

2006 FINANCIAL DATA

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Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Consolidated Financial Statements and related notes that appear in Item 8 of Form 10-K as well as the caption under this item entitled Business Risks and Forward-Looking Statements.

Business Environment and Executive Overview

We are one of the largest providers of residential construction services and building products in the United States, with a focus in the western and southern states. We provide construction services and building products in 16 of the top 25 single-family residential construction markets through our two subsidiaries, **SelectBuild** and **BMC West**. SelectBuild provides construction services to high-volume homebuilders in key growth markets. BMC West markets and sells building products, manufactures building components and provides construction services to professional builders and contractors through a network of 41 distribution facilities and 60 manufacturing facilities. We have increasingly focused on providing construction services and manufactured building components to our customers.

New home construction was sharply down in 2006. The U.S. Census Bureau reported single-family housing starts fell 15% to 1.5 million units in 2006 as compared to the historic high of 1.7 million units in 2005. Single-family housing starts in 2007 are expected to decline to 1.3 million units according to the National Association of Home Builders. The housing market is currently adjusting an oversupply of inventory by offering buyers incentives to purchase existing inventory and by severely restricting the construction of new homes.

Our markets for new residential construction and building products have also been dramatically impacted by the national slowdown in homebuilding. Across all our markets and particularly during the second half of 2006, we experienced substantial declines in housing starts and building permits. To counter the effects of the downturn, we have reduced our labor force by more than 30%, decreased variable expenses and focused our efforts to reduce costs by leveraging our scale and shared resources. The overall economic backdrop that historically has supported the homebuilding industry, such as the condition of the U.S. economy, interest rates, job formation and consumer confidence, remains favorable. We believe that the excess inventory of new homes will be gradually absorbed on a market-by-market basis over the next several quarters.

Our operations are located in attractive metropolitan areas that have historically outpaced U.S. averages for residential building permit activity. With construction services and building products offered in California, Texas, Nevada, Arizona, Florida, the Northwest and Intermountain states, Illinois, and Virginia, we believe we are in homebuilding markets supported by positive long-term population growth, household formation and demographic trends.

We grow our business through acquisitions as well as strategically expanding the breadth of our construction services and building products offered to high-volume homebuilders and other professional builders and contractors. In particular, we believe high-volume homebuilders are seeking quality, reliable and cost effective solutions to meet their construction services needs. Our services include framing, concrete, plumbing and other construction services as well as building product distribution and manufactured building components including trusses, millwork and wall panels. In 2006, we completed several acquisitions to expand the trades offered to homebuilders.

Acquisition History

Over the past few years, **SelectBuild** acquired businesses providing construction services to high-volume homebuilders. Specifically, these businesses were as follows:

2006

- distribution services in Southern California
- remaining 49% interest in our existing business providing concrete services in Arizona
- window installation services in Phoenix, Arizona
- framing services in Southern California
- concrete services in Northern Arizona
- wall panel and truss manufacturer in Palm Springs, California
- remaining 20% interest in our existing business providing concrete block masonry and concrete services in Florida
- framing services in Palm Springs, California and Reno, Nevada

2005

- framing services in San Diego, California
- concrete and plumbing services in Las Vegas, Nevada and Southern California
- additional 20% interest in our existing business providing concrete block masonry and concrete services in Florida (initial purchase of 60% January 2003)
- 51% interest in concrete services in Arizona
- 73% interest in plumbing services in Phoenix and Tucson, Arizona
- stucco services in Las Vegas, Nevada
- 51% interest in framing services in Chicago, Illinois

2004

- window installation services in Napa, California
- 51% interest in a truss manufacturer in Fort Pierce, Florida
- remaining 49% interest in our existing framing services business in Northern California (initial purchase of 51% July 2002)
- distribution services in Tucson, Arizona

At **BMC West**, we are expanding our building products, manufactured building components, millwork and construction services to become a full-service provider to homebuilders. To facilitate this expansion in products and services, BMC West acquired:

2006

- building materials distribution and truss manufacturing in Eastern Idaho
- building materials distribution and millwork services in Houston, Texas

2005

- truss manufacturer in McCall, Idaho

2004

- framing services in Denver, Colorado

As part of our growth strategy, we continue to evaluate acquisition opportunities that strengthen and broaden our construction services and building products as well as our presence in attractive markets.

Performance Measurements

We measure our operating performance and financial condition based on several factors including:

- Sales
- Income from operations
- Management of working capital
- Return on investment

We evaluate our results of operations including and excluding acquisitions not present in comparable periods. We believe this approach enhances an understanding of our acquisitions and operating results for the respective reporting periods.

The discussion of our results of operations and financial condition provides information to assist the reader in understanding our financial statements, changes in key items in those financial statements and the primary factors that accounted for those changes. The discussion of our consolidated financial results is followed by a more detailed review of our business segments.

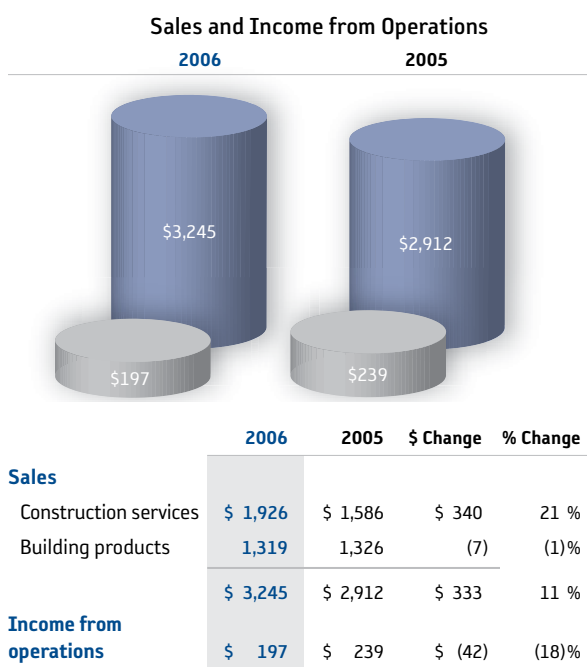
RESULTS OF OPERATIONS**2006 COMPARED WITH 2005**

The following table sets forth the amounts and percentage relationship to sales of certain costs, expenses and income items (millions, except per share data):

	Year Ended December 31			
	2006		2005	
Sales				
Construction services	\$ 1,926	59.4%	\$ 1,586	54.5%
Building products	1,319	40.6	1,326	45.5
Total sales	3,245	100.0	2,912	100.0
Costs and operating expenses				
Cost of goods sold				
Construction services	1,557	80.8	1,286	81.1
Building products	961	72.9	968	73.0
Total cost of goods sold	2,518	77.6	2,254	77.4
Impairment of assets	2	—	1	—
Selling, general and administrative expenses	532	16.4	421	14.5
Other income, net	(4)	(0.1)	(3)	(0.1)
Total costs and operating expenses	3,048	93.9	2,673	91.8
Income from operations	197	6.1	239	8.2
Interest expense	29	0.9	14	0.5
Income taxes	57	1.8	80	2.8
Minority interests income, net of income taxes	(9)	(0.3)	(15)	(0.5)
Net income	\$ 102	3.1%	\$ 130	4.4%
Earnings per diluted share	\$ 3.45		\$ 4.41	

Consolidated Financial Results

Selected financial results are as follows (millions):



A key element of our business strategy for the past several years entails shifting our sales mix to construction services and value added manufactured building components from commodity wood products. We continue to pursue this shift to leverage our competitive advantages and improve our financial performance.

Sales of \$3.2 billion increased \$333 million or 11%. Sales from acquisitions not present in the prior period were \$702 million and were partially offset by a decrease in sales from comparable operations of \$369 million. The decrease in sales from comparable operations reflects a sharp decline in both housing starts and building permits in the second half of the year, indicative of a nationwide contraction in homebuilding. According to the U.S. Census Bureau, single-family building permits in our markets were down 20% relative to their historic high in 2005.

Income from operations of \$197 million decreased \$42 million or 18% from \$239 million in the prior year. For comparable operations, income from operations declined \$97 million or 41%. The decrease in income from operations was principally due to lower sales from comparable operations as well as higher selling, general and administrative expenses.

Selling, general and administrative expenses increased 26% or \$111 million from a year ago. Acquisitions not present in the prior period were \$77 million or approximately 70% of the increase. These expenses for comparable operations were higher due to compensation, including the impact of adopting a new accounting principle for share-based compensation, occupancy expenses to support growth and acquisition integration expenses. As a percent of sales, selling, general and administrative expenses were 16.4% from 14.5% a year ago, up 1.9%. The increase in these expenses as a percent of sales, was due to deflation in selling prices, delivery costs to support higher volume and fixed amortization expenses from acquisitions.

Although gross margins improved for construction services and building products, they were overall 22.4% compared to 22.6% in 2005. The decrease in gross margins was due to a higher portion of sales from construction services relative to building products.

Interest Expense

Interest expense of \$29 million was up \$15 million from the prior year. The increase was due to greater average borrowings of \$356 million in 2006 compared to \$225 million in 2005 and higher average interest rates of 6.5% in 2006 compared to 5.7% in 2005.

Income Taxes

In 2006 our combined federal and state income tax rate decreased to 33.7% from 35.5% in 2005. The reduction was due to a refinement of the apportioned taxable income to the states in which we operate.

Business Segments

Sales and operating income by business segment are as follows (millions):

	2006		2005	
	Sales	Income From Operations	Sales	Income From Operations
SelectBuild	\$ 1,732	\$ 148	\$ 1,394	\$ 161
BMC West	1,513	124	1,518	151
Corporate	—	(75)	—	(73)
	\$ 3,245	\$ 197	\$ 2,912	\$ 239

SelectBuild

Selected financial results are as follows (millions):

	2006	2005	\$ Change	% Change
Sales	\$ 1,732	\$ 1,394	\$ 338	24%
Less: Acquisitions	(644)	—	(644)	—
	\$ 1,088	\$ 1,394	\$ (306)	(22)%
Income from operations	\$ 148	\$ 161	\$ (13)	(8)%
Less: Acquisitions	(54)	—	(54)	—
	\$ 94	\$ 161	\$ (67)	(42)%

Sales increased 24% to \$1.7 billion from \$1.4 billion a year ago. The increase was due to \$644 million in sales from acquisitions not present in the prior period. Sales from comparable operations declined 22% or \$306 million and were particularly weak in our Southwest and Pacific regions. Reflective of the reduction in homebuilding in our markets, both starts and building permits were down sharply.

Income from operations decreased 8% to \$148 million from \$161 million. For comparable operations, income from operations was down 42% or \$67 million.

Gross margins were slightly improved at 19.5% of sales from a year ago, however selling, general and administrative expenses were 10.8% of sales compared to 7.7% in 2005. These expenses were higher due to:

- reduced operating leverage resulting from a 22% decline in sales from comparable operations,

- compensation and integration expenses associated with a regional operating structure and
- operating expenses and non-cash amortization associated with recent acquisitions.

BMC West

Selected financial results are as follows (millions):

	2006	2005	\$ Change	% Change
Sales	\$ 1,513	\$ 1,518	\$ (5)	—
Less: Acquisitions	(58)	—	(58)	—
	\$ 1,455	\$ 1,518	\$ (63)	(4)%
Income from operations	\$ 124	\$ 151	\$ (27)	(18)%
Less: Acquisitions	(1)	—	(1)	—
	\$ 123	\$ 151	\$ (28)	(19)%

Sales of \$1.5 billion were approximately the same as 2005. Sales from comparable operations experienced a decrease in commodity wood product prices and were down 4% or \$63 million from a year ago. Strong sales in the Intermountain and Texas regions were offset by lower sales in our Southwest, Colorado and Northwest regions. Indicative of slower homebuilding activity, single-family building permits declined in the second half of the year and were down 8% from a year ago.

Income from operations decreased 18% to \$124 million from \$151 million. As a percent of sales, gross margins were up 30 basis points over the prior year. However, selling, general and administrative expenses as a percent of sales increased 1.9% to 17.8% primarily due to year over year

deflation in commodity wood product prices. Total dollars spent in selling, general and administrative expenses were up \$29 million as a result of:

- compensation expenses for additional personnel to support increased sales volume,
- expenses from acquisitions not present in the prior period and
- higher delivery and occupancy expenses.

Corporate

Corporate represents expenses to support the operations of our business segments, SelectBuild and BMC West. These costs include administrative functions for information systems, reporting, accounts payable and human resources, executive and senior management, professional fees for regulatory compliance and certain incentive compensation as well as actuarial adjustments for insurance and medical claims. These costs are not allocated to our business segments.

Selected financial results are as follows (millions):

	2006	2005	\$ Change	% Change
Operating expenses	\$ 75	\$ 73	\$ 2	3%

Corporate expenses increased 3% to \$75 million from \$73 million a year ago. Higher compensation, including the non-cash impact of share-based compensation from the adoption of a new accounting standard, was partially offset by lower performance based incentive compensation and actuarial adjustments for insurance expense. Corporate expenses at 2.3% of sales were lower than the prior year of 2.5%.

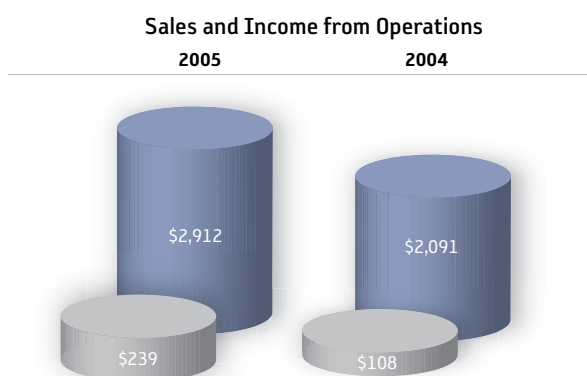
2005 COMPARED WITH 2004

The following table sets forth the amounts and percentage relationship to sales of certain costs, expenses and income items (millions, except per share data):

	Year Ended December 31			
	2005		2004	
Sales				
Construction services	\$ 1,586	54.5%	\$ 904	43.2%
Building products	1,326	45.5	1,187	56.8
Total sales	2,912	100.0	2,091	100.0
Costs and operating expenses				
Cost of goods sold				
Construction services	1,286	81.1	768	85.0
Building products	968	73.0	898	75.6
Total cost of goods sold	2,254	77.4	1,666	79.7
Impairment of assets	1	—	2	0.1
Selling, general and administrative expenses	421	14.5	317	15.2
Other income, net	(3)	(0.1)	(2)	(0.1)
Total costs and operating expenses	2,673	91.8	1,983	94.9
Income from operations	239	8.2	108	5.1
Net income	\$ 130	4.4%	\$ 54	2.6%
Earnings per diluted share	\$ 4.41		\$ 1.94	

Consolidated Financial Results

Selected financial results are as follows (millions):



	2005	2004	\$ Change	% Change
Sales				
Construction services	\$ 1,586	\$ 904	\$ 682	75%
Building products	1,326	1,187	139	12%
	\$ 2,912	\$ 2,091	\$ 821	39%
Income from operations	\$ 239	\$ 108	\$ 131	121%

Sales increased \$821 million to \$2.9 billion due to an increase in construction services and the acquisition of construction services businesses. Sales from acquisitions not present in the prior period were \$404 million or approximately half of the increase. Strong homebuilding activity was prevalent in most of our markets, particularly the Southwest region. Building permits and housing starts were also higher in most of our markets relative to the prior year.

Income from operations for 2005 increased 121% to \$239 million from \$108 million in the prior year. Improved margins, particularly from demand for our construction services, were a key factor. Margins as a percent of sales for construction services were up 3.9% while building products also improved 2.7% compared to the prior year. Selling, general and administrative expenses were 14.5% of sales and improved by 70 basis points. These expenses were lower as a percent of sales due to better leveraging of these expenses at our building products operations.

Business Segments

Sales and operating income by business segment are as follows (millions):

	2005		2004	
	Sales	Income From Operations	Sales	Income From Operations
SelectBuild	\$ 1,394	\$ 161	\$ 754	\$ 60
BMC West	1,518	151	1,337	96
Corporate	—	(73)	—	(48)
	\$ 2,912	\$ 239	\$ 2,091	\$ 108

SelectBuild

Selected financial results are as follows (millions):

	2005	2004	\$ Change	% Change
Sales	\$ 1,394	\$ 754	\$ 640	85%
Less: Acquisitions	(385)	—	(385)	—
	\$ 1,009	\$ 754	\$ 255	34%
Income from operations	\$ 161	\$ 60	\$ 101	168%
Less: Acquisitions	(31)	—	(31)	—
	\$ 130	\$ 60	\$ 70	117%

Sales increased \$640 million in 2005. Acquisitions of construction services businesses not present in the same periods represented 60% of this increase. Home construction activity was strong in Las Vegas and Phoenix as well as most of our other markets. In addition, housing starts in our markets compared favorably to the prior year.

Income from operations for 2005 improved over \$100 million compared to the prior year. Margin improvement was a key factor, improving 4.6% as a percent of sales to 19.3% compared to 14.7% in the prior year. Further market acceptance of the value of our construction services, particularly in the Las Vegas and Phoenix markets as well as improved management of contracts, most notably in our Florida operations, contributed to the improvement. Acquisitions also contributed approximately 30% or \$31 million to the increase in operating income. Selling, general and administrative expenses specific to the business segment were \$56 million higher with more than half of the increase due to acquisitions completed during the year. As a percent of sales, these expenses were 7.7% compared to 6.8% in the prior year.

BMC West

Selected financial results are as follows (millions):

	2005	2004	\$ Change	% Change
Sales	\$ 1,518	\$ 1,337	\$ 181	14%
Less: Acquisitions	(19)	—	(19)	—
	\$ 1,499	\$ 1,337	\$ 162	12%
Income from operations	\$ 151	\$ 96	\$ 55	57%
Less: Acquisitions	—	—	—	—
	\$ 151	\$ 96	\$ 55	57%

Sales increased \$181 million in 2005 as we experienced strong housing construction across all our regions. Building permit activity for single-family homes in our markets was up 13% and compared favorably to the U.S. average of 4%. In particular, our Texas, Northwest and Intermountain regions reported strong increases in sales compared to a year ago. Our continued focus on a regional business model that provides customers with expanded choices for building products and services from multiple locations also contributed to our sales growth.

Income from operations for 2005 increased \$55 million due to improved margins. Margins as a percent of sales were 2.1% higher and were 25.7% compared to 23.6% in the prior year. Inventory was effectively managed despite fluctuations during the year in commodity wood product prices. Selling, general and administrative expenses specific to the business segment were approximately \$21 million higher than the preceding year. However, these expenses were effectively leveraged as they represented 15.9% of sales compared to 16.5% in the prior year.

Corporate

Corporate represents expenses to support the operations of our business segments, SelectBuild and BMC West. These costs include administrative functions for information systems, reporting, accounts payable and human resources, professional fees for regulatory compliance, executive and senior management, certain incentive compensation as well as actuarial adjustments for insurance and medical claims. These costs are not allocated to our business segments.

Selected financial results are as follows (millions):

	2005	2004	\$ Change	% Change
Operating expenses	\$ 73	\$ 48	\$ 25	52%

Corporate and other expenses were \$25 million higher in 2005 due to incentive compensation from improved operating performance, professional fees for regulatory compliance and additional personnel to support our expanding business. These expenses were 2.5% of sales compared to 2.3% in 2004.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Our primary need for capital resources is to fund working capital and acquisitions as well as finance capital expenditures. We expect to fund these requirements through a combination of cash flow from operations and seasonal borrowings under our credit facility.

For 2006, cash provided by operations was \$273.4 million and funded the majority of acquisitions, capital expenditures and investments in marketable securities. The sections that follow discuss in more detail our operating, investing and financing activities as well as our financing arrangements.

Operations

Cash provided by operating activities was \$273.4 million in 2006 compared to \$198.3 million a year ago. Net income adjusted for non-cash items decreased \$14.5 million due to slower construction activity as homebuilders curtailed production in an effort to align home inventory levels with demand. However, changes in working capital were favorable as requirements were \$104.4 million less than a year ago as cash provided from accounts receivable and unbilled receivables as well as improved inventory turns were partially offset by cash used for compensation, accounts payable and billings in excess of costs and estimated earnings.

In 2005, cash provided by operating activities was \$198.3 million, a significant increase from \$33.4 million in 2004. Strong home construction activity and improved margins in both our construction services and building products segments resulted in higher net income, providing \$75.6 million of additional operating cash flow over 2004. Also, working capital requirements were lower in 2005 than 2004 due to lower commodity wood product prices as well as improved inventory turns and days sales outstanding. This improved management of working capital resulted in cash used of \$0.8 million compared to \$61.3 million of cash used in 2004.

Cash provided by operating activities was \$33.4 million in 2004, up significantly from \$12.5 million in 2003. Strong home construction activity and our strategy to provide additional construction services resulted in higher net income, providing \$34.0 million of additional operating cash flow. Net income adjusted for non-cash items was \$80.4 million however, changes in working capital requirements used \$61.3 million of this cash flow.

Capital Investment and Acquisitions

Cash used in investing activities was \$280.3 million in 2006 or \$18.7 million more than \$261.6 million used in investing activities a year ago. Cash use included \$201.8 million for seven acquisitions and purchase of an additional 20% interest in concrete block masonry and concrete services business. Cash used for investing activities also included capital expenditures in 2006 of \$52.9 million or \$6.4 million more than \$46.5 million a year ago. Capital expenditures in 2006 were principally for centralization of a millwork facility in Colorado, expansion of distribution facilities in Texas and Idaho and expansion of construction service facilities in Arizona as well as expansion of our data center and construction and human resource information systems. Cash used for investing activities in 2006 also included \$25.4 million for the net purchase of marketable securities pursuant to the statutory funding requirements of our captive insurance subsidiary.

In 2005, cash used in investing activities was \$261.6 million compared to \$58.0 million in 2004. Cash use included \$203.2 million for seven acquisitions, including the purchase of interests in three businesses, and purchase of an additional 20% interest in concrete block masonry and concrete services business. Cash used for capital expenditures was \$46.5 million or \$18.9 million more than \$27.6 million in 2004. Capital expenditures were principally for expansion of distribution facilities in Texas and Montana, construction services facilities in Las Vegas and Florida and implement construction and distribution information systems. Cash used for investing activities also included \$14.1 million for the net purchase of marketable securities pursuant to the statutory funding requirements of our captive insurance subsidiary.

Cash used in investing activities was \$58.0 million in 2004. Cash use included \$27.7 million for property and equipment and \$22.7 million for the remaining interest in a framing business, interest in a truss manufacturing business as well as the acquisition of a distribution business, windows installation business and framing business. Cash use for investing activities also included \$19.0 million invested in marketable securities at our captive insurance subsidiary. The cash use was partially offset by proceeds of \$12.3 million from the disposition of properties in Montana, Texas and Utah.

Financing

Cash provided by financing activities in 2006 was \$51.0 million compared to \$73.9 million a year ago. After cash provided by operating activities, debt was borrowed to complete eight acquisitions and purchase an additional 20% interest in concrete block masonry and concrete services business as well as expand our facilities and information systems. In November 2006, we amended our revolver and entered into a new \$350 million term note. This transaction resulted in proceeds from the \$350 million term note which was used to repay our previous term notes and the amount outstanding under the revolver. Remaining borrowings were used to pay dividends and invest in cash equivalents.

In 2005, cash provided by financing activities was \$73.9 million compared to \$24.6 million in 2004. The primary sources of cash were a \$75.0 million term note and an increase in book overdrafts. In addition to strong operating cash flows, debt was borrowed to complete seven acquisitions, including the purchase of interests in three businesses, and purchase of an additional 20% interest in concrete block masonry and concrete services business as well as expand our facilities and implement construction information systems.

Cash provided by financing activities was \$24.6 million in 2004. The primary sources of cash were \$20.8 million of net borrowings from the revolver and an increase in book overdrafts and stock options exercised net of tax benefit. After cash provided by operations, debt was borrowed to purchase property and equipment, purchase the remaining interest in a framing business, an interest in a truss manufacturing business, and complete three acquisitions.

Financing Arrangements

Our debt structure consists of a revolver, term note and other borrowings.

Revolver

In November 2006, we entered into an amended \$500 million revolver with a group of lenders. The revolver matures in November 2011. The revolver consists of both LIBOR and Prime based borrowings. These variable interest rates are subject to quarterly adjustment based on operating performance and range from LIBOR plus 1.00% to 2.00%, or Prime plus 0.00% to 0.75%. Interest is paid quarterly. As of December 31, 2006, no amount was outstanding under the revolver.

Term Note

In November 2006, we entered into a \$350 million term note with a group of lenders. The term note matures in November 2013 and is payable in quarterly installments for

the first seven years in amounts equal to 1% of the initial principal per year and the remaining principal due November 2013. The variable interest rate for the term note is LIBOR plus 2.50%, or Prime plus 1.25%. Interest is paid quarterly. As of December 31, 2006, \$349.1 million was outstanding under this term note.

Other

Other long-term debt of \$8.2 million consists of term notes, equipment notes and capital leases for equipment. Interest rates vary and dates of maturity are through March 2021.

Expansion of Credit Facility, Covenants and Maturities

The credit facility consists of the revolver and term note. The credit facility may be increased an aggregate amount of up to \$250 million. The credit facility is collateralized by tangible and intangible property of our wholly-owned subsidiaries, except the assets of our captive insurance subsidiary. The credit facility contains covenants and conditions requiring the maintenance of certain financial ratios. At December 31, 2006, we were in compliance with these covenants and conditions.

Scheduled maturities of long-term debt are as follows (thousands):

2007	\$ 8,143
2008	4,894
2009	4,208
2010	3,898
2011	3,716
Thereafter	332,445
	<hr/>
	\$ 357,304

As of December 31, 2006 and December 31, 2005 there were \$95.8 million and \$75.9 million, respectively of letters of credit outstanding that guaranteed performance or payment to third parties. These letters of credit reduce borrowing availability under the revolver.

Hedging Activities

Derivative and hedging activities are recorded on the balance sheet at their fair values. In November 2006, we entered into interest rate swap contracts that effectively convert \$200 million of the variable rate borrowings of the \$349.1 million term note to a fixed interest rate of 7.59% through November 2012, thus reducing the impact of increases in interest rates on future interest expense. Approximately 57% of the outstanding variable rate borrowings of the term note as of December 31, 2006 have been hedged through the designation of interest rate swap contracts accounted for as cash flow hedges. After giving effect to the interest rate swap contracts, total borrowings were 58% fixed and 42% variable.

The fair value of derivative instruments is based on pricing models using current market rates. The fair value of the interest rate swap contracts was a long-term liability of \$0.9 million as of December 31, 2006. The effective portion was recorded in accumulated other comprehensive income, net, a separate component of shareholders' equity, and is subsequently reclassified into earnings in the same financial statement line item, interest expense, in the same period

during which the hedged transaction is recognized in earnings. A corresponding deferred tax asset of \$0.3 million was also recorded in accumulated other comprehensive income, net for the income tax related to the estimated fair value of the interest rate swap contracts. The ineffective portion of the change in the value of the interest rate swap contracts is immediately recognized as a component of interest expense. Hedge ineffectiveness for the period ended December 31, 2006 was not significant. Management may choose not to swap variable rates to fixed rates or may terminate a previously executed swap if the variable rate positions are more beneficial.

In June 2004, we entered into interest rate swap contracts that effectively converted \$100 million of variable rate borrowings to a fixed interest rate. These swaps were settled in November 2006 and the \$1.5 million gain recognized for this settlement was reclassified to other income, net from accumulated other comprehensive income, net.

Equity

On February 14, 2006, our Board of Directors approved a two for one split of our outstanding common shares. Shareholders of record as of February 28, 2006 received a stock dividend of one additional common share for every common share they owned. All share and per share information for all periods presented has been adjusted to reflect this share split.

At the annual meeting of shareholders on May 3, 2005, our shareholders voted to increase the number of authorized common shares to 50 million from 20 million.

These additional shares may be issued for reasons including but not limited to stock splits, financing acquisitions, establishing strategic relationships with corporate partners and providing equity incentives.

In the third quarter of 1998, we filed a shelf registration with the Securities and Exchange Commission to register 4 million common shares. We may issue these shares in connection with future business acquisitions, combinations or mergers. Shares have been issued from this registration statement for a portion of the purchase price for acquisitions. There are approximately 3.7 million shares remaining and available under this shelf registration.

Based on our historical ability to generate cash flows from operations, borrowing capacity under the credit facility and access to debt and equity markets, management believes it will have sufficient capital to meet anticipated needs.

OFF-BALANCE SHEET ARRANGEMENTS

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, often referred to as structured finance or special purpose entities, which might be established to facilitate off-balance sheet arrangements or other contractually narrow or limited purposes. As of December 31, 2006, we are not involved in any transactions with unconsolidated entities.

DISCLOSURES OF CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Contractual obligations as of December 31, 2006 (millions):

Contractual Obligations	Payments Due by Period				Total	Fair Value
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years		
Long-term debt	\$ 7.9	\$ 8.9	\$ 7.6	\$ 332.4	\$ 356.8	\$ 355.8
Capital lease obligations	0.2	0.3	—	—	0.5	0.4
Operating leases	26.4	43.9	24.2	15.4	109.9	109.9
Unconditional purchase obligations	—	—	—	—	—	—
Other long-term commitments	—	—	—	—	—	—
	\$ 34.5	\$ 53.1	\$ 31.8	\$ 347.8	\$ 467.2	\$ 466.1
Interest rate swap contracts						
Notional principal amount of interest rate exchange agreements maturing						
Variable to fixed					\$ 200.0	0.9
Average pay rate					5.09%	
Average receive rate					5.12%	
						\$ 467.0

Accelerated repayment of our revolver and term note may occur if certain financial conditions or warranties and representations are not met. The credit facility consists of the revolver and term note. The credit facility is collateralized by all tangible and intangible property, except assets of the captive insurance subsidiary. The credit facility contains covenants and conditions requiring the maintenance of certain financial ratios. At December 31, 2006, we were in compliance with these covenants and conditions.

We have potential put obligations and call rights associated with the interests in Riggs Plumbing, RCI Construction, A-1 Truss and WBC Mid-Atlantic that we do not currently own. Under the purchase agreements, we have the right to purchase the remaining portions during certain periods or if certain conditions are met. Likewise, the other owners have the option to require us to purchase the remaining portions during certain periods. The purchase price for the remaining portions will be based generally on a multiple of historical earnings.

As part of our revolver, we have \$95.8 million in letters of credit outstanding principally for the deductible portion of automobile, general liability and workers' compensation claims. These obligations are not required to be recorded on our balance sheet and renew automatically on their various anniversary dates or until released by their respective beneficiaries.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Inventory Price Risk

Prices of commodity wood products, which are subject to significant volatility, may adversely impact operating income when prices rapidly rise or fall within a relatively short period of time. We do not use derivative financial instruments to hedge commodity wood product prices.

Interest Rate Risk

Changes in interest expense occur when market interest rates change. Changes in the amount of debt could also increase interest rate risks. We use interest rate swap contracts to hedge interest rate risks. Approximately 57% of the outstanding variable rate borrowings of the \$349.1 million term note as of December 31, 2006 have been hedged through the designation of interest rate swap contracts accounted for as cash flow hedges. After giving effect to the interest rate swap contracts, total borrowings are 58% fixed and 42% variable. Based on debt outstanding as of December 31, 2006, a 0.25% increase in interest rates would result in approximately \$0.4 million of additional interest expense annually.

CRITICAL ACCOUNTING ESTIMATES

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates and assumptions include critical accounting estimates which are defined by the Securities and Exchange Commission as those that are the most important to the portrayal of our financial condition, results of operations or cash flows. These estimates require management's subjective and complex judgments often as a result of the need to estimate matters that are inherently uncertain. We review the development, selection and disclosure of these estimates with our Audit Committee. Management believes the estimates utilized are reasonable under the circumstances, however actual results could differ from these estimates and may require adjustment in future periods. Our critical accounting estimates are:

▪ *Revenue Recognition for Construction Services*

The percentage-of-completion method is used to recognize revenue for construction services. Periodic estimates of our progress towards completion are made based on a comparison of labor costs incurred to date with total estimated contract costs for labor. The percentage-of-completion method requires the use of various estimates, including among others, the extent of progress towards completion, contract revenues and contract completion costs. Contract revenues and contract costs to be recognized are dependent on the accuracy of estimates, including quantities of materials, labor productivity and other cost estimates. We have a history of making reasonable estimates of the extent of progress towards completion, contract revenues and contract completion costs. However, due to uncertainties inherent in the estimation process, it is possible that actual completion costs may vary from estimates. Revisions of contract revenues and cost estimates as well as provisions for estimated losses on uncompleted contracts are recognized in the period such revisions are known.

▪ *Estimated Losses on Uncompleted Contracts and Changes in Contract Estimates*

Estimated losses on uncompleted contracts and changes in contract estimates are established by assessing estimated costs to complete, change orders and claims for uncompleted contracts. Revisions of estimated losses are recognized in the period such revisions are known.

At December 31, 2006, the reserve for these estimated losses was \$0.1 million for SelectBuild and less than \$0.1 million for BMC West. These reserves are established by assessing estimated costs to complete, change orders and claims. Assumptions for estimated costs to complete include material prices, labor costs, labor productivity and contract claims. Such estimates are inherently uncertain and therefore it is possible that actual completion costs may vary from these estimates. We have a history of making reasonable estimates of the extent of progress towards completion, contract revenue and contract completion costs. However, due to uncertainties inherent in the estimation process, it is possible that actual completion costs may vary from estimates.

▪ **Goodwill**

Goodwill represents the excess of purchase price over the fair values of net tangible and identifiable intangible assets of acquired businesses. An annual assessment for impairment is completed in the fourth quarter and whenever events and circumstances indicate the carrying amount may not be recoverable. An impairment is recognized if the carrying amount is more than the estimated future operating cash flows as measured by fair value techniques.

At December 31, 2006, goodwill was \$287.1 million for SelectBuild and \$20.9 million for BMC West. The impairment assessment includes determining the estimated fair value of reporting units based on discounting the future operating cash flows using a discount rate reflecting our estimated average cost of funds. Future operating cash flows are derived from our budget information, which includes assumptions of future volumes, pricing of commodity products and labor costs. Prices for commodity products are inherently volatile.

Due to the variables associated with prices of commodity products and the effects of changes in circumstances, both the precision and reliability of the estimates of future operating cash flows are subject to uncertainty. As additional information becomes known, we may change our estimates.

▪ **Insurance Deductible Reserves**

The estimated cost of automobile liability, general liability and workers' compensation claims is determined by actuarial methods. Claims in excess of insurance deductibles are insured with third-party insurance carriers. Reserves for claims are recognized based on the estimated costs of these claims as limited by deductibles of the applicable insurance policies. Revisions of estimated claims are recognized in the period such revisions are known.

At December 31, 2006, the reserve for automobile, general liability and workers' compensation claims was \$50.8 million. The actuarial assessment includes determining the estimated cost of claims. The reserve for these claims is susceptible to change based on the estimated cost of the claims. Actual loss experience substantially different than the actuarial assumptions may occur. Future reserves are subject to the nature and frequency of claims, medical cost inflation and changes in the insurance deductibles of the applicable insurance policies.

▪ **Warranties**

The estimated cost of warranties for certain construction services is based on the nature and frequency of claims, anticipated claims and cost per claim. Claims in excess of insurance deductibles are insured with third-party insurance carriers. Estimated costs for warranties are recognized when the revenue associated with the service is recognized. Revisions of estimated warranties are recognized in the period such revisions are known.

At December 31, 2006, the reserve for warranties was \$7.2 million. Specific terms and conditions for warranties vary from one year to ten years and are based on geographic market and state regulations. The reserve for these claims is susceptible to change based on the estimated cost of the claim. We have a history of making reasonable estimates of warranties. However, due to uncertainties inherent in the estimation process, it is possible that actual warranty costs may vary from estimates. Revisions of estimated warranties are recognized in the period such revisions are known.

▪ **Share-based Compensation**

Our estimates of the fair values of our share-based payment transactions are based on the modified Black-Scholes-Merton model. In order to meet the fair value measurement objective, we are required to develop estimates regarding expected exercise patterns, share price volatility, forfeiture rates, risk-free interest rate and dividend yield. These assumptions are based principally on historical experience. When circumstances indicate the availability of new or different information that would be useful in estimating these assumptions, revisions will be made and recognized in the periods such revisions are known. Due to uncertainties inherent in these assumptions, it is possible that actual share-based compensation may vary from this estimate.

RECENT ACCOUNTING PRINCIPLES

In September 2006, the Securities Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effect of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. This accounting principle provides specific guidance for considering the effects of prior year misstatements in quantifying current year misstatements. This accounting principle was adopted effective January 2006 and had no impact on consolidated financial position, results of operations or cash flows.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. This accounting principle provides specific guidance for measurement, recognition and disclosure of uncertain tax positions. This accounting principle was adopted January 2007 and is not expected to have a significant impact on consolidated financial position, results of operations or cash flows.

BUSINESS RISKS AND FORWARD-LOOKING STATEMENTS

There are a number of business risks and uncertainties that affect our operations and therefore could cause future results to differ from past performance or expected results. Additional information regarding business risks and uncertainties is contained in Item 1A of our most recent Form 10-K. These risks and uncertainties may include, however are not limited to:

- demand for and supply of single-family homes which is influenced by changes in the overall condition of the U.S. economy, including interest rates, job formation, consumer confidence and other important factors;
- our business model;
- the integration of acquired businesses may not result in anticipated cost savings and revenue synergies being fully realized or may take longer to realize than expected;
- our ability to identify suitable acquisition candidates;
- availability of and our ability to attract, train and retain qualified individuals;
- our ability to implement and maintain cost structures that align with revenue growth;
- changes in the business models of our customers may limit our ability to provide construction services and building products required by our customers;
- fluctuations in our costs and availability of sourcing channels for commodity wood products, concrete, steel and other building materials;
- intense competition;
- weather conditions including natural catastrophic events;
- exposure to construction defect and product liability claims as well as other legal proceedings;
- disruptions in our information systems;
- actual and perceived vulnerabilities as a result of terrorist activities and armed conflict;
- costs and/or restrictions associated with federal, state and other regulations; and
- numerous other matters of a local and regional scale, including those of a political, economic, business, competitive or regulatory nature.

Risks related to our shares may include, however are not limited to:

- price for our shares may fluctuate significantly; and
- anti-takeover defenses and certain provisions could prevent an acquisition of our company or limit share price.

Certain statements in this Annual Report to Shareholders including those related to expectations about homebuilding activity in our markets, demographic trends supporting homebuilding and anticipated sales and operating income are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are not historical or current facts, including statements about our expectations, anticipated financial results and future business prospects are forward-looking statements. While these statements represent our current judgment on what the future may hold and we believe these judgments are reasonable, these statements involve risks and uncertainties that are important factors that could cause our actual results to differ materially from those in forward-looking statements. These factors include, however are not limited to the risks and uncertainties cited in the above paragraph. Undue reliance should not be placed on such forward-looking statements, as such statements speak only as of the date of the filing of this Annual Report. We undertake no obligation to update forward-looking statements.

Consolidated Statements of Income

(thousands, except per share data)

Sales

	2006	2005	2004
Construction services	\$ 1,926,077	\$ 1,586,509	\$ 904,362
Building products	1,319,092	1,325,651	1,186,663
Total sales	3,245,169	2,912,160	2,091,025

Costs and operating expenses

Cost of goods sold			
Construction services	1,557,324	1,285,949	768,407
Building products	960,565	967,877	897,725
Impairment of assets	2,237	1,320	2,274
Selling, general and administrative expenses	531,958	420,862	317,002
Other income, net	(4,370)	(3,204)	(2,491)
Total costs and operating expenses	3,047,714	2,672,804	1,982,917

Income from operations

Interest expense	29,082	14,420	13,560
Income before income taxes and minority interests	168,373	224,936	94,548
Income taxes	56,806	79,915	35,198
Minority interests income, net of income taxes	(9,493)	(15,514)	(5,440)

Net income

\$ 102,074	\$ 129,507	\$ 53,910
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Net income per share:

Basic	\$ 3.57	\$ 4.61	\$ 2.00
Diluted	\$ 3.45	\$ 4.41	\$ 1.94

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

Consolidated Balance Sheets

(thousands, except per share data)

Assets

Cash and cash equivalents
Marketable securities
Receivables, net of allowances of \$4,487 and \$3,756
Inventory
Unbilled receivables
Deferred income taxes
Prepaid expenses and other

Total current assets

Property and equipment

Land
Buildings and improvements
Equipment
Construction in progress
Accumulated depreciation

Marketable securities
Deferred loan costs
Other long-term assets
Other intangibles, net
Goodwill

Total assets

Liabilities, Minority Interests and Shareholders' Equity

Accounts payable
Accrued compensation
Insurance deductible reserves
Other accrued liabilities
Billings in excess of costs and estimated earnings
Current portion of long-term debt

Total current liabilities

Deferred income taxes
Insurance deductible reserves
Long-term debt
Other long-term liabilities

Total liabilities

Minority interests

Commitments and contingent liabilities

Shareholders' equity

Common shares, \$0.001 par value: authorized 50 million;
issued and outstanding 29,153,331 and 28,758,580 shares
Additional paid-in capital
Unearned compensation
Retained earnings
Accumulated other comprehensive (loss) income, net

Total shareholders' equity

Total liabilities, minority interests and shareholders' equity

Year Ended December 31

2006 2005

\$ 74,272	\$ 30,078
4,337	3,645
279,829	363,527
144,366	168,282
43,527	56,128
8,914	5,768
11,166	6,967
566,411	634,395
62,367	47,328
139,602	118,556
188,285	166,633
8,579	9,485
(139,342)	(121,525)
53,513	28,875
5,481	3,616
27,223	20,465
108,792	55,227
308,000	187,470
\$ 1,328,911	\$ 1,150,525
\$ 110,961	\$ 146,627
48,552	65,928
24,931	21,872
103,402	51,579
27,622	33,799
8,143	10,131
323,611	329,936
9,138	6,911
25,841	20,753
349,161	278,169
41,390	30,689
749,141	666,458
7,141	14,006
—	—
29	29
154,405	143,780
—	(2,698)
418,927	328,463
(732)	487
572,629	470,061
\$ 1,328,911	\$ 1,150,525

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

Consolidated Statements of Shareholders' Equity

	Accumulated Other Comprehensive Income (Loss)							
	Net Unrealized Gain (Loss) From							
	Common Shares		Additional	Unearned	Retained	Interest Rate	Marketable	
(thousands)	Shares	Amount	Paid-in Capital	Compensation	Earnings	Swap Contracts	Securities	Total
Balance at December 31, 2003	26,667	\$ 27	\$ 115,268	\$ —	\$ 155,715	\$ —	\$ —	\$ 271,010
Net income	—	—	—	—	53,910	—	—	53,910
Unrealized loss	—	—	—	—	—	(2,215)	—	(2,215)
Tax benefit for unrealized loss	—	—	—	—	—	853	—	853
Unrealized gain	—	—	—	—	—	—	5	5
Taxes for unrealized gain	—	—	—	—	—	—	(2)	(2)
Comprehensive income								52,551
Share options exercised	825	1	5,008	—	—	—	—	5,009
Tax benefit for share options exercised	—	—	2,041	—	—	—	—	2,041
Shares issued from Director Plan	33	—	285	—	—	—	—	285
Shares issued from Employee Plan	31	—	356	—	—	—	—	356
Issuance of restricted shares	149	—	1,622	(1,622)	—	—	—	—
Earned compensation expense	—	—	—	239	—	—	—	239
Cash dividends on common shares	—	—	—	—	(3,813)	—	—	(3,813)
Balance at December 31, 2004	27,705	28	124,580	(1,383)	205,812	(1,362)	3	327,678
Net income	—	—	—	—	129,507	—	—	129,507
Unrealized gain	—	—	—	—	—	3,412	—	3,412
Taxes for unrealized gain	—	—	—	—	—	(1,314)	—	(1,314)
Unrealized loss	—	—	—	—	—	—	(410)	(410)
Tax benefit for unrealized loss	—	—	—	—	—	—	158	158
Comprehensive income								131,353
Share options exercised	861	1	4,904	—	—	—	—	4,905
Tax benefit for share options exercised	—	—	9,140	—	—	—	—	9,140
Shares issued from Director Plan	14	—	380	—	—	—	—	380
Shares issued from Employee Plan	36	—	1,160	—	—	—	—	1,160
Shares issued for acquisition	34	—	1,000	—	—	—	—	1,000
Issuance of restricted shares	109	—	2,616	(2,616)	—	—	—	—
Earned compensation expense	—	—	—	1,301	—	—	—	1,301
Cash dividends on common shares	—	—	—	—	(6,856)	—	—	(6,856)
Balance at December 31, 2005	28,759	29	143,780	(2,698)	328,463	736	(249)	470,061
Net income	—	—	—	—	102,074	—	—	102,074
Unrealized loss	—	—	—	—	—	(880)	—	(880)
Tax benefit for unrealized loss	—	—	—	—	—	332	—	332
Unrealized gain	—	—	—	—	—	262	—	262
Taxes for unrealized gain	—	—	—	—	—	(101)	—	(101)
Realized gain	—	—	—	—	—	(1,459)	—	(1,459)
Taxes for realized gain	—	—	—	—	—	562	—	562
Unrealized loss	—	—	—	—	—	—	127	127
Tax benefit for unrealized loss	—	—	—	—	—	—	(62)	(62)
Comprehensive income								100,855
Reclassify unearned compensation — restricted shares	—	—	(2,698)	2,698	—	—	—	—
Earned compensation — options	—	—	5,103	—	—	—	—	5,103
Earned compensation — restricted shares	—	—	3,107	—	—	—	—	3,107
Issuance of restricted shares	138	—	—	—	—	—	—	—
Share options exercised	176	—	1,292	—	—	—	—	1,292
Tax benefit for share options exercised	—	—	1,457	—	—	—	—	1,457
Shares issued from Director Plan	12	—	415	—	—	—	—	415
Shares issued from Employee Plan	68	—	1,949	—	—	—	—	1,949
Cash dividends on common shares	—	—	—	—	(11,610)	—	—	(11,610)
Balance at December 31, 2006	29,153	\$ 29	\$ 154,405	\$ —	\$ 418,927	\$ (548)	\$ (184)	\$ 572,629

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

Consolidated Statements of Cash Flows

(thousands)

Operating Activities

	Year Ended December 31		
	2006	2005	2004
Net income	\$ 102,074	\$ 129,507	\$ 53,910
Items in net income not using (providing) cash:			
Minority interests, net	9,493	15,514	5,440
Depreciation and amortization	45,284	27,363	22,815
Deferred loan cost amortization	1,359	704	497
Impairment of assets	2,237	1,320	2,274
Share-based compensation	8,917	1,855	577
Loss (gain) on sale of assets, net	207	(194)	334
Realized gain on interest rate swap contracts	(1,459)	—	—
Realized loss on marketable securities	206	—	—
Deferred income taxes	(1,125)	(3,473)	(7,490)
Tax benefit for share options	—	9,140	2,041
Changes in assets and liabilities, net of effects of acquisitions and sales of business units:			
Receivables, net	128,381	(19,049)	(45,687)
Inventory	43,873	(3,332)	(40,258)
Unbilled receivables	22,702	(8,378)	(8,571)
Prepaid expenses and other current assets	(3,915)	4,340	(1,895)
Accounts payable	(43,483)	1,852	11,413
Accrued compensation	(18,823)	24,465	15,643
Insurance deductible reserves	3,059	5,777	3,045
Other accrued liabilities	1,483	(4,611)	5,777
Billings in excess of costs and estimated earnings	(29,734)	(1,911)	(795)
Other long-term assets and liabilities	1,588	18,181	13,057
Other, net	1,094	(776)	1,247
Cash flows provided by operating activities	273,418	198,294	33,374

Investing Activities

Purchases of property and equipment	(52,873)	(46,540)	(27,652)
Acquisitions and investments in businesses, net of cash acquired	(201,754)	(203,201)	(22,738)
Proceeds from dispositions of property and equipment	2,944	1,358	12,278
Purchase of marketable securities	(54,700)	(20,623)	(19,375)
Proceeds from sales of marketable securities	29,270	6,546	349
Other, net	(3,150)	892	(871)
Cash flows used by investing activities	(280,263)	(261,568)	(58,009)

Financing Activities

Net (payments) borrowings under revolver	(77,500)	(3,700)	20,800
Borrowings under term note	350,000	75,000	—
Principal payments on term notes	(197,750)	(1,251)	(1,250)
Net payments on other notes	(6,109)	(7,605)	(932)
(Decrease) increase in book overdrafts	(2,902)	17,404	5,411
Proceeds from share options exercised	1,292	4,905	5,008
Tax benefit for share options	1,457	—	—
Dividends paid	(10,853)	(5,807)	(3,505)
Deferred financing costs	(3,224)	(2,236)	(175)
Distributions to minority interests	(5,731)	(2,792)	(728)
Other, net	2,359	(62)	(4)

Cash flows provided by financing activities

Increase (Decrease) in Cash and Cash Equivalents

	51,039	73,856	24,625
	44,194	10,582	(10)
Cash and cash equivalents, beginning of year	30,078	19,496	19,506
Cash and cash equivalents, end of year	\$ 74,272	\$ 30,078	\$ 19,496

Supplemental Disclosure of Cash Flow Information

Accrued but unpaid dividends	\$ 2,915	\$ 2,158	\$ 1,108
Cash paid for interest	\$ 28,185	\$ 13,682	\$ 12,902
Cash paid for income taxes	\$ 69,568	\$ 70,553	\$ 37,777

Supplemental Schedule of Non-cash Investing Activities

Fair value of assets acquired	\$ 285,957	\$ 337,924	\$ 25,353
Liabilities assumed	\$ 84,203	\$ 132,114	\$ 2,615
Cash paid	\$ 201,754	\$ 203,201	\$ 22,738

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

1. Summary of Significant Accounting Policies

Nature of Operations

Building Materials Holding Corporation (BMHC) provides construction services and building products to professional homebuilders and contractors in western and southern regions of the United States. We operate through two separately managed and reportable business segments: SelectBuild and BMC West. SelectBuild provides framing and other construction services to high-volume homebuilders in 16 of the top 25 single-family construction markets. BMC West distributes building materials, manufactures building components (millwork, floor and roof trusses and wall panels) and provides construction services to professional builders and contractors through a network of 41 distribution facilities and 60 manufacturing facilities.

Principles of Consolidation

The consolidated financial statements include the accounts of BMHC and its subsidiaries. All significant intercompany balances and transactions are eliminated.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements as well as the reported amounts of sales and expenses during the reporting period. Actual amounts may differ materially from those estimates. The following critical accounting estimates require our subjective and complex judgment often as a result of the need to estimate matters that are inherently uncertain:

▪ Revenue Recognition for Construction Services

The percentage-of-completion method is used to recognize revenue for construction services. Periodic estimates of our progress towards completion are made based on a comparison of labor costs incurred to date with total estimated contract costs for labor. The percentage-of-completion method requires the use of various estimates, including among others, the extent of progress towards completion, contract revenues and contract completion costs. Contract revenues and contract costs to be recognized are dependent on the accuracy of estimates, including quantities of materials, labor productivity and other cost estimates. We have a history of making reasonable estimates of the extent of progress towards completion, contract revenues and contract completion costs. However, due to uncertainties inherent in the estimation process, it is possible that actual completion costs may vary from estimates. Revisions of contract revenues and cost estimates as well as provisions for estimated losses on uncompleted contracts are recognized in the period such revisions are known.

▪ Estimated Losses on Uncompleted Contracts and Changes in Contract Estimates

Estimated losses on uncompleted contracts and changes in contract estimates are established by assessing estimated costs to complete, change orders and claims for uncompleted contracts. Revisions of estimated losses are recognized in the period such revisions are known.

▪ Goodwill

Goodwill represents the excess of purchase price over the fair values of net tangible and identifiable intangible assets of acquired businesses. An annual assessment for impairment is completed in the fourth quarter and whenever events and circumstances indicate the carrying amount may not be recoverable. An impairment is recognized if the carrying amount is more than the estimated future operating cash flows as measured by fair value techniques.

▪ Insurance Deductible Reserves

The estimated cost of automobile, general liability and workers' compensation claims is determined by actuarial methods. Claims in excess of insurance deductibles are insured with third-party insurance carriers. Reserves for claims are recognized based on the estimated costs of these claims as limited by the deductibles of the applicable insurance policies. Revisions of estimated claims are recognized in the period such revisions are known.

▪ Warranties

The estimated cost of warranties for certain construction services is based on the nature and frequency of claims, anticipated claims and cost per claim. Claims in excess of insurance deductibles are insured with third-party insurance carriers. Estimated costs for warranties are recognized when the revenue associated with the service is recognized. Revisions of estimated warranties are recognized in the period such revisions are known.

▪ Share-based Compensation

Our estimates of the fair values of our share-based payment transactions are based on the modified Black-Scholes-Merton model. In order to meet the fair value measurement objective, we are required to develop estimates regarding expected exercise patterns, share price volatility, forfeiture rates, risk-free interest rate and dividend yield. These assumptions are based principally on historical experience. When circumstances indicate the availability of new or different information that would be useful in estimating these assumptions, revisions will be made and recognized in the period such revisions are known. Due to uncertainties inherent in these assumptions, it is possible that actual share-based compensation may vary from this estimate.

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term investments that have a maturity of three months or less at the date of purchase. Cash and cash equivalents were \$74.3 million at December 31, 2006 and \$30.1 million at December 31, 2005.

Receivables

Receivables consist primarily of amounts due from customers and are net of an allowance for doubtful accounts. The allowance for doubtful accounts reflects our best estimate of probable losses inherent in the accounts receivable balance. We determine the allowance based on known troubled accounts, historical experience and other available evidence.

Inventory Valuation

Inventory consists principally of building materials purchased for resale and is valued at the lower of average cost or market. We participate in vendor rebate programs under which rebates are earned by attaining certain purchase volumes. Volume rebates are accrued as earned. These volume rebates are recorded as a reduction in inventory and recognized in cost of goods sold when the related product is sold.

Unbilled Receivables and Billings in Excess of Costs and Estimated Earnings

The percentage-of-completion method results in recognizing costs incurred and estimated revenues on uncompleted contracts. Unbilled receivables represent revenues recognized for construction services performed, however not yet billed. Billings in excess of costs and estimated earnings represent billings made in excess of estimated revenues recognized. These billings are deferred until the actual progress towards completion indicates recognition is appropriate. Costs include direct labor and materials as well as equipment costs related to contract performance.

Property and Equipment

Property and equipment are recorded at cost. Cost includes expenditures for major improvements and replacements that extend useful life. Certain costs of software are capitalized provided those costs are not research and development and certain other criteria are met. Capitalized interest was \$0.1 million in 2006, \$0.2 million in 2005 and \$0.1 million in 2004. Expenditures for other maintenance and repairs are expensed as incurred. Gains and losses from sales and retirements are included in income as they occur. Depreciation is calculated using the straight-line method over the economic useful lives of the assets. The estimated useful lives of depreciable assets are generally:

- ten to thirty years for buildings and improvements
- seven to ten years for machinery and fixtures
- three to ten years for handling and delivery equipment
- three to ten years for software development costs

In order to improve financial returns, we periodically evaluate our investments in property and equipment. As a result, property and equipment may be consolidated, leased or sold. We recognized a loss of \$0.2 million in 2006, a gain of \$0.2 million in 2005 and a loss of \$0.3 million in 2004 from the sales of property and equipment.

Long-lived Assets

Long-lived assets such as property, equipment and intangibles with useful lives are evaluated for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment is recognized if the carrying amount exceeds its fair value and when the carrying amount is not recoverable based on the estimated future operating cash flows on an undiscounted basis.

Revenue Recognition

Taxes assessed by governmental authorities that are directly imposed on our revenue-producing transactions are excluded from sales. The percentage-of-completion method is used to recognize revenue for construction services. Revenues for building products are recognized when title to the goods and risk of loss pass to the buyer, which is at the time of delivery.

Shipping and Handling

Shipping and handling costs for manufactured building components and construction services are included as a component of cost of goods sold. Shipping and handling costs for building products are included as a component of selling, general and administrative expenses and were \$78.8 million in 2006, \$64.5 million in 2005 and \$55.7 million in 2004.

Reclassifications

Certain reclassifications, none of which affected previously reported consolidated results of operations, cash flows or shareholders' equity, have been made to amounts reported in prior periods to conform to the current year presentation.

Common Share Split

On February 14, 2006, our Board of Directors approved a two for one split of our outstanding common shares. Shareholders as of February 28, 2006 received a stock dividend of one additional common share for every common share they owned. All share and per share information for all prior periods presented has been retroactively adjusted to reflect this share split.

Recent Accounting Principles

In September 2006, the Securities Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effect of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. This accounting principle provides specific guidance for considering the effects of prior year misstatements in quantifying current year misstatements. This accounting principle was adopted effective January 2006 and had no impact on consolidated financial position, results of operations or cash flows.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. This accounting principle provides specific guidance for measurement, recognition and disclosure of uncertain tax positions. This accounting principle was adopted January 2007 and is not expected to have a significant impact on consolidated financial position, results of operations or cash flows.

2. Net Income Per Share

Net income per share was determined using the following information (thousands, except per share data):

	Year Ended December 31		
	2006	2005	2004
Net income	\$ 102,074	\$ 129,507	\$ 53,910
Weighted average shares used to determine basic net income per share	28,603	28,101	26,988
Net effect of dilutive stock options and restricted stock	986	1,261	859
Weighted average shares used to determine diluted net income per share	29,589	29,362	27,847
Net income per share:			
Basic	\$ 3.57	\$ 4.61	\$ 2.00
Diluted	\$ 3.45	\$ 4.41	\$ 1.94
Annual cash dividends declared per share	\$ 0.40	\$ 0.24	\$ 0.14

Share options considered not dilutive are those with exercise prices greater than the average market value of the common shares in the periods presented. Share options that are not dilutive and therefore excluded from the computation of diluted net income per share were as follows:

- 403,100 shares in 2006,
- no shares in 2005 and
- no shares in 2004.

3. Accounting for Share-Based Compensation

On January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment*. This statement required the measurement and recognition of share-based payments to employees at fair value. Compensation cost is based on the fair value of those shares on the grant date. Compensation cost for share-based awards is recognized as the requisite service is rendered in the same financial statement line as cash compensation. Additionally, tax benefits for share-based compensation payments are reported as a financing activity, rather than as an operating cash flow.

Previously, we did not recognize expense for grants of share options if the exercise price was at least equal to the fair value of the shares on the date of grant. In accordance with the modified prospective method of transition, compensation expense is recognized over the requisite service period for all share-based compensation granted after the date of adoption as well as awards unvested on the date of adoption. Prior periods are not revised for comparative purposes. Share-based compensation expense previously included restricted shares and share awards and will now include the fair value of share options.

The fair value of share-based compensation expense recognized for options for the requisite service period was \$5.1 million, including \$0.3 million for options vested due to early retirement eligibility, for 2006. As this compensation does not require the payment of cash, this is reflected as a non-cash item in the statement of cash flows.

Share-based compensation expense for options reduced our results of operations as follows (thousands, except per share data):

	2006
Income before income taxes and minority interests	\$ 5,103
Net income	\$ 3,276
Net income per share:	
Basic	\$ 0.11
Diluted	\$ 0.11

Share-based compensation expense is included in selling, general and administrative expenses since it is incentive compensation issued primarily to our executives and senior management. Share-based compensation expense for options, restricted shares and share awards was \$8.5 million for 2006. Share-based compensation expense for restricted shares and share awards was \$2.0 million for 2005 and \$1.3 million for 2004.

As of December 31, 2006, there was \$12.2 million of unrecognized compensation expense related to non-vested share-based compensation arrangements granted under our plans. This expense will be recognized as the requisite services are rendered and is expected to be recognized ratably through January 2009.

**Pro Forma Information for the Periods
Prior to January 1, 2006**

Financial information for prior periods is not required to be revised to reflect this change in accounting principle. The following illustrates the effect on net income and income per share if the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, were applied to share options for the prior periods (thousands, except per share data):

	Year Ended December 31	
	2005	2004
Net income, as reported	\$ 129,507	\$ 53,910
Add: Share-based employee compensation expense determined under APB 25, net of related tax effects	555	659
Deduct: Share-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(2,497)	(1,892)
Pro forma net income	\$ 127,565	\$ 52,677
Basic net income per share:		
As reported	\$ 4.61	\$ 2.00
Pro forma	\$ 4.54	\$ 1.95
Diluted net income per share:		
As reported	\$ 4.41	\$ 1.94
Pro forma	\$ 4.34	\$ 1.89

4. Impairment of Assets

Long-lived assets such as property, equipment and intangibles are evaluated for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment for these assets is recognized if the carrying amount is more than the estimated future operating cash flows on an undiscounted basis. Similarly, goodwill is evaluated for impairment in the fourth quarter and whenever events and circumstances indicate the carrying amount may not be recoverable. An impairment for goodwill is recognized if the carrying amount is more than the estimated future operating cash flows as measured by fair value techniques.

As a result of changes in specific markets, SelectBuild recognized the following impairments during 2006:

- \$1.8 million for the carrying amount of goodwill in the second quarter and
- \$0.4 million for the carrying amount of certain customer relationships in the second quarter.

As a result of changes in specific markets, SelectBuild recognized the following impairments during 2005:

- \$0.5 million for the carrying amount of certain customer relationships in the second quarter and
- \$0.8 million for the carrying amount of goodwill in the fourth quarter.

As a result of changes in specific markets, BMC West recognized the following impairments during 2004:

- \$1.3 million for the carrying amount of certain properties in the first quarter and
- \$1.0 million for the carrying amount of goodwill in the fourth quarter.

5. Acquisitions and Minority Interests

Acquisitions are accounted for under the purchase method of accounting. The purchase price is allocated to the assets acquired, including intangible assets, and liabilities assumed based on their estimated fair values at the date of acquisition. Subsequent to the initial allocation of purchase price, adjustments may be made to reflect the fair value of working capital and tangible assets. Any excess of the purchase price over the estimated fair value of the identifiable assets and liabilities acquired is recorded as goodwill. Operating results of acquired businesses are included in the consolidated statements of income from the date of acquisition.

- In December 2006, SelectBuild acquired a distribution services business in Southern California for approximately \$1.6 million in cash of which \$0.6 million has been retained for the settlement period. This purchase price is subject to working capital adjustment. Information required to complete the purchase price allocation is not yet available. Final allocation of the purchase price will be completed as soon as this information is available.
- In August 2006, SelectBuild acquired a window installation business in Arizona for approximately \$13.9 million in cash of which \$0.5 million has been retained for the settlement period. This purchase price is subject to working capital adjustment. Information required to complete the purchase price allocation is not yet available. Final allocation of the purchase price will be completed as soon as this information is available.
- In July 2006, SelectBuild acquired a framing services business in Southern California for approximately \$78.6 million in cash of which \$3.8 million has been retained for the settlement period. This purchase price is subject to working capital adjustment. Additional cash payments may be required based on operating performance through June 2009. Information required to complete the purchase price allocation is not yet available. Final allocation of the purchase price will be completed as soon as this information is available.

- In June 2006, BMC West acquired a building materials distribution and truss manufacturing business in Eastern Idaho for approximately \$5.1 million in cash of which \$0.1 million has been retained for the settlement period. This purchase price is subject to working capital adjustment. Information required to complete the purchase price allocation is not yet available. Final allocation of the purchase price will be completed as soon as this information is available.
- In April 2006, SelectBuild acquired a concrete services business in Northern Arizona for approximately \$1.5 million in cash.
- In April 2006, SelectBuild acquired a wall panel and truss manufacturing business in Palm Springs, California for \$6.7 million in cash.
- In February 2006, BMC West acquired three facilities providing building materials distribution and millwork services in Houston, Texas for \$20.6 million in cash.
- In January 2006, SelectBuild acquired framing businesses in Palm Springs, California and Reno, Nevada for \$57.1 million in cash. Additional cash payments may be required based on operating performance through December 2009.
- In October 2005, SelectBuild acquired a framing services business in San Diego, California for \$72.6 million in cash. Additional cash payments may be required based on operating performance through September 2009.
- In September 2005, SelectBuild acquired a concrete and plumbing services business in Las Vegas, Nevada and Southern California for \$85.6 million in cash.
- In September 2005, BMC West acquired a truss manufacturing business in McCall, Idaho for \$1.3 million in cash.
- In June 2005, SelectBuild acquired a stucco business in Las Vegas, Nevada for \$5.9 million in cash.

Minority interest reflects the other owners' proportionate share in the assets and liabilities of business ventures as of the date of purchase, adjusted by the proportionate share of post-acquisition income or loss. As the operating results of entities with minority interest are consolidated, minority interests income represents the income or loss attributable to the other owners.

- In November 2006, SelectBuild acquired the remaining 49% interest in BBP Companies for \$22.8 million in cash of which \$22.7 million is payable and included in other accrued liabilities. In July 2005, we acquired an initial 51% interest for \$9.4 million in cash and \$1.0 million of our common shares. Information required to complete the purchase price allocation is not yet available. Final allocation of the purchase price will be completed as soon as this information is available. BBP Companies provide concrete services to high-volume production homebuilders in Arizona.
- In January 2006, SelectBuild acquired the remaining 20% interest in WBC Construction, LLC for \$35.7 million in cash of which \$33.1 million is payable and included in other accrued liabilities. Information required to complete the purchase price allocation is not yet available. Final allocation of the purchase price will be completed as soon as this information is available.
- In August 2005, SelectBuild acquired an additional 20% interest in WBC Construction, LLC for \$24.8 million in cash. In January 2003, we acquired an initial 60% interest for \$22.9 million in cash and \$1.0 million of our common shares. WBC Construction provides concrete block masonry and concrete services to high-volume homebuilders in Florida.
- In July 2005, SelectBuild acquired an additional 13% interest in Riggs Plumbing, LLC (Riggs Plumbing) for \$1.4 million in cash. In April 2005, we acquired an initial 60% interest for \$17.8 million in cash. The remaining 27% is owned by Riggs & Associates, LLC and is recognized as minority interest. Riggs Plumbing provides plumbing services to high-volume builders in the Phoenix and Tucson markets.
- In January 2005, SelectBuild acquired a 51% interest in RCI Construction, LLC (RCI Construction) for \$4.9 million in cash. The remaining 49% is owned by Residential Carpentry, Inc. and is recognized as minority interest. RCI Construction provides framing services to high-volume builders in the greater Chicago area.

Assets and liabilities acquired in these acquisitions included (thousands):

	2006	2005
Cash and cash equivalents	\$ —	\$ 1,644
Receivables	44,683	106,407
Inventory	19,957	11,559
Unbilled receivables	10,101	30,554
Deferred income taxes	—	(6,527)
Prepaid expenses and other	263	4,057
Total current assets	75,004	147,694
Property and equipment	19,845	33,406
Other long-term assets	42	18
Other intangibles, net	68,692	46,824
Goodwill	122,374	109,982
Total assets	\$ 285,957	\$ 337,924
Accounts payable	\$ 10,376	\$ 46,078
Accrued compensation	1,447	7,385
Insurance deductible reserves	—	3,192
Other accrued liabilities	50,340	30,014
Billings in excess of costs and estimated earnings	23,557	24,436
Current portion of long-term debt	—	5,605
Total current liabilities	85,720	116,710
Deferred income taxes	937	8,528
Long-term debt	—	10,048
Other long-term liabilities	8,173	—
Total liabilities	94,830	135,286
Minority interests	(10,627)	(3,172)
Total liabilities and minority interests	\$ 84,203	\$ 132,114

The following summarizes pro forma results of operations assuming the acquisitions occurred as of the beginning of 2005. Due to uncertainties in these assumptions, the pro forma data does not purport to be indicative of the results of operations that would have resulted had the acquisitions been consummated at the beginning of the period presented, or that may occur in the future (thousands, except per share data):

	2006	2005
Sales – as reported	\$ 3,245,169	\$ 2,912,160
Pro forma Sales	\$ 3,322,258	\$ 3,703,094
Net income – as reported	\$ 102,074	\$ 129,507
Pro forma Net income	\$ 107,799	\$ 162,934
Net income per share:		
Diluted – as reported	\$ 3.45	\$ 4.41
Pro forma Diluted	\$ 3.64	\$ 5.55

We have call rights and put obligations associated with the interests in Riggs Plumbing, RCI Construction, A-1 Truss and WBC Mid-Atlantic that we do not currently own. Under the purchase agreements, we have the right to purchase the other owners' remaining portions during certain periods or if certain conditions are met. Likewise, the other owners have the option to require us to purchase their remaining portions during certain periods. The purchase price for the remaining portions will be based generally on a multiple of historical earnings. The following table summarizes the timing of these call and put obligations:

	Call Options	Put Options
Riggs Plumbing	April 2008 through March 2013	April 2008 through March 2013
RCI Construction	January 2008 through January 2012	January 2008 through January 2012
A-1 Truss	September 2004 through August 2014	September 2009 through August 2014
WBC Mid-Atlantic	October 2003 through September 2010	December 2006 through December 2008

6. Marketable Securities

Investments in marketable securities consist of debt securities held by our captive insurance subsidiary and are considered available-for-sale and recorded at fair value. Unrealized gains and losses are recorded as a component of accumulated other comprehensive (loss) income, net, a component of shareholders' equity. There were no significant unrealized losses.

The fair value of these marketable securities were as follows (thousands):

	2006	2005
Cash and cash equivalents	\$ —	\$ 415
U.S. government and agencies	25,661	7,838
Asset backed securities	18,278	13,391
Corporate securities	13,911	10,876
	\$ 57,850	\$ 32,520

Contractual maturities were as follows (thousands):

	2006	2005
Less than one year	\$ 4,337	\$ 3,645
Due in one to two years	16,648	9,893
Due in two to five years	36,865	18,982
	\$ 57,850	\$ 32,520

7. Intangible Assets and Goodwill

Intangible assets represent the values assigned to customer relationships, covenants not to compete and trade names. Intangible assets are amortized on a straight-line basis over their expected useful lives. Customer relationships are amortized over three to seventeen years, covenants not to compete over two to five years and trade names over three years. Amortization expense for intangible assets was \$14.7 million in 2006, \$4.7 million in 2005 and \$4.2 million in 2004. Intangible assets consist of the following (thousands):

	December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 122,498	\$ (22,125)	\$ 100,373
Covenants not to compete	13,094	(4,802)	8,292
Trade names	204	(159)	45
Other	146	(64)	82
	\$ 135,942	\$ (27,150)	\$ 108,792

	December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 58,926	\$ (9,165)	\$ 49,761
Covenants not to compete	7,541	(2,307)	5,234
Trade names	204	(91)	113
Other	146	(27)	119
	\$ 66,817	\$ (11,590)	\$ 55,227

Estimated amortization expense for intangible assets is \$17.0 million for 2007, \$15.5 million for 2008, \$15.3 million for 2009, \$14.2 million for 2010, \$12.7 million for 2011 and \$34.1 million thereafter.

Goodwill represents the excess of the purchase price over the fair value of net tangible and identifiable intangible assets of acquired businesses. Adjustments to amounts previously reported as goodwill occur as a result of completing the purchase price allocation to the assets acquired, including intangible assets, and liabilities assumed based on their estimated fair values at the date of acquisition.

An annual assessment for impairment is completed in the fourth quarter and whenever events and circumstances indicate the carrying amount may not be recoverable. An impairment is recognized at the reporting unit if the carrying amount is more than the estimated future operating cash flows as measured by fair value techniques.

Changes in the carrying amount of goodwill by business segment were as follows (thousands):

	SelectBuild	BMC West	Total
Balance at December 31, 2004	\$ 60,253	\$ 20,063	\$ 80,316
Impairment	(763)	—	(763)
Goodwill acquired	107,778	139	107,917
Balance at December 31, 2005	\$ 167,268	\$ 20,202	\$ 187,470
Purchase price adjustment	(1,927)	(16)	(1,943)
Impairment	(1,839)	—	(1,839)
Goodwill acquired	123,621	691	124,312
Balance at December 31, 2006	\$ 287,123	\$ 20,877	\$ 308,000

While goodwill is tested for impairment annually and not amortized for financial statement purposes, goodwill is deductible for income tax purposes. Certain goodwill is non-deductible. Non-deductible goodwill was \$41.4 million as of December 2006 of which \$15.2 million was recorded in 2006 related to purchase price adjustments for 2005 acquisitions, \$18.8 million was from 2005 acquisitions and \$7.4 million was from acquisitions in prior periods.

8. Debt

Long-term debt consists of the following as of December 31, 2006 (thousands):

As of December 31, 2006

	Balance	Stated Interest Rate	Notional Amount of Interest Rate Swaps	Effective Interest Rate	
				Average for Year	As of December 31
Revolver	\$ —	LIBOR plus 1.25% or Prime plus 0.00%	\$ —	6.50%	n/a
Term note	349,125	LIBOR plus 2.50% or Prime plus 1.25%	200,000	6.72%	6.97%
Other	8,179	Various	—	—	—
	357,304		\$ 200,000		
Less: Current portion	8,143				
	\$ 349,161				

As of December 31, 2005

	Balance	Stated Interest Rate	Notional Amount of Interest Rate Swaps	Effective Interest Rate	
				Average for Year	As of December 31
Revolver	\$ 77,500	LIBOR plus 0.75% or Prime plus 0.00%	\$ —	5.37%	6.08%
Term note	75,000	LIBOR plus 0.75% or Prime plus 0.00%	—	4.52%	5.28%
Term note	121,875	LIBOR plus 1.75%	100,000	6.23%	6.17%
Other	13,925	Various	—	—	—
	288,300		\$ 100,000		
Less: Current portion	10,131				
	\$ 278,169				

Revolver

In November 2006, we entered into an amended \$500 million revolver with a group of lenders. The revolver matures in November 2011. The revolver consists of both LIBOR and Prime based borrowings. These variable interest rates are subject to quarterly adjustment based on operating performance and range from LIBOR plus 1.00% to 2.00%, or Prime plus 0.00% to 0.75%. Interest is paid quarterly. As of December 31, 2006, no amount was outstanding under the revolver.

Term Note

In November 2006, we entered into a \$350 million term note with a group of lenders. The term note matures in November 2013 and is payable in quarterly installments for the first seven years in amounts equal to 1% of the initial principal per year and the remaining principal due November 2013. The variable interest rate for the term note is LIBOR plus 2.50%, or Prime plus 1.25%. Interest is paid quarterly. As of December 31, 2006, \$349.1 million was outstanding under this term note.

Other

Other long-term debt of \$8.2 million consists of term notes, equipment notes and capital leases for equipment. Interest rates vary and dates of maturity are through March 2021.

Expansion of Credit Facility, Covenants and Maturities

The credit facility consists of the revolver and term note. The credit facility may be increased an aggregate amount of up to \$250 million. The credit facility is collateralized by tangible and intangible property of our wholly-owned subsidiaries, except the assets of our captive insurance subsidiary. The credit facility contains covenants and conditions requiring the maintenance of certain financial ratios. At December 31, 2006, we were in compliance with these covenants and conditions.

Scheduled maturities of long-term debt are as follows (thousands):

2007	\$ 8,143
2008	4,894
2009	4,208
2010	3,898
2011	3,716
Thereafter	332,445
	<hr/>
	\$ 357,304

As of December 31, 2006 and December 31, 2005 there were \$95.8 million and \$75.9 million, respectively of letters of credit outstanding that guaranteed performance or payment to third parties. These letters of credit reduce borrowing availability under the revolver.

Hedging Activities

Derivative and hedging activities are recorded on the balance sheet at their fair values. In November 2006, we entered into interest rate swap contracts that effectively convert \$200 million of the variable rate borrowings of the \$349.1 million term note to a fixed interest rate of 7.59% through November 2012, thus reducing the impact of increases in interest rates on future interest expense. Approximately 57% of the outstanding variable rate borrowings of the term note as of December 31, 2006 have been hedged through the designation of interest rate swap contracts accounted for as cash flow hedges. After giving effect to the interest rate swap contracts, total borrowings were 58% fixed and 42% variable.

The fair value of derivative instruments is based on pricing models using current market rates. The fair value of the interest rate swap contracts was a long-term liability of \$0.9 million as of December 31, 2006. The effective portion was recorded in accumulated other comprehensive income, net, a separate component of shareholders' equity, and is subsequently reclassified into earnings in the same financial statement line item, interest expense, in the same period during which the hedged transaction is recognized in earnings. A corresponding deferred tax asset of \$0.3 million was also recorded in accumulated other comprehensive income, net for the income tax related to the estimated fair value of the interest rate swap contracts. The ineffective portion of the change in the value of the interest rate swap contracts is immediately recognized as a component of interest expense. Hedge ineffectiveness for the period ended December 31, 2006 was not significant. Management may choose not to swap variable rates to fixed rates or may terminate a previously executed swap if the variable rate positions are more beneficial.

In June 2004, we entered into interest rate swap contracts that effectively converted \$100 million of variable rate borrowings to a fixed interest rate. These swaps were settled in November 2006 and the \$1.5 million gain recognized for this settlement was reclassified to other income, net from accumulated other comprehensive income, net.

9. Shareholders' Equity

Preferred Shares

We are authorized to issue 2 million preferred shares, however none of these shares are issued. Under the terms of our Restated Certificate of Incorporation, the Board of Directors is authorized to determine or alter the rights, preferences, privileges and restrictions of the preferred shares.

Common Shares

Our common shares have a par value of \$0.001. We have 50 million shares authorized of which approximately 29.2 million are issued and outstanding as of December 31, 2006.

Of the unissued shares, 807,368 shares were reserved for the following:

	Unissued Shares
Employee Stock Purchase Plan	70,902
2004 Incentive and Performance Plan	736,466

Shareholders' Rights Plan

In September 1997, our Board of Directors adopted a shareholder rights plan. If a person acquires 15% or more of our common shares or makes a tender offer or other offer to do so without the approval of the Board of Directors, our shareholders would have the right to purchase our common shares or the shares of the acquiring company at a significant discount. The Board of Directors has the right to redeem these rights for a nominal amount, to extend the period before the rights may be exercised or to take other actions as defined. The plan is intended to encourage any person seeking to acquire us to negotiate with the Board of Directors. The plan expires in September 2007.

Dividends

Cash dividends per common share were as follows:

	2006	2005	2004
Fourth quarter	\$ 0.10	\$ 0.075	\$ 0.04
Third quarter	0.10	0.075	0.04
Second quarter	0.10	0.05	0.03
First quarter	0.10	0.04	0.03
	\$ 0.40	\$ 0.24	\$ 0.14

On February 20, 2007, our Board of Directors approved a 2007 first quarter cash dividend of \$0.10 per common share. The dividend was payable to shareholders of record as of March 23, 2007 and will be paid on or about April 13, 2007.

10. Employee Benefit Plans

Retirement Plans

We provide a savings and retirement plan for salaried and certain hourly employees whereby eligible employees may contribute a percentage of their earnings to a trust. Matching contributions of \$4.5 million in 2006, \$3.9 million in 2005 and \$3.3 million in 2004 were made to the trusts based on a percentage of the contributions made by participating employees.

Additionally, there is a supplemental retirement plan for eligible participants. Contributions are based on achieving certain operating performance and certain participants receive a guaranteed return ranging from zero to 9% based on years of service. Contributions were \$7.5 million in 2006, \$7.5 million in 2005 and \$3.6 million in 2004. The plan's investments are principally company-owned life insurance policies. These investments fund the obligation to the participants or their beneficiaries over a 5, 10 or 15-year period.

Cash Equity Plan

In April 1999, our Board of Directors adopted the Cash Equity Plan. Employees were eligible to receive awards at the discretion of the Compensation Committee of the Board of Directors. Awards are common share equivalent units that may be exchanged for the market value of those shares. The number of units available for grant, including those units outstanding and unexercised, cannot exceed two percent of the common shares outstanding at any given time. The awards are restricted from sale or transfer, vest after three years from the date of grant and expire after five years. No units have been awarded since February 2002. Compensation expense is recognized on a straight-line basis over the respective vesting period with periodic adjustments to compensation expense based on changes in the market value of the common shares. The related compensation expense for this plan was not significant in 2006, \$0.3 million in 2005 and \$0.8 million in 2004. Common share equivalent units of 5,000 remain outstanding and unexercised at December 31, 2006. No further grants or awards will be made under this plan.

Employee Stock Purchase Plan

In September 2000, our Board of Directors adopted the Employee Stock Purchase Plan, which our shareholders approved in May 2001. The plan permits eligible employees to purchase common shares through payroll deductions of up to 10% of an employee's compensation limited to \$25,000 each year. The purchase price of the shares is 85% of the market price on the last day of each month. There were 400,000 common shares authorized under this plan and there were 70,902 shares available for future purchase as of December 31, 2006. Compensation expense recognized was \$0.3 million in 2006, \$0.2 million in 2005 and \$0.1 million in 2004.

2004 Incentive and Performance Plan

In February 2004, our Board of Directors adopted the 2004 Incentive and Performance Plan, which our shareholders approved in May 2004. A total of 2.4 million shares are reserved for issuance under the plan. Employees and non-employee directors are eligible to receive awards at the discretion of the Compensation Committee. Options, appreciation rights, restricted shares, other share-based awards and non-discretionary awards may be granted under this plan.

Options

- Grants of options under the 2004 Incentive and Performance Plan vest ratably over three years from the date of grant and expire after seven years if unexercised. Options were awarded with exercise prices equal to the fair value of the shares on the date of grant.
- In February 2000, our Board of Directors adopted the 2000 Stock Incentive Plan which our shareholders approved in May 2000. No further grants are made under this plan.

Grants of options under the 2000 Stock Incentive Plan vest ratably through the end of the fourth year from the date of grant and expire after ten years if unexercised. Options were awarded with exercise prices equal to the fair value of the shares on the date of grant.

- In February 1997, the Board of Directors authorized issuance of 100,000 options as an additional incentive to attract a member of senior management. These options vested in February 2002 and expire after ten years if unexercised. These options were awarded with exercise prices equal to the fair value of the shares on the date of grant.

With the adoption of Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment*, in 2006, compensation expense is recognized over the requisite service period for all share-based awards granted after the date of adoption as well as awards unvested on the date of adoption. Prior periods are not revised for comparative purposes. Share-based compensation expense previously included restricted shares and share awards and will now include the fair value of share options.

Compensation expense is recognized over the requisite service period. The fair value of compensation expense recognized for options for the requisite service period was \$5.1 million, including \$0.3 million for options vested due to early retirement eligibility, for 2006. Options are not included in the calculation of basic income per share, however options are included in the calculation of diluted income per share.

The fair value of each option is estimated on the date of grant using the modified Black-Scholes-Merton model. Significant awards of options and their key assumptions are as follows:

Grant Year	Grant Month	Grant Date Fair Value of Shares	Risk Free Interest Rate	Expected Volatility	Expected Dividend Yield	Expected Term (Years)
2006	September	\$ 28.01	4.51%	55.58%	1.59%	4.72
2006	January	\$ 37.93	3.77%	48.58%	0.70%	5.60
2005	May	\$ 28.36	4.29%	54.16%	0.68%	7.00
2005	February	\$ 22.77	4.10%	54.16%	0.84%	6.84
2004	May	\$ 8.50	4.56%	54.25%	1.45%	7.00
2004	February	\$ 7.88	4.09%	54.68%	1.45%	7.50
2003	April	\$ 6.97	3.94%	55.42%	1.33%	8.50

These assumptions are based principally on historical experience. When circumstances indicate the availability of new or different information that would be useful in estimating these assumptions, revisions will be made and reflected in the period such revisions are determined. Due to uncertainties inherent in these assumptions, it is possible that actual share-based compensation may vary from the estimate of the fair value of these options.

Activity for option awards was as follows (thousands, except per share data):

	2006				2005		2004	
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Intrinsic Value	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of the period	2,300	\$ 9.73	5.7		2,756	\$ 6.44	3,042	\$ 6.10
Granted	409	\$ 37.88			424	\$ 22.88	609	\$ 8.42
Exercised	(176)	\$ 7.34			(861)	\$ 5.70	(824)	\$ 6.07
Forfeited	(12)	\$ 21.98			(19)	\$ 8.41	(71)	\$ 13.29
Outstanding at end of the period	2,521	\$ 14.41	5.1		2,300	\$ 9.73	2,756	\$ 6.44
Exercisable at end of the period	1,676	\$ 8.20	4.9		1,428	\$ 6.32	1,913	\$ 5.76
In-the-money:								
Outstanding	2,108	\$ 9.84		\$ 31,299				
Exercisable	1,656	\$ 7.85		\$ 27,887				
Weighted average fair value of options granted at fair value		\$ 18.00				\$ 12.38		\$ 4.16
Weighted average fair value of options granted above fair value		—				—		\$ 4.39

The intrinsic value (the difference between our share price on the last day of trading December 2006 and the exercise price) for in-the-money options represents the value that would have been received by option holders had they exercised their options. These values change based on the fair market value of our shares. The intrinsic value was:

- \$31.3 million for options **outstanding**
- \$27.9 million for options **exercisable** (vested)

The intrinsic value (the amount by which our share price exceeded the exercise price on the date of exercise) for options **exercised** was \$3.8 million in 2006, \$23.7 million in 2005 and \$5.4 million in 2004.

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Exercise Price
\$4.84 to \$5.97	555,000	3.5	\$ 4.94	555,000	\$ 4.94
\$6.19 to \$6.97	342,396	6.1	\$ 6.95	342,396	\$ 6.95
\$7.00 to \$7.88	466,812	6.0	\$ 7.38	415,064	\$ 7.31
\$8.70 to \$9.75	337,994	4.3	\$ 8.70	211,998	\$ 8.70
\$22.77 to \$28.36	415,998	5.1	\$ 22.90	134,011	\$ 22.88
\$37.93 to \$38.16	403,100	6.1	\$ 37.93	18,000	\$ 37.93
\$4.84 to \$38.16	2,521,300	5.1	\$ 14.41	1,676,469	\$ 8.20

As of December 31, 2006, there was \$7.4 million of unrecognized compensation expense related to these options. This is recognized as the requisite services are rendered and is expected to be recognized ratably through January 2009.

Restricted Shares

- Grants of restricted shares vest three years from the date of grant. Under certain circumstances some or all of the restricted shares may vest earlier. Compensation expense is recognized over the vesting period. Compensation expense recognized was \$3.1 million in 2006, \$1.3 million in 2005 and \$0.2 million in 2004.

Activity for nonvested restricted share awards was as follows (thousands, except share data):

	2006		2005		2004	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of the period	258	\$ 16.46	149	\$ 10.89	—	—
Granted	139	\$ 37.83	118	\$ 23.18	149	\$ 10.89
Vested	—	—	—	—	—	—
Forfeited	(1)	\$ 37.93	(9)	\$ 12.62	—	—
Nonvested at end of the period	396	\$ 23.91	258	\$ 16.46	149	\$ 10.89

As of December 31, 2006, there was \$4.8 million of unrecognized compensation expense related to these restricted shares. This is recognized as the requisite services are rendered and is expected to be recognized ratably through January 2009. Restricted shares are not included in the calculation of basic income per share, however restricted shares are included in the calculation of diluted income per share.

Shares

- In May 2006, we issued 12,000 shares to non-employee directors and recognized compensation expense of \$0.4 million. These shares vest immediately, however trading is restricted for one year from the date of grant.
- In May 2005, we issued 14,000 shares to non-employee directors and recognized compensation expense of \$0.4 million. These shares vest immediately, however trading is restricted for one year from the date of grant.
- In July 2004, we issued 33,600 shares to non-employee directors and recognized compensation expense of \$0.3 million. These shares vest immediately, however trading is restricted for one year from the date of grant.

The following table summarizes equity compensation information as of December 31, 2006:

	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	2,916,800	\$ 12.45	736,466
Equity compensation plans not approved by security holders	—	—	—
Total	2,916,800	\$ 12.45	736,466

Share-based compensation expense is included in selling, general and administrative since it is incentive compensation issued primarily to our executives and senior management. Share-based compensation expense for options, restricted shares and share awards was \$8.5 million for 2006. Share-based compensation expense for restricted shares and share awards was \$2.0 million for 2005 and \$1.3 million for 2004.

11. Income Taxes

The asset and liability method is used to account for income taxes. Under this method, deferred tax assets and liabilities are recognized for tax credits and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

Our income tax compliance is periodically examined by various taxing authorities. Our tax returns for 2005 through 2002 are either under examination or open for future examination. We believe the ultimate results of examinations, if any, will not have an adverse affect on our financial condition, results of operations or cash flows. Revisions of estimated tax liabilities are reflected in the period such revisions are known.

Income taxes consist of the following (thousands):

	2006	2005	2004
Current income taxes			
Federal	\$ 53,918	\$ 72,650	\$ 37,185
State	4,013	10,738	5,503
	57,931	83,388	42,688
Deferred income taxes			
Federal	(1,043)	(3,157)	(6,809)
State	(82)	(316)	(681)
	(1,125)	(3,473)	(7,490)
	\$ 56,806	\$ 79,915	\$ 35,198

Income taxes associated with the other owner's proportionate share of BBP Companies, acquired in July 2005, were \$1.7 million in 2006 and \$1.2 million in 2005. We are required to recognize income taxes for all of the earnings of this 51% interest due to its C Corporation status. While these income taxes are recognized in income tax expense, the portion of income taxes associated with the other owner's proportionate share of earnings is eliminated through minority interest.

The tax benefit associated with non-statutory options exercised by employees under the various share plans reduced taxes payable by approximately \$1.5 million in 2006, \$9.1 million in 2005 and \$2.0 million in 2004. These tax benefits are recognized in additional paid-in capital, a component of shareholders' equity.

A reconciliation of the differences between the U.S. statutory federal income tax rate and the effective tax rate as provided in the consolidated statements of income is as follows:

	2006	2005	2004
Statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	1.3	3.5	3.3
Non-deductible items	0.4	0.2	—
Earnings of minority interests	(1.5)	(2.3)	(2.3)
Domestic production deduction	(0.8)	(0.8)	—
Other	(0.7)	(0.1)	1.2
	33.7%	35.5%	37.2%

Deferred income taxes are provided using the asset and liability method to reflect temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities using presently enacted tax rates and laws. The components of deferred income taxes included in the consolidated balance sheets were as follows (thousands):

	2006	2005
Deferred tax assets:		
Accounts receivable	\$ 756	\$ 589
Inventory	1,594	—
Accrued compensation	11,645	13,506
Insurance reserves	6,184	5,526
Share-based compensation	3,681	593
Other accrued liabilities	2,502	3,487
State taxes and credits	2,629	345
Investment in partnership interests	2,634	466
Other	437	156
	32,062	24,668
Less: Valuation allowance	(1,507)	(345)
	30,555	24,323
Deferred tax liabilities:		
Inventory	—	3,116
Revenue recognition	2,495	—
Prepaid expenses and other	1,503	1,889
Property and equipment	360	367
Depreciation	14,088	14,145
Goodwill and other intangibles, net	12,333	5,489
Other	—	460
	30,779	25,466
Net deferred tax liabilities	\$ (224)	\$ (1,143)
Classified in the balance sheet as:		
Deferred income tax benefit (current assets)	\$ 8,914	\$ 5,768
Deferred income taxes (long-term liability)	(9,138)	(6,911)
	\$ (224)	\$ (1,143)

As a result of allocating purchase price to the assets acquired and liabilities assumed for acquisitions completed during 2006 and 2005, we recorded a net deferred tax liability of \$0.9 million and \$15.1 million, respectively.

Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion of the deferred tax asset will not be realized. A valuation allowance was established of \$1.5 million in 2006 and \$0.3 million in 2005 for state tax credits that do not expire. Due to income allocation limitations for the jurisdictions, we believe future deductibility is uncertain. We believe that it is more likely than not that our future operating results coupled with the existing deferred tax liabilities will generate sufficient taxable income to realize the remaining deferred tax assets.

12. Financial Instruments

The estimated fair values of cash and cash equivalents, receivables, inventory, unbilled receivables, accounts payable and accruals are the same as their carrying amounts due to their short-term nature. After giving effect to the interest rate swap contracts, the interest for our debt is 58% fixed and 42% variable. The estimated market value of our debt, based on current interest rates for similar obligations with like maturities, was:

- \$0.2 million less than the amount of debt reported on the consolidated balance sheet at December 31, 2006 and
- \$2.7 million less than the amount of debt reported on the consolidated balance sheet at December 31, 2005.

Changes in interest rates expose us to financial market risk. We currently utilize interest rate swap contracts to hedge interest exposure on our term note. The interest rate swap contracts effectively convert \$200 million of the term note to a fixed interest rate of 7.59% through November 2012. Changes in the fair value of the interest rate swap contracts are recorded as accumulated other comprehensive loss, net, a separate component of shareholders' equity, and are subsequently reclassified into interest expense as interest expense is recognized on the term note.

Derivative financial instruments are not utilized to hedge other risks or for speculative or trading purposes.

13. Commitments and Contingencies

Operating Leases

We lease certain real property, vehicles and office equipment under operating leases. Expense for these operating leases was \$26.6 million in 2006, \$17.2 million in 2005 and \$11.4 million in 2004. Certain of these leases are non-cancelable and have minimum lease payment requirements of \$26.4 million in 2007, \$23.3 million in 2008, \$20.6 million in 2009, \$15.7 million in 2010, \$8.5 million in 2011 and \$15.4 million thereafter.

Warranties

We provide limited warranties for certain construction services. Specific terms and conditions for warranties vary from one year to ten years and are based on geographic market and state regulations. Factors for determining estimates of warranties include the nature and frequency of claims, anticipated claims and cost per claim. Estimated costs for warranties are recognized when the revenue associated with the service is recognized. Revisions of estimated warranties are reflected in the period such revisions are determined. Warranty activity is as follows (thousands):

	2006	2005	2004
Balance at beginning of the period	\$ 5,404	\$ 258	\$ 139
Provision for warranties	3,009	2,925	366
Provision for warranties from acquisitions	117	3,345	—
Warranty charges	(1,375)	(1,124)	(247)
Balance at end of the period	\$ 7,155	\$ 5,404	\$ 258

Legal Proceedings

We are involved in litigation and other legal matters arising in the normal course of business. In the opinion of management, the recovery or liability, if any, under any of these matters will not have a material effect on our financial position, results of operations or cash flows.

14. Segment Information

The consolidated financial statements include operations from our two reportable segments, SelectBuild and BMC West. These segments represent businesses that are managed separately. Each of these businesses requires distinct marketing and operating strategies. Management reviews financial performance based on these operating segments.

SelectBuild

SelectBuild provides construction services to high-volume homebuilders. These services include wood framing or concrete block masonry, concrete services, plumbing and other services. Construction services include managing labor and construction schedules as well as sourcing materials.

BMC West

BMC West markets and sells building products, manufactures building components and provides construction services. Products include structural lumber and building materials purchased from other manufacturers as well as manufactured building components including millwork, trusses and wall panels. Construction services include framing and installation of miscellaneous building products. Building products and construction services are sold principally to professional builders and contractors.

Corporate

Corporate represents expenses to support the operations of our business segments, SelectBuild and BMC West. These costs include administrative functions for information systems, reporting, accounts payable and human resources, professional fees for regulatory compliance, executive and senior management, certain incentive compensation as well as actuarial adjustments for insurance and medical claims. These costs are not allocated to our business segments.

The financial performance for these reporting segments is based on income from operations before interest expense, income taxes and minority interests. These segments follow the accounting principles described in the Summary of Significant Accounting Policies included in our most recent Annual Report on Form 10-K. Sales between segments are recognized at market prices and no single customer accounts for more than 10% of sales.

Selected financial information by segment is as follows (thousands):

	Sales			Income (Loss) Before Taxes and Minority Interests	Depreciation and Amortization	Capital ⁽¹⁾ Expenditures	Assets
	Total	Inter-Segment	Trade				
Year Ended December 31, 2006							
SelectBuild	\$ 1,744,092	\$ (12,278)	\$ 1,731,814	\$ 148,416	\$ 30,002	\$ 33,409	\$ 722,328
BMC West	1,515,121	(1,766)	1,513,355	124,523	12,178	33,135	487,703
Corporate	—	—	—	(75,484)	3,104	6,174	118,880
	\$ 3,259,213	\$ (14,044)	\$ 3,245,169	197,455	\$ 45,284	\$ 72,718	\$ 1,328,911
Interest Expense				29,082			
				\$ 168,373			

**Year Ended
December 31, 2005**

SelectBuild	\$ 1,395,182	\$ (1,296)	\$ 1,393,886	\$ 160,957	\$ 13,695	\$ 62,611	\$ 623,877
BMC West	1,519,903	(1,629)	1,518,274	151,030	11,218	17,335	447,619
Corporate	—	—	—	(72,631)	2,450	—	79,029
	\$ 2,915,085	\$ (2,925)	\$ 2,912,160	239,356	\$ 27,363	\$ 79,946	\$ 1,150,525
Interest Expense				14,420			
				\$ 224,936			

**Year Ended
December 31, 2004**

SelectBuild	\$ 753,956	\$ (255)	\$ 753,701	\$ 59,689	\$ 8,216	\$ 14,382	\$ 268,498
BMC West	1,338,470	(1,146)	1,337,324	96,083	11,740	17,036	409,160
Corporate	—	—	—	(47,664)	2,859	—	65,386
	\$ 2,092,426	\$ (1,401)	\$ 2,091,025	108,108	\$ 22,815	\$ 31,418	\$ 743,044
Interest Expense				13,560			
				\$ 94,548			

(1) Property and equipment from acquisitions are included as capital expenditures.

15. Quarterly Results of Operations (unaudited)

Operating results by quarter for 2006 and 2005 were as follows (thousands, except per share data):

	Fourth	Third	Second	First
2006				
Sales	\$ 608,021	\$ 830,599	\$ 921,992	\$ 884,557
Income from operations	\$ 14,481	\$ 64,271	\$ 64,317	\$ 54,386
Net income	\$ 4,482	\$ 35,348	\$ 34,175 ⁽¹⁾	\$ 28,069
Net income per diluted common share	\$ 0.15	\$ 1.20	\$ 1.16	\$ 0.95
Common share prices:				
High	\$ 27.72	\$ 28.01	\$ 38.29	\$ 40.32
Low	\$ 23.95	\$ 20.84	\$ 25.36	\$ 32.27
2005				
Sales	\$ 817,883	\$ 819,828	\$ 701,521	\$ 572,928
Income from operations	\$ 62,336	\$ 75,820	\$ 60,892	\$ 40,308
Net income	\$ 33,481 ⁽²⁾	\$ 41,564	\$ 33,314 ⁽³⁾	\$ 21,148
Net income per diluted common share	\$ 1.13	\$ 1.40	\$ 1.14	\$ 0.73
Common share prices:				
High	\$ 48.11	\$ 48.66	\$ 36.13	\$ 24.87
Low	\$ 34.05	\$ 34.68	\$ 22.00	\$ 17.00

(1) Includes impairments of \$1.1 million net of tax for goodwill and \$0.3 million net of tax for certain customer relationships of SelectBuild.

(2) Includes impairment of \$0.5 million net of tax for goodwill of SelectBuild.

(3) Includes impairment of \$0.3 million net of tax for certain customer relationships of SelectBuild.

Management's Report on Internal Control Over Financial Reporting

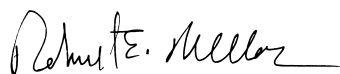
Our management is responsible for the preparation and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles and reflect management's judgments and estimates concerning events and transactions that are accounted for or disclosed.

Our management is also responsible for establishing and maintaining effective internal control over financial reporting. Our internal control over financial reporting includes those policies and procedures that pertain to our ability to record, process, summarize and report reliable financial data. Management recognizes that there are inherent limitations in the effectiveness of any internal control and effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Additionally, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

In order to ensure that the internal controls over financial reporting are effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2006. Management's assessment was based on criteria for effective internal control over financial reporting described in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our assessment excluded the internal controls over financial reporting for acquisitions completed subsequent to June 30, 2006, which included the acquisition of Davis Brothers Framing, Inc. (framing services business), Topline Windows & Door, LLC (windows installation business) and ELP Transportation, Inc. (warehousing business). These recent acquisitions comprised 1.6% of our tangible assets and 1.6% of our sales as of and for the year ended December 31, 2006. Based on this assessment, management concluded that as of December 31, 2006 our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with United States generally accepted accounting principles.

KPMG LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this annual report, has issued an attestation report on management's assertion with respect to the effectiveness of our internal control over financial reporting as of December 31, 2006.

February 20, 2007



Robert E. Mellor
Chairman of the Board, President and Chief Executive Officer



William M. Smartt
Senior Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Building Materials Holding Corporation:

We have audited the accompanying consolidated balance sheets of Building Materials Holding Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Building Materials Holding Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in note 3 to the consolidated financial statements, effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Building Materials Holding Corporation's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 20, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

San Francisco, California
February 20, 2007

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Building Materials Holding Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Building Materials Holding Corporation maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Building Materials Holding Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, management's assessment that Building Materials Holding Corporation maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Building Materials Holding Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Building Materials Holding Corporation acquired Davis Brothers Framing, Inc., Topline Windows & Doors, LLC, and ELP Transportation, Inc. subsequent to June 30, 2006, and management excluded from its assessment of the effectiveness of Building Materials Holding Corporation's internal control over financial reporting as of December 31, 2006, these entities' internal control over financial reporting. These entities comprise 1.6% of tangible assets and 1.6% of sales included in the consolidated financial statements of Building Materials Holding Corporation and subsidiaries as of and for the year ended December 31, 2006. Our audit of internal control over financial reporting of Building Materials Holding Corporation also excluded an evaluation of the internal control over financial reporting of these entities.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Building Materials Holding Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006, and our report dated February 20, 2007 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

San Francisco, California
February 20, 2007