

Building Materials Holding Corp
BLG - \$13.34 – NYSE

Recommendation: Cover Short

Reasons For Closing Out Short Sale Recommendation

We originally recommended selling BLG (formerly BMHC) at \$91.25 on November 11, 2005. The stock split 2 for 1 a few months later, so our adjusted short sale price is \$45.625. **We now have a profit of +\$32.29 or 70.8%**. We are recommending our clients take their profit here. Our holding period was 18 months. In this market, taking a huge profit on a short sale makes sense. Our original reasons for shorting this stock all worked out. We said:

- Ending of housing mania in their “hot” markets.
- Serial acquirer of cyclical low margin mom and pop subcontractors to homebuilders.
- Results appear strong on the surface but there are many red flags underneath.
- Tangible book value declines quarter over quarter despite growth in net income.
- Cash flow from operations is positive yet free cash flow after acquisitions is negative.
- Too much of cost of acquisitions are allocated to goodwill.
- Acquires businesses that have lower margins than their existing business?
- Front-loading charges of acquired businesses?







