

Report Date: May 21, 2007

Badger Consultants, LLC Thomas S. Chanos (608) 274-5019 Tom\_Chanos@charter.net

## **Building Materials Holding Corp** BLG - \$13.34 - NYSE

## **Recommendation: Cover Short**

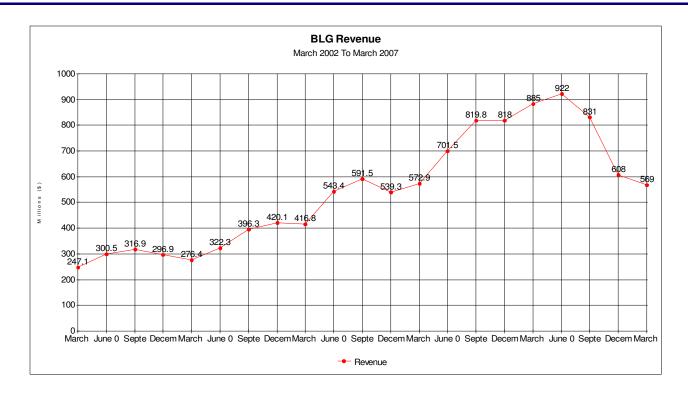
## **Reasons For Closing Out Short Sale Recommendation**

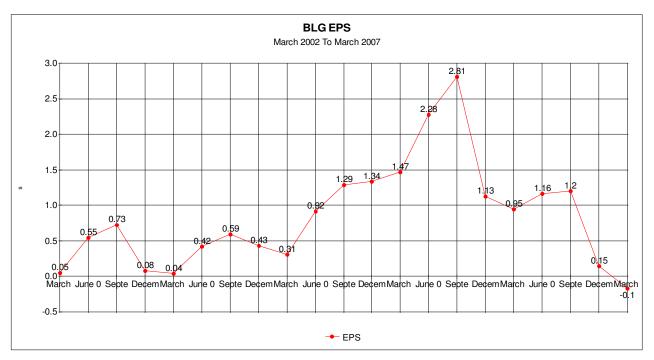
We originally recommended selling BLG (formerly BMHC) at \$91.25 on November 11, 2005. The stock split 2 for 1 a few months later, so our adjusted short sale price is \$45.625. We now have a profit of +\$32.29 or 70.8%. We are recommending our clients take their profit here. Our holding period was 18 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?

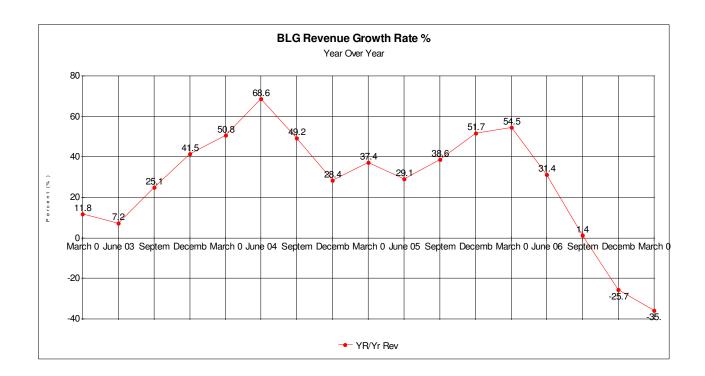


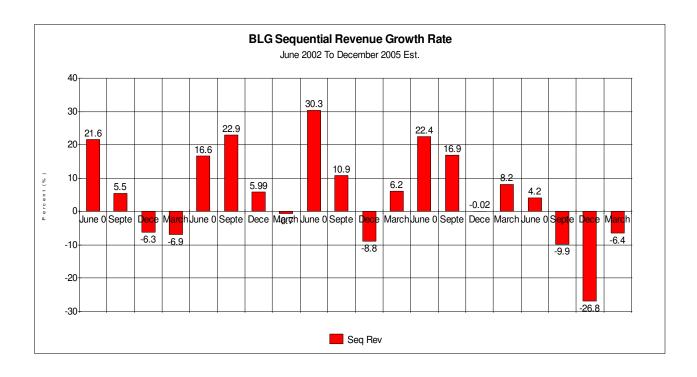
Report Date: May 21, 2007 Badger Consultants, LLC Thomas S. Chanos (608) 274-5019 Tom\_Chanos@charter.net





Report Date: May 21, 2007 Badger Consultants, LLC Thomas S. Chanos (608) 274-5019 Tom\_Chanos@charter.net





Report Date: May 21, 2007

Badger Consultants, LLC Thomas S. Chanos (608) 274-5019 Tom\_Chanos@charter.net

