coverage ratio requirement only applies to us when excess availability under our amended

U.S. revolving credit facility is less than the Excess Availability Threshold on any date. As of October 1, 2011 and through the time of the filing of this Form 10-Q, we were in compliance with all covenants. We had \$148.9 million and \$103.4 million of availability as of October 1, 2011 and January 1, 2011, respectively. Our lowest level of fiscal month end availability in the last three years as of October 1, 2011 was \$94.0 million. We do not anticipate our excess availability in fiscal 2011 will drop below the Excess Availability Threshold. Should our excess availability fall below the Excess Availability Threshold on any date, however, we would not meet the required fixed charge coverage ratio with our current operating results. In addition, we must maintain a springing lock-box arrangement where customer remittances go directly to a lock-box maintained by our lenders and then are forwarded to our general bank accounts. Our outstanding borrowings are not reduced by these payments unless our excess availability falls below the greater of \$35 million or the amount equal to 15% of the lesser of the borrowing base or \$400 million on any date or in the event of default. Our amended U.S. revolving credit facility does not contain a subjective acceleration clause which would allow our lenders to accelerate the scheduled maturities of our debt or to cancel our agreement.

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On July 22, 2011, we concluded an offering of our common stock to our stockholders, pursuant to which we distributed to our common stockholders transferable rights to subscribe for and purchase up to \$60 million of our common stock. In conjunction with the rights offering, we entered into an investment agreement with Cerberus ABP Investor LLC, which beneficially owned approximately 55% of our common stock before giving effect to the rights offering, to backstop the rights offering, subject to certain conditions, by purchasing shares of common stock that related to any rights that remained unexercised at the expiration of the rights offering. The rights offering was fully subscribed and as a result the backstop provisions with Cerberus were not utilized. The rights offering resulted in gross proceeds of approximately \$60 million. The majority of the gross proceeds from the rights offering of approximately \$56 million were used to pay down the U.S. revolving credit facility. A payment on the U.S. revolving credit facility of \$50.0 million was made on July 29, 2011 and an additional payment of \$6.0 million was made on August 1, 2011. We accounted for the rights issued as a component of additional paid in capital as they were indexed to the Company's equity and there were no net cash settlement provisions. The amendment to our U.S. revolving credit facility, which was a condition to the rights offering, became effective upon the successful completion of the rights offering. In addition, as a condition to the rights offering, we entered into an amendment to our mortgage. The amendment to the mortgage is described below.

On August 12, 2011, our subsidiary BlueLinx Canada entered into a revolving credit agreement (the Canadian revolving credit facility) with CIBC Asset-Based Lending Inc., as lender, administrative agent and collateral agent (the Agent). The maturity date of this agreement is August 12, 2014. The Canadian revolving credit facility provides for an asset-based revolving credit facility with an aggregate lender commitment of up to \$10 million at any time outstanding, subject to borrowing base availability. In addition, the Canadian revolving credit facility provides for an additional \$5 million uncommitted accordion credit facility. Revolving loan (and letter of credit) availability under the facility is subject to a borrowing base. The amount of our eligible Canadian accounts receivable included in the calculation of the borrowing base is 85%. The amount of our eligible inventory included in the calculation of the borrowing base is 65%. The sum of items included in the borrowing base is reduced by \$0.5 million (the availability block) and other availability reserves. In addition to paying interest on outstanding principal under the facility, we are required to pay a fee in respect of committed but unutilized commitments equal to 0.25% per annum. As of October 1, 2011, we had outstanding borrowings of \$2.8 million and excess availability of \$1.8 million under the terms of our Canadian revolving credit facility. The interest rate on the Canadian revolving credit facility was 4.0% at October 1, 2011. The Canadian revolving credit facility contains customary covenants and events of default for asset-based credit agreements of this type, including the requirement for BlueLinx Canada to maintain a minimum adjusted tangible net worth of \$3.9 million and for that entity's capital expenditures not to exceed 120% of the amount budgeted in a given year. As of October 1, 2011 and through the time of the filing of this Form 10-Q, we were in compliance with all covenants.

We believe that the amounts available from our revolving credit facilities and other sources are sufficient to fund our routine operations and capital requirements for the next 12 months. If economic conditions, especially those related to the housing market, do not improve, we may need to seek additional sources of capital to support our operations.

On July 14, 2011, we entered into an amendment to the mortgage which (i) eliminated the requirement to obtain lender approval for any transfer of equity interests that would reduce Cerberus ABP Investor LLC's ownership in the Company and certain of our subsidiaries, directly or indirectly, to less than 51%, (ii) provided for the immediate prepayment of \$38.3 million of the indebtedness under the mortgage without incurring a prepayment premium from funds currently held as collateral under the mortgage and, if certain conditions are met, will allow for an additional prepayment on or after July 30, 2014 from funds held as collateral without incurrence of a prepayment premium, (iii) allow us, at the lenders' reasonable discretion, to use a portion of the cash held as collateral under the mortgage for specified alterations, repairs, replacements and other improvements to the mortgaged properties, and (iv) in the event certain financial conditions are met and the Company extends the Amended and Restated Master Lease by and among certain of our subsidiaries with respect to properties covered by the mortgage for an additional five years, we may request the lenders to disburse to the Company a portion of the cash held as collateral under the mortgage. In conjunction with the modification of our mortgage agreement we incurred approximately \$2.9 million in debt fees that were capitalized and are being amortized over the remaining term of the mortgage.

On June 12, 2006, we entered into an interest rate swap agreement with Goldman Sachs Capital Markets, to hedge against interest rate risks related to our variable rate U.S. revolving credit facility. The interest rate swap was terminated in March of 2011. The interest rate swap had a notional amount of \$150 million and the terms called for us to receive interest monthly at a variable rate equal to 30-day LIBOR and to pay interest monthly at a fixed rate of 5.4%. This interest rate swap was designated as a cash flow hedge. During fiscal 2009, our debt levels decreased below the interest rate swap notional, at which point the hedge became ineffective in offsetting future changes in expected cash flows during the remaining term of the interest rate swap.

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Changes associated with the ineffective interest rate swap recognized in the Consolidated Statements of Operations for the period from January 1, 2011 to October 1, 2011 was approximately \$1.8 million of income and are comprised of amortization of the remaining accumulated other comprehensive loss of the ineffective swap of \$0.4 million offset by income of \$2.2 million related to reducing the fair value of the ineffective interest rate swap liability to zero. Due to the termination of the swap in the first quarter of 2011, there was no activity for the quarter ended October 1, 2011. Changes associated with the ineffective interest rate swap recognized in the Consolidated Statements of Operations for the period from January 3, 2010 to October 2, 2010 were approximately \$3.2 million of income and are comprised of amortization of the remaining accumulated other comprehensive loss over the life of the ineffective swap of \$1.6 million offset by income of \$4.8 million related to current year changes in the fair value of the ineffective interest rate swap liability. Changes associated with the ineffective interest rate swap recognized in the Consolidated Statements of Operations for the period July 4, 2010 to October 2, 2010 were approximately \$1.2 million of income and are comprised of amortization of the remaining accumulated other comprehensive loss over the life of the ineffective swap of \$0.5 million offset by income of \$1.7 million related to current year changes in the fair value of the ineffective interest rate swap liability. The fair value of our swap liability at January 1, 2011 was \$2.2 million. The following table presents a reconciliation of the unrealized losses related to our interest rate swap measured at fair value in accumulated other comprehensive loss as of July 2, 2011 (in thousands):

| | | |
|---|----|-------|
| Balance at January 1, 2011 | \$ | 444 |
| Amortization of accumulated other comprehensive loss recorded to interest expense | | (444) |
| Balance at October 1, 2011 | \$ | |

Contractual Obligations

As part of the amendment to our mortgage and U.S. revolving credit facility, described above, payments of \$38.3 million and approximately \$56 million, respectively, were made in July 2011.

During the third quarter of fiscal 2011, we entered into an amendment to our corporate headquarters lease in Atlanta, GA related to the unoccupied 4100 building. This amendment released us from our obligations with respect to this unoccupied space as of January 31, 2012, in exchange for a \$5.0 million space remittance fee, due on or before that date. In addition, we are obligated to pay \$1.2 million on or before December 31, 2013 to be used for tenant improvements. The provisions relating to the occupied 4300 building remain unchanged. Under the existing provisions, the current term of the lease ends on January 31, 2019. The amendment resulted in a reduction of our restructuring reserve of approximately \$2.0 million, with the credit recorded in Selling, general, and administrative expenses in the Consolidated Statements of Operations.

Our three-year purchase agreement with Georgia-Pacific Wood Products LLC will expire on February 12, 2012 in accordance with its terms. We plan to launch a complete line of privately branded engineered lumber products, which we anticipate will be available beginning on February 13, 2012.

There have been no other material changes to our contractual obligations from those disclosed in Item 7 of our Annual Report on Form 10-K for the fiscal year ended January 1, 2011.

Stock-Based Compensation

We have two stock-based compensation plans covering officers, directors, certain employees and consultants: the 2004 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. Although we do not have a formal policy on the matter, we issue new shares of our common stock to participants, upon the exercise of options or granting of restricted stock, out of the total amount of common shares authorized for issuance under the 2004 Plan and the 2006 Plan. During the first nine months of fiscal 2011, the Compensation Committee granted 618,972 restricted shares of our common stock to certain of our officers and directors. Restricted shares of 364,303 vested in the first nine months of 2011 due to completion of the vesting term.

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Critical Accounting Policies

The preparation of our consolidated financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires our management to make judgments and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. There have been no material changes to our accounting policies from the information provided in Item 7 of our Annual Report on Form 10-K for the fiscal year ended January 1, 2011.

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 January 1, 2011.

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 to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

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 first nine months of fiscal 2011, 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.

ITEM 1A. RISK FACTORS

There has been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended January 1, 2011 as filed with the SEC.

Table of Contents**ITEM 6. EXHIBITS**

| Exhibit Number | Description |
|-----------------------|---|
| 10.1 | Canadian Credit Agreement, dated August 12, 2011, by and among BlueLinx Canada, CIBC Asset-Based Lending Inc. and the lenders from time to time parties thereto (Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed by the Company on August 16, 2011). |
| 10.2 | The Third Amendment, dated May 10, 2011, to the Amended and Restated Loan and Security Agreement, dated August 4, 2006, as amended, by and between the Operating Company, Wells Fargo and the other signatories listed therein (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company on May 12, 2011). |
| 10.3 | The Fourth Amendment, dated August 11, 2011, to the Amended and Restated Loan and Security Agreement, dated August 4, 2006, as amended, by and between the Operating Company, Wells Fargo and the other signatories listed therein (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the Company on August 16, 2011). |
| 10.4 | The Fifth Amendment to Loan and Security Agreement, dated July 14, 2011, to the Loan and Security Agreement, dated June 9, 2006, as amended, by and among the Company and certain of its subsidiaries and U.S. Bank National Association in its capacity as trustee for the registered holders of Wachovia Bank Commercial Mortgage Trust, Commercial Mortgage Pass Through Certificates, Series 2006-C 27, as successor in interest to German American Capital Corporation (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company on July 14, 2011) |
| 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. |
| 101 | The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 1, 2011, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows and (iv) Notes to Consolidated Financial Statements.* |

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not to be filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Act of 1934, as amended, and otherwise are not subject to liability under these

sections.

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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 4, 2011

/s/ H. Douglas Goforth

H. Douglas Goforth

Chief Financial Officer and Treasurer

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|---------------------------|---|
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