

BEACON ROOFING SUPPLY INC  
Form 10-Q  
February 06, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**<sup>x</sup> QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND  
EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended December 31, 2016**

**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 000-50924**

**BEACON ROOFING SUPPLY, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

**36-4173371**

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(State or other jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

**505 Huntmar Park Drive, Suite 300, Herndon, VA 20170**

(Address of Principal Executive Offices) (Zip Code)

**(571) 323-3939**

(Registrant's telephone number, including area code)

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 and 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 posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐  
Non-accelerated filer ☐ (do not check if a smaller reporting company) Smaller reporting company ☐

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 February 1, 2017, 60,076,778 shares of common stock, par value \$0.01 per share, of the registrant were outstanding.

**BEACON ROOFING SUPPLY, INC.**

**FORM 10-Q**

**For the Quarter Ended December 31, 2016**

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**BEACON ROOFING SUPPLY, INC.****Consolidated Balance Sheets**

(Unaudited; In thousands, except share and per share amounts)

	December 31, 2016	September 30, 2016	December 31, 2015
Assets			
Current assets:			
Cash and cash equivalents	\$ 73,271	\$ 31,386	\$ 32,210
Accounts receivable, less allowance of \$16,711, \$14,812 and \$8,871 as of December 31, 2016, September 30, 2016 and December 31, 2015, respectively	489,898	626,965	489,172
Inventories, net	528,709	480,736	466,063
Prepaid expenses and other current assets	209,651	163,103	150,384
Total current assets	1,301,529	1,302,190	1,137,829
Property and equipment, net	147,340	148,569	145,607
Goodwill	1,197,550	1,197,565	1,162,111
Intangibles, net	444,210	464,024	487,477
Other assets, net	1,511	1,511	1,270
Total Assets	\$ 3,092,140	\$ 3,113,859	\$ 2,934,294
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable	\$ 336,837	\$ 360,915	\$ 347,205
Accrued expenses	166,479	161,113	151,547
Current portions of long-term debt	14,610	14,811	14,287
Total current liabilities	517,926	536,839	513,039
Borrowings under revolving lines of credit, net	332,679	359,661	343,225
Long-term debt, net	722,516	722,929	722,888
Deferred income taxes, net	136,260	135,482	100,667
Long-term obligations under equipment financing and other, net	32,915	35,121	43,322
Total liabilities	1,742,296	1,790,032	1,723,141
Commitments and contingencies			
Stockholders' equity:			
Common stock (voting); \$.01 par value; 100,000,000 shares authorized; 60,030,516 issued and outstanding as of December 31, 2016; 59,890,885 issued and outstanding as of September 30, 2016; 59,192,132 issued and outstanding at December 31, 2015	600	598	591

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Undesignated preferred stock; 5,000,000 shares authorized, none issued or outstanding	-	-	-
Additional paid-in capital	701,542	694,564	668,828
Retained earnings	667,752	647,322	564,523
Accumulated other comprehensive loss	(20,050 )	(18,657 )	(22,789 )
Total stockholders' equity	1,349,844	1,323,827	1,211,153
 Total Liabilities and Stockholders' Equity	 \$ 3,092,140	 \$ 3,113,859	 \$ 2,934,294

*See accompanying Notes to Condensed Consolidated Financial Statements*

**BEACON ROOFING SUPPLY, INC.**

**Consolidated Statements of Operations**

(Unaudited; In thousands, except share and per share amounts)

	Three Months Ended December 31,	
	2016	2015
Net sales	\$1,002,184	\$976,480
Cost of products sold	751,117	743,292
Gross profit	251,067	233,188
Operating expense	204,110	206,344
Income from operations	46,957	26,844
Interest expense, financing costs, and other	13,574	16,256
Income before provision for income taxes	33,383	10,588
Provision for income taxes	12,953	3,470
Net income	\$20,430	\$7,118
Weighted-average common stock outstanding:		
Basic	59,943,264	58,972,913
Diluted	60,993,080	59,962,033
Net income per share:		
Basic	\$0.34	\$0.12
Diluted	\$0.33	\$0.12

*See accompanying Notes to Condensed Consolidated Financial Statements*

**BEACON ROOFING SUPPLY, INC.**

**Consolidated Statements of Comprehensive Income**

(Unaudited; In thousands)

	Three Months Ended December 31,	
	2016	2015
Net income	\$ 20,430	\$ 7,118
Other comprehensive income (loss):		
Foreign currency translation adjustment	(1,652 )	(2,469 )
Total other comprehensive loss	(1,652 )	(2,469 )
Comprehensive income	\$ 18,778	\$ 4,649

*See accompanying Notes to Condensed Consolidated Financial Statements*

**BEACON ROOFING SUPPLY, INC.****Consolidated Statements of Cash Flows**

(Unaudited; In thousands)

	Three Months Ended December 31,	
	2016	2015
<b>Operating Activities</b>		
Net income	\$20,430	\$7,118
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,425	23,671
Stock-based compensation	3,816	7,179
Certain interest expense and other financing costs	1,418	2,425
Gain on sale of fixed assets	(312 )	(300 )
Deferred income taxes	788	(333 )
Other, net	-	426
Changes in operating assets and liabilities, net of the effects of businesses acquired:		
Accounts receivable	136,895	95,715
Inventories	(48,019 )	43,514
Prepaid expenses and other assets	(46,594 )	(1,773 )
Accounts payable and accrued expenses	(18,724 )	(132,967 )
Net cash provided by operating activities	78,123	44,675
<b>Investing Activities</b>		
Purchases of property and equipment	(7,280 )	(2,153 )
Acquisition of businesses, net	(1,850 )	(941,156)
Proceeds from the sale of assets	400	229
Net cash used in investing activities	(8,730 )	(943,080)
<b>Financing Activities</b>		
Borrowings under revolving lines of credit	355,057	890,128
Repayments under revolving lines of credit	(382,395)	(549,378)
Borrowings under term loan	-	450,000
Repayments under term loan	(1,125 )	(186,750)
Borrowings under Senior Notes	-	300,000
Borrowings under equipment financing facilities and other	1,010	-
Repayments under equipment financing facilities and other	(3,415 )	(1,367 )
Payment of deferred financing costs	-	(27,813 )
Proceeds from issuance of common stock	3,460	8,984
Taxes paid related to net share settlement of equity awards	(297 )	-
Excess tax benefit from stock-based compensation	-	1,501
Net cash provided by (used in) financing activities	(27,705 )	885,305



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Effect of exchange rate changes on cash and cash equivalents	197	(351 )
Net increase (decrease) in cash and cash equivalents	41,885	(13,451 )
Cash and cash equivalents, beginning of period	31,386	45,661
Cash and cash equivalents, end of period	\$73,271	\$32,210
Supplemental cash flow information		
Cash paid during the period for:		
Interest	\$19,335	\$10,827
Income taxes, net of tax refunds	13,906	7,621

During the period ended December 31, 2015, the Company issued Common Stock with a value of \$302 million and replacement awards with a value of \$5 million in connection with the acquisition of Roofing Supply Group, LLC, which are accounted for as a non-cash investing activity.

*See accompanying Notes to Condensed Consolidated Financial Statements*

## **BEACON ROOFING SUPPLY, INC.**

### **Notes to Condensed Consolidated Financial Statements**

(Unaudited; In thousands, except share and per share data or otherwise indicated)

#### **1. Company Overview**

Beacon Roofing Supply, Inc. (the “Company”) was incorporated in the state of Delaware on August 22, 1997 and is the largest publicly traded distributor of residential and non-residential roofing materials and complementary building products in the United States and Canada. The Company operates its business under regional and local trade names and services customers in 47 states within the United States and 6 provinces in Canada. The Company’s current material subsidiaries are Beacon Sales Acquisition, Inc., Beacon Canada, Inc. and Beacon Roofing Supply Canada Company.

#### **2. Summary of Significant Accounting Policies**

##### ***Basis of Presentation***

Beacon Roofing Supply, Inc. (the “Company”) prepared the condensed consolidated financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and the requirements of the Securities and Exchange Commission (SEC). As permitted under those rules, certain footnotes or other financial information have been condensed or omitted. The balance sheet as of December 31, 2015 has been presented for a better understanding of the impact of seasonal fluctuations on the Company's financial condition.

In management's opinion, the financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of the Company's financial position and operating results. The results for the three-month period ended December 31, 2016 are not necessarily indicative of the results to be expected for the twelve months ending September 30, 2017 (fiscal year 2017 or “2017”).

The three-month periods ended December 31, 2016 and 2015 had 61 and 62 business days, respectively.

These interim Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto contained in the Company's fiscal year 2016 ("2016") Annual Report on Form 10-K for the year ended September 30, 2016.

### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Significant items subject to such estimates include inventories, purchase price allocations, recoverability of goodwill and intangibles, and income taxes. Actual amounts could differ from those estimates.

### ***Recent Accounting Pronouncements- Adopted***

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, "*Simplifying the Presentation of Debt Issuance Costs*" to simplify the presentation of debt issuance costs. This guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the associated debt liability, consistent with the required presentation for debt discounts. This update is effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years and early adoption is permitted. Upon adoption, an entity must apply the new guidance retrospectively to all prior periods presented in the financial statements. The Company elected to early adopt this new guidance effective October 1, 2015. The adoption of this standard changed the Company's previous practice of presenting debt issuance costs as an asset and resulted in the reduction of total assets and total liabilities in an amount equal to the balance of unamortized debt issuance costs at each balance sheet date presented. Debt issuance costs that are now presented as a direct reduction from the carrying amount of the associated debt liability amounted to \$24.1 million as of December 31, 2016, \$25.2 million as of September 30, 2016, and \$30.0 million as of December 31, 2015.

In September 2015, the FASB issued ASU 2015-16, "*Simplifying the Accounting for Measurement-Period Adjustments*." This guidance eliminates the requirement to restate prior period financial statements for measurement period adjustments related to business combinations. It requires that the cumulative impact of a measurement period adjustment, including the impact on prior periods, be recognized in the reporting period in which the adjustment is identified. In addition, the portion of the adjustment recorded in the current period that would have been recognized in prior periods had the adjustment been identified at that time must be presented, by line item, either on the face of the income statement or in the accompanying notes. This guidance is effective for annual and interim reporting periods beginning after December 15, 2015 and early adoption is permitted. The Company elected to early adopt this new guidance effective January 1, 2016 and the impact on the financial statements through the quarter ended December 31, 2016 was immaterial.

In November 2015, the FASB issued ASU 2015-17, "*Balance Sheet Classification of Deferred Taxes*." This guidance requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. This ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and early adoption is permitted. Entities are permitted to apply this guidance either prospectively or retrospectively. The Company adopted the guidance as of March 31, 2016 and applied it retrospectively to all prior periods. As a result, the Company reclassified its current deferred tax balances of \$31.9 million to non-current deferred taxes as of September 30, 2015.

***Recent Accounting Pronouncements- Not Yet Adopted***

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers*." This guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers, and will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for public business entities for fiscal years beginning on or after January 1, 2018, and early adoption is permitted for annual periods beginning after December 31, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has not selected a transition method and is currently evaluating the impact this guidance may have on its financial statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11, "*Inventory: Simplifying the Measurement of Inventory*." This guidance applies to inventory valued at first-in, first-out (FIFO) or average cost and requires inventory to be measured at the lower of cost and net realizable value, rather than at the lower of cost or market. ASU 2015-11 is effective on a prospective basis for annual periods, including interim reporting periods within those periods, beginning after December 15, 2016. The Company reports inventory on an average-cost basis and thus will be required to adopt the standard. The Company is currently evaluating the impact that this guidance may have on its financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, "*Leases*." The ASU will replace most existing accounting for lease guidance when it becomes effective. This guidance is effective for the Company beginning on October 1, 2019 and early adoption is permitted. The standard must be adopted using the modified retrospective approach. The standard will require the Company to record a right to use asset and a lease liability for most of the Company's leases including the Company's leases currently treated as operating leases. The Company is currently evaluating the impact that this guidance may have on its financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, "*Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting*." This ASU is intended to simplify several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding

requirements, as well as classification in the statement of cash flows. The provisions of this standard are effective for reporting periods beginning after December 15, 2016 and early adoption is permitted. The provisions of this standard contain specific transition guidance for each amendment. The Company is currently evaluating the impact that this guidance may have on its financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments.*" This ASU is intended to introduce a revised approach to the recognition and measurement of credit losses, emphasizing an updated model based on expected losses rather than incurred losses. The provisions of this standard are effective for reporting periods beginning after December 15, 2019 and early adoption is permitted. The Company is currently evaluating the impact that this guidance may have on its financial statements and related disclosures.

### **3.Acquisitions**

#### ***Roofing Supply Group***

On October 1, 2015, the Company acquired 100% of the equity of Roofing Supply Group, LLC ("RSG"), a leading roofing products distributor owned by investment firm Clayton, Dubilier & Rice ("CD&R"). RSG's results of operations have been included with Company's consolidated results beginning October 1, 2015. RSG distributed roofing supplies and related materials from 85 locations across 25 states as of October 1, 2015.

Total consideration paid for RSG was approximately \$1.17 billion, out of which \$288.2 million was in cash, \$306.8 million of Company's common stock and option replacement awards, and \$574.4 million in refinancing of RSG's debt. The RSG long-term debt was repaid simultaneously with the proceeds of a new ABL Revolver, Term Loan and Senior Notes (see Note 8).

In connection with the RSG acquisition, the Company was required to issue equity awards to certain RSG employees in replacement of RSG equity awards that were cancelled at closing. The replacement awards consisted of options to purchase 661,349 shares of the Company's common stock. The terms and fair value of these awards approximated the cancelled RSG awards on the issuance date. The fair value of the replacement awards associated with services rendered through the date of the RSG acquisition was recognized as a component of the total acquisition consideration, and the remaining fair value of the replaced awards associated with post RSG acquisition services will be recognized as an expense on a straight-line basis over the remaining service period.

The RSG acquisition has been accounted for as a business combination in accordance with the requirements of ASC 805 *Business Combinations*. The acquisition price has been allocated among assets acquired and liabilities assumed at fair value based on information currently available, with the excess recorded as goodwill. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of RSG. These come from the synergies that are obtained in operating the branches as part of a larger network, and from an experienced employee base skilled at managing a distribution business. As of September 30, 2016, the Company had finalized the acquisition accounting entries for the RSG acquisition, detailed as follows (in thousands):

Cash	\$ 16,451
Accounts receivable	177,251
Inventory	179,651
Other current assets	50,000
Property, plant, and equipment	55,159
Other intangible assets	382,600
Goodwill	617,477
Current liabilities	(252,190 )
Non-current liabilities	(56,949 )
Total purchase price	\$ 1,169,450

RSG's future growth attributable to new customers, geographic market presence and assembled workforce are additional assets that are not separable and which contributed to recorded goodwill, of which \$86.1 million was tax deductible as of the October 1, 2015 RSG acquisition date. All of the Company's goodwill plus the indefinite-lived trade name are tested for impairment annually, and all acquired goodwill and intangible assets are subject to review for impairment should future indicators of impairment develop. The fair value of acquired RSG accounts receivables was \$177.3 million, with the gross contractual amount being \$185.9 million.

#### ***Other Acquisitions – Fiscal Year 2017***

On December 16, 2016, the Company purchased certain assets of BJ Supply Company, a distributor of roofing and related building products with 1 branch serving Pennsylvania and New Jersey and annual sales of approximately \$4 million.

#### ***Other Acquisitions – Fiscal Year 2016***

During fiscal year 2016, the Company acquired 42 branches from the following seven additional acquisitions:

On December 1, 2015, the Company purchased certain assets of RCI Roofing Supply, a distributor of residential and commercial roofing and related products with 5 branches operating in Nebraska, Iowa and Colorado and annual sales of approximately \$23 million. As of December 31, 2016, the Company had finalized the acquisition accounting entries for this acquisition.

On December 18, 2015, the Company acquired 100% of the equity interests of Roofing and Insulation Supply, a distributor primarily of residential and commercial insulation along with roofing and related products with 20 branches spanning 13 states operating across New England, the Mid-Atlantic, the Southeast, the Upper Midwest, Texas and Colorado and annual sales of approximately \$70 million. As of December 31, 2016, the Company had finalized the acquisition accounting entries for this acquisition.

On December 29, 2015, the Company purchased certain assets of Statewide Wholesale, a distributor of residential and commercial roofing and related products with 1 branch located in Denver, Colorado and annual sales of approximately \$15 million. As of December 31, 2016, the Company had finalized the acquisition accounting entries for this acquisition.

On April 1, 2016, the Company purchased certain assets of Atlantic Building Products, a distributor of decking, windows, siding, and related products with 2 branches operating in eastern Pennsylvania and annual sales of approximately \$5 million.

On April 1, 2016, the Company purchased certain assets of Lyf-Tym Building Products, a distributor of siding, windows, gutters, vinyl railings, and related products with 6 branches operating in North Carolina and Virginia and annual sales of approximately \$20 million.

On May 2, 2016, the Company purchased certain assets of Fox Brothers Company, a distributor of roofing, siding, windows, doors, and related products with 4 branches operating in Michigan and annual sales of approximately \$35 million.

On June 1, 2016, the Company acquired 100% of the equity interests of Woodfeathers, Inc., a distributor of primarily residential roofing and related products with 4 branches operating in Oregon and Washington and annual sales of approximately \$30 million.

The Company recorded the acquired assets and liabilities related to these transactions at their estimated fair values as of the respective acquisition dates, with resulting goodwill of \$84.8 million (\$59.8 million of which is deductible for tax purposes) and \$60.8 million in intangible assets associated with these other acquisitions as of December 31, 2016.

### ***Other Acquisitions – Additional Information***

For those acquisitions where the acquisition accounting entries have yet to be finalized, the Company's allocation of the purchase price is subject to change on receipt of additional information, including, but not limited to, the finalization of asset valuations (intangible and fixed) and income tax accounting.

The Company has not provided pro forma results of operations for any acquisitions in fiscal years 2017 or 2016 herein, as the Company included the results of operations of each acquisition in its consolidated statement of income from the date of each acquisition.

### **4. Net Income per Share**

Basic net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted-average number of common shares and dilutive common share equivalents then outstanding using the treasury stock method. Common equivalent shares consist of the incremental common shares issuable upon the exercise of stock options and vesting of restricted stock awards.

The following table presents the basic and diluted weighted-average shares outstanding for each period presented:

	Three Months Ended December 31,	
	2016	2015
Weighted-average common shares outstanding, basic	59,943,264	58,972,913



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Effect of dilutive securities:

Stock options	649,644	748,678
Restricted stock units	400,172	240,442
Weighted-average common shares outstanding, diluted	60,993,080	59,962,033

The following table includes the number of shares that may be dilutive common shares in the future. These shares were not included in the computation of diluted net income per share because the effect was either anti-dilutive or the requisite performance conditions were not met.

	Three Months Ended December 31,	
	2016	2015
Stock options	561,741	679,995
Restricted stock units	247,559	88,407

**5. Stockholders' Equity**

The following table presents the activity included in stockholders' equity during the three months ended December 31, 2016 (in thousands, except share amounts):

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-in	Earnings	Other Comprehensive Income (Loss)	Stockholders' Equity
Balance as of September 30, 2016	59,890,885	\$ 598	\$ 694,564	\$ 647,322	\$ (18,657)	\$ 1,323,827
Issuance of common stock, net of shares withheld for taxes	139,631	2	3,162	-	-	3,164
Stock-based compensation	-	-	3,816	-	-	3,816
Other comprehensive income	-	-	-	-	(1,393)	(1,393)
Net income	-	-	-	20,430	-	20,430
Balance as of December 31, 2016	60,030,516	\$ 600	\$ 701,542	\$ 667,752	\$ (20,050)	\$ 1,349,844

***Common and Preferred Stock***

The Company is authorized to issue 100 million shares of common stock and 5 million shares of preferred stock. As of December 31, 2016, September 31, 2016, and December 31, 2015 there were 60,030,516, 59,890,885 and 59,192,132 shares of common stock issued and outstanding, respectively, and no preferred stock outstanding as of any period end.

***Accumulated Other Comprehensive Income (Loss)***

Other comprehensive income (loss) is comprised of certain gains and losses that are excluded from net income under GAAP and instead recorded as a separate element of stockholders' equity. The Company's other comprehensive income (loss) consists of foreign currency translation adjustments as well as unrealized gains or losses on the Company's derivative contracts.

The following table summarizes the components of and changes in accumulated other comprehensive loss (in thousands):

	Foreign Currency Translation	Derivative Financial Instruments	Accumulated Other Comprehensive Loss
Balance as of September 30, 2016	\$ (18,269 )	\$ (388 )	\$ (18,657 )
Other comprehensive loss before reclassifications	(1,652 )	-	(1,652 )
Reclassifications out of other comprehensive loss	-	259	259
Balance as of December 31, 2016	\$ (19,921 )	\$ (129 )	\$ (20,050 )

## 6. Stock-based Compensation

On February 9, 2016, the shareholders of the Company approved the Amended and Restated Beacon Roofing Supply, Inc. 2014 Stock Plan (the “2014 Plan”). The 2014 Plan provides for discretionary awards of stock options, stock awards, restricted stock units, and stock appreciation rights (“SARs”) for up to 5,000,000 shares of common stock to selected employees and non-employee directors. The 2014 Plan mandates that all forfeited, expired, and withheld shares, including those from the predecessor plans, be returned to the 2014 Plan and made available for issuance. As of December 31, 2016, there were 4,187,115 shares of common stock available for issuance.

Prior to the 2014 Plan, the Company maintained the amended and restated Beacon Roofing Supply, Inc. 2004 Stock Plan (the “2004 Plan”). Upon shareholder approval of the 2014 Plan, the Company ceased issuing equity awards from the 2004 Plan and mandated that all future equity awards will be issued from the 2014 Plan.

For all equity awards granted prior to October 1, 2014, in the event of a change in control of the Company, all awards are immediately vested. Beginning in fiscal 2015, equity awards contain a “double trigger” change in control mechanism. Unless an award is continued or assumed by a public company in an equitable manner, an award shall become fully vested immediately prior to a change in control (at 100% in the case of a performance-based restricted stock award). If an award is so continued or assumed, vesting will continue in accordance with the terms of the award, unless there is a qualifying termination within one-year following the change in control, in which event the award shall become fully vested immediately (at 100% in the case of a performance-based restricted stock award).

### *Stock Options*

Non-qualified stock options generally expire 10 years after the grant date and, except under certain conditions, the options are subject to continued employment and vest in one-third increments over a three-year period following the grant dates.

The fair values of the options granted during the three months ended December 31, 2016 were estimated on the dates of grants using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Risk-free interest rate	1.97 %
Expected volatility	28.83 %
Expected life (in years)	5.30
Dividend yield	—

The following table summarizes all stock option activity for the period presented (in thousands, except share, per share, and time period amounts):

	Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value <sup>1</sup>
Balance as of September 30, 2016	2,312,789	\$ 25.55	6.3	\$ 38,225
Granted	245,818	47.40		
Exercised	(123,890 )	23.75		
Canceled	(4,147 )	26.92		
Balance as of December 31, 2016	2,430,570	\$ 27.85	6.5	\$ 44,620
Vested and expected to vest after December 31, 2016	2,343,728	\$ 27.65	6.4	\$ 43,465
Exercisable as of December 31, 2016	1,685,273	\$ 24.76	5.3	\$ 35,922

<sup>1</sup> Aggregate intrinsic value as represents the difference between the closing fair value of the underlying common stock and the exercise price of outstanding, in-the-money options on the date of measurement

During the three months ended December 31, 2016 and 2015, the Company recorded stock-based compensation expense related to stock options of \$1.3 million and \$6.1 million, respectively. As of December 31, 2016, there was \$5.5 million of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted-average period of 2.3 years.

The following table summarizes additional information on stock options for the period presented (in thousands, except per share amounts):

	Three Months Ended December 31,	
	2016	2015
Weighted-average fair value of stock options granted	\$ 11.14	\$ 12.89
Total fair value of stock options vested	4,884	10,091
Total intrinsic value of stock options exercised	2,750	6,970

### ***Restricted Stock Units***

Restricted stock unit (“RSU”) awards granted to employees are subject to continued employment and generally vest after three years. The Company also grants certain RSU awards to management that contain an additional vesting condition tied directly to a defined performance metric for the Company. The actual number of RSUs that will vest can range from 0% to 150% of the grant, depending upon actual Company performance below or above the target level. The Company estimates performance in relation to the established target when determining the projected number of RSUs that will vest and calculating the compensation cost related to these awards.

RSUs granted to non-employee directors are subject to continued service and vest after one year (except under certain conditions). Generally, the common shares underlying the RSUs are not eligible for distribution until the director’s service on the Board has terminated. For non-employee director RSU grants made prior to fiscal year 2014, the share distribution date is six months after the director’s termination of service on the board. Beginning in fiscal year 2016, non-employee directors holding common stock and outstanding vested unexercised/unsettled equity awards with a fair value that is greater than or equal to five times the annual cash retainer may elect to have future grants settle simultaneously with vesting.

The following table summarizes all restricted stock unit activity for the period presented:

	RSUs Outstanding	Weighted-Average Grant Date Fair Value
Balance as of September 30, 2016	705,434	\$ 34.55
Granted	251,146	47.40
Released	(24,283 )	36.09
Forfeited	(70,360 )	36.69
Balance as of December 31, 2016	861,937	\$ 38.08
Vested and expected to vest after December 31, 2016	861,697	\$ 38.08

During the three months ended December 31, 2016 and 2015, the Company recorded stock-based compensation expense related to restricted stock units of \$2.5 million and \$1.1 million, respectively. As of December 31, 2016, there was \$19.4 million of total unrecognized compensation cost related to unvested restricted stock units, which is expected to be recognized over a weighted-average period of 2.4 years.

The following table summarizes additional information on RSUs for the period presented (in thousands):

	Three Months Ended December 31,	
	2016	2015
Total fair value of RSUs released	\$ 876	\$ 6
Total intrinsic value of RSUs released	1,093	7

## 7. Goodwill and Intangible Assets

### *Goodwill*

The following table sets forth the change in the carrying amount of goodwill for the Company during the three months ended December 31, 2016 and 2015, respectively (in thousands):

Balance at September 30, 2015	\$496,415
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Acquisition of RSG	617,715
Other acquisitions	50,709
Translation and other adjustments	(2,728 )
Balance at December 31, 2015	\$1,162,111
Balance at September 30, 2016	\$1,197,565
Acquisitions	774
Translation and other adjustments	(789 )
Balance at December 31, 2016	\$1,197,550

The change in the carrying amount of goodwill for the three months ended December 31, 2016 and 2015 is primarily attributable to the Company's acquisitions finalized during the respective periods presented (see Note 3).

***Intangible Assets***

In connection with transactions finalized in the first quarter of 2017 and fiscal year 2016, the Company recorded intangible assets of \$0.4 million (all customer relationships) and \$442.6 million (\$375.0 million of customer relationships, \$4.3 million of amortizable trademarks, and \$63.3 million of indefinite-lived trademarks) , respectively. Intangible assets consisted of the following (in thousands, except time period amounts):

	December 31, 2016	September 30, 2016	December 31, 2015	<b>Weighted- Average Remaining Life<sup>1</sup> (Years)</b>
Amortizable intangible assets:				
Non-compete agreements	\$ 2,824	\$ 3,324	\$ 2,824	3.74
Customer relationships	567,157	566,964	542,187	18.07
Trademarks	5,900	5,400	1,100	7.08
Beneficial lease arrangements	960	960	610	10.55
Total amortizable intangible assets	576,841	576,648	546,721	
Less: Accumulated amortization	(205,681 )	(185,674 )	(132,294 )	
Total amortizable intangible assets, net	\$ 371,160	\$ 390,974	\$ 414,427	
Indefinite lived trademarks	73,050	73,050	73,050	
Total intangibles, net	\$ 444,210	\$ 464,024	\$ 487,477	

<sup>1</sup> As of December 31, 2016

For the three month periods ended December 31, 2016 and 2015, we recorded \$20.1 million and \$15.1 million of amortization expense relating to the above-listed intangible assets, respectively. The intangible asset lives range from 1 to 20 years and have a weighted-average remaining life of 17.9 years as of December 31, 2016.

The following table presents the estimated annual amortization expense for these intangible assets (in thousands):

Year Ending September 30,	
2017 (Jan - Sept)	\$59,098
2018	64,870



2019	52,747
2020	42,587
2021	33,856
Thereafter	118,002
	\$371,160

## 8. Financing Arrangements

In connection with the RSG Acquisition on October 1, 2015, the Company entered into various financing arrangements totaling \$1.45 billion. A “Senior Secured Credit Facility” was entered into that is comprised of an asset-based revolving line of credit facility (“ABL” or “ABL Facility”) of \$700.0 million (\$350.0 million of which was drawn at closing) and a new \$450.0 million term loan facility (“Term Loan” or “Term Loan Facility”). The Company also issued \$300.0 million of Senior Notes.

The following table summarizes all financing arrangements the Company has entered into (in thousands):

	December 31, 2016	September 30, 2016	December 31, 2015
Senior Secured Credit Facility			
Revolving Lines of Credit:			
U.S. Revolver, expires October 1, 2020 <sup>1</sup>	\$ 330,445	\$ 355,087	\$ 336,000
Canadian Revolver, expires October 1, 2020 <sup>2</sup>	2,234	4,574	7,225
Term Loan, matures October 1, 2022 <sup>3</sup>	435,647	436,380	437,298
Total borrowings under Senior Secured Credit Facility	768,326	796,041	780,523
Less: current portion	(4,500 )	(4,500 )	(4,500 )
Total long-term borrowings under Senior Secured Credit Facility	\$ 763,826	\$ 791,541	\$ 776,023
Senior Notes			
Senior Notes, matures October 2023 <sup>4</sup>	291,369	291,049	290,021
Less: current portion	-	-	-
Total long-term borrowings under Senior Notes	\$ 291,369	\$ 291,049	\$ 290,021
Equipment Financing Facilities and Other			
Equipment financing facilities, various maturities through September 2021 <sup>5</sup>	\$ 19,188	\$ 20,419	\$ 24,121
Capital lease obligations, various maturities through November 2021 <sup>6</sup>	23,837	25,013	26,073
Total obligations under equipment financing facilities and other	43,025	45,432	50,194
Less: current portion	(10,110 )	(10,311 )	(9,787 )
Total long-term obligations under equipment financing facilities and other	\$ 32,915	\$ 35,121	\$ 40,407

1 - Effective rates on borrowings are 3.13% as of December 31, 2016; 2.90% as of September 30, 2016 and December 31, 2015

2 - Effective rates on borrowings are 3.20% as of December 31, 2016, September 30, 2016, and December 31, 2015

3 - Interest rate of 3.71% as of December 31, 2016; 3.50% as of September 30, 2016; 4.00% as of December 31, 2015

4 - Interest rate of 6.38% as of December 31, 2016, September 30, 2016 and December 31, 2015

5 - Fixed interest rates ranging from 2.33% to 3.25% as of December 31, 2016 and September 30, 2016; 2.33% to 4.49% as of December 31, 2015

6 - Fixed interest rates ranging from 2.72% to 10.39% as of December 31, 2016, September 30, 2016, and December 31, 2015

***Asset-based Line of Credit Facility (“ABL Facility”)***

On October 1, 2015, the Company entered into a \$700 million ABL Facility with Wells Fargo Bank, N.A. and a syndicate of other lenders. This ABL Facility consists of revolving loans in both the United States (“U.S. Revolver”) in the amount of \$670 million and Canada (“Canada Revolver”) in the amount of \$30 million. The ABL Facility has a maturity date of October 1, 2020. The U.S. Revolver has various tranches of borrowings, bearing interest at rates ranging from 2.02% to 4.00%. The effective rate of these borrowings is 3.13% and is paid monthly. As of December 31, 2016, the outstanding balance on the U.S. Revolver and Canada Revolvers, net of debt issuance fees, was \$332.7 million. The U.S. Revolver also has outstanding standby letters of credit in the amount of \$12.6 million as of December 31, 2016. Current unused commitment fees on the revolving credit facilities are 0.25% per annum.

There is one financial covenant under the ABL Facility, which is a Consolidated Fixed Charge Ratio. As defined in the ABL Facility, the Company’s Consolidated Fixed Charge Ratio must be a minimum of 1.00 at the end of each fiscal quarter, calculated on a trailing four quarter basis. The covenant is only applicable when the borrowing availability is less than 10% of the maximum loan cap or \$60 million. The ABL Facility is guaranteed jointly and severally and fully and unconditionally by the Company’s active United States subsidiary.

***Term Loan***

On October 1, 2015, the Company entered into a \$450.0 million Term Loan Facility with Citibank N.A., and a syndicate of other lenders. The Term Loan requires quarterly principal payments in the amount of \$1.1 million, with the remaining outstanding principal to be paid on its maturity date of October 1, 2022. The interest rate paid is based on a LIBOR rate (with a floor) plus a fixed spread. The Company has the option of selecting a LIBOR period that determines the rate at which interest can accrue on the Term Loan as well as the period in which interest payments are made.

On September 16, 2016, the Company refinanced its Term Loan, lowering the LIBOR floor by 25 basis points and lowering the spread by 25 basis points. As a result of the refinancing, the Company wrote off \$1.6 million of debt issuance costs in interest expense. As of December 31, 2016, the outstanding balance on the Term Loan, net of debt issuance fees, was \$435.6 million. The Term Loan is guaranteed jointly and severally and fully and unconditionally by the Company’s active United States subsidiary.

### ***Senior Notes***

The Company also raised \$300.0 million by issuing 8 year senior notes due 2023 (the “Senior Notes”), having a coupon rate of 6.38% per annum, payable semi-annually in arrears beginning April 1, 2016. There are early payment provisions in the Senior Note indenture in which the Company would be subject to “make whole” provisions. Management anticipates repaying the notes at the maturity date of October 1, 2023. As of December 31, 2016 the outstanding balance on the Senior Notes, net of debt issuance fees, was \$291.4 million. The Senior Notes are guaranteed jointly and severally and fully and unconditionally by the Company’s active United States subsidiary.

### ***Other Information***

The proceeds from the Senior Secured Credit Facility and Senior Notes were used to provide working capital and funds for other general corporate purposes, to refinance or otherwise extinguish all third-party indebtedness for borrowed money under Company’s and RSG’s existing senior secured credit facilities and RSG’s unsecured senior notes due 2020, to finance the acquisition, and to pay fees and expenses associated with the RSG acquisition. The Company incurred financing costs totaling approximately \$31.3 million.

The Senior Credit Facility and the previous Term Loan financing arrangements had certain lenders who participated in both arrangements, therefore management accounted for a portion of this transaction as a debt modification and a portion as a debt extinguishment. In accordance with the accounting for debt modification, the Company expensed \$2.2 million of direct issuance costs incurred and will amortize the previously capitalized issuance costs over the term of the Senior Credit Facility. The remainder of the settlement of the Company’s previous financing arrangements was accounted for as debt extinguishment, for which the Company recognized a loss of \$0.8 million in the first quarter of fiscal year 2016.

## **9. Commitments and Contingencies**

### ***Operating Leases***

The Company mostly operates in leased facilities, which are accounted for as operating leases. The leases typically provide for a base rent plus real estate taxes. Certain of the leases provide for escalating rents over the lives of the leases and rent expense is recognized over the terms of those leases on a straight-line basis.

For the three months ended December 31, 2016 and 2015, rent expense was \$14.2 million and \$16.1 million, respectively. Sublet income was immaterial for each of these periods.

### *Contingencies*

The Company is subject to loss contingencies pursuant to various federal, state and local environmental laws and regulations; however, the Company is not aware of any reasonably possible losses that would have a material impact on its results of operations, financial position, or liquidity. Potential loss contingencies include possible obligations to remove or mitigate the effects on the environment of the placement, storage, disposal or release of certain chemical or other substances by the Company or by other parties. In connection with its acquisitions, the Company's practice is to request indemnification for any and all known material liabilities of significance as of the respective dates of acquisition. Historically, environmental liabilities have not had a material impact on the Company's results of operations, financial position or liquidity.

The Company is subject to litigation from time to time in the ordinary course of business; however the Company does not expect the results, if any, to have a material adverse impact on its results of operations, financial position or liquidity.

**10. Geographic Data**

The following table summarizes certain geographic information for the periods presented (in thousands):

	Three Months Ended December 31,	
	2016	2015
Net sales		
U.S.	\$ 960,235	\$ 931,343
Canada	41,949	45,137
Total net sales	\$ 1,002,184	\$ 976,480

	December 31, 2016	September 30, 2016	December 31, 2015
Long-lived assets			
U.S.	\$ 507,295	\$ 527,680	\$ 579,649
Canada	12,716	13,374	11,618
Total long-lived assets	\$ 520,011	\$ 541,054	\$ 591,267

**11. Fair Value Measurement**

As of December 31, 2016, the carrying amount of cash and cash equivalents, accounts receivable, prepaid and other current assets, accounts payable and accrued expenses approximated fair value because of the short-term nature of these instruments. The Company measures its cash equivalents at amortized cost, which approximates fair value based upon quoted market prices (Level 1). Based upon recent trading prices (Level 2 — market approach) as of December 31, 2016, the fair value of the Company's \$300.0 million Senior Notes was \$320.6 million. As of December 31, 2016, the fair value of the Company's Senior Secured Credit Facility approximated the amount outstanding. The Company estimates the fair value of its Senior Secured Credit Facility by discounting the future cash flows of each instrument using estimated market rates of debt instruments with similar maturities and credit profiles (Level 3).

**12. Supplemental Guarantor Information**

All of the Senior Notes issued on October 1, 2015 are guaranteed jointly and severally by all of the United States subsidiaries of the Company (collectively, the "Guarantors"), and not by the Canadian subsidiaries of the Company. Such guarantees are full and unconditional. Supplemental condensed consolidating financial information of the Company, including such information for the Guarantors, is presented below. The information is presented in accordance with the requirements of Rule 3-10 under the SEC's Regulation S-X. The financial information may not necessarily be indicative of results of operations, cash flows or financial position had the non-guarantor subsidiaries operated as independent entities. Investments in subsidiaries are presented using the equity method of accounting. The

principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions. Separate financial statements of the Guarantors are not provided as the consolidating financial information contained herein provides a more meaningful disclosure to allow investors to determine the nature of the assets held by, and the operations of, the combined groups.

**BEACON ROOFING SUPPLY, INC.****Condensed Consolidating Balance Sheets**

(Unaudited; In thousands)

	December 31, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$-	\$ 83,617	\$ 3,606	\$(13,952 )	\$ 73,271
Accounts receivable, net	-	467,093	24,162	(1,357 )	489,898
Inventories, net	-	503,834	24,875	-	528,709
Prepaid expenses and other current assets	2,651	199,305	7,695	-	209,651
Total current assets	2,651	1,253,849	60,338	(15,309 )	1,301,529
Intercompany receivable, net	-	900,545	-	(900,545 )	-
Investments in consolidated subsidiaries	2,915,905	-	-	(2,915,905 )	-
Deferred income taxes, net	58,561	-	-	(58,561 )	-
Property and equipment, net	5,250	132,482	9,608	-	147,340
Goodwill	-	1,168,575	28,975	-	1,197,550
Intangibles, net	-	441,101	3,109	-	444,210
Other assets, net	1,243	268	-	-	1,511
Total Assets	\$2,983,610	\$3,896,820	\$ 102,030	\$(3,890,320 )	\$3,092,140
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	\$26,354	\$ 313,647	\$ 12,145	\$(15,309 )	\$ 336,837
Accrued expenses	20,510	141,266	4,703	-	166,479
Current portions of long-term debt	4,500	10,110	-	-	14,610
Total current liabilities	51,364	465,023	16,848	(15,309 )	517,926
Intercompany payable, net	859,886	-	40,659	(900,545 )	-
Borrowings under revolving lines of credit, net	-	330,444	2,235	-	332,679
Long-term debt, net	722,516	-	-	-	722,516
Deferred income taxes, net	-	194,555	266	(58,561 )	136,260
Long-term obligations under equipment financing and other, net	-	32,869	46	-	32,915
Total liabilities	1,633,766	1,022,891	60,054	(974,415 )	1,742,296
Total stockholders' equity	1,349,844	2,873,929	41,976	(2,915,905 )	1,349,844



Total Liabilities and Stockholders' Equity	\$2,983,610	\$ 3,896,820	\$ 102,030	\$(3,890,320 )	\$ 3,092,140
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**BEACON ROOFING SUPPLY, INC.****Condensed Consolidating Balance Sheets**

(Unaudited; In thousands)

	September 30, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
<b>Assets</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$-	\$ 37,447	\$ 2,876	\$(8,937 )	\$ 31,386
Accounts receivable, net	-	593,395	34,710	(1,140 )	626,965
Inventories, net	-	460,516	20,220	-	480,736
Prepaid expenses and other current assets	3,527	153,681	5,895	-	163,103
Total current assets	3,527	1,245,039	63,701	(10,077 )	1,302,190
Intercompany receivable, net	-	878,931	-	(878,931 )	-
Investments in consolidated subsidiaries	2,891,677	-	-	(2,891,677 )	-
Deferred income taxes, net	59,567	-	-	(59,567 )	-
Property and equipment, net	4,626	133,897	10,046	-	148,569
Goodwill	-	1,167,905	29,660	-	1,197,565
Intangibles, net	-	460,696	3,328	-	464,024
Other assets, net	1,242	269	-	-	1,511
<b>Total Assets</b>	<b>\$2,960,639</b>	<b>\$ 3,886,737</b>	<b>\$ 106,735</b>	<b>\$(3,840,252 )</b>	<b>\$ 3,113,859</b>
<b>Liabilities and Stockholders' Equity</b>					
<b>Current liabilities:</b>					
Accounts payable	\$26,630	\$ 329,895	\$ 14,467	\$(10,077 )	\$ 360,915
Accrued expenses	42,594	114,016	4,503	-	161,113
Current portions of long-term obligations	4,500	10,311	-	-	14,811
Total current liabilities	73,724	454,222	18,970	(10,077 )	536,839
Intercompany payable, net	840,159	-	38,772	(878,931 )	-
Borrowings under revolving lines of credit, net	-	355,087	4,574	-	359,661
Long-term debt, net	722,929	-	-	-	722,929
Deferred income taxes, net	-	194,556	493	(59,567 )	135,482
Long-term obligations under equipment financing and other, net	-	35,074	47	-	35,121
Total liabilities	1,636,812	1,038,939	62,856	(948,575 )	1,790,032
Total stockholders' equity	1,323,827	2,847,798	43,879	(2,891,677 )	1,323,827

Total Liabilities and Stockholders' Equity	\$2,960,639	\$ 3,886,737	\$ 106,735	\$(3,840,252 )	\$ 3,113,859
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**BEACON ROOFING SUPPLY, INC.****Condensed Consolidating Balance Sheets**

(Unaudited; In thousands)

	December 31, 2015				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$-	\$35,829	\$ 8,754	\$(12,373 )	\$ 32,210
Accounts receivable, net	-	466,415	23,378	(621 )	489,172
Inventories, net	-	447,120	18,943	-	466,063
Prepaid expenses and other current assets	4,232	139,726	6,426	-	150,384
Total current assets	4,232	1,089,090	57,501	(12,994 )	1,137,829
Intercompany receivable, net	-	824,837	-	(824,837 )	-
Investments in consolidated subsidiaries	2,719,051	-	-	(2,719,051 )	-
Deferred income taxes, net	19,032	-	160	(19,192 )	-
Property and equipment, net	2,687	134,935	7,985	-	145,607
Goodwill	-	1,134,000	28,111	-	1,162,111
Intangibles, net	-	483,844	3,633	-	487,477
Other assets, net	1,232	38	-	-	1,270
<b>Total Assets</b>	<b>\$2,746,234</b>	<b>\$3,666,744</b>	<b>\$ 97,390</b>	<b>\$(3,576,074 )</b>	<b>\$2,934,294</b>
<b>Liabilities and Stockholders' Equity</b>					
Current liabilities:					
Accounts payable	\$19,364	\$333,072	\$ 7,763	\$(12,994 )	\$ 347,205
Accrued expenses	1,511	144,611	5,425	-	151,547
Current portions of long-term obligations	4,500	9,787	-	-	14,287
Total current liabilities	25,375	487,470	13,188	(12,994 )	513,039
Intercompany payable, net	786,773	-	38,064	(824,837 )	-
Borrowings under revolving lines of credit	-	336,000	7,225	-	343,225
Long-term debt, net	722,888	-	-	-	722,888
Deferred income taxes, net	-	119,855	4	(19,192 )	100,667
Long-term obligations under equipment financing and other, net	45	43,222	55	-	43,322
Total liabilities	1,535,081	986,547	58,536	(857,023 )	1,723,141
Total stockholders' equity	1,211,153	2,680,197	38,854	(2,719,051 )	1,211,153
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$2,746,234</b>	<b>\$3,666,744</b>	<b>\$ 97,390</b>	<b>\$(3,576,074 )</b>	<b>\$2,934,294</b>



**BEACON ROOFING SUPPLY, INC.****Condensed Consolidating Statements of Operations**

(Unaudited; In thousands, except share and per share amounts)

	Three Months Ended December 31, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Net sales	\$-	\$ 960,235	\$ 41,949	\$ -	\$ 1,002,184
Cost of products sold	-	718,534	32,583	-	751,117
Gross profit	-	241,701	9,366	-	251,067
Operating expense	8,646	187,073	8,391	-	204,110
Intercompany charges (income)	(11,953)	11,399	554	-	-
Income from operations	3,307	43,229	421	-	46,957
Interest expense, financing costs, and other	15,354	(2,545 )	765	-	13,574
Intercompany interest expense (income)	(5,593 )	5,593	-	-	-
Income (loss) before provision for income taxes	(6,454 )	40,181	(344 )	-	33,383
Provision for (benefit from) income taxes	(2,854 )	15,902	(95 )	-	12,953
Income before equity in net income of subsidiaries	(3,600 )	24,279	(249 )	-	20,430
Equity in net income of subsidiaries	24,030	-	-	(24,030 )	-
Net income	\$20,430	\$ 24,279	\$ (249 )	\$ (24,030 )	\$ 20,430
Weighted-average common stock outstanding:					
Basic					59,943,264
Diluted					60,993,080
Net income per share:					
Basic					\$0.34
Diluted					\$0.33

	Three Months Ended December 31, 2015				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Net sales	\$-	\$ 931,484	\$ 45,137	\$ (141 )	\$ 976,480
Cost of products sold	-	708,383	35,050	(141 )	743,292
Gross profit	-	223,101	10,087	-	233,188
Operating expenses	31,172	167,014	8,158	-	206,344
Intercompany charges (income)	(7,847 )	7,186	661	-	-
Income (loss) from operations	(23,325)	48,901	1,268	-	26,844

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Interest expense, financing costs, and other	9,874	6,238	144	-	16,256
Intercompany interest expense (income)	(3,926 )	3,537	389	-	-
Income (loss) before provision for income taxes	(29,273 )	39,126	735	-	10,588
Provision for (benefit from) income taxes	(9,732 )	13,007	195	-	3,470
Income before equity in net income of subsidiaries	(19,541 )	26,119	540	-	7,118
Equity in net income of subsidiaries	26,659	-	-	(26,659 )	-
Net income	\$7,118	\$ 26,119	\$ 540	\$ (26,659 )	\$7,118

Weighted-average common stock outstanding:

Basic	58,972,913
Diluted	59,962,033

Net income per share:

Basic	\$0.12
Diluted	\$0.12

**BEACON ROOFING SUPPLY, INC.****Condensed Consolidating Statements of Comprehensive Income**

(Unaudited; In thousands)

	Three Months Ended December 31, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Net income	\$20,430	\$ 24,279	\$ (249	) \$ (24,030	) \$ 20,430
Other comprehensive income (loss):					
Foreign currency translation adjustment	(1,652 )	-	(1,652	) 1,652	(1,652 )
Total other comprehensive income (loss)	(1,652 )	-	(1,652	) 1,652	(1,652 )
Comprehensive income (loss)	\$18,778	\$ 24,279	\$ (1,901	) \$ (22,378	) \$ 18,778

	Three Months Ended December 31, 2015				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Net income	\$7,118	\$ 26,119	\$ 540	\$ (26,659	) \$ 7,118
Other comprehensive income (loss):					
Foreign currency translation adjustment	(2,469)	-	(2,469	) 2,469	(2,469 )
Total other comprehensive income (loss)	(2,469)	-	(2,469	) 2,469	(2,469 )
Comprehensive income (loss)	\$4,649	\$ 26,119	\$ (1,929	) \$ (24,190	) \$ 4,649



**BEACON ROOFING SUPPLY, INC.****Condensed Consolidating Statements of Cash Flows**

(Unaudited; In thousands)

	Three Months Ended December 31, 2016				Consolidated
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Other	
Net cash provided by (used in) operating activities	\$(18,908)	\$ 100,962	\$ 1,084	\$ (5,015 )	\$ 78,123
Investing Activities					
Purchases of property and equipment	(1,006 )	(6,073 )	(201 )	-	(7,280 )
Acquisition of businesses	(1,850 )	-	-	-	(1,850 )
Proceeds from the sale of assets	-	388	12	-	400
Intercompany activity	19,726	-	-	(19,726 )	-
Net cash provided by (used in) investing activities	16,870	(5,685 )	(189 )	(19,726 )	(8,730 )
Financing Activities					
Borrowings under revolving lines of credit	-	352,807	2,250	-	355,057
Repayments under revolving lines of credit	-	(377,896 )	(4,499 )	-	(382,395 )
Repayments under term loan	(1,125 )	-	-	-	(1,125 )
Borrowings under equipment financing facilities and other	-	1,010	-	-	1,010
Repayments under equipment financing facilities and other	-	(3,415 )	-	-	(3,415 )
Proceeds from issuance of common stock	3,460	-	-	-	3,460
Taxes paid related to net share settlement of equity awards	(297 )	-	-	-	(297 )
Intercompany activity	-	(21,613 )	1,887	19,726	-
Net cash provided by (used in) financing activities	2,038	(49,107 )	(362 )	19,726	(27,705 )
Effect of exchange rate changes on cash and cash equivalents	-	-	197	-	197
Net increase (decrease) in cash and cash equivalents	-	46,170	730	(5,015 )	41,885
Cash and cash equivalents, beginning of period	-	37,447	2,876	(8,937 )	31,386
Cash and cash equivalents, end of period	\$-	\$ 83,617	\$ 3,606	\$ (13,952 )	\$ 73,271

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Three Months Ended December 31, 2015

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Net cash provided by (used in) operating activities	\$(49,989 )	\$ 98,053	\$ 4,778	\$ (8,167 )	\$ 44,675
Investing Activities					
Purchases of property and equipment	(566 )	(1,578 )	(9 )	-	(2,153 )
Acquisition of businesses	(941,156)	-	-	-	(941,156 )
Proceeds from the sale of assets	-	229	-	-	229
Intercompany activity	436,866	-	-	(436,866 )	-
Net cash used in investing activities	(504,856)	(1,349 )	(9 )	(436,866 )	(943,080 )
Financing Activities					
Borrowings under revolving lines of credit	-	878,947	11,181	-	890,128
Repayments under revolving lines of credit	-	(534,470 )	(14,908 )	-	(549,378 )
Borrowings under term loan	450,000	-	-	-	450,000
Repayments under term loan	(186,750)	-	-	-	(186,750 )
Borrowings under Senior Notes	300,000	-	-	-	300,000
Repayments under equipment financing facilities and other	-	(1,367 )	-	-	(1,367 )
Payment of deferred financing costs	(18,890 )	(8,923 )	-	-	(27,813 )
Proceeds from issuance of common stock	8,984	-	-	-	8,984
Excess tax benefit from stock-based compensation	1,501	-	-	-	1,501
Intercompany activity	-	(437,878 )	1,012	436,866	-
Net cash provided by (used in) financing activities	554,845	(103,691 )	(2,715 )	436,866	885,305
Effect of exchange rate changes on cash and cash equivalents	-	-	(351 )	-	(351 )
Net increase (decrease) in cash and cash equivalents	-	(6,987 )	1,703	(8,167 )	(13,451 )
Cash and cash equivalents, beginning of period	-	42,816	7,051	(4,206 )	45,661
Cash and cash equivalents, end of period	\$-	\$ 35,829	\$ 8,754	\$ (12,373 )	\$ 32,210

### **13.Subsequent Events**

On January 3, 2017, the Company purchased certain assets of American Building and Roofing, Inc., a distributor of mainly residential roofing and related building products with 7 branches operating in Washington and annual sales of approximately \$36 million.

On January 9, 2017, the Company purchased certain assets of Eco Insulation Supply, a distributor of insulation and related accessories with 1 branch operating in Connecticut and annual sales of approximately \$8 million.

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

*The following discussion and analysis should be read in conjunction with Management's Discussion and Analysis included in our 2016 Annual Report on Form 10-K and our condensed consolidated financial statements and the notes thereto included elsewhere in this document. Unless otherwise indicated, references to "2017" refer to the three month period ended December 31, 2016 being discussed and references to "2016" refer to the three month period ended December 31, 2015 being discussed. We do not undertake, and specifically disclaim, any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.*

### Overview

We are the largest publicly traded distributor of residential and non-residential roofing materials in the United States and Canada. We also distribute complementary building products, including siding, windows, specialty exterior building products, insulation, and waterproofing systems for residential and non-residential building exteriors. We are among the oldest and most established distributors in the industry. We purchase products from a large number of manufacturers and then distribute these goods to a customer base consisting of contractors and, to a lesser extent, general contractors, retailers, and building materials suppliers.

As of December 31, 2016, we operated 365 branches in 47 states throughout the United States and 6 provinces in Canada. We stock one of the most extensive assortments of high quality branded products in the industry, with over 46,000 SKUs available across our branch network, enabling us to deliver products to serve nearly 67,000 customers on a timely basis. For 2016, approximately 96% of our net sales came from customers located in the United States.

Effective execution of both the sales and operating plans enables us to grow beyond the relative strength of the residential and non-residential roofing markets we serve. Our business model is a bottom-up approach, where each of our branches uses its regional knowledge and experience to assist with the development of a marketing plan and stocking a product mix that is best suited for its respective market. Local alignment with overall strategic goals provides the foundation for significant ownership of results at the branch level.

Our distinctive operational model combined with significant branch level autonomy differentiates us from the competition. We provide our customers with value-added services, including, but not limited to, job site delivery, custom designed tapered roofing systems, metal fabrication, and trade credit. We consider customer relations and our employees' knowledge of roofing and exterior building materials to be vital to our ability to increase customer loyalty and maintain customer satisfaction. Our customers' business success can be enhanced when they are supported by our efficient and effective distribution network. We invest significant resources in professional development, management

skills, product knowledge and operational proficiency. We pride ourselves on providing these capabilities developed on a foundation of continuous improvement driving service excellence, productivity and efficiencies.

We seek opportunities to expand our business operations through both acquisitions and organic growth (by opening branches, growing sales with existing customers, adding new customers and introducing new products). Our main acquisition strategy is to target market leaders who do business in geographic areas that we currently do not service or that complement our existing regional operations. The following highlights our recent success in delivering on our growth strategy:

***Acquisition Growth:***

On December 16, 2016, the Company purchased certain assets of BJ Supply Company, a distributor of roofing and related building products with 1 branch serving Pennsylvania and New Jersey and annual sales of \$4 million.

On October 1, 2015, we completed our acquisition of Roofing Supply Group ("RSG"), a leading roofing products distributor, in a cash and stock transaction valued at approximately \$1.17 billion. Completion of the RSG acquisition strengthened our position as the largest publicly traded roofing materials and related products distributor in the U.S., with approximately \$3.71 billion in combined pro forma net sales at the time of the acquisition. The RSG Acquisition has provided us the opportunity to create a stronger roofing distribution company built upon the foundation of two strong, growing distribution platforms with an extensive national footprint and continued growth potential. On the date of the acquisition, RSG operated 85 branches across 25 states, with 300 to 2,200 SKUs per branch. This acquisition has allowed us to expand our product offerings and increase our cross selling opportunities while maintaining our standards for exceptional customer service and roofing expertise.

We finalized seven additional strategic acquisitions in fiscal year 2016, acquiring 42 branches that significantly enhanced our geographic footprint, particularly in the Southern, Western, and Pacific Northwest regions of the United States:

On December 1, 2015, we purchased certain assets of RCI Roofing Supply, a distributor of residential and commercial roofing and related products with 5 branches operating in Nebraska, Iowa and Colorado and annual sales of approximately \$23 million.

On December 18, 2015, we acquired 100% of the equity interests of Roofing and Insulation Supply, a distributor primarily of residential and commercial insulation along with roofing and related products with 20 branches spanning 13 states operating across New England, the Mid-Atlantic, the Southeast, the Upper Midwest, Texas and Colorado and annual sales of approximately \$70 million.

On December 29, 2015, we purchased certain assets of Statewide Wholesale, a distributor of residential and commercial roofing and related products with 1 branch located in Denver, Colorado and annual sales of approximately \$15 million.

On April 1, 2016, we purchased certain assets of Atlantic Building Products, a distributor of decking, windows, siding, and related products with 2 branches operating in eastern Pennsylvania and annual sales of approximately \$5 million.

On April 1, 2016, we purchased certain assets of Lyf-Tym Building Products, a distributor of siding, windows, gutters, vinyl railings, and related products with 6 branches operating in North Carolina and Virginia and annual sales of approximately \$20 million.

On May 2, 2016, we purchased certain assets of Fox Brothers Company, a distributor of roofing, siding, windows, doors, and related products with 4 branches operating in Michigan and annual sales of approximately \$35 million.

On June 1, 2016, we acquired 100% of the equity interests of Woodfeathers, Inc., a distributor of primarily residential roofing and related products with 4 branches operating in Oregon and Washington and annual sales of approximately \$30 million.

## Results of Operations

### *Comparison of the Three Months Ended December 31, 2016 and 2015*

The following tables set forth selected consolidated statement of operations data and such data as a percentage of total revenue for each of the periods indicated:

Three Months Ended December 31,	
2016	2015
(In thousands)	

Net sales	\$1,002,184	\$976,480
Cost of products sold	751,117	743,292
Gross profit	251,067	233,188
Operating expense	204,110	206,344
Income from operations	46,957	26,844
Interest expense, financing costs, and other	13,574	16,256
Income before provision for income taxes	33,383	10,588
Provision for income taxes	12,953	3,470
Net income	20,430	7,118

	Three Months Ended December 31, 2016      2015 % of Net Sales			
Net sales	100.0%		100.0%	
Cost of products sold	74.9 %		76.1 %	
Gross profit	25.1 %		23.9 %	
Operating expense	20.4 %		21.1 %	
Income from operations	4.7 %		2.8 %	
Interest expense, financing costs, and other	1.4 %		1.7 %	
Income before provision for income taxes	3.3 %		1.1 %	
Provision for income taxes	1.3 %		0.4 %	
Net income	2.0 %		0.7 %	

In managing our business, we consider all growth, including the opening of new branches, to be organic growth unless it results from an acquisition. When we refer to growth in existing markets or organic growth, we include growth from existing and newly opened branches but exclude growth from acquired branches until they have been under our ownership for at least four full fiscal quarters at the start of the fiscal reporting period. When we refer to regions, we are referring to our geographic regions.

As of December 31, 2016, we had a total of 365 branches in operation. Our existing market calculations include 323 branches and exclude 42 branches because they were acquired after the start of the first quarter of fiscal year 2016. When we refer to our net product costs, we are referring to our invoice cost less the impact of short-term buying programs (also referred to as “special buys” given the manner in which they are offered).

The following table presents a summary of our results of operations for the periods presented, broken down by existing markets and acquired markets:

	Existing Markets		Acquired Markets		Consolidated	
	Three Months Ended December 31,					
	2016	2015	2016	2015	2016	2015
	(Dollars in thousands)					
Net sales	\$955,103	\$973,516	\$47,081	\$2,964	\$1,002,184	\$976,480



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Gross profit	\$237,257	\$232,459	\$13,810	\$729	\$251,067	\$233,188
Gross margin	24.8 %	23.9 %	29.3 %	24.6 %	25.1 %	23.9 %
Operating expense <sup>(1)</sup>	\$191,075	\$205,471	\$13,035	\$873	\$204,110	\$206,344
Operating expense as a % of net sales	20.0 %	21.1 %	27.7 %	29.5 %	20.4 %	21.1 %
Operating income (loss)	\$46,182	\$26,988	\$775	\$(144 )	\$46,957	\$26,844
Operating margin	4.8 %	2.8 %	1.6 %	-4.9 %	4.7 %	2.7 %

During 2017 and 2016, we recorded amortization expense related to intangible assets recorded under purchase accounting of \$20.1 million (\$2.7 million from acquired markets) and \$15.1 million (none from acquired markets), respectively. In addition, existing market operating expense for 2017 and 2016 included non-recurring charges of \$9.1 million (\$5.6 million, net of taxes) and \$25.7 million (\$15.3 million, net of taxes) for the recognition of certain charges related to acquisitions completed in fiscal years 2016 and 2017 (none from acquired markets).

### *Net Sales*

Consolidated net sales increased \$25.7 million, or 2.6%, to \$1.00 billion in 2017 from \$976.5 million in 2016. Existing market sales decreased \$18.4 million, or 1.9% over the same comparative period. We believe the decrease in our 2017 existing market sales was influenced primarily by the following factors:

- unfavorable weather conditions, primarily affecting overall demand in our West region and commercial product demand in our Midwest, Northeast and Southeast regions;

- lower average selling prices; and

- one less selling day;

partially offset by:

- increased residential product demand
- higher re-roofing demand tied to Spring 2016 storm activity across the Southwest region

Net sales within our acquired markets were \$47.1 million in 2017, a significant increase from 2016 due to the sales impact from the acquisitions completed during 2016. In 2016, we acquired a total of 111 branches and closed 29 branches. Closures were primarily a result of facility consolidations due to the acquisitions.

We estimate the impact of inflation or deflation on our sales and gross profit by looking at changes in our average selling prices and gross margins (discussed below). Average overall selling prices in existing markets declined 1-2% in 2017 compared to 2016, driven primarily by declines in residential and non-residential selling prices which were both down approximately 1-2% year-over-year. The average selling prices of complementary products decreased less than 1% year-over-year. During the same period, net product costs for complementary products remained relatively flat, while residential and non-residential net product costs decreased approximately 1-2% year-over-year. In 2017, we continue to experience an overall increase in gross margins due to a shift in sales mix to higher-margin residential products.

Existing markets net sales by geographical region increased (decreased) from 2016 to 2017 as follows: Northeast (12.0%); Mid-Atlantic 6.0%; Southeast 3.0%; Southwest 14.1%; Midwest (2.2%); West (25.6%); and Canada (7.1)%. These variations were primarily caused by short-term factors such as local market conditions, weather conditions and storm activity.

Product group sales for our existing markets were as follows:

	Three Months Ended December 31,							
	2016		2015		Change			
	Net Sales	%	Net Sales	%	\$		%	
	(Dollars in thousands)							
Residential roofing products	\$516,721	54.1 %	\$493,054	50.6 %	\$23,667		4.8 %	
Non-residential roofing products	310,452	32.5 %	348,257	35.8 %	(37,805)		-10.9 %	
Complementary building products	127,930	13.4 %	132,205	13.6 %	(4,275)		-3.2 %	
Total existing market sales	\$955,103	100.0 %	\$973,516	100.0 %	\$(18,413)		-1.9 %	

For 2017, our acquired markets recognized sales of \$12.7 million, \$1.4 million and \$33.0 million in residential roofing products, non-residential roofing products and complementary building products, respectively. The combination of our 2017 existing market sales of \$955.1 million plus the sales from acquired markets of \$47.1 million equals our total 2017 sales of \$1.00 billion. We believe the existing market information is useful to investors because it helps explain organic growth or decline.

### ***Gross Profit***

Gross profit and gross margin for our consolidated and existing markets were as follows:

	Three Months Ended		Change <sup>1</sup>	
	December 31, 2016	2015	\$	%
	(Dollars in thousands)			
Gross profit - consolidated	\$251,067	\$233,188	\$17,879	7.7%
Gross profit - existing markets	237,257	232,459	4,798	2.1%
Gross profit - acquired markets	13,810	729		
Gross margin - consolidated	25.1	% 23.9	% N/A	1.2%
Gross margin - existing markets	24.8	% 23.9	% N/A	0.9%

<sup>1</sup> Percentage changes for dollar amounts represents the ratable increase or decrease from period-to-period. Percentage changes for percentages represent the net period-to-period change in basis points

Our existing market gross profit increased \$4.8 million, or 2.1%, to \$237.3 million in 2017, and gross profit within our acquired markets was \$13.8 million for the same period. Our overall gross margins improved to 25.1% in 2017, mainly due to a favorable shift in sales mix to residential products. Gross margins within our existing markets for 2017 increased to 24.8%.

Direct sales (products shipped by our vendors directly to our customers), which typically have substantially lower gross margins (and operating expense) compared to our warehouse sales, represented 14.1% and 15.0% of our net sales in 2017 and 2016, respectively. We believe variations in direct sales activity to be primarily caused by short-term factors such as local market conditions, weather conditions and storm activity. None of these variations were driven by material regional impacts from changes in the direct sales mix of our geographical regions.



*Operating Expense*

Operating expense for consolidated and existing markets was as follows:

	Three Months Ended				Change <sup>1</sup>	
	December 31,					
	2016	2015	\$			%
	(Dollars in thousands)					
Operating expense - consolidated	\$204,110	\$206,344	\$	(2,234 )	-1.1 %	
Operating expense - existing markets	191,075	205,471		(14,396)	-7.0 %	
Operating expense - acquired markets	13,035	873				
Operating expense as a % of net sales - consolidated	20.4	%	21.1	%	N/A	-0.7 %
Operating expense as a % of net sales - existing markets	20.0	%	21.1	%	N/A	-1.1 %

<sup>1</sup> Percentage changes for dollar amounts represents the ratable increase or decrease from period-to-period. Percentage changes for percentages represent the net period-to-period change in basis points

Operating expense in our existing markets decreased by \$14.4 million, or 7.0% in 2017, to \$191.1 million, as compared to \$205.5 million in 2015, while operating expense within our acquired markets was \$13.0 million in 2017. The following factors were the leading causes of the decrease in operating expense in our existing markets:

- a decrease in payroll, employee benefits costs, and stock compensation expense of \$10.9 million due to additional compensation costs recognized in 2016 as a result of the RSG acquisition; and

- a decrease in general and administrative, selling, warehouse and other expenses of \$4.2 million due to the continued realization of cost synergies and consolidation of certain branches related to recent acquisitions.

partially offset by:

an increase in depreciation and amortization of \$1.5 million due to the increase in intangible assets stemming from our fiscal year 2016 acquisitions

During 2017 and 2016, we recorded amortization expense related to the intangible assets recorded under purchase accounting within our existing markets of \$17.5 million and \$15.1 million, respectively. Our existing markets operating expense as a percentage of the related net sales in 2017 was 20.0%, compared to 21.1% in 2016.

### ***Interest Expense, Financing Costs and Other***

Interest expense, financing costs and other expense was \$13.6 million in 2017, as compared to \$16.3 million in 2016. The primary driver of the decrease is a lower interest rate from the September 2016 refinancing of our Term Loan and the decrease in outstanding debt as a result of recent principal payments.

### ***Income Taxes***

Provision for income taxes was \$13.0 million in 2017, as compared to \$3.5 million in 2016. The increase was primarily due to a \$22.8 million increase in pre-tax net income for the comparative periods.

### **Non-GAAP Financial Measures**

To provide investors with additional information regarding our financial results, we prepare certain financial measures that are not calculated in accordance with generally accepted accounting principles in the United States (“GAAP”), specifically:

- Adjusted Net Income/Adjusted EPS
- Adjusted EBITDA

We define Adjusted Net Income as net income that excludes all non-recurring costs and the incremental amortization of intangibles related to acquisitions completed in fiscal years 2016 and 2017. Adjusted net income per share (“Adjusted EPS”) is calculated by dividing the Adjusted Net Income for the period by the weighted-average diluted shares outstanding for the period.

We define Adjusted EBITDA as net income plus interest expense (net of interest income), income taxes, depreciation and amortization, adjustments to contingent consideration, stock-based compensation and non-recurring acquisition costs from acquisitions completed in fiscal years 2016 and 2017. EBITDA is a measure commonly used in the distribution industry.

We use these supplemental measures to evaluate performance period over period and to analyze the underlying trends in our business and to establish operational goals and forecasts that are used in allocating resources. We expect to compute our non-GAAP financial measures using the same consistent method from quarter to quarter and year to year.

We feel these measures are useful because they allow investors to better understand year-over-year changes in underlying operating performance. We believe that these non-GAAP measures provide investors and analysts with a measure of operating results unaffected by differences in capital structures and capital investment cycles among otherwise comparable companies. Further, we believe these measures are useful to investors because they improve comparability of results of operations since they eliminate the impact of purchase accounting adjustments that can render operating results non-comparable between periods.

While we believe that these non-GAAP financial measures are useful in evaluating our business, this information should be considered as supplemental in nature and is not meant as a substitute for the related financial information prepared in accordance with GAAP. You should not consider any of these measures as a substitute alongside other financial performance measures presented in accordance with GAAP.

The following tables present a reconciliation of net income, the most directly comparable financial measure as measured in accordance with GAAP, to Adjusted Net Income/Adjusted EPS and Adjusted EBITDA for each of the periods indicated (in thousands, except per share amounts):

**Adjusted Net Income/Adjusted EPS**

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	Three Months Ended			
	December 31,			
	2016	2015		
	Amount	Per Share	Amount	Per Share
Net income	\$20,430	\$0.33	\$7,118	\$0.12
Company adjustments, net of income taxes:				
Acquisition costs <sup>1</sup>	6,537	0.11	17,561	0.29
Adjusted Net Income	\$26,967	\$0.44	\$24,679	\$0.41

<sup>1</sup> Acquisition costs reflect total non-recurring charges and the incremental amortization of intangibles related to acquisitions completed in fiscal years 2016 and 2017, net of \$4.1 million and \$12.0 million in tax for 2017 and 2016, respectively.

**Adjusted EBITDA**

	Three Months Ended			
	December 31,			
	2016	2015		
Net Income	\$20,430	\$7,118		
Acquisition costs <sup>1</sup>	1,160	15,702		
Interest expense, net	13,239	16,256		
Income taxes	12,953	3,470		
Depreciation and amortization	28,425	23,671		
Stock-based compensation	3,816	7,179		
Adjusted EBITDA	\$80,023	\$73,396		
Adjusted EBITDA as a % of net sales	8.0	%	7.5	%

<sup>1</sup> Acquisition costs reflect all non-recurring charges related to acquisitions completed in fiscal years 2016 and 2017 (excluding the impact of tax) that are not embedded in other balances of the table. Certain portions of the total acquisition costs incurred are included in interest expense, income taxes, depreciation and amortization, and stock-based compensation.



## Seasonality and Quarterly Fluctuations

In general, sales and net income are highest during our first, third and fourth fiscal quarters, which represent the peak months of construction and re-roofing, especially in our branches in the northern and mid-western U.S. and in Canada. We have historically incurred low net income levels or net losses during the second quarter when our sales are substantially lower.

We generally experience an increase in inventory, accounts receivable and accounts payable during the third and fourth quarters of the year as a result of the seasonality of our business. Our peak cash usage generally occurs during the third quarter, primarily because accounts payable terms offered by our suppliers typically have due dates in April, May and June, while our peak accounts receivable collections typically occur from June through November.

We generally experience a slowing of our accounts receivable collections during our second quarter, mainly due to the inability of some of our customers to conduct their businesses effectively in inclement weather in certain divisions. We continue to attempt to collect those receivables, which require payment under our standard terms. We do not provide material concessions to our customers during this quarter of the year.

We generally experience our peak working capital needs during the third quarter after we build our inventories following the winter season but before we begin collecting on most of our spring receivables.

## Certain Quarterly Financial Data

The following table sets forth certain unaudited quarterly data for fiscal year 2016 (ending September 30, 2016) and fiscal year 2015 which, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of this data. Results of any one or more quarters are not necessarily indicative of results for an entire fiscal year or of continuing trends.

	2017		2016						
	Qtr 1		Qtr 1		Qtr 2		Qtr 3		Qtr 4
	(Dollars in thousands)								
Net sales	\$ 1,002,184		\$ 976,480		\$ 823,537		\$ 1,152,726		\$ 1,174,366
% of year's sales	100.0	%	23.7	%	20.0	%	27.9	%	28.4
									%

Gross profit	\$251,067		\$233,188		\$195,764		\$282,075		\$302,042	
% of year's gross profit	100.0	%	23.0	%	19.3	%	27.8	%	29.9	%
Income (loss) from operations	\$46,957		\$26,844		\$3,883		\$78,379		\$95,878	
% of year's income from operations	100.0	%	13.1	%	1.9	%	38.2	%	46.8	%
Net income (loss)	\$20,430		\$7,118		\$(5,719 )		\$41,126		\$47,392	
Net income (loss) per share - basic	\$0.34		\$0.12		\$(0.10 )		\$0.69		\$0.79	
Net income (loss) per share - diluted	\$0.33		\$0.12		\$(0.10 )		\$0.68		\$0.78	

## Liquidity

Liquidity is defined as the current amount of readily available cash and the ability to generate adequate amounts of cash to meet the current needs for cash. We assess our liquidity in terms of our cash and cash equivalents on hand and the ability to generate cash to fund our operating activities, taking into consideration the seasonal nature of our business.

Our principal sources of liquidity as of December 31, 2016 were our cash and cash equivalents of \$73.3 million and our available borrowings of \$341.9 million under our asset based lending revolving credit facility.

Significant factors which could affect future liquidity include the following:

- the adequacy of available bank lines of credit;

- the ability to attract long-term capital with satisfactory terms;
- cash flows generated from operating activities;
- acquisitions; and
- capital expenditures.

Our primary capital needs are for working capital obligations and other general corporate purposes, including acquisitions and capital expenditures. Our primary sources of working capital are cash from operations and cash equivalents supplemented by bank borrowings. In the past, we have financed larger acquisitions initially through increased bank borrowings and the issuance of common stock. We then repay any such borrowings with cash flows from operations. We have funded most of our capital expenditures with cash on hand or through increased bank borrowings, including equipment financing, and then have reduced those obligations with cash flows from operations.

We believe we have adequate current liquidity and availability of capital to fund our present operations, meet our commitments on our existing debt and fund anticipated growth, including expansion in existing and targeted market areas. We seek potential acquisitions from time to time and hold discussions with certain acquisition candidates. If suitable acquisition opportunities or working capital needs arise that require additional financing, we believe that our financial position and earnings history provide a sufficient base for obtaining additional financing resources at reasonable rates and terms. We may also issue additional shares of common stock or preferred stock to raise funds, which we last did with an issuance of additional common stock in December 2005.

The following table summarizes our cash flows for the periods indicated (in thousands):

	Three Months Ended December 31,	
	2016	2015
Net cash provided by operating activities	\$78,123	\$44,675
Net cash used in investing activities	(8,730 )	(943,080)
Net cash provided by (used in) financing activities	(27,705)	885,305
Effect of exchange rate changes on cash and equivalents	197	(351 )
Net increase (decrease) in cash and cash equivalents	\$41,885	\$(13,451 )

### *Operating Activities*

Our net cash provided by operating activities was \$78.1 million in 2017, compared to \$44.7 million provided by operating activities in 2016. Cash from operations increased \$33.4 million due to an increase in net income after adjustments for non-cash items of \$14.4 million and a \$19.1 million decrease in the usage of working capital.

### ***Investing Activities***

Net cash used in investing activities was \$8.7 million in 2017, compared to \$943.1 million used in investing activities in 2016. During 2016, we spent \$1.9 million on acquisitions compared to \$941.2 million in 2016. Capital expenditures were \$7.3 million in 2017, compared to \$2.2 million in 2016.

### ***Financing Activities***

Net cash used in financing activities was \$27.7 million in 2017, compared to \$885.3 million provided by financing activities in 2016. The net decrease of \$913.0 million was primarily due to the new financing agreements that we entered into as a result of the RSG acquisition in 2016, offset by repayments and payment of deferred financing costs. In addition, proceeds from the issuance of common stock decreased by \$5.5 million to \$3.5 million in 2017, as compared to \$9.0 million in 2016.

### **Capital Resources**

We currently have the following credit facilities:

- an asset-based revolving line of credit facility in the United States;
- an asset-based revolving line of credit facility in Canada;
- a term loan facility; and
- Senior notes

In connection with the RSG acquisition on October 1, 2015, we entered into various financing arrangements totaling \$1.45 billion. These arrangements allowed us to refinance our existing debt and substantially pay off all the RSG debt at closing. Prior to the RSG acquisition, we had a credit facility with a syndicate of commercial banks that included a revolver and a long term note. As of the date of the RSG acquisition, approximately \$185.6 million was outstanding on the long-term note payable and approximately \$11.2 million was outstanding under the revolver.

We entered into a “Senior Secured Credit Facility”, comprised of an asset-based revolving line of credit facility (“ABL” or “ABL Facility”) of \$700.0 million (\$350.0 million of which was drawn at closing) and a new \$450.0 million term loan facility (“Term Loan” or “Term Loan Facility”). We also issued \$300.0 million of Senior Notes.

***Asset-based Line of Credit Facility (“ABL Facility”)***

On October 1, 2015, we entered into a \$700.0 million ABL Facility with Wells Fargo Bank, N.A. and a syndicate of other lenders. This ABL Facility consists of revolving loans in both the United States (“U.S. Revolver”) in the amount of \$670.0 million and Canada (“Canada Revolver”) in the amount of \$30.0 million. The ABL Facility has a maturity date of October 1, 2020.

The U.S. Revolver has various tranches of borrowings, bearing interest at rates ranging from 2.02% to 4.00%. The effective rate of these borrowings is 3.13% and is paid monthly. As of December 31, 2016, the outstanding balance on the U.S. Revolver and Canada Revolvers, net of debt issuance fees, was \$332.7 million. The U.S. Revolver also has outstanding standby letters of credit in the amount of \$12.6 million as of December 31, 2016. Current unused commitment fees on the revolving credit facilities are 0.25% per annum.

There is one financial covenant under the ABL Facility, which is a Consolidated Fixed Charge Ratio. As defined in the ABL Facility, the Consolidated Fixed Charge Ratio must be at least minimum of 1.00 at the end of each fiscal quarter, calculated on a trailing four quarter basis. The covenant is only applicable when the borrowing availability is less than 10% of the maximum loan cap or \$60.0 million.

The ABL Facility is guaranteed jointly and severally and fully and unconditionally by our active United States subsidiary.

***Term Loan***

On October 1, 2015, we entered into a \$450.0 million Term Loan Facility with Citibank N.A., and a syndicate of other lenders. The Term Loan requires quarterly principal payments in the amount of \$1.1 million, with the remaining outstanding principal to be paid on its maturity date of October 1, 2022. The interest rate paid is based on a LIBOR rate (with a floor) plus a fixed spread. We have the option of selecting a LIBOR period that determines the rate at which interest can accrue on the Term Loan as well as the period in which interest payments are made. On September 16, 2016, we refinanced our Term Loan and lowered the LIBOR floor by 25 basis points and lowered the spread by 25 basis points. As a result of the refinancing we wrote off \$1.6 million of debt issuance costs in interest expense. As of December 31, 2016 the outstanding balance on the Term Loan, net of debt issuance fees, was \$435.6 million.

The Term Loan is guaranteed jointly and severally and fully and unconditionally by our active United States subsidiary.

### ***Senior Notes***

We also raised \$300.0 million in Senior Notes, which mature on October 1, 2023. These notes bear interest at the rate of 6.38% per year, payable semi-annually in arrears on April 1 and October 1 of each year, beginning April 1, 2016. There are early payment provisions in the Senior Note indenture in which we would be subject to “make whole” provisions. Management anticipates repaying the notes at the maturity date of October 1, 2023. As of December 31, 2016 the outstanding balance on the Senior Notes, net of debt issuance fees, was \$291.4 million.

The Senior Notes are guaranteed jointly and severally and fully and unconditionally by our active United States subsidiary.

### ***Equipment Financing Facilities and Other Financing Arrangements***

As of December 31, 2016, there was a total of \$19.2 million outstanding under equipment financing facilities, with fixed interest rates ranging from 2.33% to 3.25% and payments due through September 2021.

We have capital leases in the amount of \$23.8 million outstanding as of December 31, 2016. These leases have interest rates ranging from 2.72% to 10.39% with payments due through November 2021.

**Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995**

Our disclosure and analysis in this report contains forward-looking information that involves risks and uncertainties. Our forward-looking statements express our current expectations or forecasts of possible future results or events, including projections of future performance, statements of management's plans and objectives, future contracts, and forecasts of trends and other matters. You can identify these statements by the fact that they do not relate strictly to historic or current facts and often use words such as "anticipate," "estimate," "expect," "believe," "will likely result," "outlook," "project" and other words and expressions of similar meaning. No assurance can be given that the results in any forward-looking statements will be achieved and actual results could be affected by one or more factors, which could cause them to differ materially. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act.

Certain factors that may affect our business and could cause actual results to differ materially from those expressed in any forward-looking statements include those set forth under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Company's market risk disclosures set forth in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of its 2016 Annual Report on Form 10-K have not changed materially during the three month period ended December 31, 2016.

### **Item 4. Controls and Procedures**

As of December 31, 2016, management, including the CEO and CFO, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Act")). Based on that evaluation, management, including the CEO and CFO, concluded that as of December 31, 2016, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and to ensure that information required to be disclosed by us in the reports that we file or submit under the Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Based on the most recent evaluation, we have concluded that no significant change in our internal control over financial reporting occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



## Part II. OTHER INFORMATION

### Item 6. Exhibits

Exhibit Number	Description	Incorporated by Reference		
		Form	File No.	Exhibit Filing Date
10.1+*	Description of Executive Annual Incentive Plan			
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)			
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)			
32.1*	Certification pursuant to 18 U.S.C. Section 1350			
101*	101.INS XBRL Instance 101.SCH XBRL Taxonomy Extension Schema 101.CAL XBRL Taxonomy Extension Calculation 101.LAB XBRL Taxonomy Extension Labels 101.PRE XBRL Taxonomy Extension Presentation 101.DEF XBRL Taxonomy Extension Definition			

+ Management contract or compensatory plan/arrangement

\* Filed herewith

Pursuant to Rule 405 of Regulation S-T, the following interactive data files formatted in Extensible Business Reporting Language (XBRL) are attached as Exhibit 101 to this Quarterly Report on Form 10-Q: (i) the Consolidated Balance Sheets as of December 31, 2016; September 30, 2016; and December 31, 2015, (ii) the Consolidated Statements of Operations for the three months ended December 31, 2016 and December 31, 2015, (iii) the Consolidated Statements of Comprehensive Income for the three months ended December 31, 2016 and December 31, 2015, (iv) the Consolidated Statements of Cash Flows for the three months ended December 31, 2016 and December 31, 2015, and (iv) the Notes to Condensed Consolidated Financial Statements.

**SIGNATURE**

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.

**BEACON ROOFING SUPPLY, INC.**

Date: February 6, 2017 BY: /s/ JOSEPH M. NOWICKI

Joseph M. Nowicki

*Executive Vice President & Chief Financial Officer*