

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

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

**For the quarterly period ended July 1, 2023
OR**

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

Commission file number: 001-32383



BlueLinx Holdings Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

77-0627356
(I.R.S. Employer Identification No.)

1950 Spectrum Circle, Suite 300
Marietta GA
(Address of principal executive offices)

30067
(Zip Code)

(770) 953-7000
(Registrant's telephone number, including area code)

Not applicable
(Former name or former address, if changed since last report.)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	BXC	New York Stock Exchange

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

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

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

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-accelerated Filer ☐ Smaller Reporting Company ☐
Emerging Growth Company ☐

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

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

As of July 28, 2023, there were 9,003,476 shares of BlueLinx Holdings Inc. common stock, par value \$0.01, outstanding.

BLUELINX HOLDINGS INC.
Form 10-Q
For the Quarterly Period Ended July 1, 2023

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BLUELINX HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Net sales	\$ 815,967	\$ 1,239,379	\$ 1,613,871	\$ 2,541,684
Cost of sales	680,164	1,037,971	1,344,529	2,049,225
Gross profit	135,803	201,408	269,342	492,459
Operating expenses (income):				
Selling, general, and administrative	88,750	91,338	179,924	182,627
Depreciation and amortization	7,951	6,518	15,669	13,264
Amortization of deferred gains on real estate	(984)	(984)	(1,968)	(1,968)
Gains from sales of property	—	(144)	—	(144)
Other operating expenses	993	626	4,109	1,464
Total operating expenses	96,710	97,354	197,734	195,243
Operating income	39,093	104,054	71,608	297,216
Non-operating expenses:				
Interest expense, net	6,311	11,255	13,998	22,548
Other expense, net	594	139	1,188	1,277
Income before provision for income taxes	32,188	92,660	56,422	273,391
Provision for income taxes	7,722	21,388	14,144	68,710
Net income	\$ 24,466	\$ 71,272	\$ 42,278	\$ 204,681
Basic income per share	\$ 2.70	\$ 7.64	\$ 4.67	\$ 21.49
Diluted income per share	\$ 2.70	\$ 7.48	\$ 4.67	\$ 21.07
Comprehensive income:				
Net income	\$ 24,466	\$ 71,272	\$ 42,278	\$ 204,681
Other comprehensive income:				
Amortization of unrecognized pension gain, net of tax	225	156	464	312
Other	(11)	(20)	(22)	—
Total other comprehensive income	214	136	442	312
Comprehensive income	\$ 24,680	\$ 71,408	\$ 42,720	\$ 204,993

See accompanying Notes.

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

	July 1, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 418,325	\$ 298,943
Receivables, less allowances of \$3,182 and \$3,449, respectively	294,341	251,555
Inventories, net	379,312	484,313
Other current assets	45,290	42,121
Total current assets	1,137,268	1,076,932
Property and equipment, at cost	373,524	360,869
Accumulated depreciation	(163,029)	(155,260)
Property and equipment, net	210,495	205,609
Operating lease right-of-use assets	43,601	45,717
Goodwill	55,372	55,372
Intangible assets, net	32,841	34,989
Deferred tax assets	55,542	56,169
Other non-current assets	15,351	15,254
Total assets	\$ 1,550,470	\$ 1,490,042
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 190,130	\$ 151,626
Accrued compensation	14,110	22,556
Finance lease liabilities - short-term	8,238	7,089
Operating lease liabilities - short-term	7,085	7,432
Real estate deferred gains - short-term	3,935	3,935
Pension benefit obligation - short-term	2,087	1,521
Other current liabilities	19,058	16,518
Total current liabilities	244,643	210,677
Non-current liabilities:		
Long-term debt, net of debt issuance costs of \$3,651 and \$4,057, respectively	293,083	292,424
Finance lease liabilities - long-term	262,950	265,986
Operating lease liabilities - long-term	37,853	40,011
Real estate deferred gains - long-term	68,501	70,403
Other non-current liabilities	20,669	20,512
Total liabilities	927,699	900,013
Commitments and Contingencies		
STOCKHOLDERS' EQUITY:		
Common Stock, \$0.01 par value, 20,000,000 shares authorized, 9,008,476 and 9,048,603 outstanding on July 1, 2023 and December 31, 2022, respectively	90	90
Additional paid-in capital	190,770	200,748
Accumulated other comprehensive loss	(30,970)	(31,412)
Accumulated stockholders' equity	462,881	420,603
Total stockholders' equity	622,771	590,029
Total liabilities and stockholders' equity	\$ 1,550,470	\$ 1,490,042

See accompanying Notes.

BLUELINX HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Common Stock		Additional	Accumulated		Accumulated	Stockholders'
	Shares	Amount	Paid-In	Other		Equity	Equity Total
			Capital	Comprehensive			
				Loss			
Balance, December 31, 2022	9,049	\$ 90	\$ 200,748	\$ (31,412)	\$	420,603	\$ 590,029
Net income	—	—	—	—		17,812	17,812
Impact of pension plan, net of tax	—	—	—	239		—	239
Vesting of restricted stock units	67	1	(1)	—		—	—
Compensation related to share-based grants	—	—	4,569	—		—	4,569
Repurchase of shares to satisfy employee tax withholdings	(8)	—	(570)	—		—	(570)
Obligation for repurchase of shares to satisfy employee tax withholdings	(19)	—	(1,319)	—		—	(1,319)
Other	—	—	—	(11)		—	(11)
Balance, April 1, 2023	9,089	\$ 91	\$ 203,427	\$ (31,184)	\$	438,415	\$ 610,749
Net income	—	—	—	—		24,466	24,466
Impact of pension plan, net of tax	—	—	—	225		—	225
Vesting of restricted stock units	95	—	(1)	—		—	(1)
Compensation related to share-based grants	—	—	1,926	—		—	1,926
Repurchase of shares to satisfy employee tax withholdings	(24)	—	(2,071)	—		—	(2,071)
Obligation for repurchase of shares to satisfy employee tax withholdings	(10)	—	(913)	—		—	(913)
Common stock repurchase and retirement	(142)	(1)	(11,598)	—		—	(11,599)
Other	—	—	—	(11)		—	(11)
Balance, July 1, 2023	9,008	\$ 90	\$ 190,770	\$ (30,970)	\$	462,881	\$ 622,771

	Common Stock		Additional	Accumulated		Accumulated	Stockholders'
	Shares	Amount	Paid-In	Other		Equity	Equity Total
			Capital	Comprehensive			
				Loss			
Balance, January 1, 2022	9,726	\$ 97	\$ 268,085	\$ (29,360)	\$	124,427	\$ 363,249
Net income	—	—	—	—		133,409	133,409
Impact of pension plan, net of tax	—	—	—	156		—	156
Vesting of restricted stock units	11	—	—	—		—	—
Compensation related to share-based grants	—	—	2,162	—		—	2,162
Repurchase of shares to satisfy employee tax withholdings	(5)	—	(393)	—		—	(393)
Common stock repurchase and retirement	(81)	(1)	(6,426)	—		—	(6,427)
Other	—	—	—	20		—	20
Balance, April 2, 2022	9,651	\$ 96	\$ 263,428	\$ (29,184)	\$	257,836	\$ 492,176
Net income	—	—	—	—		71,272	71,272
Impact of pension plan, net of tax	—	—	—	156		—	156
Vesting of restricted stock units	181	2	—	—		—	2
Compensation related to share-based grants	—	—	1,775	—		—	1,775
Repurchase of shares to satisfy employee tax withholdings	(66)	(1)	(5,777)	—		—	(5,778)
Common stock repurchase and retirement	(554)	(5)	(38,995)	—		—	(39,000)
Forward contract for accelerated share repurchase agreement	—	—	(21,000)	—		—	(21,000)
Other	—	—	134	(20)		—	114
Balance, July 2, 2022	9,212	\$ 92	\$ 199,565	\$ (29,048)	\$	329,108	\$ 499,717

See accompanying Notes.

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

	Six Months Ended	
	July 1, 2023	July 2, 2022
Cash flows from operating activities:		
Net income	\$ 42,278	\$ 204,681
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	15,669	13,264
Amortization of debt discount and issuance costs	659	493
Gains from sales of property	—	(144)
Deferred income tax	550	(2,752)
Amortization of deferred gains from real estate	(1,968)	(1,968)
Share-based compensation	6,495	3,937
Changes in operating assets and liabilities:		
Accounts receivable	(42,786)	(83,022)
Inventories	105,001	(89,190)
Accounts payable	38,504	59,515
Taxes payable	—	10,462
Pension contributions	—	(482)
Other current assets	(3,169)	(3,399)
Other assets and liabilities	(8,115)	(7,965)
Net cash provided by operating activities	<u>153,118</u>	<u>103,430</u>
Cash flows from investing activities:		
Proceeds from sale of assets	128	531
Property and equipment investments	(14,039)	(6,882)
Net cash used in investing activities	<u>(13,911)</u>	<u>(6,351)</u>
Cash flows from financing activities:		
Common stock repurchase and retirement	(11,599)	(66,427)
Repurchase of shares to satisfy employee tax withholdings	(3,960)	(6,170)
Principal payments on finance lease liabilities	(4,266)	(4,733)
Net cash used in financing activities	<u>(19,825)</u>	<u>(77,330)</u>
Net change in cash and cash equivalents	119,382	19,749
Cash and cash equivalents at beginning of period	298,943	85,203
Cash and cash equivalents at end of period	<u><u>\$ 418,325</u></u>	<u><u>\$ 104,952</u></u>
Supplemental cash flow information:		
Interest paid during the period	\$ 21,472	\$ 22,707
Taxes paid during the period	\$ 10,821	\$ 61,176
Non-cash transactions:		
Property and equipment acquired under finance leases	\$ 3,400	\$ 2,313
Obligation for repurchase of shares to satisfy employee tax withholdings	\$ 913	\$ —

See accompanying Notes.

BLUELINX HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
July 1, 2023
(Unaudited)

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements include the accounts of BlueLinx Holdings Inc. and its wholly owned subsidiaries (the “Company”). We derived the condensed consolidated balance sheet at July 1, 2023, from the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (the “Fiscal 2022 Form 10-K”), as filed with the Securities and Exchange Commission (“SEC”) on February 21, 2023. In the opinion of our management, the condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of our statements of operations and comprehensive income for the three and six months ended July 1, 2023 and July 2, 2022, our balance sheets at July 1, 2023 and December 31, 2022, our statements of stockholders’ equity for the six months ended July 1, 2023 and July 2, 2022, and our statements of cash flows for the six months ended July 1, 2023 and July 2, 2022.

We have condensed or omitted certain notes and other information from the interim condensed consolidated financial statements presented in this report. Therefore, these condensed consolidated interim financial statements should be read in conjunction with the Fiscal 2022 Form 10-K. The results for the three and six months ended July 1, 2023 are not necessarily indicative of results that may be expected for the full year ending December 30, 2023, or any other interim period.

We operate on a 5-4-4 fiscal calendar. Our fiscal year ends on the Saturday closest to December 31 of that fiscal year and may comprise 53 weeks in certain years. Our 2023 fiscal year contains 52 weeks and ends on December 30, 2023. Fiscal 2022 contained 52 weeks and ended on December 31, 2022.

Our financial statements are prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”), which requires us to make estimates based on assumptions about current and, for some estimates, future economic and market conditions, which affect reported amounts and related disclosures in our financial statements. Although our current estimates contemplate current and expected future conditions, as applicable, it is reasonably possible that actual conditions could differ from our expectations, which could materially affect our results of operations and financial position.

Reclassification of Prior Period Presentation

For the six months ended July 2, 2022, we have reclassified certain items within the presentation of our statement of cash flows to align with our statement of cash flows presentation for the six months ended July 1, 2023. Our reclassifications are limited to the operating activities section and include presenting pension contributions, which were previously presented within the change of other assets and liabilities, as an individual item within changes in operating assets and liabilities. These reclassifications, we believe, provide an enhanced level of transparency with regards to the presentation of our statement of cash flows.

Recently Adopted Accounting Standards

Credit Impairment Losses. In June 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, “Financial Instruments - Credit Losses (Topic 326).” This ASU sets forth a current expected credit loss (“CECL”) model which requires the measurement of all expected credit losses for financial instruments or other assets (e.g., trade receivables), held at the reporting date based on historical experience, current conditions, and reasonable supportable forecasts. This replaces the existing incurred loss model, is applicable to the measurement of credit losses on financial assets measured at amortized cost, and applies to some off-balance sheet credit exposures. The standard also requires enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity’s portfolio. The Company adopted this standard on a modified retrospective basis in the first quarter of 2022 and the implementation did not have a material impact to the Company’s condensed consolidated financial statements.

Reference Rate Reform. In March 2020, the FASB issued ASU No. 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” The standard provides temporary guidance to ease the

potential burden in accounting for reference rate reform primarily resulting from the discontinuation of the publication of certain tenors of the London Inter-bank Offered Rate (“LIBOR”) on December 31, 2021, with complete elimination of the publication of the LIBOR by June 30, 2023. The amendments in this ASU are elective and apply to all entities that have contracts referencing the LIBOR.

The Company’s revolving credit agreement, as further discussed in Note 6, *Long-Term Debt*, to these condensed consolidated financial statements, was amended on June 27, 2023, to replace references to LIBOR to Secured Overnight Financing Rate (“SOFR”) for determining interest payable on current and future borrowings. The guidance in this ASU provides a practical expedient which simplifies accounting analyses under current U.S. GAAP for contract modifications if the change is directly related to a change from the LIBOR to a new interest rate index. The Company adopted this standard prospectively in the first quarter of 2022. The implementation did not have a material impact to the Company’s condensed consolidated financial statements or to any key terms of our revolving credit agreement other than the discontinuation of the LIBOR.

2. Business Combinations

On October 3, 2022, we acquired all the outstanding stock of Vandermeer Forest Products, Inc. (“Vandermeer”), a premier wholesale distributor of building products, for preliminary total consideration of \$69.3 million. The acquisition has been accounted for as a business combination using the acquisition method. The assets acquired and liabilities assumed were recognized at their acquisition date fair values. The acquisition accounting, including fair value estimations, is subject to change as we finalize all assessments of the assets and liabilities that were acquired on the acquisition date. The primary area of the preliminary acquisition accounting that is not yet finalized relates to settlement of the holdback liability.

As of the date of the acquisition, the holdback liability was \$6.3 million. During the first fiscal quarter of 2023, \$0.3 million of the holdback liability was returned to the Company for adjustments related to final cash and working capital balances, reducing preliminary total consideration from \$69.3 million to \$69.0 million. The remaining holdback liability of \$6.0 million is scheduled to be settled approximately 18 months after the acquisition date.

3. Inventories

Our inventories consist almost entirely of finished goods inventory, with an immaterial amount of work-in-process inventory. The cost of all inventories is determined by the moving average cost method. We have included all material charges directly incurred in bringing inventory to its existing condition and location. We evaluate our inventory value at the end of each quarter to ensure that inventory, when viewed by category, is carried at the lower of cost or net realizable value, which also considers items that may be considered damaged, excess, and obsolete inventory.

As of July 1, 2023, we assessed the carrying value of our inventory and determined it was presented at the lower of cost or net realizable value and that a reserve was not necessary.

As of December 31, 2022, we recorded a lower of cost or net realizable value reserve of \$2.6 million as a result of the decrease in the value of our structural lumber and panel inventory related to the decline in wood-based commodity prices as of the end of the period.

4. Goodwill and Other Intangible Assets

In connection with our past merger and acquisition activity, we acquired certain intangible assets. As of July 1, 2023, our intangible assets consist of goodwill and other intangible assets including customer relationships, noncompete agreements, and trade names.

Goodwill

Goodwill is the excess of the cost of an acquired entity over the fair value of tangible and intangible assets (including customer relationships, noncompete agreements, and trade names) acquired, and liabilities assumed, under acquisition accounting for business combinations. As of July 1, 2023, goodwill was \$55.4 million.

Goodwill is not subject to amortization but must be tested for impairment at least annually. This test requires us to assign goodwill to a reporting unit and to determine if the fair value of the reporting unit’s goodwill is less than its carrying amount. We evaluate goodwill for impairment during the fourth quarter of each fiscal year. In addition, we will evaluate the carrying value for impairment between annual impairment tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Such events and indicators may include, without limitation, significant declines in the

industries in which our products are used, significant changes in capital market conditions, and significant changes in our market capitalization. No such indicators were present during the second quarter of fiscal 2023.

The following table provides information related to the carrying amount of our goodwill:

	Total Carrying Amount
	(In thousands)
Balance at December 31, 2022	\$ 55,372
Acquisitions	—
Balance at April 1, 2023	\$ 55,372
Acquisitions	—
Balance at July 1, 2023	\$ 55,372

Definite-Lived Intangible Assets

The gross carrying amounts, accumulated amortization, and net carrying amounts of our definite-lived intangible assets at July 1, 2023 were as follows:

Intangible Asset	Weighted Average Remaining Useful Lives (Years)	Gross Carrying Amounts	Accumulated Amortization⁽¹⁾	Net Carrying Amounts
			(In thousands)	
Customer relationships	9	\$ 48,500	\$ (17,004)	\$ 31,496
Noncompete agreements	4	8,954	(8,359)	595
Trade names	2	7,826	(7,076)	750
Total		<u>\$ 65,280</u>	<u>\$ (32,439)</u>	<u>\$ 32,841</u>

⁽¹⁾ Intangible assets except customer relationships are amortized on straight line basis. Certain of our customer relationships are amortized on a double declining balance method and certain others are amortized on a straight line basis.

Amortization Expense

Amortization expense for our definite-lived intangible assets was \$1.0 million and \$2.1 million for the three and six month periods ended July 1, 2023, respectively. For the three and six month periods ended July 2, 2022, amortization expense was \$0.6 million and \$1.7 million, respectively.

Estimated amortization expense for definite-lived intangible assets for the remaining portion of 2023 and the next five fiscal years is as follows:

Fiscal Year	Estimated Amortization
	(In thousands)
2023	\$ 2,066
2024	3,930
2025	3,765
2026	3,471
2027	3,340
2028	3,340

5. Revenue Recognition

We recognize revenue when the following criteria are met: (1) Contract with the customer has been identified; (2) Performance obligations in the contract have been identified; (3) Transaction price has been determined; (4) Transaction price has been allocated to the performance obligations; and (5) When (or as) performance obligations are satisfied.

Contracts with our customers are generally in the form of standard terms and conditions of sale. From time to time, we may enter into specific contracts, which may affect delivery terms. Performance obligations in our contracts generally consist solely of delivery of goods. For all sales channel types, consisting of warehouse, direct, and reload sales, we typically satisfy our performance obligations upon shipment. Our customer payment terms are typical for our industry, and may vary by the type and location of our customer and the products or services offered. The term between invoicing and when payment is due is not deemed to be significant by us. For certain sales channels and/or products, our standard terms of payment may be as early as ten days.

In addition, we provide inventory to certain customers through pre-arranged agreements on a consignment basis. Customer consigned inventory is maintained and stored by certain customers; however, ownership and risk of loss remain with us.

All revenues recognized are net of trade allowances (i.e., rebates), cash discounts, and sales returns. Cash discounts and sales returns are estimated using historical experience. Trade allowances are based on the estimated obligations and historical experience. Adjustments to earnings resulting from revisions to estimates on discounts and returns have been insignificant for each of the reported periods. Certain customers may receive cash-based incentives or credits, which are accounted for as variable consideration. We estimate these amounts based on the expected amount to be provided to customers and reduce revenues recognized. We believe that there will not be significant changes to our estimates of variable consideration. The following table presents our revenues disaggregated by revenue source. Sales and usage-based taxes are excluded from revenues.

Product type	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
	(In thousands)		(In thousands)	
Specialty products	\$ 570,990	\$ 787,860	\$ 1,138,828	\$ 1,555,767
Structural products	244,977	451,519	475,043	985,917
Total net sales	<u>\$ 815,967</u>	<u>\$ 1,239,379</u>	<u>\$ 1,613,871</u>	<u>\$ 2,541,684</u>

The following table presents our revenues disaggregated by sales channel. Warehouse sales are delivered from our warehouses. Reload sales are similar to warehouse sales but are shipped from warehouses, most of which are operated by third-parties, where we store owned products to enhance our operating efficiencies. This channel is employed primarily to service strategic customers that would be less economical to service from our warehouses, and to distribute large volumes of imported products from port facilities. Direct sales are shipped from the manufacturer to the customer without our taking physical possession of the inventory and, as a result, typically generate lower margins than our warehouse and reload distribution channels. This distribution channel requires the lowest amount of committed capital and fixed costs. Sales and usage-based taxes are excluded from revenues.

Sales channel	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
	(In thousands)		(In thousands)	
Warehouse and reload	\$ 695,508	\$ 1,020,341	\$ 1,382,140	\$ 2,098,287
Direct	135,214	240,235	262,309	486,887
Customer discounts and rebates	(14,755)	(21,197)	(30,578)	(43,490)
Total net sales	<u>\$ 815,967</u>	<u>\$ 1,239,379</u>	<u>\$ 1,613,871</u>	<u>\$ 2,541,684</u>

6. Long-Term Debt

As of July 1, 2023, and December 31, 2022, long-term debt consisted of the following:

	July 1, 2023	December 31, 2022
	(In thousands)	
Senior secured notes ⁽¹⁾	\$ 300,000	\$ 300,000
Revolving credit facility ⁽²⁾	—	—
Finance lease obligations ⁽³⁾	271,188	273,075
	571,188	573,075
Unamortized debt issuance costs	(3,651)	(4,057)
Unamortized bond discount costs	(3,265)	(3,519)
	564,272	565,499
Less: current maturities of long-term debt	8,238	7,089
Long-term debt, net of current maturities	\$ 556,034	\$ 558,410

⁽¹⁾As of July 1, 2023 and December 31, 2022, our long-term debt was comprised of \$300.0 million of senior secured notes issued in October 2021. These notes are presented under the long-term debt caption of our condensed consolidated balance sheets at \$293.1 million and \$292.4 million at July 1, 2023 and December 31, 2022, respectively. This presentation is net of their discount of \$3.3 million and \$3.5 million and the combined carrying value of our debt issuance costs of \$3.7 million and \$4.1 million at July 1, 2023 and December 31, 2022, respectively. Our senior secured notes are presented in this table at their face value.

⁽²⁾The average effective interest rate for our revolving credit facility was zero percent for the quarters ended July 1, 2023 and July 2, 2022.

⁽³⁾Refer to Note 9, *Leases*, for interest rates associated with finance lease obligations.

Senior Secured Notes

In October 2021, we completed a private offering of \$300.0 million of our six percent senior secured notes due 2029 (the “2029 Notes”), and in connection therewith we entered into an indenture (the “Indenture”) with the guarantors party thereto and Truist Bank, as trustee and collateral agent. The 2029 Notes were issued to investors at 98.625 percent of their principal amount and will mature on November 15, 2029. The majority of net proceeds from the offering of the 2029 Notes were used to repay borrowings under our Revolving Credit Facility, as defined below.

As of July 1, 2023 and December 31, 2022, the fair value of our 2029 Notes was approximately \$274.0 million and \$283.6 million, respectively, which are designated as Level 2 in the fair value hierarchy. Our valuation technique is based primarily on observable market prices in less active markets.

Revolving Credit Facility

Our revolving credit facility, entered into with Wells Fargo Bank, National Association, as administrative agent (the “Agent”), and certain other financial institutions party thereto, provides for a senior secured asset-based revolving loan and letter of credit facility of up to \$350.0 million. Our obligations under the Revolving Credit Facility (as defined below) are secured by a security interest in substantially all of our and our subsidiaries’ assets (other than real property), including inventories, accounts receivable, and proceeds from those items. On June 27, 2023, we entered in to a third amendment to the credit facility to, among other things, replace the interest rate based on LIBOR applicable to borrowings under the Credit Agreement with an interest rate based on the SOFR and a customary spread adjustment (as amended, the “Revolving Credit Facility”).

Our Revolving Credit Facility includes available interest rate options and was previously based on LIBOR, which was discontinued as an available rate option after June 30, 2023.

Borrowings under our Revolving Credit Facility bear interest at a rate per annum equal to (i) Adjusted Term SOFR (calculated as SOFR plus 0.1%) plus a margin ranging from 1.25 percent to 1.75 percent, with the margin determined based upon average excess availability for the immediately preceding fiscal quarter for loans based on SOFR, or (ii) the Agent’s base rate plus a margin ranging from 0.25 percent to 0.75 percent, with the margin based upon average excess availability for the immediately preceding fiscal quarter for loans based on the base rate.

Borrowings under our Revolving Credit Facility are subject to availability under the Borrowing Base (as that term is defined in the Revolving Credit Agreement). The Borrowers are required to repay revolving loans thereunder to the extent that such revolving loans exceed the Borrowing Base then in effect. Our Revolving Credit Facility may be prepaid in whole or in part from time to time without penalty or premium, but including all breakage costs incurred by any lender thereunder.

As of July 1, 2023, we had zero outstanding borrowings and excess availability, including cash in qualified accounts, of \$764.8 million under our Revolving Credit Facility. As of December 31, 2022, we had zero outstanding borrowings and excess availability, including cash in qualified accounts, of \$645.4 million under our Revolving Credit Facility. Available borrowing capacity under our Revolving Credit Facility was \$346.5 million on July 1, 2023 and December 31, 2022. Our average effective interest rate under the Revolving Credit Facility was zero percent for the quarters ended July 1, 2023 and July 2, 2022.

Our Revolving Credit Facility contains certain financial and other covenants, and our right to borrow under the Revolving Credit Facility is conditioned upon, among other things, our compliance with these covenants. We were in compliance with all covenants under our Revolving Credit Facility as of July 1, 2023.

Finance Lease Obligations

Our finance lease liabilities consist of leases related to equipment and vehicles, and real estate, with the majority of those finance leases related to real estate. For more information on our finance lease obligations, refer to Note 9, *Leases*.

7. Net Periodic Pension Cost (Benefit)

The following table shows the components of our net periodic pension cost (benefit):

Pension-related items	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
	(In thousands)		(In thousands)	
Service cost ⁽¹⁾	\$ —	\$ —	\$ —	\$ —
Interest cost on projected benefit obligation	1,105	606	2,209	1,212
Expected return on plan assets	(813)	(1,177)	(1,625)	(2,354)
Amortization of unrecognized gain	302	209	604	418
Net periodic pension cost (benefit)	\$ 594	\$ (362)	\$ 1,188	\$ (724)

⁽¹⁾ Service cost is not a part of our net periodic pension benefit as our pension plan is frozen for all participants.

The net periodic pension cost (benefit) is included in other expense, net in our condensed consolidated statement of operations and comprehensive income.

During the three and six months ended July 1, 2023, we continued our previously announced plan to terminate the BlueLinx Corporation Hourly Retirement Plan (the “plan”) and transfer the management and delivery of continuing benefits associated with the plan to a highly rated and qualified insurance company with pension termination experience. The process for terminating a pension plan involves several regulatory steps and approvals, and typically takes 12 to 18 months to complete. We estimate the plan termination will be completed during fiscal 2023.

8. Stock Compensation

During the three and six months ended July 1, 2023, we incurred stock compensation expense of \$1.9 million and \$6.5 million, respectively. For the three and six months ended July 2, 2022, we incurred stock compensation expense of \$1.8 million and \$3.9 million, respectively. The increase in our stock compensation expense for the six-month period ended July 1, 2023 is primarily attributable to the acceleration of unrecognized compensation cost in conjunction with our announced leadership transition.

As of July 1, 2023, we have accrued \$0.9 million for tax withholding obligations of our employees upon vesting of restricted stock unit awards. This has been presented as a non-cash transaction in our condensed consolidated statement of cash flows.

9. Leases

We have operating and finance leases for certain of our distribution facilities, office space, land, mobile fleet, and equipment. Many of our leases are non-cancelable and typically have a defined initial lease term, and some provide options to renew at our election for specified periods of time. The majority of our leases have remaining lease terms of one to 15 years, some of which include one or more options to extend the leases for five years. Our leases generally provide for fixed annual rentals. Certain of our leases include provisions for escalating rent based on, among other things, contractually defined increases and/or changes in the Consumer Price Index ("CPI"). The known changes to lease payments are included in the lease liability at lease commencement. Unknown changes related to CPI are treated as variable lease payments and recognized in the period in which the obligation for those payments was incurred. In addition, a subset of our vehicle lease cost is considered variable. Some of our leases require us to pay taxes, insurance, and maintenance expenses associated with the leased assets. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

We determine if an arrangement is a lease at inception and assess lease classification as either operating or finance at lease inception or modification. Operating lease right-of use ("ROU") assets and liabilities are presented separately on the condensed consolidated balance sheets. Finance lease ROU assets are included in property and equipment and the finance lease obligations are presented separately in the condensed consolidated balance sheets. When a lease does not provide an implicit interest rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. We have also made the accounting policy election to not separate lease components from non-lease components related to our mobile fleet asset class.

Finance Lease Liabilities

Our finance lease liabilities consist of leases related to equipment and vehicles, and real estate. As noted in the table below, a majority of our finance leases, formally known as capital leases, relate to real estate.

The following table presents our assets and liabilities related to our leases as of July 1, 2023 and December 31, 2022:

Lease assets and liabilities		July 1, 2023	December 31, 2022
		(In thousands)	
Assets	Classification		
Operating lease right-of-use assets	Operating lease right-of-use assets	\$ 43,601	\$ 45,717
Finance lease right-of-use assets ⁽¹⁾	Property and equipment, net	130,804	132,748
Total lease right-of-use assets		<u>\$ 174,405</u>	<u>\$ 178,465</u>
Liabilities			
Current portion			
Operating lease liabilities	Operating lease liabilities - short term	\$ 7,085	\$ 7,432
Finance lease liabilities	Finance lease liabilities - short term	8,238	7,089
Non-current portion			
Operating lease liabilities	Operating lease liabilities - long term	37,853	40,011
Finance lease liabilities	Finance lease liabilities - long term	262,950	265,986
Total lease liabilities		<u>\$ 316,126</u>	<u>\$ 320,518</u>

⁽¹⁾ Finance lease right-of-use assets are presented net of accumulated amortization of \$94.3 million and \$90.1 million as of July 1, 2023 and December 31, 2022, respectively.

The components of lease expense were as follows:

	Three Months Ended		Six Months Ended	
Components of lease expense	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
	(In thousands)		(In thousands)	
Operating lease cost:				
Operating lease cost	\$ 3,116	\$ 2,578	\$ 6,034	\$ 5,095
Sublease income	(835)	(676)	(1,413)	(1,328)
Total operating lease costs	<u>\$ 2,281</u>	<u>\$ 1,902</u>	<u>\$ 4,621</u>	<u>\$ 3,767</u>
Finance lease cost:				
Amortization of right-of-use assets	\$ 4,693	\$ 4,890	\$ 6,782	\$ 8,600
Interest on lease liabilities	6,037	6,120	12,081	12,280
Total finance lease costs	<u>\$ 10,730</u>	<u>\$ 11,010</u>	<u>\$ 18,863</u>	<u>\$ 20,880</u>

Supplemental cash flow information related to leases was as follows:

	Three Months Ended		Six Months Ended	
Cash flow information	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
	(In thousands)		(In thousands)	
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flows from operating leases	\$ 3,133	\$ 2,623	\$ 6,591	\$ 5,151
Operating cash flows from finance leases	6,037	6,120	12,081	12,280
Financing cash flows from finance leases	\$ 2,133	\$ 1,011	\$ 4,266	\$ 4,733

Non-cash supplemental cash flow information related to leases was as follows:

	Three Months Ended		Six Months Ended	
Non-cash information	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
	(In thousands)		(In thousands)	
Right-of-use assets obtained in exchange for lease obligations				
Operating leases	\$ —	\$ 591	\$ —	\$ 1,127
Finance leases	\$ 3,400	\$ 2,313	\$ 3,400	\$ 2,313

Supplemental balance sheet information related to leases was as follows:

Balance sheet information	July 1, 2023	December 31, 2022
(In thousands)		
Finance leases		
Property and equipment	\$ 225,134	\$ 222,839
Accumulated depreciation	(94,330)	(90,091)
Property and equipment, net	<u>\$ 130,804</u>	<u>\$ 132,748</u>
Weighted Average Remaining Lease Term (in years)		
Operating leases	9.19	9.21
Finance leases	13.50	13.97
Weighted Average Discount Rate		
Operating leases	8.67 %	8.54 %
Finance leases	8.90 %	8.87 %

The major categories of our finance lease liabilities as of July 1, 2023 and December 31, 2022 were as follows:

Category	July 1, 2023	December 31, 2022
(In thousands)		
Equipment and vehicles	\$ 27,743	\$ 29,300
Real estate	243,445	243,775
Total finance leases	<u>\$ 271,188</u>	<u>\$ 273,075</u>

Under the short-term lease exception provided within ASC 842, we do not record a lease liability or right-of-use asset for any leases that have a lease term of 12 months or less at commencement. Below is a summary of undiscounted finance and operating lease liabilities that have initial terms in excess of one year as of July 1, 2023. The table also includes a reconciliation of the future undiscounted cash flows to the present value of the finance and operating lease liabilities included in the condensed consolidated balance sheets, including options to extend lease terms that are reasonably certain of being exercised.

Fiscal year	Operating leases	Finance leases
(In thousands)		
2023	\$ 5,100	\$ 18,694
2024	10,583	27,429
2025	9,300	29,736
2026	5,917	33,301
2027	4,657	27,719
Thereafter	32,208	525,315
Total lease payments	<u>\$ 67,765</u>	<u>\$ 662,194</u>
Less: imputed interest	(22,827)	(391,006)
Total	<u>\$ 44,938</u>	<u>\$ 271,188</u>

10. Commitments and Contingencies

Environmental and Legal Matters

From time to time, we are involved in various proceedings incidental to our businesses, and we are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. Although the ultimate outcome of these proceedings cannot be determined with certainty, based on presently available information management believes that adequate reserves have been established for probable losses with respect thereto and receivables have been

recorded for expected receipts from settlements. Management further believes that, while the ultimate outcome of one or more of these matters could be material to our operating results in any given quarter, it will not have a materially adverse effect on our consolidated financial condition, our results of operations, or our cash flows.

Collective Bargaining Agreements

As of July 1, 2023, we employed approximately 2,000 associates and less than one percent of our associates are employed on a part-time basis. Approximately 19 percent of our associates are represented by various local labor unions with terms and conditions of employment governed by collective bargaining agreements (“CBAs”). Two CBAs covering approximately five percent of our associates are up for renewal in the remainder of fiscal 2023, which we expect to renegotiate before their renewal dates.

11. Accumulated Other Comprehensive Loss

Comprehensive income includes both net income and other comprehensive income. Other comprehensive income results from items deferred from recognition into our condensed consolidated statements of operations and comprehensive income. Accumulated other comprehensive loss is separately presented on our condensed consolidated balance sheets as part of stockholders’ equity.

The changes in balances for each component of accumulated other comprehensive loss for the six months ended July 1, 2023, were as follows:

	Defined benefit pension plan, net of tax	Other, net of tax	Total Accumulated Other Comprehensive Loss
December 31, 2022, beginning balance	\$ (32,675)	\$ 1,263	\$ (31,412)
Other comprehensive income, net of tax	464	(22)	442
July 1, 2023, ending balance, net of tax	<u>\$ (32,211)</u>	<u>\$ 1,241</u>	<u>\$ (30,970)</u>

12. Income Taxes

Effective Tax Rate

Our effective tax rate for the three months ended July 1, 2023 and July 2, 2022 were 24.0 percent and 23.1 percent, respectively. Our effective tax rate for the six months ended July 1, 2023 and July 2, 2022 were 25.1 percent and 25.1 percent, respectively.

Our effective tax rates for the three and six months ended July 1, 2023 and July 2, 2022 were impacted by state taxes as well as the permanent addback of certain nondeductible expenses, including meals and entertainment and executive compensation, offset by a benefit from the vesting of restricted stock units, which occurred during each period. For additional information about our income taxes, see Note 8 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

13. Income Per Share

We calculate basic income per share by dividing net income by the weighted average number of common shares outstanding. We calculate diluted income per share using the treasury stock method, by dividing net income by the weighted average number of common shares outstanding plus the dilutive effect of outstanding share-based awards, including restricted stock units.

The reconciliation of basic net income and diluted net income per common share for the three and six month periods ended July 1, 2023 and July 2, 2022 were as follows:

	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
	(In thousands, except per share data)		(In thousands, except per share data)	
Net income	\$ 24,466	\$ 71,272	\$ 42,278	\$ 204,681
Weighted-average shares outstanding - basic	9,040	9,324	9,034	9,522
Dilutive effect of share-based awards	17	196	16	188
Weighted-average shares outstanding - diluted	9,057	9,520	9,050	9,710
Basic income per share	\$ 2.70	\$ 7.64	\$ 4.67	\$ 21.49
Diluted income per share	\$ 2.70	\$ 7.48	\$ 4.67	\$ 21.07

Approximately 49,000 and 21,000 weighted-average share-based awards were excluded from the computation of earnings per share assuming dilution during the three months ended July 1, 2023 and July 2, 2022, respectively, as the awards would have been anti-dilutive for the periods presented.

Approximately 40,000 and 13,000 weighted-average share-based awards were excluded from the computation of earnings per share assuming dilution during the six months ended July 1, 2023 and July 2, 2022, respectively, as the awards would have been anti-dilutive for the periods presented.

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

About Our Business

BlueLinux is a leading wholesale distributor of residential and commercial building products in the United States. We are a “two-step” distributor. Two-step distributors purchase products from manufacturers and distribute those products to dealers and other suppliers in local markets, who then sell those products to end users. We carry a broad portfolio of both branded and private-label stock keeping units (“SKUs”) across two principal product categories: specialty products and structural products. Specialty products include items such as engineered wood, siding, millwork, outdoor living, specialty lumber and panels, and industrial products. Structural products include items such as lumber, plywood, oriented strand board, rebar, and remesh. We also provide a wide range of value-added services and solutions aimed at relieving distribution and logistics challenges for our customers and suppliers, while enhancing their marketing and inventory management capabilities.

We sell products through three main distribution channels, consisting of warehouse sales, reload sales, and direct sales. Warehouse sales, which generate the majority of our sales, are delivered from our warehouses to our customers. Reload sales are similar to warehouse sales but are shipped from warehouses, most of which are operated by third-parties, where we store owned products to enhance operating efficiencies. This channel is employed primarily to service strategic customers that would be less economical to service from our warehouses, and to distribute large volumes of imported products from port facilities. Direct sales are shipped from the manufacturer to the customer without our taking physical possession of the inventory and, as a result, typically generate lower margins than our warehouse and reload distribution channels. This distribution channel, however, requires the lowest amount of committed capital and fixed costs.

We have a strong market position and a broad geographic coverage footprint servicing all 50 states, where we maintain locations that serve 75 percent of the highest growth metropolitan statistical areas as it relates to forecasted housing starts and repair and remodel spend. With the strength of a locally focused sales force, we distribute a comprehensive range of products from over 750 suppliers. Our suppliers include some of the leading manufacturers in the industry, such as Allura, Arauco, Fiberon, Georgia-Pacific, Huber Engineered Woods, Louisiana-Pacific, Oldcastle APG, Ply Gem, Roseburg, Royal and Weyerhaeuser. We supply products to a broad base of customers including national home centers, pro dealers, cooperatives, specialty distributors, regional and local dealers and industrial manufacturers. Many of our customers serve residential and commercial builders, contractors and remodelers in their respective geographic areas and local markets.

As a value-added partner in a complex and demanding building products supply chain, we play a critical role in enabling our customers to offer a broad range of products and brands, as most of our customers do not have the capability to purchase and warehouse products directly from manufacturers for such a large set of SKUs. The depth of our geographic footprint supports meaningful customer proximity across all the markets in which we operate, enabling faster and more efficient service. Similarly, we provide value to our supplier partners by enabling access to the large and fragmented network of lumber yards and dealers these suppliers could not adequately serve directly. Our position in this distribution model for building products provides easy access to the marketplace for our suppliers and a value proposition of rapid delivery on an as-needed basis to our customers from our network of warehouse facilities.

Industry Overview

Our products are available across large and attractive end markets, including residential repair and remodel and residential new construction, which together account for approximately 85 percent of the end market mix for our addressable building material market served via two-step distribution based on our estimates. We also estimate the remaining 15 percent is accounted for by commercial construction.

Certain developments have led to a more challenging macro-economic environment, such as broad-based inflation, the rapid rise in mortgage rates, and home price appreciation. These developments have impacted the U.S. housing market, including the residential repair and remodel and residential new construction end markets, and have contributed to a recent slowdown in the U.S. housing industry. However, we believe that several factors, including the current high levels of home equity, the fundamental undersupply of housing in the U.S., repair and remodel activity, and demographic shifts, among others, will support demand for our products.

Residential Repair and Remodel

We estimate that demand from the residential repair and remodel market (“R&R”) accounts for approximately 45 percent of our annual sales. Historically, R&R demand has tended to be less cyclical when compared to the residential new construction

market, particularly for exterior products that are exposed to the elements and where maintenance is less likely to be deferred for long periods of time. We believe R&R demand is driven by a myriad of factors including, but not limited to: home prices and affordability; raw materials prices; the pace of new household formation; savings rates; employment conditions; and emerging trends, such as the increased popularity of home-based remote working environments. With mortgage rates having risen to multi-year highs, we believe many homeowners who secured a lower interest mortgage will be inclined to stay longer in existing homes, which could benefit R&R demand over the near-to-medium term.

According to the Joint Center For Housing Studies' Leading Indicator of Housing Activity ("LIRA") Index, R&R demand is expected to return to more normalized levels, following several consecutive years of elevated R&R activity fueled by pandemic-induced changes in housing and lifestyle decisions. However, according to LIRA Index, the total market size of the U.S. R&R market remains significant, with total U.S. homeowner improvements and repairs spending expected to be approximately \$457.0 billion by the end of 2023, up from \$363.0 billion at the end of 2020.

Further, as the median age of U.S. housing stock increases over time, we anticipate U.S. R&R spending will also increase. According to the U.S. Census Bureau and the U.S. Department of Housing and Urban Development, the median age of a home in the U.S. increased from 23 years in 1985 to 39 years in 2019. Moreover, approximately 80 percent of the current housing stock was built prior to 1999. We believe the increasing average age of the nation's approximate 142 million existing homes will continue to drive demand for repair and remodel projects.

Residential New Construction

We estimate that demand from the residential new construction market, including single-family and multi-family units, accounts for approximately 40 percent of our annual sales.

We believe demand for residential new construction is driven by a myriad of factors including, but not limited to: mortgage rates, which recently reached multi-year highs; lending standards; home affordability; employment conditions; savings rates; the rate of population growth and new household formation; builder activity levels; the level of existing home inventory on the market; and consumer sentiment.

According to the U.S. Census Bureau and the U.S. Department of Housing and Urban Development, during the second quarter of fiscal 2023, single family housing starts in the United States, seasonally adjusted, were approximately 14 percent lower compared to the second quarter of fiscal 2022 and approximately 20 percent higher than that of the second quarter of fiscal 2020, at the start of the COVID-19 pandemic, indicating a market normalization following two years of historic market conditions. As of the end of the second quarter of fiscal 2023, the month's supply of inventory of new homes was seven months, above the 20-year average of six months. For most of the last decade, housing production has lagged population growth and household formation.

We believe our scale, national footprint, strategic supplier relationships, key national customer relationships, and breadth of market leading products and brands position us to serve the residential new construction end market and navigate the challenges in the macro-economic environment.

Seasonality

We are exposed to fluctuations in quarterly sales volumes and expenses due to seasonal factors common in the building products distribution industry, such as weather conditions and other seasonal factors. The first and fourth quarters have historically been our lower volume quarters due to the impact of unfavorable weather on the residential repair and remodel and residential new home construction markets, among other factors. Our second and third quarters have historically been higher volume quarters compared to the first and fourth quarters, reflecting an increase in repair and remodel and residential new home construction activities due to more favorable seasonal conditions.

Our historical patterns of seasonality were impacted by the COVID-19 pandemic which caused supply and demand imbalances impacting our sales volumes. While there is continued uncertainty surrounding certain macro-economic environment developments that may impact our seasonality trends, we expect to return to more normalized seasonality trends in the near term given recent easing supply constraints and increased manufacturing output.

Commodity Markets

Our operating results are sensitive to fluctuations in commodity markets, specifically commodity markets for wood-based commodities that we classify as structural products. When prices fluctuate in the commodity markets which impact us, we may immediately adjust the end price of our products to compensate for the changes in market prices, which is common for businesses with inventories impacted by commodity price fluctuations. When we change our prices in response to market

fluctuations, we will often see immediate impacts in our operating results. When market prices increase, this impact can be beneficial. Conversely, when market prices decrease, the impact can be negative because we are adjusting the selling prices for inventory often purchased at higher market prices. See Note 3, *Inventories*, to the condensed consolidated financial statements and Results of Operations below for discussion of the impact of fluctuations in commodity markets on results for the periods presented.

Supply Constraints

Our operating results are impacted by the availability of the products we sell in the markets in which we do business. When our inventory supply is constrained, our operating results may be impacted by lower sales volumes. While supply constraints may negatively impact our sales volumes, they may also have a positive impact on our net sales and overall profitability. This is because supply constraints can cause prices to increase. Under these circumstances, we may sell less product by volume, but at a higher price which could have a positive impact on our levels of sales and profitability. Conversely, rapid changes in supply levels, such as the sudden increase in availability of a product where the supply was previously constrained, may have a negative impact on our operating results especially in situations where the demand does not also increase proportionally with supply increases.

Our Culture and Management Focus

We remain committed to driving a culture of profitable growth within new and existing product lines and geographies, while positioning the Company for long-term value creation. The following initiatives represent key areas of our management team's focus:

1. **Foster a performance-driven culture committed to profitable growth.** This includes enhancing the customer experience; accelerating organic growth within specific product and solutions offerings where the Company is uniquely advantaged; and deploying capital to drive sustained margin expansion, grow cash flow and maintain continued profitable growth.
2. **Migrate sales mix toward higher-margin specialty product categories.** The Company is pursuing a revenue mix increasingly weighted toward higher-margin, specialty product categories such as engineered wood, siding, millwork, outdoor living, specialty lumber and panels, and industrial products. Additionally, the Company is expanding its value-added service offerings designed to simplify complex customer sourcing requirements and provide enhanced service capabilities afforded by the Company's national platform.
3. **Maintain a disciplined capital structure and pursue high-return investments that increase the value of the Company.** The Company is maintaining a disciplined capital structure while at the same time investing in its business to modernize its distribution facilities, as well as its tractor and trailer fleet, and to improve operational performance. The Company also continues to evaluate potential acquisition targets that complement its existing capabilities, grow its specialty products business, increase customer exposure, expand its geographic reach, or a combination thereof. We invested \$14.0 million in our business during the first six months of fiscal 2023 to improve operational performance and productivity.

Factors That Affect Operating Results

Our results of operations and financial performance are influenced by a variety of factors, including the following: pricing and product cost variability; volumes of product sold; competition; changes in the supply and/or demand for products that we distribute; the cyclical nature of the industry in which we operate; housing market conditions; consolidation among competitors, suppliers, and customers; disintermediation risk; loss of products or key suppliers and manufacturers; our dependence on international suppliers and manufacturers for certain products; potential acquisitions and the integration and completion of such acquisitions; business disruptions; effective inventory management relative to our sales volume or the prices of the products we produce; information technology security risks and business interruption risks; the ability to attract, train, and retain highly qualified associates and other key personnel while controlling related labor costs; exposure to product liability and other claims and legal proceedings related to our business and the products we distribute; natural disasters, catastrophes, fire, wars or other unexpected events; successful implementation of our strategy; wage increases or work stoppages by our union employees; costs imposed by federal, state, local, and other regulations; compliance costs associated with federal, state, and local environmental protection laws; global pandemics, such as COVID-19, and other widespread public health crises and their potential effects on our business; fluctuations in our operating results; our level of indebtedness and our ability to incur additional debt to fund future needs; the covenants of the instruments governing our indebtedness limiting the discretion of our management in operating the business; the potential to incur more debt; the fact that we have consummated certain sale leaseback transactions with resulting long-term non-cancelable leases, many of which are or will be finance leases; the fact that we lease many of our

distribution centers, and we would still be obligated under these leases even if we close a leased distribution center; inability to raise funds necessary to finance a required repurchase of our senior secured notes; a lowering or withdrawal of debt ratings; changes in our product mix; increases in petroleum prices; changes in insurance-related deductible/retention reserves based on actual loss experience; the possibility that the value of our deferred tax assets could become impaired; changes in our expected annual effective tax rate could be volatile; changes in actuarial assumptions for our pension plan; the costs and liabilities related to our participation in multi-employer pension plans could increase; the risk that our cash flows and capital resources may be insufficient to service our existing or future indebtedness; variable interest rate risk under certain indebtedness; changes in, or interpretation of, accounting principles; significant stock price fluctuation; the possibility that we could be the subject of securities class action litigation due to stock price volatility; unfavorable securities or industry analyst publications; activities of activist shareholders; and indebtedness terms that limit our ability to pay dividends on common stock.

Results of Operations

The following table sets forth our results of operations for the second quarter of fiscal 2023 and fiscal 2022:

	Second Quarter of Fiscal 2023	% of Net Sales	Second Quarter of Fiscal 2022	% of Net Sales
	(In thousands)		(In thousands)	
Net sales	\$ 815,967	100.0%	\$ 1,239,379	100.0%
Gross profit	135,803	16.6%	201,408	16.3%
Selling, general, and administrative	88,750	10.9%	91,338	7.4%
Depreciation and amortization	7,951	1.0%	6,518	0.5%
Amortization of deferred gains on real estate	(984)	(0.1)%	(984)	(0.1)%
Gains from sales of property	—	0.0%	(144)	(0.0)%
Other operating expenses	993	0.1%	626	0.1%
Operating income	39,093	4.8%	104,054	8.4%
Interest expense, net	6,311	0.8%	11,255	0.9%
Other expense, net	594	0.1%	139	0.0%
Income before provision for income taxes	32,188	3.9%	92,660	7.5%
Provision for income taxes	7,722	0.9%	21,388	1.7%
Net income	<u>\$ 24,466</u>	3.0%	<u>\$ 71,272</u>	5.8%

The following table sets forth our results of operations for the first six month periods of fiscal 2023 and fiscal 2022:

	First Six Months of Fiscal 2023	% of Net Sales	First Six Months of Fiscal 2022	% of Net Sales
	(In thousands)		(In thousands)	
Net sales	\$ 1,613,871	100.0%	\$ 2,541,684	100.0%
Gross profit	269,342	16.7%	492,459	19.4%
Selling, general, and administrative	179,924	11.1%	182,627	7.2%
Depreciation and amortization	15,669	1.0%	13,264	0.5%
Amortization of deferred gains on real estate	(1,968)	(0.1)%	(1,968)	(0.1)%
Gains from sales of property	—	0.0%	(144)	(0.0)%
Other operating expenses	4,109	0.3%	1,464	0.1%
Operating income	71,608	4.4%	297,216	11.7%
Interest expense, net	13,998	0.9%	22,548	0.9%
Other expense, net	1,188	0.1%	1,277	0.1%
Income before provision for income taxes	56,422	3.5%	273,391	10.8%
Provision for income taxes	14,144	0.9%	68,710	2.7%
Net income	<u>\$ 42,278</u>	2.6%	<u>\$ 204,681</u>	8.1%

The following table sets forth net sales by product category for the three and six-month periods ending July 1, 2023 and July 2, 2022:

	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
<i>Net sales by product category</i>	(In thousands)		(In thousands)	
Specialty products	\$ 570,990	\$ 787,860	\$ 1,138,828	\$ 1,555,767
Structural products	244,977	451,519	475,043	985,917
Total net sales	<u>\$ 815,967</u>	<u>\$ 1,239,379</u>	<u>\$ 1,613,871</u>	<u>\$ 2,541,684</u>
<i>Percentage of total net sales by product category</i>				
Specialty products	70.0 %	63.6 %	70.6 %	61.2 %
Structural products	30.0 %	36.4 %	29.4 %	38.8 %
Total net sales	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

The following table sets forth gross profit and gross margin percentages by product category for the three and six-month periods of fiscal 2023 and 2022:

	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
<i>Gross profit by product category</i>	(In thousands)		(In thousands)	
Specialty products	\$ 108,841	\$ 180,254	\$ 215,468	\$ 364,353
Structural products	26,962	21,154	53,874	128,106
Total gross profit	<u>\$ 135,803</u>	<u>\$ 201,408</u>	<u>\$ 269,342</u>	<u>\$ 492,459</u>
<i>Gross margin % by product category</i>				
Specialty products	19.1 %	22.9 %	18.9 %	23.4 %
Structural products	11.0 %	4.7 %	11.3 %	13.0 %
Total gross margin %	16.6 %	16.3 %	16.7 %	19.4 %

Second Quarter of Fiscal 2023 Compared to Second Quarter of Fiscal 2022

For the second quarter of fiscal 2023, we generated net sales of \$816.0 million, a decrease of \$423.4 million when compared to the second quarter of fiscal 2022 and the overall gross margin percentage increased from 16.3 percent to 16.6 percent year over year. The decline in net sales compared to the prior year was primarily due to price deflation related to our specialty and structural products, combined with lower sales volumes for our specialty products as we return to more normalized market conditions. Gross profit in the second fiscal quarter of fiscal 2022 was negatively impacted by a lower of cost or net realizable value reserve of \$9.8 million for our structural products resulting from significant deflation in the wood-based commodity markets during the period. Due to more stabilized market conditions in the wood-based commodity markets during the second quarter of fiscal 2023, there was no need for a lower of cost or net realizable value reserve for our structural products. Market conditions, combined with our continued focus on pricing discipline and inventory management, resulted in a higher overall gross margin percentage compared to the second quarter of fiscal 2022.

Net sales of specialty products, which includes products such as engineered wood, siding, millwork, outdoor living, specialty lumber and panels, and industrial products, decreased \$216.9 million to \$571.0 million in the second quarter of fiscal 2023. The decline was due to price deflation combined with lower sales volume, primarily related to engineered wood products and other specialty products, as we return to more normalized market conditions. Specialty products gross profit decreased \$71.4 million to \$108.8 million, with a year-over-year decline of 380 basis points in specialty gross margin to 19.1 percent for the second quarter of fiscal 2023, compared to 22.9 percent in the second quarter of fiscal 2022. The decrease in specialty gross margin percentage over the prior-year period is also attributable to the year over year price and volume normalization.

Net sales of structural products, which includes products such as lumber, plywood, oriented strand board, rebar, and remesh, decreased \$206.5 million to \$245.0 million in the second quarter of fiscal 2023 primarily due to price deflation in the wood-based commodity markets represented by the year over year decline in the average composite price of framing lumber and structural panels, which were 49% and 39%, respectively. Our structural gross margin percentage for the second quarter of fiscal 2023 was 11.0 percent, up from 4.7 percent in the prior-year period, primarily attributable to stabilization in the wood-based commodity markets for our structural products when compared to the second quarter of fiscal 2022 combined with our continued focus on pricing discipline and inventory management. Our structural gross margin percentage for the second quarter of fiscal 2022 was impacted by a lower of cost or net realizable value for our structural products of \$9.8 million. We determined a reserve for the lower of cost or net realizable value for our structural products was not required as of July 1, 2023. For more details on our lower of cost or market reserves for inventories, please see Note 3, *Inventories*.

Our selling, general, and administrative expenses, which includes approximately \$2.0 million of incremental operating expenses related to our Vandermeer acquisition, decreased \$2.6 million compared to the second quarter of fiscal 2022 primarily due to a decrease in lower delivery costs and variable compensation. Depreciation and amortization expense increased 22.0 percent, compared to the second quarter of fiscal 2022. The increase in depreciation and amortization is due to a higher base of amortizable and depreciable assets throughout the second quarter of fiscal 2023 when compared the prior-year period, resulting from our continued focus on capital investment and increased intangible assets related to our Vandermeer acquisition. Other operating expenses increased \$0.4 million compared to the second quarter of fiscal 2022 primarily due to restructuring related costs, including severance, incurred in the second quarter of fiscal 2023.

Interest expense, net, decreased by 43.9 percent, or \$4.9 million, compared to the second quarter of fiscal 2022. The decrease is primarily due to the generation of higher interest income, given our year over year increase in cash that is generating interest at higher rates than last year.

Our effective tax rates were 24.0 percent and 23.1 percent for the second quarter of fiscal 2023 and 2022, respectively. Our effective tax rate for both periods was impacted by state taxes as well as the permanent addback of certain nondeductible expenses, including meals and entertainment and executive compensation, slightly offset by a benefit from the vesting of restricted stock units, which is typical for the second quarter of each year.

Our net income for the second quarter of fiscal 2023 was \$24.5 million, or \$2.70 per diluted share, versus \$71.3 million, or \$7.48 per diluted share, in the prior-year period. On an adjusted basis, our net income for the second quarter of fiscal 2023 was \$26.4 million, or \$2.91 per diluted share, versus \$72.6 million or \$7.63 per diluted share, in the prior-year period. Decreases in our net income and earnings per diluted share were due primarily to a decrease in gross profit driven by price deflation and lower specialty sales volume, particularly for our engineered wood products, and declines in pricing related to our structural products. This was offset by lower operating expense, net interest expense and income tax expense during the period.

First Six Months of Fiscal 2023 Compared to First Six Months of Fiscal 2022

For the first six months of fiscal 2023, we generated net sales of \$1.6 billion, a decrease of \$927.8 million when compared to the first six months of fiscal 2022 and the overall gross margin percentage decreased from 19.4 percent to 16.7 percent year over year. The decline in net sales compared to the prior year was primarily due to price deflation impacting our specialty and structural products, combined with lower sales volumes for our specialty products as we return to more normalized market conditions. Gross profit in first six months of fiscal 2022 was negatively impacted by a lower of cost or net realizable value reserve of \$9.8 million for our structural products resulting from significant deflation in the wood-based commodity markets during the period. Due to more stabilized market conditions in the wood-based commodity during the first six months of fiscal 2023, the period was not impacted by a lower of cost or net realizable value reserve for our structural products. The decline in overall gross margin percentage compared to the prior year was primarily due to price deflation impacting our specialty and structural products, combined with lower sales volumes for our specialty products, as we return to more normalized market conditions.

Net sales of specialty products, which includes products such as engineered wood, siding, millwork, outdoor living, specialty lumber and panels, and industrial products, decreased \$416.9 million to \$1.1 billion in the first six months of fiscal 2023. The decline was due to lower pricing deflation, combined with sales volume, primarily related to engineered wood products and other specialty products. Specialty products gross profit decreased \$148.9 million to \$215.5 million, with a year-over-year decline of 450 basis points in specialty gross margin to 18.9 percent for the first six months of fiscal 2023, compared to 23.4 percent in the first six months of fiscal 2022. The decrease in specialty gross margin percentage over the prior-year period is also attributable to the year over year price and volume normalization.

Net sales of structural products, which includes products such as lumber, plywood, oriented strand board, rebar, and remesh, decreased \$510.9 million to \$475.0 million in the first six months of fiscal 2023 primarily due to price deflation in the wood-based commodity markets represented by the decline in the average composite price of framing lumber and structural panels, which were 60% and 51%, respectively. Our structural gross margin percentage for the first six months of fiscal 2023 was 11.3 percent, down from 13.0 percent in the prior-year period, primarily attributable to price deflation in the wood-based commodity markets represented by year-over-year declines in the average composite price of framing lumber and structural panels as we continued our focus on pricing discipline and inventory management. The second quarter of fiscal 2022 was impacted by a lower of cost or net realizable value reserve for our structural products of \$9.8 million. We determined a reserve for the lower of cost or net realizable value reserve for our structural products was not required for the first six months of fiscal 2023. For more details on our lower of cost or market reserves for inventories, please see Note 3, Inventories.

Our selling, general, and administrative expenses, which includes approximately \$4.0 million of incremental operating expenses related to our Vandermeer acquisition, decreased \$2.7 million compared to the first six months of fiscal 2022 primarily due to a decrease in delivery expenses and variable compensation. Depreciation and amortization expense increased 18.1 percent, compared to the first six months of fiscal 2022. The increase in depreciation and amortization is due to a higher base of amortizable and depreciable assets throughout the first six months of fiscal 2023 when compared the prior-year period, resulting from our continued focus on capital investment and increased intangible assets related to our Vandermeer acquisition. Other operating expenses increased \$2.6 million compared to the first six months of fiscal 2022 primarily due to restructuring related costs, including severance, incurred in the first quarter of fiscal 2023 due to our leadership transition.

Interest expense, net, decreased by 37.9 percent, or \$8.6 million, compared to the first six months of fiscal 2022. The decrease is primarily due to the generation of higher interest income, given our year over year increase in cash that is generating interest at higher rates than last year.

Our effective tax rates were 25.1 percent and 25.1 percent for the first six months of fiscal 2023 and 2022, respectively. Our effective tax rate for both periods was impacted by state taxes as well as the permanent addback of certain nondeductible expenses, including meals and entertainment and executive compensation, offset by a benefit from the vesting of restricted stock units, which is typical for the first six months of each year.

Our net income for the first six months of fiscal 2023 was \$42.3 million, or \$4.67 per diluted share, versus \$204.7 million, or \$21.07 per diluted share, in the prior-year period. On an adjusted basis, our net income for the first six months of fiscal 2023 was \$49.6 million, or \$5.48 per diluted share, versus \$208.6 million or \$21.48 per diluted share, in the prior-year period due primarily to a decrease in gross profit driven by lower specialty sales volume, particularly for our engineered wood products, and declines in pricing related to our specialty and structural products. This was offset by lower operating expenses, net interest expense and income tax expense.

Liquidity and Capital Resources

We expect our primary sources of liquidity to be cash flows from sales and operating activities in the normal course of our operations and availability from our revolving credit facility, as needed. We expect that these sources will be sufficient to fund our ongoing cash requirements for at least the next 12 months.

Senior Secured Notes

In October 2021, we entered into an indenture (the “Indenture”) with the guarantors party thereto and Truist Bank, as trustee and collateral agent, in connection with a private offering of \$300 million of our six percent senior secured notes due 2029 (the “2029 Notes”). The 2029 Notes were issued to investors at 98.625 percent of their principal amount and will mature on November 15, 2029. The majority of net proceeds from the offering of the 2029 Notes were used to repay borrowings under our Revolving Credit Facility.

As of July 1, 2023 and December 31, 2022, the fair value of our 2029 Notes was approximately \$274.0 million and \$283.6 million, respectively, which are designated as Level 2 in the fair value hierarchy. Our valuation technique is based primarily on observable market prices in less active markets.

Revolving Credit Facility

Our revolving credit facility, entered into with Wells Fargo Bank, National Association, as administrative agent (the “Agent”), and certain other financial institutions party thereto, provides for a senior secured asset-based revolving loan and letter of credit facility of up to \$350.0 million. Our obligations under the Revolving Credit Facility (as defined below) are secured by a security

interest in substantially all of our and our subsidiaries' assets (other than real property), including inventories, accounts receivable, and proceeds from those items. On June 27, 2023, we entered into a third amendment to the credit facility to, among other things, replace the interest rate based on LIBOR applicable to borrowings under the Credit Agreement with an interest rate based on the SOFR and a customary spread adjustment (as amended, the "Revolving Credit Facility").

Our Revolving Credit Facility includes available interest rate options and was previously based on LIBOR, which was discontinued as an available rate option after June 30, 2023.

Borrowings under our Revolving Credit Facility bear interest at a rate per annum equal to (i) Adjusted Term SOFR (calculated as SOFR plus 0.1%) plus a margin ranging from 1.25 percent to 1.75 percent, with the margin determined based upon average excess availability for the immediately preceding fiscal quarter for loans based on SOFR, or (ii) the Agent's base rate plus a margin ranging from 0.25 percent to 0.75 percent, with the margin based upon average excess availability for the immediately preceding fiscal quarter for loans based on the base rate.

Borrowings under our Revolving Credit Facility are subject to availability under the Borrowing Base (as that term is defined in the Revolving Credit Agreement). The Borrowers are required to repay revolving loans thereunder to the extent that such revolving loans exceed the Borrowing Base then in effect. Our Revolving Credit Facility may be prepaid in whole or in part from time to time without penalty or premium, but including all breakage costs incurred by any lender thereunder.

As of July 1, 2023, we had zero outstanding borrowings and excess availability, including cash in qualified accounts, of \$764.8 million under our Revolving Credit Facility. As of December 31, 2022, we had zero outstanding borrowings and excess availability, including cash in qualified accounts, of \$645.4 million under our Revolving Credit Facility. Available borrowing capacity under our Revolving Credit Facility was \$346.5 million on July 1, 2023 and December 31, 2022. Our average effective interest rate under the Revolving Credit Facility was zero percent for the quarters ended July 1, 2023 and July 2, 2022.

Our Revolving Credit Facility contains certain financial and other covenants, and our right to borrow under the Revolving Credit Facility is conditioned upon, among other things, our compliance with these covenants. We were in compliance with all covenants under our Revolving Credit Facility as of July 1, 2023.

Finance Lease Commitments

Our finance lease liabilities consist of leases related to equipment and vehicles, and to real estate, with the majority of those finance lease commitments relating to the real estate financing transactions that we completed in recent years. Our total finance lease commitments totaled \$271.2 million and \$273.1 million as of July 1, 2023 and December 31, 2022, respectively. Of the \$271.2 million of finance lease commitments as of July 1, 2023, \$243.4 million related to real estate and \$27.7 million related to equipment. Of the \$273.1 million of finance lease commitments as of December 31, 2022, \$243.8 million related to real estate and \$29.3 million related to equipment.

Interest Rates

Our Revolving Credit Facility includes available interest rate options and was previously based on LIBOR, which was discontinued as an available rate option after June 30, 2023. On June 27, 2023, we amended our existing Revolving Credit Facility, under which LIBOR was replaced with SOFR with respect to the applicable variable rate interest options thereunder.

Sources and Uses of Cash

Operating Activities

Net cash provided by operating activities for the first six months of fiscal 2023 was \$153.1 million, compared to net cash provided by operating activities of \$103.4 million in the first six months of fiscal 2022. The increase in cash provided by operating activities during the first six months of fiscal 2023 was primarily a result of higher cash generated from changes in working capital components, including the decrease in inventory and increase in accounts payable, offset by the increase in accounts receivable in the current-year period. This was partially offset by a decrease in net income for the current-year period compared to the prior-year period.

Investing Activities

Net cash used in investing activities for the first six months of fiscal 2023 was \$13.9 million compared to net cash used in investing activities of \$6.4 million in the first six months of fiscal 2022. The increase in net cash used in investing activities was primarily due to higher spend on property and equipment in the current year-period compared to the prior-year period.

Financing Activities

Net cash used in financing activities totaled \$19.8 million for the first six months of fiscal 2023, compared to net cash used in financing activities of \$77.3 million for the first six months of fiscal 2022. The decrease in net cash used in financing activities is primarily due to the decrease in cash used for share repurchases. During the first six months of fiscal 2023, we repurchased \$12 million of our common stock under our announced share repurchase program. During the first six months ended 2022, we repurchased \$66.4 million of our common stock under our announced repurchase program, including \$60.0 million for our accelerated share repurchase ASR agreement.

Stock Repurchase Program

As of July 1, 2023, we have a remaining authorization amount of \$22.0 million under our \$100.0 million share repurchase program.

With the remaining availability under the share repurchase program, we may repurchase our common stock at any time or from time to time, without prior notice, subject to prevailing market conditions and other considerations. Our repurchases may be made through a variety of methods, which may include open market purchases, privately negotiated transactions, accelerated share repurchase programs, tender offers or pursuant to a trading plan that may be adopted in accordance with the Securities and Exchange Commission Rule 10b5-1.

During the second quarter of fiscal 2023, we repurchased 141,705 shares of our common stock under the share repurchase program at an average price of \$81.85 per share.

Operating Working Capital

Operating working capital is an important measurement we use to determine the efficiencies of our operations and our ability to readily convert assets into cash. Operating working capital is defined as the sum of receivables and inventory, less accounts payable. Management of working capital helps us monitor our progress in meeting our goals to enhance working capital assets.

Selected financial information				
	July 1, 2023	December 31, 2022	July 2, 2022	
	(In thousands)			
Current assets:				
Receivables, less allowance for doubtful accounts	\$ 294,341	\$ 251,555	\$	422,659
Inventories, net	379,312	484,313		577,648
	<u>\$ 673,653</u>	<u>\$ 735,868</u>	<u>\$</u>	<u>1,000,307</u>
Current liabilities:				
Accounts payable	\$ 190,130	\$ 151,626	\$	239,515
	<u>\$ 190,130</u>	<u>\$ 151,626</u>	<u>\$</u>	<u>239,515</u>
Operating working capital	<u>\$ 483,523</u>	<u>\$ 584,242</u>	<u>\$</u>	<u>760,792</u>

Operating working capital of \$483.5 million as of July 1, 2023, compared to \$584.2 million as of December 31, 2022, decreased on a net basis by approximately \$100.7 million. The decrease in operating working capital is primarily driven by the decrease in inventory, which reflects our strategic inventory management efforts, and the increase in accounts payable due to timing of cash disbursements. This was partially offset by the increase in accounts receivable due to the impacts of sequential sales increases and timing of cash receipts.

Investments in Property and Equipment

Our investments in capital assets consist of cash paid for owned assets and the inception of financing lease arrangements for long-lived assets to support our distribution infrastructure. The gross value of these assets is included in property and equipment,

at cost on our condensed consolidated balance sheet. For the first six months of fiscal 2023, we invested \$14.0 million in cash investments in long-lived assets primarily related to investments in our distribution facilities and to a lesser extent, upgrading our fleet. We also added \$3.4 million in new finance leases during the second fiscal quarter of 2023 for new forklifts to enhance our logistical network.

Critical Accounting Policies

The preparation of our consolidated financial statements and related disclosures in conformity with GAAP requires our management to make judgments and estimates that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. There have been no material changes to our critical accounting policies from the information provided in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Forward-Looking Statements

This report contains forward-looking statements. Forward-looking statements include, without limitation, any statement that predicts, forecasts, indicates or implies future results, performance, liquidity levels or achievements, and may contain the words “believe,” “anticipate,” “could,” “expect,” “estimate,” “intend,” “may,” “project,” “plan,” “should,” “will,” “will be,” “will likely continue,” “will likely result,” “would” or words or phrases of similar meaning. Forward-looking statements involve risks and uncertainties that may cause our business, strategy, or actual results to differ materially from the forward-looking statements. The forward-looking statements in this report include statements about anticipated effects of adopting certain accounting standards; estimated future annual amortization expense; potential changes to estimates made in connection with revenue recognition; the expected outcome of legal proceedings; industry conditions; seasonality; and liquidity and capital resources.

Forward-looking statements are based on estimates and assumptions made by our management that, although believed by us to be reasonable, are inherently uncertain. Forward-looking statements involve risks and uncertainties that may cause our business, strategy, or actual results to differ materially from the forward-looking statements. These risks and uncertainties include those discussed under the heading “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022, and those discussed elsewhere in this report (including Item 1A of Part II of this report) and in future reports that we file with the SEC. We operate in a changing environment in which new risks can emerge from time to time. It is not possible for management to predict all of these risks, nor can it assess the extent to which any factor, or a combination of factors, may cause our business, strategy, or actual results to differ materially from those contained in forward-looking statements. Factors that may cause these differences include, among other things:

- we may experience pricing and product cost variability;
- our earnings are highly dependent on volumes;
- our industry is highly fragmented and competitive and if we are unable to compete effectively, our net sales and operating results may be reduced;
- our industry is highly cyclical, and prolonged periods of weak demand or excess supply may reduce our net sales and/or margins, which may cause us to incur losses or reduce our net income;
- adverse housing market conditions may negatively impact our business, liquidity, and results of operations, and increase the credit risk from our customers;
- consolidation among competitors, suppliers, and customers could negatively impact our business;
- we are subject to disintermediation risk;
- loss of key products or key suppliers and manufacturers could affect our financial health;
- our dependence on international suppliers and manufacturers for certain products exposes us to risks that could affect our financial condition and expose us to certain additional risks;
- our strategy includes pursuing acquisitions, and we may be unsuccessful in making and integrating mergers, acquisitions and investments;
- we may incur business disruptions resulting from a variety of possible causes;
- we may be unable to effectively manage our inventory relative to our sales volume or as the prices of the products we distribute fluctuate, which could affect our business, financial condition, and operating results;
- we are subject to information technology security risks and business interruption risks and may incur increasing costs in an effort to minimize and/or respond to those risks;
- our success depends on our ability to attract, train, and retain highly qualified associates and other key personnel while controlling related labor costs;
- we are exposed to product liability and other claims and legal proceedings related to our business and the products we distribute, which may exceed the coverage of our insurance;
- our business operations could suffer significant losses from climate changes, natural disasters, catastrophes, fire, or other unexpected events;

- our operating results depend on the successful implementation of our strategy and we may not be able to implement our strategic initiatives successfully, on a timely basis, or at all;
- a significant percentage of our employees are unionized, and wage increases or work stoppages by our unionized employees may reduce our results of operations;
- federal, state, local, and other regulations could impose substantial costs and restrictions on our operations that would reduce our net income;
- we are subject to federal, state, and local environmental protection laws and may have to incur significant costs to comply with these laws and regulations in the future;
- the effect of global pandemics, such as COVID-19, and other widespread public health crises and governmental rules and regulations and our policies related to such may adversely affect our business and results from operations;
- our future operating results may fluctuate significantly, and our current operating results may not be a good indication of our future performance;
- fluctuations in our quarterly financial results could affect our stock price in the future;
- our level of indebtedness could limit our financial and operating activities and adversely affect our ability to incur additional debt to fund future needs;
- the instruments governing our indebtedness contain various covenants limiting the discretion of our management in operating our business, including requiring us to maintain a minimum level of excess liquidity;
- despite our current levels of debt, we may still incur more debt, which would increase the risks described in these risk factors relating to indebtedness;
- we have sold and leased back certain of our distribution centers under long-term non-cancelable leases, and we may enter into similar transactions in the future. All of these leases are (or will be) finance leases, and our debt and interest expense may increase as a result;
- many of our distribution centers are leased, and if we close a leased distribution center before expiration of the lease, we will still be obligated under the applicable lease, and we may be unable to renew the leases at the end of their terms;
- we may not have or be able to raise the funds necessary to finance a required repurchase of our senior secured notes;
- a lowering or withdrawal of the ratings assigned to our debt securities by rating agencies may increase our future borrowing costs and reduce our access to capital;
- a change in our product mix could adversely affect our results of operations;
- if the cost of fuel, third-party freight or other energy prices increase or availability of third-party freight providers is reduced, our results of operations could be adversely affected;
- we establish insurance-related deductible/retention reserves based on historical loss development factors, which could lead to adjustments in the future based on actual development experience;
- the value of our deferred tax assets could become impaired, which could materially and adversely affect our operating results;
- our expected annual effective tax rate could be volatile and materially change as a result of changes in mix of earnings and other factors;
- changes in actuarial assumptions for our pension plan could impact our financial results, and funding requirements are mandated by the Federal government;
- costs and liabilities related to our participation in multi-employer pension plans could increase;
- our cash flows and capital resources may be insufficient to make required payments on our indebtedness or future indebtedness;
- borrowings under our revolving credit facility bears interest at a variable rate, which subjects us to interest rate risk, which could cause our debt service obligations to increase significantly;
- changes in, or interpretation of, accounting principles could result in unfavorable accounting changes;
- our stock price may fluctuate significantly;
- we could be the subject of securities class action litigation due to stock price volatility, which could divert management's attention and adversely affect our results of operations;
- if securities or industry analysts do not publish research or publish unfavorable research about our business, our stock price and trading volume could decline;
- the activities of activist stockholders could have a negative impact on our business and results of operations;
- the terms of our revolving credit facility and senior secured notes place restrictions on our ability to pay dividends on our common stock, so any returns to stockholders may be limited to the value of their stock.

Given these risks and uncertainties, we caution you not to place undue reliance on forward-looking statements. We expressly disclaim any obligation to update or revise any forward-looking statement as a result of new information, future events or otherwise, except as required by law.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks as part of our on-going business operations. Our exposure includes commodity price risk and interest rate risk.

Commodity Price Risk

Many of the building products that we distribute, including oriented strand board (“OSB”), plywood, lumber, and rebar, are commodities whose price is determined by the market’s supply and demand for such products. Prices of commodity products can also change as a result of national and international economic conditions, labor and freight costs, competition, market speculation, government regulation, and trade policies, as well as from periodic delays in the delivery of products. Short-term increases in the cost of these materials, some of which are subject to significant fluctuations, are sometimes passed on to our customers, but our pricing quotation periods and pricing pressure from our competitors may limit our ability to pass on such price changes. We may also be limited in our ability to pass on increases in freight costs on our products. We may enter into derivative financial instruments to mitigate the potential impact of commodity price fluctuations on our results of operations or cash flows. As of July 1, 2023, we had no such derivative financial instruments in place.

Interest Rate Risk

We may experience changes in interest expense if changes in our debt occur. Changes in market interest rates could also affect our interest expense. We are exposed to interest rate risk arising from fluctuations in variable-rate SOFR or other applicable benchmark rates when we have loan amounts outstanding on our revolving credit facility. We do not believe that a one percent increase in interest rates, for example, would have a material effect on our results of operations or cash flows. As of July 1, 2023, we had no outstanding borrowings on our revolving credit facility. Our senior secured notes bear interest at a fixed rate, therefore, our interest expense related to these notes would not be affected by an increase in market interest rates. We may enter into derivative financial instruments to mitigate the potential impact of interest rate risk on our results of operations or cash flows. As of July 1, 2023, we had no such derivative financial instruments in place.

ITEM 4. CONTROLS AND PROCEDURES

Our management performed an evaluation, as of the end of the period covered by this report on Form 10-Q, under the supervision of our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”). Based on that evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and is accumulated and communicated to our management including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

During the period covered by this report, other than described below, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

During the second quarter of fiscal 2023, there were no material changes to our legal proceedings as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022. Additionally, we are, and from time to time may be, a party to routine legal proceedings incidental to the operation of our business. The outcome of any pending or threatened proceedings is not expected to have a material adverse effect on our financial condition, operating results, or cash flows, based on our current understanding of the relevant facts. Legal expenses incurred related to these contingencies are generally expensed as incurred.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Part I, "Item 1A.Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table presents our share repurchase activity for each month of the quarter ended July 1, 2023:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 2 - May 6	1,093	\$ 72.38	—	\$ 33,572,690
May 7 - June 3	125,226	\$ 80.29	125,000	\$ 23,535,479
June 4 - July 1	48,977	\$ 92.32	16,705	\$ 22,043,433
Total	175,296		141,705	

⁽¹⁾ Includes shares withheld by us in connection with tax withholding obligations of our employees upon vesting of such employees' restricted stock unit awards.

⁽²⁾ On May 3, 2022, our Board of Directors increased our share repurchase authorization to \$100.0 million, and as of July 1, 2023, we had a remaining authorization amount of \$22.0 million under this program. With the remaining availability under the share repurchase program, we may repurchase our common stock at any time or from time to time, without prior notice, subject to prevailing market conditions and other considerations. Our repurchases may be made through a variety of methods, which may include open market purchases, privately negotiated transactions, accelerated share repurchase programs, tender offers or pursuant to a trading plan that may be adopted in accordance with the Securities and Exchange Commission Rule 10b5-1.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number		Description
<u>10.1</u>		<u>Third Amendment to the Amended and Restated Credit Agreement, dated June 27, 2023, by and among BlueLinx Holdings Inc., certain subsidiaries of BlueLinx Holdings Inc. as borrowers or guarantors thereunder, Wells Fargo Bank, National Association, as administrative agent, and certain other financial institutions party thereto.</u>
<u>31.1</u>	*	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	*	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u>	**	<u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2</u>	**	<u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.Def		Definition Linkbase Document.
101.Pre		Presentation Linkbase Document.
101.Lab		Labels Linkbase Document.
101.Cal		Calculation Linkbase Document.
101.Sch		Schema Document.
101.Ins		Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
104		The cover page from this Quarterly Report on Form 10-Q for the quarter ended July 1, 2023, formatted in Inline XBRL.
	*	Filed herewith.
	**	Exhibit is being furnished and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended.
	±	Management contract or compensatory plan or arrangement.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

BlueLinx Holdings Inc.

(Registrant)

Date: August 1, 2023

By: /s/ Kelly C. Janzen

Kelly C. Janzen

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

Date: August 1, 2023

By: /s/ Adam K. Bowen

Adam K. Bowen

Vice President and Chief Accounting Officer

(Principal Accounting Officer)