

Section 1: 10-Q (10-Q)

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 September 30, 2018

OR

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

For the transition period from to
Commission File Number: 001-38009

FOUNDATION BUILDING MATERIALS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
2741 Walnut Avenue, Suite 200
Tustin, CA
(Address of principal executive offices)

81-4259606
(I.R.S. Employer
Identification No.)

92780
(Zip Code)

(714) 380-3127

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 and every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check 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 October 26, 2018, the number of shares outstanding of the registrant's common stock, \$0.001 par value, was 42,894,965.

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Part I. Financial Information

Item 1. Financial Statements

FOUNDATION BUILDING MATERIALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands, except share data)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,560	\$ 12,101
Accounts receivable—net of allowance for doubtful accounts of \$3,297 and \$3,494, respectively	316,200	238,091
Other receivables	50,808	55,487
Inventories	158,766	148,246
Prepaid expenses and other current assets	12,304	11,785
Current assets held for sale	128,188	82,948
Total current assets	676,916	548,658
Property and equipment, net	153,386	144,524
Intangible assets, net	145,379	164,536
Goodwill	481,260	452,728
Other assets	6,928	5,604
Noncurrent assets held for sale	—	38,220
Total assets	\$ 1,463,869	\$ 1,354,270
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 130,169	\$ 134,460
Accrued payroll and employee benefits	25,777	17,520
Accrued taxes	11,775	7,003
Tax receivable agreement	15,892	15,892
Current portion of term loan	3,375	—
Other current liabilities	22,995	37,270
Current liabilities held for sale	26,599	29,733
Total current liabilities	236,582	242,278
Asset-based revolving credit facility	305,704	47,486
Long-term debt, net	438,841	534,379
Tax receivable agreement	119,912	119,912
Deferred income taxes, net	5,200	17,912
Other liabilities	9,545	12,657
Noncurrent liabilities held for sale	—	682
Total liabilities	1,115,784	975,606
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, authorized 10,000,000 shares; 0 shares issued	—	—
Common stock, \$0.001 par value, authorized 190,000,000 shares; 42,894,965 and 42,865,407 shares issued, respectively	13	13
Additional paid-in capital	331,667	330,113
Retained earnings	15,936	46,184
Accumulated other comprehensive income	469	2,354
Total stockholders' equity	348,085	378,664
Total liabilities and stockholders' equity	\$ 1,463,869	\$ 1,354,270

See accompanying notes to condensed consolidated financial statements (unaudited).

FOUNDATION BUILDING MATERIALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME (UNAUDITED)
(in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	\$ 542,273	\$ 467,891	\$ 1,528,153	\$ 1,346,441
Cost of goods sold	388,236	332,008	1,093,412	957,404
Gross profit	154,037	135,883	434,741	389,037
Operating expenses:				
Selling, general and administrative	113,279	102,259	328,088	299,298
Depreciation and amortization	19,771	18,234	56,922	52,662
Total operating expenses	133,050	120,493	385,010	351,960
Income from operations	20,987	15,390	49,731	37,077
Loss on extinguishment of debt	(58,475)	-	(58,475)	-
Interest expense	(12,576)	(15,054)	(43,028)	(45,147)
Other (expense) income, net	(8)	25	126	13,424
(Loss) income before income taxes	(50,072)	861	(51,646)	5,354
Income tax (benefit) expense	(12,519)	239	(13,299)	2,205
(Loss) income from continuing operations	(37,553)	122	(38,347)	3,149
Income from discontinued operations, net of tax	2,772	1,277	7,915	3,439
Net (loss) income	\$ (34,781)	\$ 1,399	\$ (30,434)	\$ 6,588
(Loss) earnings per share data:				
(Loss) earnings from continuing operations per share - basic	\$ (0.88)	\$ 0.00	\$ (0.89)	\$ 0.08
(Loss) earnings from continuing operations per share - diluted	\$ (0.88)	\$ 0.00	\$ (0.89)	\$ 0.08
Earnings from discontinued operations per share - basic	\$ 0.07	\$ 0.03	\$ 0.18	\$ 0.08
Earnings from discontinued operations per share - diluted	\$ 0.07	\$ 0.03	\$ 0.18	\$ 0.08
(Loss) earnings per share - basic	\$ (0.81)	\$ 0.03	\$ (0.71)	\$ 0.16
(Loss) earnings per share - diluted	\$ (0.81)	\$ 0.03	\$ (0.71)	\$ 0.16
Weighted average shares outstanding:				
Basic	42,894,474	42,865,407	42,889,430	41,021,808
Diluted	42,917,230	42,870,391	42,905,273	41,023,935
Comprehensive (loss) income:				
Net (loss) income	\$ (34,781)	\$ 1,399	\$ (30,434)	\$ 6,588
Foreign currency translation adjustment	1,481	3,037	(2,724)	5,695
Unrealized (loss) gain on derivative, net of taxes of \$0.5 million and \$1.0 million, respectively and \$0.5 million and \$1.9 million, respectively	(1,420)	(1,647)	839	(3,047)
Total other comprehensive income (loss)	61	1,390	(1,885)	2,648
Total comprehensive (loss) income	\$ (34,720)	\$ 2,789	\$ (32,319)	\$ 9,236

See accompanying notes to condensed consolidated financial statements (unaudited).

FOUNDATION BUILDING MATERIALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net (loss) income	\$ (30,434)	\$ 6,588
Net income from discontinued operations	2,015	2,420
Net (loss) income from continuing operations	(28,419)	3,149
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities of continuing operations:		
Depreciation	24,983	21,793
Amortization of intangible assets	32,539	30,869
Amortization of debt issuance costs and debt discount	6,634	7,352
Loss on extinguishment of debt	58,475	-
Inventory fair value purchase accounting adjustment	413	830
Provision for doubtful accounts	1,654	1,987
Stock-based compensation	1,512	1,691
Unrealized gain on foreign currency, net	-	(1,689)
Unrealized gain on derivative instruments, net	(56)	(13,045)
Loss on disposal of property and equipment	614	171
Deferred income taxes	(13,038)	2,730
Change in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(65,361)	(25,243)
Other receivables	5,361	5,423
Inventories	(3,244)	3,495
Prepaid expenses and other current assets	(496)	(968)
Other assets	(1,928)	(2,180)
Accounts payable	(8,505)	11,816
Accrued payroll and employee benefits	7,929	(4,277)
Accrued taxes	4,785	(738)
Other liabilities	(13,269)	(19,444)
Net cash (used in) provided by operating activities of continuing operations	(873)	25,236
Cash flows from investing activities:		
Purchases of property and equipment	(28,157)	(25,307)
Payment of net working capital adjustments	(40)	(405)
Proceeds from net working capital adjustments	155	8,290
Proceeds from the disposal of fixed assets	1,605	528
Acquisitions, net of cash acquired	(70,314)	(68,274)
Net cash used in investing activities of continuing operations	(96,771)	(84,868)
Cash flows from financing activities:		
Proceeds from asset-based revolving credit facility	757,298	395,688
Repayments of asset-based revolving credit facility	(498,964)	(324,782)
Term loan proceeds	450,000	-
Term loan original issuance discount and deferred finance costs	(7,955)	-
Repayment of bond principal	(575,000)	-
Prepayment premiums on senior secured notes	(23,872)	-
Tax withholding payment related to net settlement of equity awards	(61)	-
Principal repayment of capital lease obligations	(2,094)	(1,520)
Issuance of common stock	-	163,952
Capital contributions	-	2,022
Net cash provided by financing activities of continuing operations	99,372	35,935
Net cash provided by financing activities of discontinued operations	-	-
Operating activities of discontinued operations	(2,063)	7,319
Investing activities of discontinued operations	(928)	-
Financing activities of discontinued operations	(180)	(6,035)
Net cash (used in) provided by discontinued operations	(3,171)	1,284
Net decrease in cash	(1,541)	(22,249)
Cash and cash equivalents at beginning of period	12,101	28,352
Cash and cash equivalents at end of period	\$ 10,560	\$ 6,103
Supplemental disclosures of cash flow information for continuing operations:		
Cash paid during the period for income taxes	\$ 1,504	\$ 3,236
Cash paid during the period for interest	\$ 52,288	\$ 49,037
Supplemental disclosures of non-cash investing and financing activities:		
Change in fair value of derivative, net of tax	\$ 839	\$ 3,647
Assets acquired under rental leases	\$ -	\$ 607
Goodwill adjustment for purchase price allocation	\$ 202	\$ 518
Tax receivable agreement	\$ -	\$ 203,877

See accompanying notes to condensed consolidated financial statements (unaudited).

1. Business and Basis of Presentation

Business

Foundation Building Materials, Inc. (the "Company"), based in Tustin, California is a specialty distributor of wallboard, suspended ceiling systems, and metal framing throughout the U.S. and Canada.

On September 26, 2018, the Company entered into a definitive agreement to sell its mechanical insulation business. Refer to Note 3, Discontinued Operations, for further details. Excluding its mechanical insulation business, the Company employs more than 3,400 people and operates more than 170 branches across the U.S. and Canada.

Organization

The Company was formed on October 27, 2016 (inception). The initial stockholder of the Company was LSF9 Cypress Parent 2 LLC ("Parent 2") which held all of the Company's authorized, issued and outstanding shares of common stock.

Reorganization

On February 8, 2017, FBM Alpha LLC, (formerly known as LSF9 Cypress Parent, LLC) ("Alpha"), transferred its wholly owned direct subsidiary, Foundation Building Materials Holding Company LLC (formerly known as FBM Beta LLC and LSF9 Cypress Holdings, LLC) ("Holder"), and indirectly FBM Finance, Inc. to the Company, thereby transferring the business for which historical financial information is included in these results of operations, to be indirectly held by the Company (the "Reorganization").

Initial Public Offering

Following the Reorganization, on February 15, 2017, the Company completed an initial public offering ("IPO") in which it issued 12,800,000 shares of common stock at a public offering price of \$14.00 per share. The common stock began trading on the New York Stock Exchange on February 10, 2017 under the ticker symbol "FBM." After underwriting discounts and commissions and expenses, the net proceeds to the Company from the IPO were approximately \$164.0 million. The Company used these net proceeds to repay borrowings outstanding under its then-existing asset-based revolving credit facility (the "2016 ABL Credit Facility"). The proceeds of \$164.0 million were recorded in equity, with approximately \$13,000 recorded for the par value of the common stock and the remaining amount recorded in additional paid-in capital. The underwriters exercised their option to purchase an additional 1,920,000 shares of common stock from Parent 2 and those shares were purchased on February 24, 2017. The Company did not receive any proceeds from the sale of shares by Parent 2.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for a fair presentation with respect to the interim financial statements, have been included. The results of operations for interim periods are not necessarily indicative of the results for full fiscal years. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2017, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2018 (the "2017 10-K"), which do not include the discontinued operations from the sale of the mechanical insulation segment. The Company plans to retrospectively adjust previously reported audited financial statements to recognize the discontinued operations for the sale of the mechanical insulation segment when it files its 2018 10-K in 2019. When the sale of the mechanical insulation segment closes, the Company will file a Current Report on Form 8-K with pro forma financial statements that will include full year 2016 and 2017 statements of operations.

As discussed in Note 3, Discontinued Operations, the Company has entered into a definitive agreement to sell its mechanical insulation business, which was previously reported as the mechanical insulation segment. The previously reported amounts for the mechanical insulation segment have been reclassified to discontinued operations for all periods presented. The Company's continuing operations now consist of what was previously reported as the Specialty Building Products segment for all periods presented.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries. All intercompany balances and transactions have been eliminated.

2. Recently Issued Accounting Standards

Recently Adopted Accounting Standards

On January 1, 2018, the Company adopted new revenue recognition guidance, Accounting Standard Codification ("ASC") 606, Revenue from Contracts with Customers and all related amendments, using the modified retrospective method. The Company has concluded that the adoption did not have a material impact on its consolidated financial statements.

Revenue Recognition - Revenue is recognized upon transfer of control of promised products to customers in an amount that reflects the consideration expected to be received in exchange for those products. The applicable shipping and handling costs invoiced to the customer are included in "Selling, general and administrative" expenses in the accompanying consolidated statements of operations. All revenue recognized is net of sales taxes collected, which are subsequently remitted to the appropriate governmental authorities.

Performance Obligations - The performance obligation for product sales is met at a point in time, when the product is delivered and control is transferred to the customer. At inception of a contract with a customer, the price and quantity of goods are fixed. However, the Company offers discounts on terms and rebate incentives to select customers. The Company also gives customers the right to return eligible products.

Significant Judgments - The Company calculates the allowance for sales returns, early pay discounts and customer rebates using the expected value method and believes its current methodology properly constrains revenue. The Company does not believe that a significant reversal in the amount of cumulative revenue recognized will occur when the uncertainty associated with the variable consideration is resolved.

Practical Expedients - In addition to the aforementioned practical expedient, the Company has elected the practical expedient as allowed by ASC 606-10-32-18, which states that an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers promised goods or services to a customer and when the customer pays for those goods or services will be one year or less.

In January 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-01, *Financial Instruments - Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities*. The updated guidance enhances the reporting model for financial instruments by modifying how entities measure and recognize equity investments and present changes in the fair value of financial liabilities, and by simplifying the disclosure guidance for financial instruments. The amendments in this update are effective for fiscal years beginning after December 15, 2017. The amendments in this update should be applied prospectively. The Company adopted this guidance on January 1, 2018, and the adoption did not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows* (Topic 230): *Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 amended the existing accounting standards for the statement of cash flows. The amendments provide guidance on eight classification issues related to the statement of cash flows. This update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted this guidance on January 1, 2018, and the adoption did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations* (Topic 805): *Clarifying the Definition of a Business*, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This amendment is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted this guidance on January 1, 2018, and the adoption did not have a material impact on the Company's consolidated financial statements.

On January 1, 2018, the Company adopted ASU 2018-02, *Income Statement-Reporting Comprehensive Income* (Topic 220): *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. As a result of income tax effects of the Tax Cut and Jobs Act (the "Tax Act"), which reduced the corporate federal tax rate from 35.0% to 21.0%, the Company reclassified \$0.2 million from accumulated other comprehensive income to retained earnings related to its net investment hedge.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). ASU No. 2016-02 establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either "finance" or "operating," with classification affecting the pattern of expense recognition in the income statement. This update requires a modified retrospective transition as of the beginning of the earliest comparative period presented in the financial statements. This update is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company continues to implement this guidance and upon adoption on January 1, 2019, the Company expects to record in its consolidated financial statements a right-of-use asset and related lease liability between \$90.0 million and \$110.0 million; however, the Company will continue to implement this guidance, and this estimate is subject to change.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles and Other* (Topic 350): *Simplifying the Test for Goodwill Impairment*, which eliminates the requirement to calculate the implied fair value of goodwill but instead requires an entity to record an impairment charge based on the excess of a reporting unit's carrying value over its fair value. This amendment is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

3. Discontinued Operations

On September 26, 2018, the Company entered into a Stock and Asset Purchase Agreement (the "Purchase Agreement") with SP LLC (the "Purchaser"), pursuant to which the Company agreed to sell, and the Purchaser agreed to acquire, (i) all right, title and interest in, to and under all of the assets, properties and business of the mechanical insulation segment of the Company in the U.S. (the "U.S. Business"), excepting certain excluded assets (the "Purchased Assets"), and (ii) all outstanding shares of FBM Canada SPI, Inc. (the "Stock"), representing the Company's mechanical insulation business in Canada (the "Canadian Business"). The U.S. Business and the Canadian Business are referred to collectively as the "Disposed Business."

As aggregate consideration for the Purchased Assets and the Stock, the Purchaser will pay \$122.5 million in cash at the closing of the transaction (subject to certain working capital and other pre- and post-closing adjustments as set forth in the Purchase Agreement) and assume certain post-closing liabilities. The Purchase Agreement contains customary representations, warranties and covenants made by each of the Purchaser and the Sellers, as well as mutual indemnification obligations.

Based on its magnitude and because the Company is exiting the mechanical insulation business, the pending sale represents a significant strategic shift that will have a material effect on the Company's operations and financial results. Accordingly, the Company has applied discontinued operations treatment for the Disposed Business as required by Accounting Standards Codification—Discontinued Operations (ASC 205-20). In accordance with ASC 205-20, the Company reclassified the Disposed Business to assets and liabilities held for sale on its consolidated balance sheets as of September 30, 2018 and December 31, 2017 and reclassified the financial results of the Disposed Business in its consolidated statements of operations and consolidated statements of cash flows for all periods presented. The Company also revised its discussion and presentation of operating and financial results to be reflective of its continuing operations as required by ASC 205-20.

Foundation Building Materials, Inc.
Notes to Condensed Consolidated Financial Statements

The carrying amount of the assets, and liabilities of the Disposed Business, have been reclassified from their historical balance sheet presentation to current and noncurrent assets and current and noncurrent liabilities held for sale as follows:

	September 30, 2018	December 31, 2017
Accounts receivable—net of allowance for doubtful accounts of \$410 and \$655, respectively	\$ 51,520	\$ 41,932
Other receivables	3,952	3,975
Inventories	37,243	36,190
Prepaid expenses and other current assets	1,108	851
Property and equipment, net	6,753	-
Intangible assets, net	21,605	-
Goodwill	6,007	-
Other assets	-	-
Current assets held for sale	\$ 128,188	\$ 82,948
Property and equipment, net	-	6,884
Intangible assets, net	-	25,234
Goodwill	-	6,009
Deferred income taxes	-	93
Other assets	-	-
Noncurrent assets held for sale	\$ -	\$ 38,220
Accounts payable	\$ 17,197	\$ 21,885
Accrued payroll and employee benefits	2,619	3,238
Accrued taxes	1,381	787
Other liabilities	5,328	3,823
Deferred income taxes	74	-
Current liabilities held for sale	\$ 26,599	\$ 29,733
Other liabilities	-	982
Noncurrent liabilities held for sale	\$ -	\$ 982

The operating results of the Disposed Business that are reflected in the unaudited condensed consolidated statements of operations within net income from discontinued operations are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	\$ 82,533	\$ 67,555	\$ 237,923	\$ 197,692
Cost of goods sold	60,125	48,655	172,682	142,503
Gross profit	22,408	18,900	65,241	55,189
Operating expenses:				
Selling, general and administrative	17,078	15,150	49,481	44,775
Depreciation and amortization	1,561	1,495	4,637	4,490
Total operating expenses	18,639	16,645	54,118	49,265
Income from operations	3,769	2,255	11,123	5,924
Interest expense	(11)	(15)	(36)	(47)
Other income (expense), net	5	(10)	(5)	(45)
Income from discontinued operations before income taxes	3,763	2,230	11,082	5,872
Income tax expense	991	973	3,169	2,433
Net income from discontinued operations, net of tax	\$ 2,772	\$ 1,277	\$ 7,913	\$ 3,439

The operating results reflected above do not fully represent the Disposed Business' historical operating results, as the results reported within net income from discontinued operations only include expenses that are directly attributable to the Disposed Business.

4. Derivatives and Hedging Activities

The Company uses derivatives to manage selected foreign exchange exposures for its investments in foreign subsidiaries. In general, the types of risks hedged are those relating to the variability of future earnings and cash flows caused by movements in foreign currency exchange rates and interest rates. The Company documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge.

Net Investment Hedge

As of September 30, 2018, and December 31, 2017, the amount of notional foreign exchange contracts outstanding was approximately \$88.0 million. There is no significant credit risk associated with the potential failure of any counterparty to perform under the terms of any derivative financial instrument.

The net investment hedge is measured at fair value within the consolidated balance sheet either as an asset or a liability. As of September 30, 2018, and December 31, 2017, the fair value of the derivative instrument was \$1.0 million and \$2.4 million, respectively, and was recorded in other long-term liabilities.

For the three months ended September 30, 2018, the Company recognized a loss of \$1.4 million, net of taxes of \$0.5 million, recorded in other comprehensive income (loss) related to the net investment hedge. For the nine months ended September 30, 2018, the Company recognized a gain of \$0.8 million, net of taxes of \$0.5 million, recorded in other comprehensive income (loss) related to the net investment hedge. The Company recognized a loss of \$1.6 million and \$3.0 million, net of taxes of \$1.0 million and \$1.9 million, respectively, for the three and nine months ended September 30, 2017, respectively, recorded in other comprehensive income (loss) related to the net investment hedge.

For the three months ended September 30, 2018, the Company recorded a loss of \$78,000, in other (expense) income, net, related to the ineffective portion of the net investment hedge. For the nine months ended September 30, 2018, the Company recognized a gain of \$56,000, in other (expense) income, net, related to the ineffective portion of the net investment hedge. The Company recorded a loss of \$111,000 and \$205,000 for the three and nine months ended September 30, 2017, respectively, in other (expense) income, net, related to the ineffective portion of the net investment hedge.

Embedded Derivative

On August 15, 2018, the Company redeemed its \$575.0 million Senior Secured Notes (the "Notes") at a price equal to 104.125% of the principal amount, plus accrued and unpaid interest.

The Company had the option to prepay its Notes at any time prior to August 15, 2018, at a price equal to 100% of the principal amount, plus an applicable premium and any accrued and unpaid interest.

Included in the Notes was an optional prepayment period through August 15, 2018, using proceeds from an equity offering, which constituted an embedded derivative and was bifurcated from the debt host and accounted for separately. The embedded derivative was recorded at fair value at inception until August 15, 2018, with any changes in fair value from inception recorded in earnings. The fair value of the embedded derivative as of December 31, 2017, was \$0, due to a minimal probability of an equity offering occurring where the proceeds are used to pay down the Notes prior to the expiration of the optional prepayment time period.

The change in fair value was \$0 for the three and nine months ended September 30, 2018. The change in fair value of \$0 and \$13.2 million for the three and nine months ended September 30, 2017, respectively, were included in other income, net.

5. Acquisitions

The Company accounts for its acquisitions under the acquisition method, and accordingly, the results of operations of acquired entities are included in the Company's consolidated financial statements from the acquisition date. Acquisition related costs are expensed as incurred. The purchase price is allocated to the assets acquired based on estimated fair values at the acquisition date, with the excess of purchase price over the estimated fair value of the net assets acquired recorded as goodwill. Purchase accounting adjustments associated with the intangible asset valuations have been recorded as of September 30, 2018. The fair value of acquired intangible assets, primarily related to customer relationships, was estimated by applying a discounted cash flow model. That measure is based on significant Level 3 inputs not observable in the market. Key assumptions were developed based on the Company's historical experience, future projections and comparable market data including future cash flows, long-term growth rates, implied royalty rates, attrition rates and discount rates. The purchase price allocations for the acquisitions set forth below are preliminary and subject to adjustment as additional information is obtained about facts and circumstances that existed as of the applicable acquisition date.

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During the nine months ended September 30, 2018, the Company completed the following three acquisitions:

Ciesco, Inc. and Commercial Specialty Supply LLC

On August 1, 2018, the Company acquired the operations and substantially all of the assets of Ciesco, Inc. and Commercial Specialty Supply LLC (collectively, "Ciesco"). Ciesco was a leading independent distributor of wallboard, metal framing, suspended ceiling systems, insulation and complementary products and operated six branches in Pennsylvania and Virginia.

ArmCom Distributing Company

On February 1, 2018, the Company acquired the operations and substantially all of the assets of ArmCom Distributing Company ("ArmCom"), a division of St. Paul Linoleum and Carpet Company. ArmCom was an independent distributor of suspended ceilings systems and operated five branches in Minnesota, North Dakota, South Dakota and Nebraska.

RM Supply

On February 1, 2018, the Company acquired all of the stock of RM Supply, Inc. and certain assets of JMB Transportation, L.L.C. (collectively, "RM Supply"). RM Supply was an independent distributor of wallboard, metal framing, insulation, and wallboard accessories. RM Supply operated two branches in Missouri.

During the nine months ended September 30, 2018, the Company completed the above acquisitions for an aggregate purchase price of \$71.0 million. These acquisitions are not considered material, individually or in the aggregate. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date for the acquisitions summarized above (collectively, the "2018 acquisitions") (in thousands):

	Nine Months Ended September 30, 2018
Assets acquired:	
Cash	\$ 672
Accounts receivable	15,798
Other receivables	1,164
Inventories	8,363
Prepaid and other current assets	73
Property and equipment	7,864
Goodwill	29,286
Intangible assets	13,600
Other assets	74
Total assets acquired	76,894
Liabilities assumed:	
Accounts payable	(5,446)
Accrued expenses and other current liabilities	(42)
Total liabilities assumed	(5,888)
Total net assets acquired	\$ 71,006

The excess of purchase price over the fair value amounts assigned to the assets acquired and liabilities assumed represents the goodwill amount resulting from the acquisitions. Goodwill attributable to the acquisitions has been recorded as a non-current asset and is not amortized, but is subject to review at least on an annual basis for impairment. Goodwill recognized was primarily attributable to expected operating efficiencies and expansion opportunities in the businesses acquired. Goodwill and intangible assets recognized from asset acquisitions are expected to be tax deductible. The Ciesco and ArmCom acquisitions were treated as asset purchases, and the RM Supply acquisition was treated as a stock purchase for tax purposes. Generally, the most significant intangible asset acquired is customer relationships. The Company's acquisitions are generally subject to working capital adjustments; however, the Company does not expect any such adjustments to have a material impact on its consolidated financial statements. Any adjustments to the purchase price allocation of these acquisitions will be made as soon as practicable but no later than one year from the acquisition date. The pro forma impact of the 2018 acquisitions is not presented as the 2018 acquisitions are not considered material to the Company's consolidated financial statements.

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6. Goodwill and Intangible Assets

The change in goodwill from December 31, 2017, to September 30, 2018, consisted of the following (in thousands):

	Carrying Value
Balance at December 31, 2017	\$ 452,728
Goodwill acquired	29,286
Purchase price allocation adjustments	87
Impact of foreign exchange rates	(811)
Balance at September 30, 2018	\$ 481,260

Changes to initial purchase price allocations related to acquisitions may arise from changes in estimates from conditions that existed at the applicable acquisition date and as a result of net working capital adjustments.

Identifiable intangible assets that are separable and have determinable useful lives are valued separately and amortized over their benefit period. The following is the gross carrying value and accumulated amortization of the Company's identifiable intangible assets as of September 30, 2018, and December 31, 2017 (in thousands):

	September 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade names	\$ 15,980	\$ (9,636)	\$ 6,344	\$ 15,980	\$ (7,283)	\$ 8,697
Customer relationships	238,785	(102,315)	136,470	225,488	(72,349)	153,139
Other intangible assets	3,472	(907)	2,565	3,462	(763)	2,700
	\$ 258,237	\$ (112,858)	\$ 145,379	\$ 244,930	\$ (80,395)	\$ 164,536

The weighted average amortization period of these intangible assets in the aggregate is 3.5 years.

7. Long-Term Debt

(in thousands)

	September 30, 2018	December 31, 2017
2018 Term Loan Facility	\$ 446,625	-
Unamortized deferred financing costs - term loan	(7,784)	-
Revolving credit facilities	305,704	47,486
Unamortized deferred financing costs - revolving credit facilities	(4,901)	(3,164)
Senior secured notes	-	575,000
Unamortized debt issuance costs - senior secured notes	-	(40,621)
	\$ 739,644	\$ 578,701

2018 Term Loan Credit Agreement

On August 13, 2018, the Company entered into a credit agreement by and among Alpha, Holdco, Royal Bank of Canada, as administrative agent and collateral agent, and the lenders party thereto (the "2018 Term Loan Facility"). The 2018 Term Loan Facility provides senior secured debt financing in an aggregate principal amount of \$450.0 million and the right, at the Company's option, to request additional tranches of term loans. Availability of such additional tranches of term loans will be subject to the absence of any default, and, among other things, the receipt of commitments by existing or additional financial institutions. Borrowings under the 2018 Term Loan Facility will bear interest at Holdco's option at either (a) a LIBOR rate determined by reference to the costs of funds for United States Dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs, which shall be no less than 0.00%, plus an applicable margin of 3.25% (or 3.00% if the first lien net leverage ratio (as defined in the 2018 Term Loan Facility) is no greater than 4.00 to 1.00) or (b) a base rate determined by reference to the highest of (1) the prime commercial lending rate published by Royal Bank of Canada as its "prime rate," (2) the federal funds effective rate plus 0.50% and (3) a one-month LIBOR rate plus 1.0%, plus an applicable margin of 2.25% (or 2.00% if the first lien net leverage ratio (as defined in the 2018 Term Loan Facility) is no greater than 4.00 to 1.00). The Company will be required to make scheduled quarterly payments in an aggregate annual amount equal to 0.25% of the aggregate principal amount of the initial term loans made on August 13, 2018, with the balance due on August 13, 2025, seven years after the closing date for the initial term loans (as defined in the 2018 Term Loan Facility).

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Obligations under the 2018 Term Loan Facility are secured by a first priority lien on all Term Priority Collateral (as defined in the 2018 Term Loan Facility) and a second priority lien on all ABL Priority Collateral (as defined in the 2018 Term Loan Facility).

The 2018 Term Loan Facility contains a number of covenants that, among other things and subject to certain exceptions, restrict Alpha's ability and the ability of its subsidiaries to incur additional indebtedness, pay dividends on its equity securities or redeem, repurchase or retire its equity securities or other indebtedness, make investments, loans and acquisitions, create restrictions on the payment of dividends or other amounts to the Company from its restricted subsidiaries, engage in transactions with its affiliates, sell assets, including equity securities of its subsidiaries, alter the business it conducts, consolidate or merge and incur liens.

The description of the 2018 Term Loan Facility set forth above is qualified in its entirety by reference to the 2018 Term Loan Facility, a copy of which is filed as Exhibit 10.21 to the Company's Current Report on Form 8-K filed on August 17, 2018.

2018 ABL Credit Facility

On August 13, 2018, Alpha, Holdco, as the lead borrower, the additional U.S. borrowers party thereto from time to time, the Canadian borrowers party thereto from time to time (collectively, the "ABL Borrowers"), the lenders party thereto from time to time, Bank of America, N.A., as administrative agent and collateral agent (the "ABL Agent"), and the other agents party thereto, entered into the ABL Credit Agreement (the "2018 ABL Credit Agreement"), including the exhibits and schedules thereto (collectively, the "2018 Revolving Credit Facility")

The 2018 Revolving Credit Facility provides for senior secured revolving credit financing, including a U.S. revolving credit facility (the "U.S. Revolving Credit Facility") of initially up to \$375.0 million, a Canadian revolving credit subfacility of initially up to \$75.0 million (the "Canadian Revolving Credit Subfacility") and a "first-in-last-out" ("FILO") subfacility in an amount of up to \$25.0 million in amortizing loans (the "FILO Facility"), subject, in each case, to availability under the respective borrowing bases for each facility. The aggregate amount of the 2018 Revolving Credit Facility is \$400.0 million. The 2018 Revolving Credit Facility includes a letter of credit subfacility, which permits up to \$10.0 million of letters of credit under the U.S. Revolving Credit Facility (which may be denominated in U.S. Dollars) and up to the dollar equivalent of \$5.0 million of letters of credit under the Canadian Revolving Credit Subfacility (which may be denominated in Canadian Dollars or U.S. Dollars). In addition, pursuant to the 2018 Revolving Credit Facility, up to \$50.0 million in the case of the U.S. Revolving Credit Facility, and \$10.0 million in the case of the Canadian Revolving Credit Subfacility, may be short-term borrowings upon same-day notice. The 2018 Revolving Credit Facility is scheduled to mature on August 13, 2023.

The amount of available credit for each of the U.S. Revolving Credit Facility and the Canadian Revolving Credit Facility changes every month, depending on the amount of eligible trade accounts, eligible credit card receivables, eligible inventory, eligible qualifying equipment and eligible cash the U.S. and Canadian loan parties have available to serve as collateral. Generally, each of the U.S. Revolving Credit Facility and the Canadian Revolving Credit Subfacility is limited to the sum of (a) 85% of eligible trade accounts (as defined in the 2018 Revolving Credit Facility), plus (b) 90% of eligible credit card accounts (as defined in the 2018 Revolving Credit Facility), plus (c) the lesser of (i) 75% of the value of the eligible inventory (as defined in the 2018 Revolving Credit Facility) and (ii) 85% of the net orderly liquidation value of the eligible inventory, plus (d) the lesser of (i) 85% of the net orderly liquidation value of eligible qualifying equipment and (ii) the amount obtained by multiplying (A) the amount obtained by dividing (a) the amount set forth in clause (c) (i) above by (v) the net book value of all eligible qualifying equipment as of the most recent annual appraisal, by (B) the net book value of eligible qualifying equipment (subject to amounts contributed to the borrowing base pursuant to this clause (d) being capped at the lesser of \$50.0 million and 15% of the loan limit (as defined in the 2018 Revolving Credit Facility), plus (e) eligible cash (as defined in the 2018 Revolving Credit Facility), minus (f) any eligible reserves on the borrowing base (as defined in the 2018 Revolving Credit Facility). The FILO Facility is limited to the sum of (a) 5% of the book value of eligible trade accounts (as defined in the 2018 Revolving Credit Facility) of each U.S. loan party (subject to such percentage being automatically reduced by 0.278% on each FILO amortization date (as defined in the 2018 Revolving Credit Facility)), plus (b) 10% of the value of eligible inventory (as defined in the 2018 Revolving Credit Facility) of each U.S. loan party (subject to such percentage being automatically reduced by 0.356% on each FILO amortization date (as defined in the 2018 Revolving Credit Facility)), minus (c) eligible reserves on the U.S. borrowing base. Available credit for each tranche is calculated separately, and the borrowing base components are subject to customary reserves and eligibility criteria.

Borrowings under the 2018 Revolving Credit Facility bear interest, at the Company's option, at either an alternate base rate or Canadian prime rate, as applicable, plus an applicable margin (ranging from 0.25% to 0.75% pursuant to a grid based on average excess availability) or a London interbank offered rate ("LIBOR") or Canadian CDOR rate (as defined therein), as applicable, plus an applicable margin (ranging from 1.25% to 1.75% pursuant to a grid based on average excess availability). Loans under the FILO Facility within the 2018 Revolving Credit Facility bear interest at the same rate as the U.S. and Canadian tranches plus 50 basis points. In addition to paying interest on outstanding principal under the 2018 Revolving Credit Facility, the ABL Borrowers are required to pay a commitment fee in respect of the unutilized commitments under the 2018 Revolving Credit Facility ranging from 0.250% to 0.375% per annum and determined based on average utilization of the 2018 Revolving Credit Facility (increasing when utilization is low and decreasing when utilization is high).

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As long as commitments are outstanding under the 2018 Revolving Credit Facility, the Company is subject to certain restrictions under the facility if the Company's pro forma Adjusted EBITDA to debt ratio (the "Total Net Leverage Ratio") exceeds a certain total. The Total Net Leverage Ratio is defined as the ratio of Consolidated Total Debt to the aggregate amount of Consolidated EBITDA for the Relevant Reference Period (as such terms are defined in the 2018 Revolving Credit Facility). Consolidated Total Debt is defined in the 2018 Revolving Credit Facility and is generally calculated as an amount equal to the aggregate outstanding principal amount of all third-party debt for borrowed money, unrepaid drawings under letters of credit, capital lease obligations and third party debt obligations evidenced by notes or similar instruments on a consolidated basis and determined in accordance with GAAP, subject to certain exclusions. Consolidated EBITDA is defined in the 2018 Revolving Credit Facility and is calculated in a similar manner to the Company's calculation of Adjusted EBITDA, except that the 2018 Revolving Credit Facility permits pro forma adjustments in order to give effect to, among other things, the pro forma results of the Company's acquisitions as if the Company had owned such acquired companies for the entirety of the Relevant Reference Period. These pro forma adjustments give effect to all acquisitions consummated in the four quarters ended September 30, 2018 as though they had been consummated on the first day of the fourth quarter of 2017. The 2018 Revolving Credit Facility requires the Company to maintain a Total Net Leverage Ratio no greater than 6.00:1.00 to incur additional junior lien and unsecured indebtedness.

The description of the 2018 Revolving Credit Facility set forth above is qualified in its entirety by reference to the 2018 Revolving Credit Facility, a copy of which is filed as Exhibit 10.20 to the Company's Current Report on Form 8-K filed on August 17, 2018.

As of September 30, 2018, the Company had \$305.7 million of outstanding borrowings and \$94.3 million of available aggregate undrawn borrowing capacity under the 2018 Revolving Credit Facility. The weighted average interest rate for borrowings under the 2018 Revolving Credit Facility from August 13, 2018 to September 30, 2018 was 3.7%.

2016 ABL Credit Facility

On August 13, 2018, FBM Alpha LLC ("Alpha") terminated its revolving commitments under its \$300.0 million 2016 ABL credit facility.

The weighted average interest rate for borrowings under the 2016 ABL Credit Facility up to August 13, 2018 was 3.4%.

Upon termination of the ABL Credit Facility, the Company expensed \$0.7 million in deferred financing costs and carried over \$2.6 million of deferred financing costs to the 2018 Revolving Credit Facility.

Senior Secured Notes

On August 15, 2018, the Company, redeemed all of the \$575.0 million principal amount of the outstanding Notes at a redemption price equal to 104.125% of the principal amount of Notes being redeemed plus accrued and unpaid interest. The Notes were issued in a private placement on August 9, 2016, at an issue price of 100% of the principal with a stated interest rate of 8.25%.

Upon redemption of the Notes, the Company expensed \$57.8 million of deferred financing costs, original issuance discounts and prepayment premiums, which are included in the statement of operations in loss on extinguishment of debt.

8. Tax Receivable Agreement Liability

In connection with the IPO, the Company entered into a tax receivable agreement ("TRA") with Parent 2 that provides for the payment by the Company to Parent 2 of 90% of the amount of cash savings, if any, in U.S. federal, state, local and non-U.S. income tax that the Company realizes (or in some circumstances are deemed to realize) as a result of the utilization of the Company and the Company's subsidiaries' (i) depreciation and amortization deductions, and any offset to taxable income and gain or increase to taxable loss, resulting from the tax basis the Company has in its assets at the consummation of the IPO, (ii) net operating losses, (iii) tax credits and (iv) certain other tax attributes. During the three months ended March 31, 2017, the Company recorded a liability of \$203.8 million, with a corresponding offset to additional paid-in capital for the TRA. At the end of each reporting period, any changes in the Company's estimate of the liability are recorded in the consolidated statement of operations as a component of other income (expense). The timing and amount of future tax benefits associated with the TRA are subject to change, and future payments may be required which could be materially different from the current estimated liability. The TRA will remain in effect until all tax benefits have been used or expired, unless the agreement is terminated early.

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During the three months ended December 31, 2017, the Company recorded a gain in other income of \$68.0 million due to the federal income tax rate being reduced from 35.0% to 21.0% as part of the Tax Act. As of September 30, 2018, and December 31, 2017, the TRA liability balance was \$135.8 million. There have been no payments related to the TRA from inception to September 30, 2018. The first payment related to the TRA is anticipated to be made on or around December 31, 2018, is estimated to be \$15.9 million, and is reflected as a current liability as of September 30, 2018.

9. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists of cumulative unrealized foreign currency translation adjustments and unrealized changes in fair value of a derivative instrument. During the nine months ended September 30, 2018, \$0.2 million was reclassified to retained earnings as a result of income tax effects of the Tax Act, which reduced the corporate federal tax rate from 35.0% to 21.0%. During the nine months ended September 30, 2017, there were no reclassifications out of accumulated other comprehensive income (loss).

The components of accumulated other comprehensive income (loss) for the nine months ended September 30, 2018, were as follows (in thousands):

	Cumulative unrealized foreign currency translation gain (loss)	Unrealized (loss) gain on derivative, net of tax	Total
Balance at December 31, 2017	\$ 3,863	\$ (1,509)	\$ 2,354
Other comprehensive (loss) income	(2,724)	839	(1,885)
Balance at September 30, 2018	\$ 1,139	\$ (670)	\$ 469

10. Contingencies

The Company is involved in certain legal actions arising in the ordinary course of business. The Company regularly assesses such matters to determine the degree of probability that the Company will incur a material loss as a result of such matters as well as the range of possible loss. An estimated loss contingency is accrued in the Company's financial statements if it is probable the Company will incur a loss and the amount of the loss can be reasonably estimated. The Company reviews all claims, proceedings and investigations at least quarterly and establishes or adjusts any accruals for such matters to reflect the impact of negotiations, settlements, advice of legal counsel and other information and events pertaining to a particular matter. All legal costs associated with such matters are expensed as incurred. Because of uncertainties related to pending actions, the Company is currently unable to predict the ultimate outcome of such legal actions, and, with respect to any legal action where no liability has been accrued, to make a meaningful estimate of the reasonably possible loss or range of loss that could result from an adverse outcome.

Historically, the claims, proceedings and investigations brought against the Company, individually and in the aggregate, have not had a material adverse effect on the consolidated results of operations, cash flows or financial position of the Company. As of September 30, 2018, there were no claims, proceedings or litigation involving the Company that management believes would have a material adverse impact on its business, financial position, results of operations, or cash flows.

11. Fair Value Measurements

The Company's financial instruments consist primarily of cash and cash equivalents, trade and other receivables, derivative instruments, accounts payable, long-term debt and accrued liabilities. The carrying value of the Company's accounts receivable, trade payables and accrued liabilities approximates fair value due to their short-term maturity. The Company may adjust the carrying amount of certain non-financial assets to fair value on a non-recurring basis when they are impaired.

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The estimated carrying amount and fair value of the Company's financial instruments measured and recorded at fair value on a recurring basis at September 30, 2018 is as follows (in thousands):

	Fair Value Measurements as of September 30, 2018				Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Recurring:					
Non-current liabilities					
Derivative liability (Note 4)	\$	-	\$ (939)	\$	-
					(939)

The estimated carrying amount and fair value of the Company's financial instruments measured and recorded at fair value on a recurring basis at December 31, 2017 is as follows (in thousands):

	Fair Value Measurements as of December 31, 2017				Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Recurring:					
Non-current liabilities					
Derivative liability (Note 4)	\$	-	\$ (2,364)	\$	-
					(2,364)

The fair values of derivative assets and liabilities are determined using quantitative models that utilize multiple market inputs including interest rates and exchange rates to generate continuous yield or pricing curves and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality and other instrument-specific factors, where appropriate. In addition, the Company incorporates within its fair value measurements a valuation adjustment to reflect the credit risk associated with the net position. Positions are netted by counterparties, and fair value for net long exposures is adjusted for counterparty credit risk while the fair value for net short exposures is adjusted for the Company's own credit risk.

12. Income Taxes

For the three and nine months ended September 30, 2018, the Company's effective tax rates were 25.0% and 25.8%, respectively. The variance from the statutory federal tax rate of 21.0% for the three months ended September 30, 2018 was primarily due to state income taxes, non-deductible items and a foreign rate differential, partially offset by a reduction in valuation allowance treated as a discrete item during the quarter. The variance from the statutory federal rate of 21.0% for the nine months ended September 30, 2018 was primarily due to the same items impacting the three-month rate, partially offset by a refinement of the provisional estimate of the one-time repatriation tax under the Tax Act treated as a discrete item during the first quarter. For the three and nine months ended September 30, 2017, the Company's effective tax rates were 66.2% and 41.2%. The variance from the statutory federal tax rate of 35.0% for both periods was primarily due to state income taxes and non-deductible items.

On January 1, 2018, the Company adopted ASU 2018-02, *Income Statement-Reporting Comprehensive Income* (Topic 220): *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. As a result of income tax effects of the Tax Act, which reduced the corporate federal tax rate from 35.0% to 21.0%, the Company reclassified \$0.2 million from accumulated other comprehensive income to retained earnings related to its net investment hedge.

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On December 22, 2017, the United States government enacted the Tax Act resulting in significant modifications to existing law. The Company follows the guidance in Securities and Exchange Commission Staff Accounting Bulletin ("SAB") 118, which provides additional clarification regarding the application of ASC Topic 740 in situations where the Company does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Tax Act for the reporting period in which the Tax Act was enacted. SAB 118 provides for a measurement period beginning in the reporting period that includes the Tax Act's enactment date and ending when the Company has obtained, prepared, and analyzed the information needed in order to complete the accounting requirements but in no circumstance should the measurement period extend beyond one year from the enactment date.

As of September 30, 2018, the Company has completed the accounting for the effects of the Tax Act except for the repricing of ending deferred taxes due to the reduction in the corporate tax rate and the impact of the one-time deemed repatriation transition tax on unrepatriated foreign earnings. As a result, the Company's financial statements reflect these effects of the Tax Act as provisional based on a reasonable estimate of the income tax effects. As of December 31, 2017, the Company had included a provisional reduction in deferred tax liability and corresponding provisional reduction in tax provision expense of \$9.1 million in relation to the repricing of its ending deferred tax balance. The provisional amount was and is based on information currently available at that time, including estimated book to tax adjustments. As of September 30, 2018, the Company continues to gather and analyze information, including any future legislative tax developments at the federal or state jurisdictions, in order to complete the accounting for the repricing of the ending deferred balances.

The Company has also included a provisional income tax payable in the amount of \$0.2 million related to the one-time deemed repatriation transition tax on unrepatriated foreign earnings. The provisional amount is based on information currently available, including estimated tax earnings and profits and tax pools from foreign investments. In addition, the income tax payable has been calculated by electing out of the use of net operating losses in order to maximize the use of foreign tax credits. The Company has also estimated the state tax impact of the Tax Act. The Company continues to gather and analyze information, including historical adjustments to earnings and profits of foreign subsidiaries and the available elections, in order to complete the accounting for the effects of the estimated transition tax. Any future legislative tax developments at the federal or state jurisdictions will need to be examined for potential application. It is the intention of the Company to complete the necessary analysis within the measurement period.

The Company considers the earnings of non-U.S. subsidiaries to be indefinitely invested outside the United States based on estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and the Company's specific plans for reinvestment of those subsidiary earnings. As required by the Tax Act, as of September 30, 2018 and December 31, 2017, the Company has recorded a provisional tax liability related to the U.S. federal income taxes of approximately \$8.2 million and \$10.2 million, respectively, of undistributed earnings of foreign subsidiaries indefinitely invested outside the United States. However, the Company has not recorded a deferred tax liability for state and foreign withholding taxes associated with the repatriation of those foreign earnings. If the Company decides to repatriate the foreign earnings, it would need to adjust its income tax provision in the period it determined that the earnings will no longer be indefinitely invested outside the United States. The Company has no present intention to repatriate any of its foreign earnings.

13. Segments

Segment information is presented in accordance with ASC 280, *Segment Reporting*, which establishes standards for reporting information about operating segments. It also establishes standards for related disclosures about customers, products and geographic areas. Operating segments are defined as components of an enterprise that engage in business activities that earn revenues, incur expenses and prepare separate financial information that is evaluated regularly by the Company's Chief Operating Decision Maker ("CODM") in order to allocate resources and assess performance. Resources are allocated and performance is assessed by the CODM.

Based on the provisions of ASC 280, the Company has defined its operating segments by considering management structure and product offerings. This evaluation resulted in one reportable segment.

As discussed in Note 3, Discontinued Operations, the Company entered into a definitive agreement to sell the Disposed Business, which was previously reported as the Mechanical Insulation segment. The previously reported amounts for the mechanical insulation segment have been reclassified to discontinued operations for all periods presented. The Company's continuing operations now consist of what was previously reported as the Specialty Building Products segment for all periods presented.

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Revenues are attributed to each country based on the location in which sales originate and in which assets are located. The following table provides information about the Company by geographic areas (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
United States	\$ 487,934	\$ 411,576	\$ 1,354,062	\$ 1,186,249
Canada	54,339	56,315	174,091	160,192
Total	\$ 542,273	\$ 467,891	\$ 1,528,153	\$ 1,346,441

The following table sets forth property, plant and equipment, goodwill and intangibles by geographic area (in thousands):

	September 30, 2018	December 31, 2017
Property, plant and equipment, net		
United States	\$ 138,684	\$ 128,895
Canada	14,702	15,629
Total property, plant and equipment, net	\$ 153,386	\$ 144,524
Goodwill		
United States	\$ 455,376	\$ 425,931
Canada	25,884	26,797
Total goodwill	\$ 481,260	\$ 452,728
Intangibles, net		
United States	\$ 139,948	\$ 157,442
Canada	5,431	7,694
Total intangibles, net	\$ 145,379	\$ 165,136

The Company's net sales by major product line, gross profit and gross margin, are as follows:

	Three Months Ended September 30,		Change	
	2018	2017	\$	%
(dollars in thousands)				
Wallboard ⁽¹⁾	\$ 203,991	\$ 179,362	\$ 24,629	13.7%
Suspended ceiling systems	104,422	91,953	12,469	13.6%
Metal framing	98,576	71,420	27,156	38.0%
Complementary and other products	135,284	125,176	10,108	8.1%
Total net sales	\$ 542,273	\$ 467,891	\$ 74,382	15.9%
Total gross profit	\$ 154,037	\$ 135,883	\$ 18,154	13.4%
Total gross margin	28.4%	29.0%	(0.6)%	

⁽¹⁾ For the three months ended September 30, 2017, wallboard accessories have been reclassified from "Wallboard" to "Complementary and other products" to conform to the current year presentation.

	Nine Months Ended September 30,		Change	
	2018	2017	\$	%
(dollars in thousands)				
Wallboard ⁽¹⁾	\$ 583,242	\$ 528,556	\$ 54,686	10.3%
Suspended ceiling systems	288,356	247,921	40,435	16.3%
Metal framing	284,019	212,486	71,533	34.3%
Complementary and other products	392,536	357,478	35,058	9.8%
Total net sales	\$ 1,528,153	\$ 1,346,441	\$ 181,712	13.5%
Total gross profit	\$ 434,741	\$ 389,037	\$ 45,704	11.7%
Total gross margin	28.4%	28.9%	(0.5)%	

⁽¹⁾ For the nine months ended September 30, 2017, wallboard accessories have been reclassified from "Wallboard" to "Complementary and other products" to conform to the current year presentation.

14. Other Current Liabilities

The balance of other current liabilities consisted of the following as of September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Accrued expenses	\$ 5,452	\$ 6,919
Accrued interest	1,347	18,093
Accrued other	15,696	12,258
Total other current liabilities	<u>\$ 22,995</u>	<u>\$ 37,270</u>

15. (Loss) Earnings Per Share

Basic (loss) earnings per share represents net (loss) income for the period, divided by the weighted average number of shares of common stock outstanding for the period.

The following are the number of shares of common stock used to compute the basic and diluted earnings per share for each period:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Weighted average shares used in basic computations	42,894,474	42,865,407	42,889,430	41,021,808
Dilutive effect of stock options and restricted stock units	22,756	4,984	15,843	2,127
Weighted average shares used in diluted computations	<u>42,917,230</u>	<u>42,870,391</u>	<u>42,905,273</u>	<u>41,023,935</u>

For the three and nine months ended September 30, 2018, there were approximately 66,619 and 135,780 shares, respectively, not included in the computation of diluted weighted average shares because their effect would have been antidilutive. For the three and nine months ended September 30, 2017, there were approximately 9,232 and 110,165 shares, respectively, not included in the computation of diluted weighted average shares because their effect would have been antidilutive.

16. Subsequent Events

On October 1, 2018, the Company acquired the operations and substantially all of the assets of Agan Drywall Supply, Inc., Agan Drywall Supply Rapid City Inc., and Agan Tri-State Drywall Supply, Inc. (collectively "Agan"). Agan was a distributor of building materials with product offerings including wallboard, metal framing, insulation and complementary products, which operated three branches in South Dakota and Iowa.

On November 1, 2018, the Company completed the sale of the Disposed Business, which is presented as discontinued operations for all periods as discussed in Note 3, Discontinued Operations. The Company received \$122.5 million in cash and expects to record a gain during the fourth quarter of 2018. The net proceeds from the transaction will be used to pay down the 2018 Revolving Credit Facility.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion and analysis of our financial condition and results of operations as of and for the periods presented below. The following discussion and analysis should be read in conjunction with the "Consolidated Financial Statements" and notes thereto included elsewhere in this Quarterly Report on Form 10-Q. This section and other parts of this Quarterly Report on Form 10-Q contain forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from the results expressed or implied by the forward-looking statement. In some cases, forward-looking statements can be identified by words such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would" or similar expressions. Such forward-looking statements are based on current expectations, estimates and projections about our industry, and our management's beliefs and assumptions. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission, or the SEC, on February 27, 2018, or the 2017 10-K, as updated by our subsequent filings with the SEC.

Unless required by law, we expressly undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

We are the second largest specialty distributor of wallboard and suspended ceiling systems in the United States and Canada. Since our founding in 2011, we have completed more than 30 acquisitions. We have over 170 branches, 3,400 employees and 35,000 SKUs.

We have a national operating model supported by local market expertise and an entrepreneurial, customer centric culture. Our strong national brand and acquisition expertise have established us as the distributor of choice for leading suppliers, and we have over 24,000 customers across a balanced mix of construction-related end markets. We believe that we are able to maintain our local market excellence due to our longstanding customer relationships, dependable service and market-specific product offerings that cater to local market trends and preferences.

Sale of Mechanical Insulation Business

We have entered into a definitive agreement to sell the Disposed Business, which was previously reported as the mechanical insulation segment. The previously reported amounts for the mechanical insulation segment have been reclassified to discontinued operations for all periods presented. The Company's continuing operations now consist of what was previously reported as the Specialty Building Products segment for all periods presented. See Note 3, Discontinued Operations, to the condensed consolidated financial statements.

Third Quarter Update

Financial Results

We reported net sales of \$542.3 million for the three months ended September 30, 2018, an increase of \$74.4 million, or 15.9%, compared to the three months ended September 30, 2017, including base business net sales growth of 12.5%. Our gross margin for the three months ended September 30, 2018, was 28.4% compared to 29.0% for the three months ended September 30, 2017, which reflected higher product costs and a change in product mix with a higher contribution from lower gross margin products such as metal framing on a percentage of net sales basis. Selling, general and administrative, or SG&A, expenses as a percentage of net sales was 20.9% for the three months ended September 30, 2018, as compared to 21.9% for the three months ended September 30, 2017. The decrease in SG&A expenses as a percentage of net sales was due to our continued focus on operating efficiencies, cost reduction initiatives and leveraging costs with the increase in net sales. In August 2018, we completed the refinancing of our debt, which resulted in a loss of \$58.5 million consisting primarily of expensing deferred financing costs, original issuance discounts and a prepayment premium related to the extinguished debt. We reported net loss of \$37.6 million and Adjusted EBITDA⁽¹⁾ of \$43.7 million for the three months ended September 30, 2018.

⁽¹⁾ Adjusted EBITDA is a non-GAAP measure. See the Non-GAAP Financial Information at the end of the Management's Discussion and Analysis of Financial Condition and Results of Operations section for a discussion of how we define and calculate this measure, why we believe it is important and a reconciliation thereof to the most directly comparable GAAP measure.

Acquisitions

We supplement our organic growth strategy with selective acquisitions, and since January 2018 through the date of this filing, we have completed four acquisitions totaling 16 branches. See Note 5, Acquisitions, and Note 16, Subsequent Events, to the condensed consolidated financial statements. We believe that significant opportunities exist to continue to expand our geographic footprint and product offerings by executing additional strategic acquisitions, and we maintain an extensive and active acquisition pipeline. We are typically evaluating several acquisition opportunities at any given time. In executing our acquisition strategy and integrating acquired companies, we focus on the cost savings we can achieve through combined procurement and pricing programs and brand consolidation. The three acquisitions completed from January 1, 2018 to September 30, 2018, contributed \$18.5 million to net sales for the three months ended September 30, 2018, and \$31.1 million for the nine months ended September 30, 2018.

Acquisitions	Effective Date of Acquisition	Branch Locations	# of Branches Acquired
Agan	October 1, 2018	SD, IA	3
Ciesco	August 1, 2018	PA, VA	6
AmfCom	February 1, 2018	MN, ND, SD, NE	5
RM Supply	February 1, 2018	MO	2
Total			16

Factors and Trends Affecting Our Business and Results of Operations

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2017 10-K for a discussion of the general and specific factors and trends affecting our business and results of operations, which include general economic conditions, new non-residential construction, new residential construction, non-residential repair and remodel construction, volume, costs and pricing programs. There have been no material changes to those factors and trends during the nine months ended September 30, 2018.

Initial Public Offering

On February 15, 2017, we completed our IPO, in which we issued 12,800,000 shares of our common stock at a public offering price of \$14.00 per share. Our common stock began trading on the New York Stock Exchange on February 10, 2017 under the ticker symbol "FBM." After underwriting discounts and commissions and expenses payable by us, net proceeds from the IPO were approximately \$164.0 million. We used these proceeds to repay borrowings outstanding under our 2016 ABL Credit Facility.

Results of Continuing Operations

Three Months Ended September 30, 2018 Compared to the Three Months Ended September 30, 2017

The following table summarizes certain consolidated financial information related to our operating results for the periods indicated:

(dollars in thousands)	Three Months Ended September 30,			
	2018		2017	
Statements of operations data				
Net sales	\$ 542,273	100%	\$ 467,891	100%
Cost of goods sold	388,236	71.6%	332,008	71.0%
Gross profit	154,037	28.4%	135,883	29.0%
Operating expenses:				
Selling, general and administrative	113,279	20.9%	102,259	21.9%
Depreciation and amortization	19,771	3.7%	18,234	3.9%
Total operating expenses	133,050	24.5%	120,493	25.8%
Income from operations	20,987	3.9%	15,390	3.3%
Loss on extinguishment of debt	(58,475)	(10.8)%	-	-
Interest expense	(12,576)	(2.3)%	(15,054)	(3.2)%
Other (expense) income, net	(8)	(0.0)%	25	0.0%
(Loss) income before income taxes	(60,072)	(11.1)%	361	0.1%
Income tax (benefit) expense	(12,519)	(2.3)%	239	0.1%
(Loss) income from continuing operations	(72,591)	(13.4)%	122	0.0%
Income from discontinued operations, net of tax	2,772	0.5%	1,077	0.2%
Net (loss) income	\$ (69,819)	(12.9)%	\$ 1,199	0.3%

The Company's net sales by major product line, profit and gross margin, are as follows:

(dollars in thousands)	Three Months Ended September 30,				Change	
	2018		2017		\$	%
Wallboard (1)	\$ 203,991	37.6%	\$ 179,362	38.3%	\$ 24,629	13.7%
Suspended ceiling systems	104,422	19.3%	91,953	19.6%	12,469	13.6%
Metal framing	98,576	18.2%	71,420	15.3%	27,156	38.0%
Complementary and other products	135,284	24.9%	125,176	26.8%	10,108	8.1%
Total net sales	\$ 542,273	100.0%	\$ 467,891	100.0%	\$ 74,382	15.9%
Total gross profit	\$ 154,037	28.4%	\$ 135,883	29.0%	\$ 18,154	13.4%

(1) For the three months ended September 30, 2017, wallboard accessories have been reclassified from "Wallboard" to "Complementary and other products" to conform to the current year presentation.

Net Sales

Net sales for the three months ended September 30, 2018, were \$542.3 million compared to \$467.9 million for the three months ended September 30, 2017, representing an increase of \$74.4 million, or 15.9%. Net sales from base business branches, as defined in the table below, contributed \$52.3 million, or 12.5%, of the increase which was driven by strong commercial activity, price increases and product expansion into new geographic markets. Net sales from acquired branches and existing branches that were strategically combined contributed \$22.1 million of the increase.

The change in our base business net sales was primarily driven by the following factors:

- an increase in wallboard sales of \$13.8 million, or 8.5%, primarily due to an increase in wallboard unit volume of 6.4% and an increase in average selling price of 2.1%;
- an increase in suspended ceiling systems net sales of \$7.2 million, or 8.7%, primarily due to continued strong commercial activity and price increases;

- an increase in metal framing net sales of \$21.9 million, or 33.8%, primarily due to an increase in commercial construction activity and price increases; and
- an increase in complementary and other product net sales of \$9.4 million, or 8.5%, primarily due to our continued initiatives to increase complementary product sales.

The table below highlights net sales from our base business and acquired and combined branches:

	Three Months Ended September 30,		Change	
	2018	2017	\$	%
(dollars in thousands)				
Base business ⁽¹⁾	\$ 472,116	\$ 419,823	\$ 52,293	12.5%
Acquired and combined ⁽²⁾	70,157	48,968	22,089	46.0%
Net sales	\$ 542,273	\$ 467,891	\$ 74,382	15.9%

- ⁽¹⁾ Represents net sales from branches that were owned by us since January 1, 2017 and branches that were opened by us during such period.
⁽²⁾ Represents branches acquired and existing branches combined with acquired branches after January 1, 2017.

The table below highlights our changes in base business net sales and net sales from branches acquired and strategically combined by major product line:

	Three Months Ended	Base Business	Acquired and	Three Months	Total Net	Base Business	Acquired and
	September 30, 2017	Net Sales Change	Combined Net Sales Change	Ended September 30, 2018	Sales % Change	Net Sales % Change ⁽¹⁾	Combined Net Sales % Change ⁽²⁾
(dollars in thousands)							
Wallboard ⁽³⁾	\$ 179,362	\$ 13,766	\$ 10,863	\$ 203,991	13.7%	8.5%	61.3%
Suspended ceiling systems	91,933	7,168	5,321	104,422	13.6%	8.7%	55.1%
Metal framing	71,420	21,938	5,218	98,576	38.0%	33.8%	79.6%
Complementary and other products	125,176	9,421	687	135,284	8.1%	8.5%	4.9%
Total net sales	\$ 467,891	\$ 52,293	\$ 22,089	\$ 542,273	15.9%	12.5%	46.0%
Average daily net sales	\$ 7,547	\$ 830	\$ 351	\$ 8,608	14.1%	12.3%	45.2%

- ⁽¹⁾ Represents base business net sales increase as a percentage of base business net sales for the three months ended September 30, 2017.
⁽²⁾ Represents acquired and combined net sales increase as a percentage of acquired and combined net sales for the three months ended September 30, 2017.
⁽³⁾ For the three months ended September 30, 2017, wallboard accessories have been reclassified from "Wallboard" to "Complementary and other products" to conform to the current year presentation.

Gross Profit and Gross Margin

Gross profit for the three months ended September 30, 2018, was \$154.0 million compared to \$135.9 million for the three months ended September 30, 2017, representing an increase of \$18.2 million, or 13.4%. The increase in gross profit was primarily due to the increase in net sales.

Gross margin for the three months ended September 30, 2018, was 28.4% compared to 29.0% for the three months ended September 30, 2017. The decrease in gross margin was primarily due to higher product costs.

Selling, General & Administrative

SG&A expenses consist of warehouse, delivery and general and administrative expenses. SG&A expenses for the three months ended September 30, 2018, were \$113.3 million compared to \$102.3 million for the three months ended September 30, 2017, representing an increase of \$11.0 million, or 10.8%. As a percentage of net sales, SG&A expenses were 20.9% for the three months ended September 30, 2018, compared to 21.9% for the three months ended September 30, 2017. Excluding non-recurring adjustments of \$3.0 million and \$2.5 million for the three months ended September 30, 2018 and 2017, respectively, SG&A expenses as a percentage of net sales for the three months ended September 30, 2018, were 20.3% compared to 21.3% for the three months ended September 30, 2017. The decrease in SG&A expenses as a percentage of net sales was due to our continued focus on operating efficiencies, cost reduction initiatives and leveraging costs with the increase in net sales.

Depreciation and Amortization

Depreciation and amortization for the three months ended September 30, 2018, was \$19.8 million compared to \$18.2 million for the three months ended September 30, 2017, representing an increase of \$1.5 million, or 8.4%. The increase in depreciation and amortization was primarily due to acquisitions subsequent to September 30, 2017, which increased the value of property and equipment and intangible assets subject to depreciation and amortization.

Interest Expense

Interest expense for the three months ended September 30, 2018, was \$12.6 million compared to \$15.1 million for the three months ended September 30, 2017, representing a decrease of \$2.5 million, or 16.5%. The decrease is primarily due to the refinancing of our indebtedness in August 2018, which resulted in lower interest rates on outstanding debt.

Loss on Extinguishment of Debt

In August 2018, we completed the refinancing of our \$575.0 million Notes to reduce our interest rate. The refinancing resulted in a loss of \$58.5 million consisting primarily of deferred financing costs and original issuance discounts, which were written off, and a prepayment premium.

Income Taxes

Income tax benefit for the three months ended September 30, 2018 was \$12.5 million compared to income tax expense of \$0.2 million for the three months ended September 30, 2017. The effective tax rate for the three months ended September 30, 2018 was 25.0% compared to 66.2% for the three months ended September 30, 2017. The difference in the effective tax rates between periods is due primarily to a decrease in the federal statutory rate in 2018 and a higher percentage of non-deductible expenses relative to pre-tax income in 2017.

Net Loss From Continuing Operations

The increase in net loss from continuing operations was primarily due to the loss on extinguishment of debt of \$58.5 million.

Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

The following table summarizes certain consolidated financial information related to our operating results for the periods indicated:

	Nine Months Ended September 30,				
	2018		2017		
(dollars in thousands)					
Statements of operations data					
Net sales	\$	1,528,153	100%	\$ 1,346,441	100%
Cost of goods sold		1,093,412	71.6%	957,404	71.1%
Gross profit		434,741	28.4%	389,037	28.9%
Operating expenses:					
Selling, general and administrative		328,088	21.5%	299,298	22.2%
Depreciation and amortization		56,922	3.7%	52,662	3.9%
Total operating expenses		385,010	25.2%	351,960	26.1%
Income from operations		49,731	3.3%	37,077	2.8%
Loss on extinguishment of debt		(58,475)	(3.8)%	-	-
Interest expense		(43,028)	(2.8)%	(45,147)	(3.4)%
Other income, net		126	0.0%	13,424	1.0%
(Loss) income before income taxes		(51,646)	(3.3)%	5,354	0.4%
Income tax (benefit) expense		(13,299)	(0.9)%	2,205	0.2%
(Loss) income from continuing operations		(38,347)	(2.5)%	3,149	0.2%
Income from discontinued operations, net of tax		7,913	0.5%	3,439	0.3%
Net (loss) income	\$	(30,434)	(2.0)%	\$ 6,588	0.5%

The Company's net sales by major product line, gross profit and gross margin, are as follows:

	Nine Months Ended September 30,		Change	
	2018	2017	\$	%
(dollars in thousands)				
Wallboard ⁽¹⁾	\$ 583,242	\$ 528,556	\$ 54,686	10.3%
Suspended ceiling systems	288,356	247,921	40,435	16.3%
Metal framing	264,019	212,886	51,133	24.0%
Complementary and other products	392,536	357,478	35,058	9.8%
Total net sales	\$ 1,528,153	\$ 1,346,841	\$ 181,312	13.5%
Total gross profit	\$ 434,741	\$ 389,037	\$ 45,704	11.7%
Total gross margin	28.4%	28.9%	(0.5)%	

(1) For the nine months ended September 30, 2017, wallboard accessories have been reclassified from "Wallboard" to "Complementary and other products" to conform to the current year presentation.

Net Sales

Net sales for the nine months ended September 30, 2018, were \$1,528.2 million compared to \$1,346.4 million for the nine months ended September 30, 2017, representing an increase of \$181.7 million, or 13.5%. Net sales from base business branches contributed \$95.1 million, or 7.6%, of the increase which was driven by strong commercial activity, price increases and product expansion into new geographic markets. Net sales from acquired branches and existing branches that were strategically combined contributed \$86.6 million of the increase.

The change in our base business net sales was primarily driven by the following factors:

- an increase in wallboard net sales of \$18.8 million, or 3.8%, primarily due to an increase in average selling price of 2.4% and an increase in wallboard unit volume of 1.4%;
- an increase in suspended ceiling systems net sales of \$20.3 million, or 8.8%, primarily due to continued strong commercial activity and price increases;
- an increase in metal framing net sales of \$38.7 million, or 19.4%, primarily due to an increase in commercial construction activity and price increases; and
- an increase in complementary and other product net sales of \$17.3 million, or 5.3%, primarily due to our continued initiatives to increase complementary product sales.

The table below highlights net sales from our base business and acquired and combined branches:

	Nine Months Ended September 30,		Change	
	2018	2017	\$	%
(dollars in thousands)				
Base business ⁽¹⁾	\$ 1,339,918	\$ 1,244,778	\$ 95,140	7.6%
Acquired and combined ⁽²⁾	188,235	101,663	86,572	85.2%
Net sales	\$ 1,528,153	\$ 1,346,441	\$ 181,712	13.5%

(1) Represents net sales from branches that were owned by us since January 1, 2017 and branches that were opened by us during such period.

(2) Represents branches acquired and existing branches combined with acquired branches after January 1, 2017.

The table below highlights our changes in base business net sales and net sales from branches acquired and strategically combined by major product line:

	Nine Months Ended September 30, 2017	Base Business Net Sales Change	Acquired and Combined Net Sales Change	Nine Months Ended September 30, 2018	Total Net Sales % Change	Base Business Net Sales % Change ⁽¹⁾	Acquired and Combined Net Sales % Change ⁽²⁾
(dollars in thousands)							
Wallboard ⁽³⁾	\$ 578,556	\$ 18,836	\$ 35,850	\$ 583,242	10.3%	3.8%	94.4%
Suspended ceiling systems	247,021	20,276	20,159	288,356	16.3%	8.8%	113.1%
Metal framing	212,486	38,750	12,783	264,019	24.3%	19.4%	96.7%
Complementary and other products	357,478	17,277	17,781	392,536	9.8%	5.3%	54.5%
Total net sales	\$ 1,346,441	\$ 95,139	\$ 86,573	\$ 1,528,153	13.5%	7.6%	85.2%
Average daily net sales	\$ 7,087	\$ 498	\$ 453	\$ 8,001	12.9%	7.6%	84.7%

⁽¹⁾ Represents base business net sales increase as a percentage of base business net sales for the nine months ended September 30, 2017.

⁽²⁾ Represents acquired and combined net sales increase as a percentage of acquired and combined net sales for the nine months ended September 30, 2017.

⁽³⁾ For the nine months ended September 30, 2017, wallboard accessories have been reclassified from "Wallboard" to "Complementary and other products" to conform to the current year presentation.

Gross Profit and Gross Margin

Gross profit for the nine months ended September 30, 2018, was \$434.7 million compared to \$389.0 million for the nine months ended September 30, 2017, representing an increase of \$45.7 million, or 11.7%. The increase in gross profit was primarily due to the increase in net sales.

Gross margin for the nine months ended September 30, 2018, was 28.4% compared to 28.9% for the nine months ended September 30, 2017. The decrease in gross margin was primarily due to higher product costs.

Selling, General & Administrative

SG&A expenses for the nine months ended September 30, 2018, were \$328.1 million compared to \$299.3 million for the nine months ended September 30, 2017, representing an increase of \$28.8 million, or 9.6%. As a percentage of net sales, SG&A expenses were 21.5% for the nine months ended September 30, 2018 compared to 22.2% for the nine months ended September 30, 2017. Excluding non-recurring adjustments of \$6.9 million and \$11.1 million, respectively, SG&A expenses as a percentage of net sales for the nine months ended September 30, 2018 were 21.0% compared to 21.4% for the nine months ended September 30, 2017. The decrease in SG&A expenses as a percentage of net sales was due to our continued focus on operating efficiencies, cost reduction initiatives, and leveraging costs with the increase in net sales.

Depreciation and Amortization

Depreciation and amortization for the nine months ended September 30, 2018, was \$57.0 million compared to \$52.7 million for the nine months ended September 30, 2017, representing an increase of \$4.3 million, or 8.1%. The increase in depreciation and amortization was primarily due to acquisitions subsequent to September 30, 2017, which increased the value of property and equipment and intangible assets subject to depreciation and amortization.

Interest Expense

Interest expense for the nine months ended September 30, 2018, was \$43.0 million compared to \$45.1 million for the nine months ended September 30, 2017, representing a decrease of \$2.1 million, or 4.7%. The decrease is primarily due to the refinancing of our indebtedness in August 2018, resulting in lower interest rates on outstanding debt.

Loss on Extinguishment of Debt

In August 2018, we completed the refinancing of our Notes to reduce our interest rate. The refinancing resulted in a loss of \$58.5 million consisting primarily of deferred financing costs and original issuance discounts, which were written off and a prepayment premium.

Other Income, Net

Other income, net was \$0.1 million for the nine months ended September 30, 2018, compared to \$13.4 million for the nine months ended September 30, 2017, representing a decrease of \$13.3 million, or 99.1%. In the 2017 period, there was a \$13.2 million change in the fair value of the embedded derivative related to our Notes. There was no change in the fair value of the embedded derivative in the 2018 period. See Note 4, Derivatives and Hedging Activities, to the condensed consolidated financial statements.

Income Taxes

Income tax benefit for the nine months ended September 30, 2018 was \$13.3 million compared to income tax expense of \$2.2 million for the nine months ended September 30, 2017. The effective tax rate for the nine months ended September 30, 2018 was 25.8% compared to 41.2% for the nine months ended September 30, 2017. The difference in the effective tax rates between periods is due primarily to a decrease in the federal statutory rate in 2018 and a higher percentage of non-deductible expenses relative to pre-tax income in 2017.

Net Loss From Continuing Operations

The decrease in net income from continuing operations was primarily due to the loss on extinguishment of debt of \$58.5 million.

Liquidity and Capital Resources

Summary

We depend on cash flow from operations, cash on hand and funds available under our 2018 Revolving Credit Facility, and in the future we may depend on other debt financings allowed under the terms of the 2018 Term Loan Facility and the 2018 Revolving Credit Facility, and equity financings to finance our acquisition strategy, working capital need and capital expenditures, which generally range between 1.0% and 1.5% of net sales. We believe that these sources of funds will be adequate to fund debt service requirements and provide cash, as required, to support our strategy, ongoing operations, capital expenditures, lease obligations and working capital for at least the next twelve months. However, we cannot ensure that we will be able to obtain future debt or equity financings adequate for our future cash requirements on commercially reasonable terms or at all. The TRA may also have a negative impact on our liquidity if, among other things, payments we make under the TRA exceed the actual cash savings we and our subsidiaries realize in respect of the tax benefits covered by the TRA after we have paid our taxes and other obligations. In addition, as a result of either an early termination of the TRA or a change of control, we could be required to make payments under the TRA that exceed our actual cash savings under the TRA. In these situations, our obligations under the TRA could have a substantial, negative impact on our liquidity and could have the effect of delaying, deferring or preventing, among other things, capital expenditures and acquisitions.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay additional acquisitions, future investments and capital expenditures, seek additional capital, restructure or refinance our indebtedness, or sell assets. Significant delays in our ability to finance planned acquisitions or capital expenditures may materially and adversely affect our future sales prospects. In addition, we cannot assure you that we will be able to refinance any of our indebtedness, including the 2018 Revolving Credit Facility and 2018 Term Loan Facility, on commercially reasonable terms or at all. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Our TRA requires that after Lone Star Fund IX (U.S.) L.P., or Lone Star, no longer controls us, any senior debt document that refinances or replaces our existing indebtedness permits our subsidiaries to make dividends to us, without any conditions, to the extent required for us to make payments under the TRA, unless Lone Star otherwise consents. At the time of any such refinancing, it may not be possible to include this term in such senior debt documents, and as a result, we may need Lone Star's consent to complete such refinancing. The 2018 Revolving Credit Facility and 2018 Term Loan Facility restrict our ability to enter into certain asset sales transactions. We may not be able to consummate those asset sales to raise capital or sell assets at prices that we believe are fair, and proceeds that we do receive may not be adequate to meet any debt service obligations then due.

As of September 30, 2018, we had \$305.7 million of outstanding borrowings and \$94.3 million of available aggregate undrawn borrowing capacity under the 2018 Revolving Credit Facility. Total liquidity was \$104.9 million inclusive of \$10.6 million in cash and cash equivalents as of September 30, 2018.

As long as commitments are outstanding under the 2018 Revolving Credit Facility, the Company is subject to certain restrictions under the facility if the Company's pro forma Adjusted EBITDA to debt ratio (the "Total Net Leverage Ratio") exceeds a certain total. The Total Net Leverage Ratio is defined as the ratio of Consolidated Total Debt to the aggregate amount of Consolidated EBITDA for the Relevant Reference Period (as such terms are defined in the 2018 Revolving Credit Facility). Consolidated Total Debt is defined in the 2018 Revolving Credit Facility and is generally calculated as an amount equal to the aggregate outstanding principal amount of all third-party debt for borrowed money, unreimbursed drawings under letters of credit, capital lease obligations and third-party debt obligations evidenced by notes or similar instruments on a consolidated basis and determined in accordance with GAAP, subject to certain exclusions. Consolidated EBITDA is calculated in a similar manner to our calculation of Adjusted EBITDA, except that the 2018 Revolving Credit Facility permits pro forma adjustments in order to give effect to, among other things, the pro forma results of our acquisitions as if we owned such acquired companies for the entirety of the Relevant Reference Period. The 2018 Revolving Credit Facility requires the Company to maintain a Total Net Leverage Ratio no greater than 6.00:1.00 to incur additional junior lien and unsecured indebtedness.

The description of the 2018 Revolving Credit Facility set forth above is qualified in its entirety by reference to the 2018 Revolving Credit Facility, a copy of which is filed as Exhibit 10.20 to our Current Report on Form 8-K filed on August 17, 2018.

As of September 30, 2018, the Company was in compliance with all covenant restrictions under the 2018 Term Loan Facility and 2018 Revolving Credit Facility. The following tables present the Total Net Leverage Ratio as of September 30, 2018:

	Four Quarters Ended September 30, 2018	
Pro Forma Adjusted EBITDA ^(a) (in thousands)	\$	174,734
Consolidated Total Debt ^(c) (in thousands)	\$	767,173
Total Net Leverage Ratio		4.39x

⁽¹⁾ Pro Forma Adjusted EBITDA is used herein instead of "Consolidated EBITDA" to avoid confusion but is calculated in the same manner as Consolidated EBITDA under the 2018 Revolving Credit Facility. The following table presents a reconciliation of Adjusted EBITDA to Pro Forma Adjusted EBITDA for the four quarters ended September 30, 2018:

	Four Quarters Ended September 30, 2018	
(in thousands)		
Adjusted EBITDA ^(a)	\$	167,698
Pro forma adjustments ^(b)		7,036
Pro Forma Adjusted EBITDA	\$	174,734

^(a) See this section for the definition of Adjusted EBITDA and the section titled "Non-GAAP Financial Information" for a reconciliation of net (loss) income to Adjusted EBITDA.

^(b) The pro forma adjustments give effect to all acquisitions consummated in the four quarters ended September 30, 2018 as though they had been consummated on the first day of the fourth quarter of fiscal year 2017. Other adjustments are also made to conform to the terms of the 2018 Revolving Credit Facility.

^(c) The reconciliation of total debt on the balance sheet to Consolidated Total Debt is as follows:

	As of September 30, 2018	
(in thousands)		
Total gross debt	\$	755,704
Capital leases		11,469
Consolidated Total Debt	\$	767,173

Cash Flows

A summary of net cash provided by, or (used in), operating, investing and financing activities is shown in the following table:

	Nine Months Ended September 30,			
	2018		2017	
(in thousands)				
Net cash (used in) provided by operating activities of continuing operations	\$	(873)	\$	25,256
Net cash used in investing activities of continuing operations	\$	(96,771)	\$	(84,868)
Net cash provided by financing activities of continuing operations	\$	99,372	\$	35,935

Operating Activities

Net cash used in operating activities increased by \$26.1 million to \$0.9 million in the nine months ended September 30, 2018, as compared to \$25.2 million provided by operating activities for the same period in 2017. The increase was primarily due to higher working capital requirements of \$45.8 million as our business continues to grow.

Investing Activities

Net cash used in investing activities increased by \$11.9 million to \$96.8 million in the nine months ended September 30, 2018, as compared to \$84.9 million in the same period in 2017. The increase was primarily due to lower net working capital adjustments related to acquisitions of \$8.1 million, higher capital expenditures of \$2.9 million to support the growth in our business and a higher aggregate purchase price of acquisitions of \$2.1 million.

Financing Activities

Net cash provided by financing activities increased by \$63.4 million to \$99.4 million in the nine months ended September 30, 2018, as compared to \$35.9 million in the same period in 2017. For the nine months ended September 30, 2018, net borrowings were \$125.4 million, which were used to fund business operations and \$23.9 million for a prepayment premium and fees related to extinguishing our Notes. For the nine months ended September 30, 2017, IPO proceeds and capital contributions of \$166.9 million were used to repay borrowings outstanding under the 2016 ABL Credit Facility.

Tax Receivable Agreement

At September 30, 2018 and December 31, 2017, the TRA liability balance was \$135.8 million. There have been no payments related to the TRA from inception to September 30, 2018. The first payment is anticipated to be made on or around December 31, 2018, is estimated to be \$15.9 million, and is reflected in current liabilities. Payments related to the TRA are expected to be funded through one, or a combination of the following: existing cash balances, cash flow from operations, or availability under the 2018 Revolving Credit Facility. The discounted present value of the TRA at September 30, 2018, was estimated to be between \$85.0 million and \$95.0 million. There were no material changes during the nine months ended September 30, 2018, to the estimates of annual payments related to the TRA set forth in the Contractual Obligations Table in the 2017 10-K.

Critical Accounting Policies

Our management's discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States, or GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period.

On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, allowance for doubtful accounts, inventories, taxes, and goodwill. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions.

There have been no material changes made to the critical accounting estimates during the periods presented in the consolidated financial statements from those disclosed in the 2017 10-K except for the following:

The Company adopted Accounting Standard Codification 606, Revenue from Contracts with Customers, which became effective on January 1, 2018. For further discussion on the adoption of this new accounting standard, see Note 2, Recently Issued Accounting Standards, to the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q.

Off-Balance Sheet Arrangements

As of September 30, 2018, we had no material off-balance sheet arrangements or similar obligations, such as financing or unconsolidated variable interest entities.

New Accounting Standards

Please refer to Note 2, Recently Issued Accounting Standards, to the notes to our condensed consolidated financial statements for a discussion of new accounting pronouncements and accounting pronouncements adopted during the nine months ended September 30, 2018.

Non-GAAP Financial Information

In addition to our results under GAAP, we also present Adjusted EBITDA for historical periods. Adjusted EBITDA is a non-GAAP financial measure and has been presented as a supplemental measure of financial performance that is not required by, or presented in accordance with, GAAP. We calculate Adjusted EBITDA as net (loss) income before interest expense, net loss on extinguishment of debt, income tax (benefit) expense, depreciation and amortization, unrealized losses (gains) on derivative financial instruments, IPO and public company readiness expenses, stock-based compensation, and other non-recurring adjustments such as non-cash purchase accounting effects, losses on the disposal of property and equipment, transaction costs, hurricane related costs and management fees. We calculated Pro Forma Adjusted EBITDA as shown in the previous section entitled "Liquidity and Capital Resources," which is also a non-GAAP financial measure.

Adjusted EBITDA is presented because it is an important metric used by management as one of the means by which it assesses our financial performance. We also believe Adjusted EBITDA is frequently used by analysts, investors and other interested parties to evaluate companies in our industry. This measure, when used in conjunction with related GAAP financial measures, provides investors with an additional financial analytical framework that may be useful in assessing our Company and its financial condition and results of operations.

Adjusted EBITDA has certain limitations. Adjusted EBITDA should not be considered as an alternative to net income, or any other measure of financial performance derived in accordance with GAAP. Additionally, Adjusted EBITDA is not intended to be a liquidity measure because of certain limitations such as:

- It does not reflect our cash outlays for capital expenditures or future contractual commitments;
- It does not reflect changes in, or cash requirements for, working capital;
- It does not reflect interest expense or the cash requirements necessary to service interest or principal payments on indebtedness;
- It does not reflect income tax expense or the cash necessary to pay income taxes; and
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and these non-GAAP measures do not reflect cash requirements for such replacements.

Other companies, including other companies in our industry, may not use these measures or may calculate one or both differently than as presented in this Quarterly Report on Form 10-Q, limiting their usefulness as a comparative measure.

In evaluating Adjusted EBITDA, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments made in our calculations, and our presentation of Adjusted EBITDA should not be construed to mean that our future results will be unaffected by such adjustments. Management compensates for these limitations by using Adjusted EBITDA as a supplemental financial metric and in conjunction with our results prepared in accordance with GAAP. The non-GAAP information should be read in conjunction with our consolidated financial statements and the related notes.

The following is a reconciliation of Adjusted EBITDA to the nearest GAAP measure, net (loss) income:

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
	Reconciliation To Net Loss From Continuing Operations	Reconciliation To Net Income From Discontinued Operations ^(a)	Reconciliation To Net Loss	Reconciliation To Net Income From Continuing Operations	Reconciliation To Net Income From Discontinued Operations ^(a)	Reconciliation To Net Income
(in thousands)						
Net (loss) income	\$ (37,553)	\$ 2,772	\$ (34,781)	\$ 122	\$ 1,277	\$ 1,399
Interest expense, net	12,544	11	12,555	15,028	15	15,043
Loss on extinguishment of debt	58,475	-	58,475	-	-	-
Income tax (benefit) expense	(12,519)	991	(11,528)	239	973	1,212
Depreciation and amortization	19,771	1,561	21,332	18,234	1,495	19,729
Unrealized losses on derivative financial instruments	78	-	78	111	-	111
IPO and public company readiness expenses	-	-	-	519	-	519
Stock-based compensation	633	44	677	203	10	213
Non-cash purchase accounting effects ^(c)	6	-	6	166	112	278
Loss on disposal of property and equipment	339	8	347	53	(23)	30
Hurricane related costs ^(b)	(241)	-	(241)	376	54	430
Transaction costs ^(d)	2,208	386	2,594	1,315	1	1,316
Adjusted EBITDA	\$ 43,741	\$ 5,773	\$ 49,514	\$ 36,366	\$ 3,914	\$ 40,280
Adjusted EBITDA margin ^(e)	8.1%	7.0%	7.9%	7.8%	5.8%	7.5%

(a) Adjusts for the effect of the purchase accounting step-up in the value of inventory to fair value recognized in cost of goods sold as a result of acquisitions.

(b) Represents insurance proceeds for hurricane related costs for the three months ended September 30, 2018, represents costs related to payroll and inventory resulting from Hurricanes Harvey and Irma for the three months ended September 30, 2017.

(c) Represents one-time costs related to our transactions, including fees to financial advisors, accountants, attorneys, other professionals and certain internal corporate development costs.

(d) Adjusted EBITDA margin represents Adjusted EBITDA divided by net sales.

(e) The operating results reflected above do not fully represent the mechanical insulation segment's historical operating results, as the results reported within net income from discontinued operations only include expenses that are directly attributable to the mechanical insulation segment.

	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
	Reconciliation To Net Loss From Continuing Operations	Reconciliation To Net Income From Discontinued Operations (f)	Reconciliation To Net Loss	Reconciliation To Net Income From Continuing Operations	Reconciliation To Net Income From Discontinued Operations (f)	Reconciliation To Net Income
(in thousands)						
Net (loss) income	\$ (38,347)	\$ 7,913	\$ (30,434)	\$ 3,149	\$ 3,439	\$ 6,588
Interest expense, net	42,957	36	42,993	45,058	47	45,105
Loss on extinguishment of debt	58,475	-	58,475	-	-	-
Income tax (benefit) expense	(13,299)	3,169	(10,130)	2,205	2,433	4,638
Depreciation and amortization	56,922	4,637	61,559	52,662	4,490	57,152
Unrealized gains on derivative financial instruments	(56)	-	(56)	(13,045)	-	(13,045)
IPO and public company readiness expenses	89	-	89	4,929	-	4,929
Stock-based compensation	1,512	103	1,615	1,667	287	1,954
Non-cash purchase accounting effects (a)	413	-	413	830	112	942
Loss on disposal of property and equipment	614	42	656	171	31	202
Hurricane related costs (b)	(83)	-	(83)	376	54	430
Transaction costs (c)	4,753	958	5,711	3,635	251	3,886
Management fees (d)	-	-	-	353	-	353
Adjusted EBITDA	\$ 113,950	\$ 16,858	\$ 130,808	\$ 101,990	\$ 11,144	\$ 113,134
Adjusted EBITDA margin (e)	7.5%	7.1%	7.4%	7.6%	5.6%	7.3%

(a) Adjusts for the effect of the purchase accounting step-up in the value of inventory to fair value recognized in cost of goods sold as a result of acquisitions.

(b) Represents insurance proceeds for hurricane related costs for the three months ended September 30, 2018, represents costs related to payroll and inventory resulting from Hurricanes Harvey and Irma for the three months ended September 30, 2017.

(c) Represents one-time costs related to our transactions, including fees to financial advisors, accountants, attorneys, other professionals and certain internal corporate development costs.

(d) Represents fees paid to our former private equity sponsor for services provided pursuant to past management agreements. These fees are no longer being incurred.

(e) Adjusted EBITDA margin represents Adjusted EBITDA divided by net sales.

(f) The operating results reflected above do not fully represent the mechanical insulation segment's historical operating results, as the results reported within net income from discontinued operations only include expenses that are directly attributable to the mechanical insulation segment.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There were no material changes to the Company's market risk disclosures set forth in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of the 2017 10-K during the nine months ended September 30, 2018.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act), as of September 30, 2018, the end of the period covered by this Quarterly Report on Form 10-Q.

Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2018, the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective.

Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our system of internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed or operated, can provide only reasonable, but not absolute, assurance that the objectives of the system of internal control are met. The design of our control system reflects the fact that there are resource constraints, and that the benefits of such control system must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control failures and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the intentional acts of individuals, by collusion of two or more people, or by management override of the controls. The design of any system of controls is also based in part on certain assumptions about the likelihood of future events, and there can be no assurance that the design of any particular control will always succeed in achieving its objective under all potential future conditions.

Item 1. Legal Proceedings

We are not currently a party to any material legal proceedings. We are, however, subject to lawsuits, government investigations, audits and other legal proceedings from time to time in the ordinary course of our business. It is not possible to predict the outcome of any legal proceeding with any certainty. The outcome or costs we incur in connection with a legal proceeding could adversely impact our operating results and financial position.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed under Item 1A, "Risk Factors," in the 2017 10-K except for the following:

Trade policies could make sourcing product from foreign countries more difficult or more costly.

We source some of our products from outside of the United States. Suppliers that we utilize may rely upon non-domestic products, and therefore, any significant changes to the United States trade policies (and those of other countries in response) may cause a material adverse effect on our ability to procure products from suppliers that source from other countries or significantly increase the costs of obtaining such products, which could result in a material adverse effect on our financial results.

Divestitures and discontinued operations could negatively impact our business, require additional attention and resources that could divert our management's focus from continuing operations, and retained liabilities from businesses that we sell could adversely affect our financial results.

In the third quarter of 2018, we began the process of divesting our Disposed Business and entered into a definitive agreement for the sale on September 26, 2018. Divestitures pose risks and challenges that could negatively impact our business, including required separation or carve-out activities and costs and disputes with buyers or third parties, and also require additional management attention that distract from continuing operations even after closing. Divestitures also involve continued financial involvement, as we are required to retain responsibility for, or agree to indemnify buyers against, contingent liabilities related to our Disposed Business, such as lawsuits, tax liabilities, and working condition of assets. Under these types of arrangements, performance by the divested business or other conditions outside our control could affect our future financial results.

Due to the effect of the divestiture of our mechanical insulation business, our historical consolidated financial statements are not comparable to the quarterly consolidated financial statements included in this report and will not be comparable to its future consolidated financial results.

Our quarterly consolidated results of operations included in this report reflect as discontinued operations the results of operations of our mechanical insulation business. The consolidated balance sheets contained in this report include assets of continuing operations as well as the assets held for sale of our mechanical insulation business, and our consolidated statements of cash flows include the cash flows of both our continuing and discontinued operations for the periods presented. Our historical annual consolidated financial statements currently do not reflect reporting of discontinued operations for the mechanical insulation business. Accordingly, they are not comparable to the quarterly consolidated financial statements included in this report or any of our future consolidated financial results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
10.20	<u>ABL Credit Agreement dated as of August 13, 2018 among FBM Alpha LLC, as Holdings, Foundation Building Materials Holding Company LLC, as the Lead Borrower, the Additional U.S. Borrowers party thereto, the Canadian Borrowers party thereto, the Lenders party thereto, Bank of America, N.A., as Administrative Agent, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman Sachs Bank USA, RBC Capital Markets, and Suntrust Robinson Humphrey, as Joint Lead Arrangers and Joint Bookrunners (incorporated by reference to Exhibit 10.20 on Form S-K filed with the Securities and Exchange Commission on August 17, 2018).</u>
10.21	<u>Term Loan Credit Agreement dated as of August 13, 2018 among FBM Alpha LLC, as Holdings, Foundation Building Materials Holding Company LLC, as the Borrower, the Lenders party thereto and Royal Bank of Canada, as Administrative Agent, and RBC Capital Markets, Goldman Sachs Bank USA, Suntrust Robinson Humphrey, Inc. and Stifel Syndicated Credit LLC, as Joint Lead Arrangers and Joint Bookrunners (incorporated by reference to Exhibit 10.20 on Form S-K filed with the Securities and Exchange Commission on August 17, 2018).</u>
10.22	<u>ABL Intercreditor Agreement dated as of August 13, 2018, among Bank of America, N.A., as ABL Agent, Royal Bank of Canada, as First Lien Term Loan Agent, Foundation Building Materials Holding Company LLC, as Lead Borrower, FBM Alpha LLC, as Holdings, the Subsidiaries of Holdings from time to time party hereto and each other party from time to time party hereto (incorporated by reference to Exhibit 10.20 on Form S-K filed with the Securities and Exchange Commission on August 17, 2018).</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.</u>
32.1	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101 INS	XBRL Instance Document.
101 SCH	XBRL Taxonomy Extension Schema Document.
101 CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101 DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101 LAB	XBRL Taxonomy Extension Label Linkbase Document.
101 PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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.

FOUNDATION BUILDING MATERIALS, INC.

BY: /s/ John Gorey
John Gorey
Chief Financial Officer
(Principal Financial Officer)

/s/ Barbara J. Bitzer
Barbara J. Bitzer
Chief Accounting Officer
(Principal Accounting Officer)

Date: November 1, 2018

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

**Certification of Principal Executive Officer
Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934**

I, Ruben Mendoza, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Foundation Building Materials, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2018

/s/ Ruben Mendoza
Ruben Mendoza
President and Chief Executive Officer

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

**Certification of Principal Financial Officer
Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934**

I, John Gorey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Foundation Building Materials, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2018

/s/ John Gorey
John Gorey
Chief Financial Officer

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Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

**Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) (the "Act"), each of the undersigned officers of Foundation Buildings Materials, Inc., a Delaware corporation (the "Company"), does hereby certify, to each such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 (the "Periodic Report") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2018

/s/ Ruben Mendoza
Ruben Mendoza
President and Chief Executive Officer

/s/ John Gorey
John Gorey
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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