



Building Materials Holding Corporation (BMHC:NASDAQ)

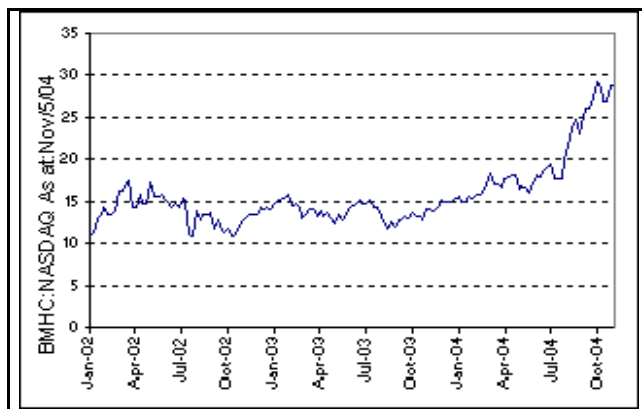
THE COMPANY

Building Materials Holding Corp (BMHC), headquartered in San Francisco, California is a leading distributor and retailer in the building materials and construction services industry. BMHC operates through two subsidiaries, BMC West and BMC Framing, which are comprised of 137 facilities, predominantly in western United States. The company primarily targets its quality building materials and value-added products and services towards professional contractors and builders. Approximately 80% of the company's sales are to new home contractors, 15% to the repair and remodel segment and 5% to commercial contractors.

FINANCIAL DATA

	2001	2002	2003
Earnings per Share (\$)	1.64	0.54	1.50
Price to Earnings (times)	12.2	37.0	13.3
Dividend (\$)	0.00	0.05	0.21
Dividend Yield (%)	0.00	0.25	1.10
Book Value (\$)	18.71	19.13	20.32
Price to Book (times)	1.10	1.10	1.00

HISTORICAL SHARE PRICES



WHY ABC FUNDS BOUGHT BUILDING MATERIALS

BMHC is a cyclical company that has been forced to operate in the throes of economic uncertainty in the United States. In August, before the tragedy of September 11, BMHC's shares were trading at \$17.50 but its share price gradually declined to current levels thereafter. But this is where the opportunity for ABC Funds existed.

At a price of \$11.50 and only 13 million shares outstanding, BMHC trades at a discount to its tangible book value and trades at a low price to earnings multiple of 7.4 times, which is significantly lower than the industry average of approximately 13 times. BMHC's market capitalization is only \$150 million which compares favourably with its over \$1.1 billion of sales. Another interesting factor is that officers and directors only own 2.7% of the company. Control of the company is in the marketplace and as a result BMHC could be a viable takeover candidate.

Moreover, not only is the company trading at comparatively low valuations but we also feel that the macro environment in the U.S. remains stable for the housing industry. The core fundamentals of the housing and building materials sector, with the assistance of government intervention have been sustained. Housing starts are solid. Extremely low mortgage rates have provided support for housing activity and consumer confidence has not deteriorated as much as expected and, in fact, may show signs of improvement in the second half of the year. The warm weather has also fuelled the continuously strong residential construction, a sector where 80% of BMHC's sales are generated.

Furthermore, on an operational level BMHC continues to be successful. Its acquisition of the remainder of its partially owned Knipp Brothers, a framing company supports BMHC's strategy of increasing its sales percentage of value-added products (40% of 2000 sales). BMHC's decreased reliance on commodity wood products (41% of 2000 sales) will reduce the company's sensitivity to its highly cyclical prices. This should contribute towards gross margin expansion. BMHC has managed to increase gross margins every year since 1992. We expect that this recent acquisition and any subsequent purchases in this highly fragmented industry will contribute towards this impressive trend.

In conclusion, we are confident in management's ability to run BMHC as an operationally efficient company. Its fundamentals are strong and will support the company throughout economic cyclicalities. We view this holding as an opportunistic purchase with significant long-term potential.

UPDATES

Building Materials Holding Corp. recently reported an increase in earnings before extraordinary charges of \$0.33 for the fourth quarter and \$1.60 for the full year compared to \$0.27 and \$1.59 respectively. The Company's recent purchase of Knipp Brothers Inc. (KBI) was a large contributing factor to the company's results. The integration of KBI has increased the company's sales percentage of value-added products, which is an integral component of the company's strategy to increase market share and margins.

Despite the company's strong fourth quarter, Building Materials recently reported that its first quarter 2002 outlook has been amended. The company expects earnings per share before the effect of adopting "Accounting Standard No. 142 Regarding Goodwill and Other Intangible Assets" of \$0.02 to \$0.04 in the first quarter of 2002 versus \$0.17 in the comparable quarter. Management has indicated that there will be an impairment charge of approximately \$0.89 but is confident there will be no other write-downs of this nature for the year. The weaker results in the first quarter reflect the impact of poor weather in the west.

Although the write-down is significant, we remain comfortable with our holding in Building Materials. The position was purchased below 2000 tangible book value and was cheaper on a relative price to earnings basis than the rest of the industry. The company remains optimistic for the remainder of the year.

As we enter into a period of potentially rising interest rates the company may be exposed to a challenging environment. But with this write-down behind the company, we feel that it is well-positioned to withstand the cyclical and continue to feel it is a solid long-term position.

ABC Funds
March 28, 2002

On December 11th Building Materials Holding Corporation announced that its Board of Directors has declared its first quarterly cash dividend of \$0.05 per common share. This dividend results in a yield of approximately 1.4% given BMHC's recent share price of just over \$14. We welcome this decision by BMHC management and agree that payment of a cash dividend is one of the best methods of providing a tangible reward to shareholders.

In October BMHC announced results for its third quarter of fiscal 2002. Despite lower net sales which resulted primarily from lower wood product prices, net income for the quarter increased 22.9% to \$9.7 million or \$0.73 a share from \$7.9 million or \$0.60 a share a year prior. This increase was mainly due to the firm's ability to increase sales of higher margin construction services and manufactured components while reducing its operating and interest costs. In July the company acquired a controlling interest in a framing business serving the Northern California residential construction market and subsequently invested in a nearby materials distribution and truss manufacturing facility.

We believe the current level of demand for new homes will remain strong in 2003. Housing starts, which have averaged 1.65 million for the last 5 years, are estimated to be 1.63 million in 2003. At the same time, mortgage rates remain at record low levels with interest rates in the U.S. not expected to increase until the second half of 2003. We believe BMHC shares represent good value. The stock presently trades at approximately 7 times expected 2003 earnings of \$1.99 and at a 27% discount to its current book value of \$19.07.

ABC Funds
December 20, 2002

Building Material Holding Corp. (BMHC) reported second quarter results on July 29th. Sales were \$322.3 million, an increase of 7.3% compared to \$300.5 in the second quarter of 2002. The increase in sales was primarily due to the inclusion of sales at KBI Norcal, which was acquired in July 2002, and was not included in BMHC's results for the second quarter of 2002. Net income for the second quarter of 2003 was \$5.6 million, or \$0.42 per diluted share, compared to net income of \$7.3 million, or \$.55 per diluted share last year.

Results in the second quarter were impacted by the company's Colorado and Texas operations, which experienced lower sales and earnings. Single-family building permits in Colorado have fallen 12% year to date through May compared to the same period last year. These soft market conditions have resulted in very intense price competition in the region, resulting in lower than anticipated margins at BMHC's operating unit. The company's Texas unit suffered a slowdown in production and incurred new system costs as it consolidated its three Houston facilities into one new location. Results also reflect an operating loss for the second quarter at KBI Norcal due to rapid business expansion, which resulted in increased expenses. On a positive note, management did indicate that it expects the KBI unit to be profitable in the second half of 2003.

At current market prices, value investors should find BMHC shares an attractive opportunity. While single unit housing starts

UPDATES (cont'd)

may have faltered in some markets, we believe the broader housing market will remain firm given the current low interest rate environment and an improving outlook for the U.S economy. BMHC shares trade at a significant discount to their book value of \$19 and less than 10 times management's 2003 earnings guidance of between \$1.40 and \$1.47 per share. With the initiation of a \$0.20 annual dividend last December, BMHC shares also offer investors a yield of approximately 1.5%. Finally, BMHC shareholders should not rule out the possibility that eventually the company could be acquired. Keep in mind that the industry is highly fragmented and that management owns only a small percentage of BMHC's outstanding shares.

ABC Funds
August 8, 2003

Building Materials Holding Corp. (BMHC) reported third quarter results on October 26th, 2003. Sales increased 25.1% to \$396.3 million from \$316.9 million last year, while net income fell 18% to \$8.0 million, or \$0.59 per share from \$9.7 million or \$0.73 per share last year. The decrease in earnings was mainly attributed to lower gross margins, as rapid increases in commodity wood product prices were not passed along to BMHC's customers. While this decision concerning pricing had a negative impact on margins for this quarter, the company's commitment to its existing customers should benefit it over the longer term.

Management expects earnings for the year to be in the range of \$1.40 to \$1.47 per share. With a book value now of nearly \$20 per share, BMHC shares are trading under 10 times earnings and at 70% of book value. In addition, BMHC pays a \$0.20 annual dividend, which represents a yield of around 1.4%. BMHC focuses on smaller entry-level homes where sales tend to be primarily driven by the employment level in the United States. The U.S. is currently experiencing a jobless economic recovery, however, BMHC should benefit accordingly when the economy begins creating new jobs. Given the rally in stock prices this year, we find there are fewer stocks remaining, which trade below book value, under ten times earnings, and in addition, also pay a dividend. BMHC is one of these few remaining companies.

ABC Funds
October 31, 2003

After reaching a 52-week high of \$18.55 in April, shares of BMHC fell as low as \$15.70 on May 19th before rebounding back to the \$17 level this week. We believe the sell off in the stock was based on fears that rising long term interest rates in the U.S. will lead to a cooling off in the housing market. While this is generally true, we believe the housing market should remain robust for the following reasons. First of all, interest rates, although rising, are expected to rise modestly and gradually over the next couple of years. Second, rates remain at historically low levels making financing a home still relatively affordable. Finally, rising employment in the US should lead to more first home purchases, BMHC's primary category market.

Given that, shares of BMHC appear attractively priced. With forecasted earnings of \$2.02 this year and \$2.15 next year, the stock trades at just 8.8 and 8.3 times this and next year's earnings respectively. In addition, shares of BMHC sell at a 16% discount to book value of \$20.53 per share. Tangible book value, which now stands at \$14.11, should provide some downside support if needed. In December 2002, BMHC began paying a small dividend of \$0.20 per share. A year later the dividend was increased to \$0.24 per share, representing a yield of 1.4%. Given the low payout ratio, it would not be unreasonable to expect a further dividend increase, possibly at the end of the year. Finally, given that the industry is consolidating and that management owns only a small percentage of the shares, we feel BMHC could be a takeover candidate. If it were acquired, we feel BMHC could fetch its book value of \$20.53 or possibly higher.

ABC Funds
June 4, 2004

Building Materials Holding Corp. (BMHC) benefited from strong commodity prices for wood products and continued strength in US housing demand to post record second quarter 2004 results. Consolidated sales for the second quarter increased 69% to \$543.4 million, compared to \$322.3 million in the second quarter of 2003. For the six months ended June 30th, 2004, sales increased 60% to \$960.2 million compared to \$598.7 million for the same 2003. BMHC's net income increased 125% to \$12.6 million or \$0.92 per share compared to \$5.6 million, or \$0.42 per share for the second quarter of 2003. For the six months ended June 30th, 2004, net income was \$16.8 million or \$1.23 per share, compared to \$6.2 million, or \$0.46 per share in the prior period. We are heartened by these results given that many investors feel that we have already seen the best of the housing market and the fact that interest rates have begun to increase from their historically low levels.

ABC Funds
July 30, 2004

UPDATES (cont'd)

Building Materials Holding Corp. (BMHC) should continue to benefit from inflation in commodity wood products. About 65% of BMHC's revenues are from building products such as lumber, panel, and roof trusses. Wood product prices have been strong this year due to a robust housing market in the U.S. Lately though, lumber prices have moved higher as a result of hurricane activity that is effecting the southern coastal areas of the U.S. Demand for plywood and oriented strand board (OSB), which are commonly used by homeowners to board up windows, has been particularly strong.

A couple of corporate developments have occurred at BMHC since our last update. On August 9th 2004 BMHC announced that its BMC Construction Inc. unit has bought the remaining 49% stake in its northern California construction partnership KBI Norcal. KBI Norcal provides turnkey construction services to high-volume production builders in Northern California. On September 14th, 2004 BMHC announced that its Board of Directors has increased the Company's quarterly cash dividend to \$0.08 per share from \$0.06 per share, a 33% increase. On an annualized basis, BMHC now yields approximately 1.2%. This dividend increase is the second in less than a year but more importantly, points to a Board of Directors that is committed to returning cash to shareholders.

ABC Funds

September 17, 2004

Shares of Building Materials Holding Corp. (BMHC) are up 87% so far in 2004 fueled by a strong housing market, high commodity prices, and recent hurricane activity in the U.S. Southeast. At \$29 per share, BMHC shares now trade at 1.9 times tangible book value of roughly \$15 and just under ten times this year's earnings estimate of \$3 per share. Earnings are probably at or near their cycle peak given the run up in lumber prices this year and the beginning of a Fed tightening cycle. Our investment mandate is to purchase shares below book value and at low price to earnings ratios and BMHC is no longer undervalued by these metrics. Therefore we have sold our position in the building materials company having realized a total return of close to 100%.

ABC Funds

November 5, 2004