AMERICAN BUILDERS & CONTRACTORS SUPPLY CO INC

FORM 10-Q
(Quarterly Report)

Filed 11/12/98 for the Period Ending 09/30/98

Address	ONE ABC PARWAY
	BELOIT, WI, 53511
Telephone	6083627777
CIK	0001039096
SIC Code	5030 - Wholesale-Lumber and Other Construction Materials
Industry	Construction Supplies & Fixtures
Sector	Consumer Cyclicals
Fiscal Year	12/31

AMERICAN BUILDERS & CONTRACTORS SUPPLY CO INC

FORM 10-Q
(Quarterly Report)

Filed 11/12/1998 For Period Ending 9/30/1998

Address	ONE ABC PARWAY
	BELOIT, Wisconsin 53511
Telephone	608-362-7777
CIK	0001039096
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934: For the period ended September 30, 1998

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 33-26991

American Builders & Contractors Supply Co., Inc.

Amcraft Building Products Co., Inc.
Mule-Hide Products Co., Inc.

(Exact names of registrant as specified in its charter)

Delaware	5033	39-1413708
Delaware	5033	39-1701778
Texas	5033	62-1277211
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

One ABC Parkway
Beloit, Wisconsin 53511
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (608) 362-7777

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 filing requirements for the past 90 days. [X] Yes [ ] No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Stock, no par value, 147.04 shares as of October 31, 1998

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American Builders and Contractors Supply Co., Inc. and Subsidiaries

Part I. Financial Information

Part II. Other Information

Part 1. Financial Information

American Builders & Contractors Supply Co., Inc. And Subsidiaries Condensed Consolidated Balance Sheets (Unaudited)

ASSETS	September 30, 1998	December 31, 1997
Current Assets:		
Cash	$ 3,117,000	$ 4,140,000
Accounts receivable	177,592,000	143,106,000
Inventories	152,960,000	128,847,000
Prepaids expenses and other	3,547,000	3,763,000
Total current assets	337,216,000	279,856,000
Property and equipment, net	71,338,000	71,614,000
Net receivable from sole stockholder	5,333,000	7,328,000
Intangible assets, net	7,428,000	7,988,000
Goodwill	40,763,000	41,732,000
Security deposits	1,015,000	1,026,000
Other assets	1,990,000	78,000
	$465,083,000	$409,622,000
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Trade accounts payable	$138,271,000	$ 78,489,000
Other payables and accrued liabilities	23,717,000	21,994,000
Current portion of long-term debt	5,244,000	6,141,000
Total current liabilities	167,232,000	106,624,000
Long-term debt	275,950,000	281,206,000
Contingent liabilities (Note 2)		
Stockholders's equity:		
Common stock	109,000	109,000
Additional paid-in capital	1,755,000	1,755,000
Retained earnings	20,037,000	19,928,000
Total stockholder's equity	21,901,000	21,792,000
	$465,083,000	$409,622,000

See notes to condensed consolidated financial statements.

American Builders & Contractors Supply Co., Inc. and Subsidiaries Condensed Consolidated Statements of Operations and Retained Earnings

(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	1998	1997	1998	1997
Net sales	$335,724,000	$282,177,000	$865,375,000	$693,459,000
Cost of sales	258,232,000	218,295,000	665,486,000	537,222,000
Gross profit	77,492,000	63,882,000	199,889,000	156,237,000
Operating expenses:				
Distribution centers	57,562,000	48,709,000	167,407,000	130,233,000
General and administrative	3,776,000	3,221,000	12,164,000	10,637,000
Amortization of intangibles	434,000	167,000	1,301,000	363,000
	61,772,000	52,097,000	180,872,000	141,233,000
Operating income	15,720,000	11,785,000	19,017,000	15,004,000
Other income (expense):				
Interest income	104,000	87,000	426,000	331,000
Interest expense	(6,491,000)	(4,742,000)	(19,213,000)	(11,510,000)
	(6,387,000)	(4,655,000)	(18,787,000)	(11,179,000)
Income (loss) before provision for income taxes	9,333,000	7,130,000	230,000	3,825,000
Provision for income taxes	45,000	117,000	121,000	273,000
Net income	9,288,000	7,013,000	109,000	3,552,000
Retained earnings at beginning of period	10,749,000	13,857,000	19,928,000	30,636,000
Distributions to sole stockholder	--	(933,000)	--	(14,251,000)
Retained earnings at end of period	$ 20,037,000	$ 19,937,000	$ 20,037,000	$ 19,937,000

See notes to condensed consolidated financial statements.

American Builders & Contractors Supply Co., Inc. and Subsidiaries Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine months ended September 30 1998	1997
Operating activities		
Net Income	$ 109,000	$ 3,552,000
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Depreciation	10,461,000	7,921,000
Amortization of intangibles	1,301,000	363,000
Amortization of deferred financing costs	328,000	141,000
Provision for doubtful accounts	5,058,000	3,748,000
Loss on disposal of property and equipment	157,000	168,000
Changes in operating assets and liabilities:		
Accounts receivable	(39,161,000)	(40,137,000)
Inventories	(23,508,000)	(26,550,000)
Prepaid expenses and other	216,000	(1,430,000)
Security deposits	11,000	146,000
Other assets	(2,011,000)	(534,000)
Trade accounts payable	59,782,000	52,240,000
Accrued liabilities	1,723,000	9,987,000
Cash provided by operating activities	14,466,000	9,615,000
Investing activities		
Additions to property and equipment	(9,666,000)	(20,915,000)
Proceeds from disposal of property and equipment	608,000	445,000
Acquisitions of businesses	(2,273,000)	(26,024,000)
Cash used in investing activities	(11,331,000)	(46,494,000)
Financing activities		
Net payments under line of credit	(6,319,000)	(39,785,000)
Proceeds from notes payable	3,683,000	100,107,000
Payments on notes payable	(3,517,000)	(8,284,000)
Payment of debt financing costs	--	(3,572,000)
Net change in receivable from sole stockholder	1,995,000	320,000
Distributions to sole stockholder	--	(14,251,000)
Cash provided by (used in) financing activities	(4,158,000)	34,535,000
Net decrease in cash	(1,023,000)	(2,344,000)
Cash at beginning of period	4,140,000	2,630,000
Cash at end of period	$ 3,117,000	$ 286,000

See notes to condensed consolidated financial statements.

American Builders & Contractors Supply Co., Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited) September 30, 1998

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 1998 are not indicative of the results that may be expected for the year ending December 31, 1998. For further information, refer to the consolidated financial statements and footnotes thereto included in American Builders & Contractors Supply Co., Inc.'s (ABC or the Company) Annual Report on Form 10-K for the year ended December 31, 1997.

2. Contingent Liabilities

At September 30, 1998, and December 31, 1997 the Company had guaranteed debt of the sole stockholder in the amounts of $1,957,000 and $2,029,000 respectively. Certain assets owned by the Company are utilized as collateral as part of an overall guaranty of this debt by the Company. The Company also had outstanding letters of credit of $2,763,925 and $1,626,000 at September 30, 1998 and December 31, 1997, respectively, with respect to debt of the Company's sole stockholder and his affiliates.

3. Guarantor Subsidiaries

Amcraft Building Products, Co., Inc. and Mule-Hide Products Co., Inc. (the Guarantor Subsidiaries) are wholly owned subsidiaries of ABC and have fully and unconditionally guaranteed the $100 million of Senior Subordinated Notes (Notes) on a joint and several basis. The Guarantor Subsidiaries comprise all of the Company's direct and indirect subsidiaries. The separate financial statements of the Guarantor Subsidiaries have not been included herein because management has concluded that such financial statements would not provide additional information that is material to investors.

The following is summarized consolidated financial information of the wholly owned subsidiaries.

	September 30, 1998	December 31, 1997
Current assets:		
Accounts receivable from ABC	$ 5,207,000	$ 2,355,000
Other current assets-third parties	4,180,000	3,950,000
Total	9,387,000	6,305,000
Noncurrent assets	655,000	707,000
Current liabilities	(8,099,000)	(6,895,000)
Noncurrent liabilities	--	--

3. Guarantor Subsidiaries (continued)

	Nine months ended September 30, 1998	Nine months ended September 30, 1997
Net Sales:		
To ABC	$36,739,000	$30,118,000
To third parties	4,487,000	4,152,000
Total	41,226,000	34,270,000
Gross profit	6,713,000	5,409,000
Net income after elimination of intercompany profit	1,586,000	1,240,000

4. Comprehensive Income

The Company's comprehensive profit for the nine months ended September 30, 1998 and 1997, as required to be reported by FASB Statement No. 130, was identical to the actual losses reported for those periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The Company. ABC is the largest wholesale distributor of roofing products and one of the largest wholesale distributors of vinyl siding materials in the United States, operating 205 distribution centers located in 40 states as of September 30, 1998.

Since January 1, 1998, the Company has opened 7 distribution centers and acquired an additional 3 (net of 1 consolidation), as well as consolidating 5 additional distribution centers from previous acquisitions. Also, 5 distribution centers were closed. The results reported herein do not include the results of acquired businesses prior to their acquisition dates.

Effects of Acquisitions. The Company has historically selected acquisition candidates based, in part, on the opportunity to improve their operating results. The Company seeks to leverage its purchasing power, broad product selection and management expertise to improve the financial performance of its acquired distribution centers while maintaining the acquired customer bases. Results of operations reported herein for each period only include results of operations for acquired businesses from their respective dates of acquisition. Full-year operating results, therefore, could differ materially from those presented. In addition, there has typically been a period following each acquisition in which the acquired business does not perform at the same level as the Company's existing distribution centers. As a result of the Company's ongoing acquisition program, its results of operations have historically reflected, and are likely to continue to reflect, the periodic inclusion of underperforming businesses.

The Company has accounted for its acquisitions to date using the purchase method of accounting. As a result, these acquisitions have affected, and will prospectively affect, the Company's results of operations in certain significant respects. The aggregate acquisition costs are allocated to the tangible and intangible assets acquired and liabilities assumed by the Company based upon their respective fair values as of the acquisition date. The cost of such assets is then amortized according to the classes of assets acquired and the useful lives thereof. The Company has begun to acquire larger distributors with better operating results, necessitating payment of purchase prices in excess of the fair value of net assets acquired resulting in goodwill, which is amortized over a period of 25 to 35 years. Similar future acquisitions may result in additional amortization expense. In addition, due to the effects of the increased borrowing to finance future acquisitions, the Company's interest expense may increase in future periods.

Provision for Income Taxes. ABC and its subsidiaries are operated as Subchapter S corporations under the Internal Revenue Code. As a result, these entities do not incur federal and state income taxes (except with respect to certain states) and, accordingly, no discussion of income taxes is included in "Results of Operations" below. Federal and state income taxes (except with respect to certain states) on the income of such corporations are incurred and paid directly by the Company's sole stockholder. Such corporations have historically made periodic distributions to the stockholder with respect to such tax liabilities. The Company entered into the Tax Allocation Agreement with the sole stockholder, pursuant to which he will receive distributions from the Company with respect to taxes associated with the Company's income.

Special Note Regarding Forward-Looking Statements

Certain matters discussed herein are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and
Section 21E of the Securities Exchange Act of 1934, as amended. These forward- looking statements can generally be identified as such because the context of the statement will include words such as the Company "believes," "anticipates," "expects" or words of similar import. Similarly, statements that describe the Company's future plans, objectives or goals are forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties which are described in close proximity to such statements and which could cause actual results to differ materially from those currently anticipated. Readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are only made as of the date of this report and the Company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Results of Operations

The following table summarizes the Company's historical results of operations as a percentage of net sales for the three months and nine months ended September 30, 1998 and 1997:

	Three Months ended September 30		Nine Months ended September 30	
	1998	1997	1998	1997
Income statement data:				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	76.9	77.4	76.9	77.5
Gross profit	23.1	22.6	23.1	22.5
Operating expenses:				
Distribution centers	17.1	17.3	19.3	18.8
General and administrative	1.1	1.1	1.4	1.5
Amortization	0.1	0.0	0.2	0.0
Total operating expenses	18.3	18.4	20.9	20.3
Operating income	4.8%	4.2%	2.2%	2.2%

Comparison of the Three and Nine Month Periods Ended September 30, 1998 to the Three and Nine Month Periods Ended September 30, 1997

The Company's results of operations are affected by the seasonal nature of the roofing and siding business. See "Seasonality." Financial results for the three and nine month periods ending September 30, 1998 met management's expectations and forecasted amounts.

Net sales for the three months ended September 30, 1998 increased by $53.5 million, or 19.0% for the three months ended September 30, 1997. Net sales for the nine months ended September 30, 1998 increased by $171.9 million, or 24.8% for the nine months ended September 30, 1997. Components of the change in net sales are as follows:

	Three Months Ended September 30				Nine Months Ended September 30			
Distribution Centers	1998	1997	Increase	% Increase	1998	1997	Increase	% Increase
In operation prior to January 1, 1997	$263.9	$252.9	$11.0	4.4%	$677.1	$650.4	$ 26.7	4.1%
Acquired in 1997	52.3	23.5	28.8	122.6%	138.2	33.6	104.6	311.3%
Opened in 1997	14.6	5.8	8.8	151.7%	39.8	9.5	30.3	318.9%
Acquired in 1998	1.5	--	1.5	--	4.3	--	4.3	--
Opened in 1998	3.4		3.4	--	6.0	--	6.0	--
Total	$335.7	$282.2	$53.5	19.0%	$865.4	$693.5	$171.9	24.8%

Increases in comparable distribution center sales are almost entirely due to increases in volume as opposed to price increases. Such volume increases are in part due to introduction of new products such as commercial roofing and siding into certain distribution centers.

Cost of sales for the three months ended September 30, 1998 increased by $39.9 million, or 18.3%, as compared to the three months ended September 30, 1997, primarily as a result of costs associated with increased sales. Cost of sales decreased as a percentage of net sales over the same period to 76.9% in 1998 from 77.4% in 1997 principally due to a higher percentage of warehouse sales versus "direct" sales (direct sales are shipped from ABC's vendors directly to job sites and carry a high cost of sales percentage), and to a lesser degree due to increased sales of high margin products, such as vinyl siding and windows. Cost of sales for the nine months ended September 30, 1998 increased $128.3 million, or 23.9%, as compared to the nine months ended September 30, 1997, again with the increase mainly due to the relatively same percentage increase in net sales. Cost of sales as a percentage of net sales for the nine months ended September 30, 1998 decreased to 76.9% from 77.5% for the same period in 1997 due to the reasons cited above for the quarter.

Distribution center operating income, which consists of net sales less cost of sales and operating expenses for the distribution centers, is a key measure that the Company uses to evaluate individual distribution center performance. Distribution center operating income for the three months ended September 30, 1998 increased by $4.7 million, or 30.9%, for the same period in 1997. For the nine months ended September 30, distribution center operating income increased by $6.5 million, or 25.0%, in 1997. As a percentage of net sales, distribution center expenses decreased .1% for the three month period due to a slow down in acquisition activity and managements focus to lower these expenses and improve payroll productivity and other cost cutting measures. For the nine month period distribution center expenses increased .6% in 1998 compared to the same periods in 1997, due mainly to various costs associated with the recent acquisitions. In addition, the Company has experienced a higher percentage of warehouse sales, which require greater distribution center operating expenses. Components of distribution center operating income and the change therein are as follows:

	Three Months Ended September 30			Nine Months Ended September 30		
Distribution Centers	1998	1997	Change	1998	1997	Change
In operation prior to January 1, 1997	16.8	14.3	2.5	29.7	25.0	4.7
Acquired in 1997	2.5	1.0	1.5	1.6	1.2	0.4
Opened in 1997	0.6	(0.1)	0.7	1.2	(0.2)	1.4
Acquired in 1998	0.0	--	0.0	0.1	--	0.1
Opened in 1998	0.0	--	0.0	(0.1)	--	(0.1)
Total	19.9	15.2	4.7	32.5	26.0	6.5

For the three months ended September 30, general and administrative expenses increased by $.6 million as compared to the same period in 1997, while remaining at 1.1 percent of net sales. For the nine months ended September 30, 1998, general and administrative expenses increased $1.6 million as compared to the same period in 1997. As a percentage of net sales, these expenses decreased to 1.4% in 1998 compared to 1.5% in 1997.

Interest expense for the three months ended September 30, 1998 increased by $1.8 million or 38.3%, as compared to the three months ended September 30, 1997, primarily as a result of additional borrowings necessary to fund both 1997 acquisitions and internal growth. The higher interest costs associated with the Company's issuance in May 1997 of the Notes also accounted for some of the increase in interest expense.

Liquidity and Capital Resources

Cash Flows from Operating Activities. Net cash provided by operations was $14.5 million and $9.6 million for the nine months ended September 30, 1998 and 1997, respectively. The increase was due primarily to changes in working capital caused by the timing of payments received or made for trade receivables and payables and inventories.

Cash Flows from Investing Activities. Net cash used in investing activities was $(11.3) million and $(46.5) million for the nine months ended September 30, 1998 and 1997, respectively. The decreased use of cash in 1998 was due mainly to less acquisitions of companies in 1998 compared to 1997.

Cash Flows from Financing Activities. Net cash provided by (used in) financing activities was $(4.2) million and $34.5 million for the nine months ended September 30, 1998 and 1997, respectively, due principally to debt repayment in 1998 and additional debt in 1997.

Liquidity. The Company's principal source of funds for the foreseeable future are anticipated to be cash flows from operating activities and borrowings under its revolving credit agreement. The Company believes that these funds will provide the Company with sufficient liquidity and capital resources to meet its financial obligations, including the payment of principal and interest on the Notes, as well as to provide funds for working capital, capital expenditures and other needs for the foreseeable future. The Company's future operating performance and ability to service or refinance the Notes and to repay, extend or refinance its credit agreement will be subject to future economic conditions and to financial business and other factors, many of which are beyond the Company's control.

Year 2000 Issue

The Company utilizes information technology and a number of computer programs in its internal operations including financial systems and various administrative functions ("IT" systems). The Company also uses a variety of equipment in its business which contain embedded technology such as microcontrollers ("Non-IT" systems).

To the extent that the source code of the software applications of these IT systems or the embedded technologies of these non-IT systems are unable to appropriately interpret and process the upcoming calendar year 2000 ("Year 2000"), some level of modification or possible replacement of such applications would be necessary for proper continuous performance. Without such modification or replacement, the normal course of the Company's business could be disrupted of otherwise adversely impacted.

State of readiness
The Company has developed a four step plan to modify or replace its IT and Non- IT systems. The four steps include assessment, remediation, testing, and implementation.

	Assessment	Remediation	Testing	Implementation
IT System	100% complete	95% complete	40% complete	20% complete
Expected completion	Complete	December 1998	June 1999	September 1999

	Assessment	Remediation	Testing	Implementation
Non-IT System	75% complete	50% complete	20% complete	20% complete
Expected completion	December 1998	March 1999	September 1999	September 1999

The Company has queried its significant suppliers. To date, the Company is not aware of any supplier with a Year 2000 issue that would materially impact the Company's results of operations, liquidity, or capital resources. However, the Company has no means of ensuring that all suppliers will be Year 2000 ready. Due to the availability of alternative suppliers, the inability of any one supplier to complete their Year 2000 resolution process in a timely fashion is not expected to have a material impact on the Company.

Management believes that expenditures to complete the Year 2000 compliance will not be material to its operations.

Risks

Management of the Company believes it has an effective program in place to resolve the Year 2000 Issue in a timely manner. As noted above, the Company has not yet completed all necessary phases of the Year 2000 program. In the event that the Company does not complete any additional phases, the Company would have to manually process customer orders, invoice customers and collect payments. In addition, disruptions in the economy generally resulting from year 2000 issues could also materially adversely affect the Company. The amount of potential liability and lost revenue cannot be reasonably estimated at this time.

Contingency Plans

The Company has developed contingency plans for certain applications and is working on such plans for others. These plans include, among other actions, manual work arounds, increasing staffing, increasing inventories, and shifting processes to compliant locations.

Seasonality

Because of cold weather in many of the markets in which the Company does business and the seasonal nature of the roofing and siding business generally, the Company's revenues vary substantially through the year, with its lowest revenues typically occurring in the months of December through February.

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits
27 Financial Data Schedule
(b) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the three months ended September 30, 1998.

Signatures

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 thereunto duly authorized.

American Builders and Contractors Supply Co., Inc.

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November 11, 1998              /s/ Kendra A. Story
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Date:                              Kendra A. Story
                                   Chief Financial Officer and Director
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Exhibit Index

Exhibit No.	Description
27	Financial Data Schedule

ARTICLE 5

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM ABC SUPPLY'S CONSOLIDATED BALANCE SHEET AT SEPTEMBER 30, 1998 AND CONSOLIDATED STATEMENT OF INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	SEP 30 1998
CASH	3,117
SECURITIES	0
RECEIVABLES	183,260
ALLOWANCES	(5,668)
INVENTORY	152,960
CURRENT ASSETS	3,547
PP&E	71,338
DEPRECIATION	10,461
TOTAL ASSETS	465,083
CURRENT LIABILITIES	167,232
BONDS	275,950
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	109
OTHER SE	21,792
TOTAL LIABILITY AND EQUITY	465,083
SALES	865,375
TOTAL REVENUES	865,375
CGS	665,486
TOTAL COSTS	665,486
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	19,213
INCOME PRETAX	230
INCOME TAX	121
INCOME CONTINUING	109
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	109
EPS PRIMARY	0
EPS DILUTED	0

End of Filing