BEACON ROOFING SUPPLY INC
Form 10-Q
May 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to

Commission File Number 000-50924

BEACON ROOFING SUPPLY, INC.

(Exact name of registrant as specified in its charter)

Delaware	36-4173371
(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 30, 2018, 68,086,674 shares of common stock, par value $0.01 per share, of the registrant were outstanding.

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BEACON ROOFING SUPPLY, INC.

FORM 10-Q

For the Quarter Ended March 31, 2018

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BEACON ROOFING SUPPLY, INC.

Consolidated Balance Sheets

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

	March 31, 2018	September 30, 2017	March 31, 2017
Assets			
Current assets:			
Cash and cash equivalents	$16,000	$ 138,250	$10,012
Accounts receivable, less allowance of $16,493, $11,829 and $17,140 as of March 31, 2018, September 30, 2017 and March 31, 2017, respectively	832,823	704,527	506,386
Inventories, net	1,005,577	551,924	580,889
Prepaid expenses and other current assets	240,315	209,138	217,389
Total current assets	2,094,715	1,603,839	1,314,676
Property and equipment, net	294,222	156,129	156,380
Goodwill	2,381,620	1,251,986	1,228,059
Intangibles, net	1,410,302	429,069	439,507
Other assets, net	1,511	8,534	1,511
Total Assets	$6,182,370	$ 3,449,557	$3,140,133
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable	$593,559	$ 503,697	$486,328
Accrued expenses	348,050	261,297	131,264
Current portions of long-term debt	19,597	14,141	14,014
Total current liabilities	961,206	779,135	631,606
Borrowings under revolving lines of credit, net	424,528	3,205	269,124
Long-term debt, net	2,493,889	721,268	722,101
Deferred income taxes, net	91,101	138,383	137,495
Long-term obligations under equipment financing and other, net	18,313	23,213	28,267
Other long-term liabilities	10,617	2,547	2,372
Total liabilities	3,999,654	1,667,751	1,790,965
Commitments and contingencies (Note 9)			
Convertible preferred stock; $0.01 par value; 400,000 shares authorized, issued and outstanding as of March 31, 2018; none authorized, issued and outstanding as of September 30, 2017 or March 31, 2017	$399,195	$ -	$-
Stockholders' equity:			
Common stock (voting); $0.01 par value; 100,000,000 shares authorized; 68,043,284 issued and outstanding as of March 31, 2018; 67,700,858	680	677	602

issued and outstanding as of September 30, 2017; 60,255,320 issued and outstanding at March 31, 2017			
Undesignated preferred stock; 5,000,000 shares authorized, none issued or outstanding	-	-	-
Additional paid-in capital	1,056,248	1,047,506	709,278
Retained earnings	743,127	748,186	658,396
Accumulated other comprehensive loss	(16,534)	(14,563)	(19,108)
Total stockholders' equity	1,783,521	1,781,806	1,349,168
Total Liabilities and Stockholders' Equity	$6,182,370	$ 3,449,557	$3,140,133

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 March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Net sales	$1,425,625	$870,724	$2,547,604	$1,872,908
Cost of products sold	1,087,248	666,247	1,939,474	1,417,364
Gross profit	338,377	204,477	608,130	455,544
Operating expense	395,775	207,533	616,432	411,643
Income (loss) from operations	(57,398)	(3,056)	(8,302)	43,901
Interest expense, financing costs, and other	39,570	12,268	62,138	25,842
Income (loss) before provision for income taxes	(96,968)	(15,324)	(70,440)	18,059
Provision for (benefit from) income taxes	(30,313)	(5,968)	(71,381)	6,985
Net income (loss)	$(66,655)	$(9,356)	$941	$11,074
Dividends on preferred shares, declared	6,000	-	6,000	-
Net income (loss) attributable to common shareholders	$(72,655)	$(9,356)	$(5,059)	$11,074
Weighted-average common stock outstanding:				
Basic	68,019,300	60,141,580	67,922,276	60,041,332
Diluted	68,019,300	60,141,580	67,922,276	61,069,938
Net income (loss) per share:				
Basic	$(1.07)	$(0.16)	$(0.07)	$0.18
Diluted	$(1.07)	$(0.16)	$(0.07)	$0.18

See accompanying Notes to Condensed Consolidated Financial Statements

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BEACON ROOFING SUPPLY, INC.

Consolidated Statements of Comprehensive Income

(Unaudited; In thousands)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Net income (loss)	$ (66,655)	$ (9,356)	$ 941	$ 11,074
Other comprehensive income (loss):				
Foreign currency translation adjustment	(2,028)	813	(1,971)	(839)
Total other comprehensive income (loss)	(2,028)	813	(1,971)	(839)
Comprehensive income (loss)	$ (68,683)	$ (8,543)	$ (1,030)	$ 10,235

See accompanying Notes to Condensed Consolidated Financial Statements

BEACON ROOFING SUPPLY, INC.

Consolidated Statements of Cash Flows

(Unaudited; In thousands)

	Six Months Ended March 31, 2018	2017
Operating Activities		
Net income (loss)	$941	$11,074
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	81,092	56,955
Stock-based compensation	7,835	7,574
Certain interest expense and other financing costs	3,987	2,703
Loss on debt extinguishment	1,725	-
Gain on sale of fixed assets	(319)	(420)
Deferred income taxes[1]	(47,260)	2,020
Other, net	-	131
Changes in operating assets and liabilities, net of the effects of businesses acquired:		
Accounts receivable	186,170	123,590
Inventories	(131,789)	(92,072)
Prepaid expenses and other assets	67,425	(53,062)
Accounts payable and accrued expenses	(130,695)	91,950
Other liabilities	854	87
Net cash provided by (used in) operating activities	39,966	150,530
Investing Activities		
Purchases of property and equipment	(24,833)	(24,231)
Acquisition of businesses, net	(2,726,561)	(58,359)
Proceeds from the sale of assets	413	1,285
Net cash provided by (used in) investing activities	(2,750,981)	(81,305)
Financing Activities		
Borrowings under revolving lines of credit	1,530,667	857,099
Repayments under revolving lines of credit	(1,097,463)	(948,470)
Borrowings under term loan	970,000	-
Repayments under term loan	(441,000)	(1,125)
Borrowings under senior notes	1,300,000	-
Payment of debt issuance costs	(67,723)	-
Repayments under equipment financing facilities and other	(5,643)	(5,365)
Proceeds from issuance of convertible preferred stock	400,000	-
Payment of stock issuance costs	(1,279)	-
Payment of dividends on preferred stock	(978)	-
Proceeds from issuance of common stock related to equity awards	5,317	7,840
Taxes paid related to net share settlement of equity awards	(3,933)	(697)
Net cash provided by (used in) financing activities	2,587,965	(90,718)
Effect of exchange rate changes on cash and cash equivalents	800	119
Net increase (decrease) in cash and cash equivalents	(122,250)	(21,374)

Cash and cash equivalents, beginning of period	138,250	31,386
Cash and cash equivalents, end of period	$16,000	$10,012
Supplemental cash flow information		
Cash paid during the period for:		
Interest	$28,659	$29,592
Income taxes, net of tax refunds	33,037	36,151
Supplemental disclosure of non-cash financing activity		
Preferred stock dividends, accrued and unpaid	5,022	-

[1] Includes impact of provisional amounts recognized relating to estimated impact of Tax Cuts and Jobs Act of 2017 – see Note 12.

See accompanying Notes to Condensed Consolidated Financial Statements

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BEACON ROOFING SUPPLY, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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.

On January 2, 2018, the Company finalized its acquisition of Allied Building Products Corp., a New Jersey corporation, and an affiliated entity (together “Allied”) for $2.625 billion, subject to certain working capital and other adjustments (see Note 3). Allied engages in the distribution of roofing materials, drywall, ceiling tile, and related accessories in the United States and was a wholly-owned subsidiary of Oldcastle Distribution, Inc.

The Company operates its business under regional and local trade names and, as of March 31, 2018, the Company serviced customers in all 50 states within the United States and 6 provinces in Canada. The Company’s material subsidiaries are Beacon Sales Acquisition, Inc., Allied Building Products, LLC 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. Certain prior period amounts have been reclassified to conform to current period presentation. The balance sheet as of March 31, 2017 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 and six months ended March 31, 2018 are not necessarily indicative of the results to be expected for the twelve months ending September 30, 2018 (“fiscal year 2018” or “2018”).

The three-month periods ended March 31, 2018 and 2017 each had 64 business days and the six-month periods ended March 31, 2018 and 2017 each had 125 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 2017 (“2017”) Annual Report on Form 10-K for the year ended September 30, 2017.

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 March 2016, the FASB issued ASU 2016-09, "Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting." This guidance 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 in any interim or annual period. The Company adopted this guidance effective October 1, 2017. As a result, the Company now records excess tax benefits (or deficiencies) as income tax benefits (or expenses) in our consolidated statements of operations rather than as additional paid-in-capital in its consolidated balance sheets. ASU 2016-09 allowed for this guidance to be applied prospectively or retrospectively. The Company elected to apply this guidance prospectively, and recognized $0.4 million and $2.9 million of excess tax benefits in our consolidated statement of operations related to equity award transactions executed in the period for the three and six months ended March 31, 2018. To align with the prospective treatment in our consolidated statements of operations, the Company now classifies excess tax benefits (or deficiencies) along with accrued income taxes in operating activities within our consolidated statements of cash flows. The Company elected to retain its historical approach to accounting for forfeitures and statutory tax withholding requirements, therefore these specific aspects of the new guidance had no impact on its financial statements and related disclosures.

In November 2016, the FASB issued ASU 2016-18, “Restricted Cash.” This guidance standardizes the presentation of changes to restricted cash on the statement of cash flows by requiring that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amount generally described as restricted cash or restricted cash equivalents. The provisions of this standard are effective for reporting periods beginning after December 15, 2017. Early adoption is permitted in any interim or annual period, and the guidance is required to be applied retrospectively. The Company adopted this guidance effective October 1, 2017 and the standard did not have a material impact on the Company’s financial statement and related disclosures.

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 when it becomes effective. The new standard is effective for public business entities for annual and interim reporting periods beginning after December 15, 2017, and early adoption is permitted for annual reporting periods beginning after December 15, 2016. The standard permits the use of either the full retrospective or modified retrospective adoption methods. The Company is continuing to perform a detailed evaluation, using a five-step model specified in the guidance, to assess the impacts of the new standard on our legacy and newly acquired businesses, and expects to apply the guidance using the modified retrospective method. Based on the Company’s knowledge of its revenue transactions, the Company does not expect the adoption of this new guidance to have a material impact on its financial statements, but does expect that it will result in additional revenue recognition disclosures.

In February 2016, the FASB issued ASU 2016-02, “Leases.” This guidance will replace most existing accounting for lease guidance when it becomes effective. This new standard is effective using the modified retrospective approach for annual and interim reporting periods beginning after December 15, 2018 and early adoption is permitted. The guidance will require the Company to record a right of use asset and a lease liability for most of the Company’s leases, including those currently treated as operating leases. The Company is in the process of evaluating the impact of the standard and has decided that it will use the practical expedients outlined in the transition guidance. The scope of the overall impact on the Company’s financial statements and related disclosures is still being quantified.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments.” This guidance 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. This new standard is effective for annual and interim 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.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations: Clarifying the Definition of a Business.” This guidance is intended to assist entities when evaluating when a set of transferred assets and activities constitutes a business. This new standard is effective for annual and interim reporting periods beginning after December 15, 2017 and early adoption is permitted. The Company does not expect the adoption of this new guidance to have a material impact on its financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, “Simplifying the Accounting for Goodwill Impairment.” This guidance is intended to introduce a simplified approach to measurement of goodwill impairment, eliminating the need for a hypothetical purchase price allocation and instead measuring impairment by the amount a reporting unit’s carrying value exceeds its fair value. This new standard is effective for annual and interim reporting periods beginning after December 15, 2019 and early adoption is permitted. The Company does not expect the adoption of this new guidance to have a material impact on its financial statements and related disclosures.

In May 2017, the FASB issued ASU 2017-09, “Scope of Modification Accounting.” This guidance is intended to provide clarity and reduce both diversity in practice and cost and complexity when applying the guidance in Compensation – Stock Compensation, to a change to the terms or conditions of a share-based payment award. This new standard is effective for annual and interim reporting periods beginning after December 15, 2017 and early adoption is permitted. The Company does not expect the adoption of this new guidance to have a material impact on its financial statements and related disclosures.

In February 2018, the FASB issued ASU 2018-02, “Income Statement – Reporting Comprehensive Income.” This guidance is intended to address the accounting treatment for the tax effects on items within accumulated other comprehensive income as a result of the adoption of the Tax Cuts and Jobs Act of 2017 (see Note 12). This new standard is effective for annual and interim reporting periods beginning after December 15, 2018 and early adoption is permitted. The Company does not expect the adoption of this new guidance to have a material impact on its financial statements and related disclosures.

3. Acquisitions

Allied Building Products Corp.

On January 2, 2017 (the “Closing Date”), the Company completed its previously announced acquisition (the “Allied Acquisition”) of all the outstanding capital stock of Allied Building Products Corp. and an affiliated entity (together, “Allied”), pursuant to that certain Stock Purchase Agreement, dated August 24, 2017 (the “Stock Purchase Agreement”), among the Company, Oldcastle, Inc., as parent, and Oldcastle Distribution, Inc., as seller, for approximately $2.625 billion in cash, subject to a working capital and certain other adjustments as set forth in the Stock Purchase Agreement (the “Purchase Price”). As of March 31, 2018, the Company estimated a working capital adjustment of $120.9 million.

In connection with the Allied Acquisition, on the Closing Date the Company entered into (i) a new term loan agreement with Citibank, N.A., providing for a term loan B facility with an initial commitment of $970.0 million and (ii) an amended and restated credit agreement with Wells Fargo Bank, N.A., providing for a senior secured asset-based revolving credit facility with an initial commitment of $1.30 billion. Base borrowing rates on these facilities will be at LIBOR plus 1.25% and LIBOR plus 2.25%, respectively.

In connection with the Allied Acquisition, on the Closing Date, the Company completed the sale of 400,000 shares of Series A Cumulative Convertible Participating Preferred Stock, par value $0.01 per share (the “Preferred Stock”), with an aggregate liquidation preference of $400.0 million, at a purchase price of $1,000 per share, to CD&R Boulder Holdings, L.P., pursuant to that certain Investment Agreement, dated as of August 24, 2017, with CD&R Boulder Holdings, L.P. and Clayton, Dubilier & Rice Fund IX, L.P. (solely for the purpose of limited provisions therein) (the “Convertible Preferred Stock Purchase”). The $400.0 million in proceeds from the Convertible Preferred Stock Purchase were used to finance, in part, the Purchase Price. The Preferred Stock is convertible perpetual participating preferred stock of the Company, and conversion of the Preferred Stock into $0.01 par value shares of the Company’s common stock will be at a conversion price of $41.26 per share. The Preferred Stock accrues dividends at a rate of 6.0% per annum (payable in cash or in-kind, subject to certain conditions). The Preferred Stock is not mandatorily redeemable; therefore it is classified on the Company’s consolidated balance sheets as mezzanine equity and recognized at $399.2 million (the $400.0 million proceeds received on the Closing Date, net of $0.8 million of issuance costs).

Allied’s results of operations have been included with Company’s consolidated results beginning January 2, 2018. Allied distributed products in 208 locations across 31 states as of the date of the close.

The Allied 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 from the Allied assembled workforce operating the branches as part of a larger network and the value stemming from the addition of both new customers and an established new line of business (interiors). The Company has recorded purchase accounting entries on a preliminary basis for the Allied Acquisition, detailed as follows (in thousands):

Cash	$19,322

Accounts receivable	315,485
Inventory	322,705
Prepaid and other current assets	59,279
Property, plant, and equipment	139,528
Goodwill	1,130,635
Intangible assets	1,037,000
Current liabilities	(271,252)
Non-current liabilities	(6,820)
Total purchase price	$2,745,882

The purchase accounting entries above assume the Company will make a Section 338(h)(10) election under the current U.S. tax code. As of March 31, 2018 the Company had not made this election, but expects to do so in in the fourth quarter of fiscal year 2018. Upon making the Section 338(h)(10) election, the Company will then determine the amount of Allied goodwill that will become tax deductible. 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. There were no material contingencies assumed as part of the Allied acquisition.

Net sales from the Allied Acquisition included in the Company's statements of operations for the three and six months ended March 31, 2018 were $534.1 million. Net income (loss) from the Allied Acquisition included in the Company's statements of operations for the three and six months ended March 31, 2018 was a loss of $13.0 million.

The following table represents the unaudited pro forma consolidated net sales and net income (loss) for the Company for the periods indicated (in thousands):

	Six Months Ended March 31, 2018	Six Months Ended March 31, 2017
	(unaudited)	
Net sales	$3,213,253	$3,029,811
Net income (loss)	(37,153)	(33,094)

The above pro forma results have been calculated by combining the historical results of the Company and Allied as if the Allied Acquisition had occurred on the first day of the fiscal year (October 1) for each of the periods presented. The income tax provision used to calculate net income (loss) for the respective periods presented has been adjusted to reflect the effective tax rate for the annual periods as if it had been based on the resulting, combined results. The pro forma results include estimates for intangible asset amortization, depreciation, interest expense and debt issuance costs and are subject to change once final asset values have been determined. No other material pro forma adjustments were deemed necessary to conform to the Company's accounting policies or for any other situation. The pro forma information is not necessarily indicative of the results that would have been achieved had the transactions occurred on the first day of the fiscal years presented or that may be achieved in the future.

Additional Acquisitions – Fiscal Year 2017

During fiscal year 2017, the Company acquired 23 branches from the following five acquisitions:

- 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. The Company has finalized the acquisition accounting entries for this transaction.
- On January 3, 2017, the Company acquired American Building & Roofing, Inc., a distributor of mainly residential roofing and related building products with 7 branches around Washington State and annual sales of approximately $36 million. The Company has finalized the acquisition accounting entries for this transaction.
- On January 9, 2017, the Company acquired Eco Insulation Supply, a distributor of insulation and related accessories with 1 branch serving Connecticut, Southern New England and the New York City metropolitan area and annual sales of approximately $8 million. The Company has finalized the acquisition accounting entries for this transaction.
- On March 1, 2017, the Company acquired Acme Building Materials, Inc., a distributor of residential roofing and related building products with 3 branches in Eastern Michigan and annual sales of approximately $13 million. The Company has finalized the acquisition accounting entries for this transaction.
- On May 1, 2017, the Company purchased certain assets of Lowry's Inc., a distributor of waterproofing and concrete restoration materials with 11 branches operating in California, Arizona, Utah and Hawaii and annual sales of approximately $76 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 $53.0 million (all of which is deductible for tax purposes) and $47.4 million in intangible assets associated with these other acquisitions.

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 as well as the Company’s continued review of the assumed liabilities that may result in the recognition of changes to the carrying amounts on the Allied opening balance sheet and a related adjustment to goodwill.

4. Net Income (Loss) Per Share

Basic net income (loss) per share is calculated by dividing net income (loss), less dividends on preferred shares, by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per common share is calculated by utilizing the most dilutive result from the following two methods:

- Two-class method: This method assumes no conversion of the Preferred Stock. It is calculated by dividing net income (loss), less dividends on preferred shares, by the weighted-average number of common shares outstanding when including the dilutive effect common share equivalents then outstanding using the treasury stock method.
- If-converted method: This method assumes full conversion of the Preferred Stock as of the first day of the period. It is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding when including the dilutive effect of the Preferred Stock and the common share equivalents then outstanding using the treasury stock method.

In both of the aforementioned methods, common share equivalents consist of the incremental common shares issuable upon the exercise of stock options and vesting of restricted stock unit awards.

The following table presents the components and calculations of basic and diluted net income (loss) per share for each period presented (in thousands, except share and per share amounts):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Net income (loss)	$(66,655)	$(9,356)	$941	$11,074
Less: Dividends on preferred shares, declared	6,000	-	6,000	-
Net income (loss) attributable to common shareholders	$(72,655)	$(9,356)	$(5,059)	$11,074
Weighted-average common shares outstanding, basic	68,019,300	60,141,580	67,922,276	60,041,332
Effect of common share equivalents	-	-	-	1,028,606
Effect of Preferred Stock conversion	-	-	-	-
Weighted-average common shares outstanding, diluted	68,019,300	60,141,580	67,922,276	61,069,938
Net income (loss) per share - basic	$(1.07)	$(0.16)	$(0.07)	$0.18
Net income (loss) per share - diluted	$(1.07)	$(0.16)	$(0.07)	$0.18

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 March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Stock options	275,209	270,428	281,742	416,085
Restricted stock units	90,024	-	45,012	123,780

5. Stockholders' Equity

The following table presents the activity included in stockholders' equity during the six months ended March 31, 2018 (in thousands, except share amounts):

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at September 30, 2017	67,700,858	$ 677	$ 1,047,506	$ 748,186	$ (14,563)	$ 1,781,806
Issuance of common stock, net of shares withheld for taxes	342,426	3	1,381	-	-	1,384
Issuance costs related to secondary offering of common stock	-	-	(474)	-	-	(474)
Stock-based compensation	-	-	7,835	-	-	7,835
Other comprehensive income (loss)	-	-	-	-	(1,971)	(1,971)
Net income (loss)	-	-	-	941	-	941
Dividends on preferred shares, declared	-	-	-	(6,000)	-	(6,000)
Balance at March 31, 2018	68,043,284	$ 680	$ 1,056,248	$ 743,127	$ (16,534)	$ 1,783,521

Common Stock

The Company is authorized to issue 100 million shares of common stock. As of March 31, 2018, September 30, 2017, and March 31, 2017 there were 68,043,284, 67,700,858 and 60,255,320 shares of common stock issued and outstanding, respectively.

Accumulated Other Comprehensive 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	Accumulated Other Comprehensive Loss
Balance as of September 30, 2017	$ (14,563)	$ (14,563)
Other comprehensive income before reclassifications	(1,971)	(1,971)
Reclassifications out of other comprehensive loss	-	-

Balance as of March 31, 2018	$ (16,534)	$ (16,534)

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 March 31, 2018, there were 3,723,984 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 contained 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 three annual installments over the three-year period following the grant dates.

The fair values of the options granted during the six months ended March 31, 2018 were estimated on the dates of grants using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Risk-free interest rate	2.10 %
Expected volatility	26.43%
Expected life (in years)	5.46
Dividend yield	-

The following table summarizes all stock option activity for the six months ended March 31, 2018 (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[1]
Balance as of September 30, 2017	2,084,228	$ 28.84	6.1	$ 46,714
Granted	276,370	55.17		
Exercised	(217,397)	24.46		
Canceled/Forfeited	(47,842)	41.82		
Expired	(1,991)	15.28		
Balance as of March 31, 2018	2,093,368	$ 32.48	6.2	$ 43,646
Vested and expected to vest after March 31, 2018	2,071,674	$ 32.32	6.1	$ 43,510
Exercisable as of March 31, 2018	1,512,437	$ 27.48	5.2	$ 38,704

[1] 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 March 31, 2018 and 2017, the Company recorded stock-based compensation expense related to stock options of $0.8 million and $1.3 million, respectively. During the six months ended March 31, 2018 and 2017, the Company recorded stock-based compensation expense related to stock options of $1.9 million and $2.6 million, respectively. As of March 31, 2018, there was $6.7 million of unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted-average period of 2.1 years.

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

	Six Months Ended March 31,	
	2018	2017
Weighted-average fair value of stock options granted	$15.86	$14.21
Total fair value of stock options vested	3,832	4,977
Total intrinsic value of stock options exercised	7,700	7,906

Restricted Stock Units

Restricted stock unit ("RSU") awards granted to employees are subject to continued employment and generally vest on the third anniversary of the grant date. The Company also grants certain RSU awards to management that contain one or more additional vesting conditions tied directly to a defined performance metric for the Company. The actual number of RSUs that will vest can range from 0% to 200% of the original grant amount, depending upon actual Company performance below or above the established performance metric targets. The Company estimates performance in relation to the defined targets when determining the projected number of RSUs that are expected to vest and calculating the related stock-based compensation expense.

RSUs granted to non-employee directors are subject to continued service and vest on the first anniversary of the grant date (except under certain conditions). Generally, the common shares underlying the RSUs are not eligible for distribution until the non-employee director's service on the Board has terminated, and 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, the Company enacted a policy that allows any non-employee directors who hold common stock and have outstanding vested equity awards with a total fair value that is greater than or equal to five times the annual Board cash retainer to elect to have any future RSU grants settle simultaneously with vesting.

The following table summarizes all restricted stock unit activity for the six months ended March 31, 2018:

	RSUs Outstanding	Weighted-Average Grant Date Fair Value
Balance at September 30, 2017	770,973	$ 38.95
Granted	370,190	57.40
Performance awards[1]	41,440	39.56
Released	(189,154)	31.63
Canceled/Forfeited	(35,974)	47.65
Balance at March 31, 2018	957,475	$ 47.23
Vested and expected to vest after March 31, 2018	936,924	$ 47.10

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1 Additional restricted stock units outstanding as a result of the satisfaction of a performance vesting condition prior to the ascribed time-based vesting condition (release date).

During the three months ended March 31, 2018 and 2017, the Company recorded stock-based compensation expense related to restricted stock units of $3.5 million and $2.5 million, respectively. During the six months ended March 31, 2018 and 2017, the Company recorded stock-based compensation expense related to restricted stock units of $5.9 million and $5.0 million, respectively. As of March 31, 2018, there was $26.2 million of unrecognized compensation cost related to unvested restricted stock units, which is expected to be recognized over a weighted-average period of 2.0 years.

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

	Six Months Ended March 31,	
	2018	2017
Weighted-average fair value of RSUs granted	$57.40	$47.27
Total fair value of RSUs vested	6,523	2,736
Total intrinsic value of RSUs released	10,924	3,074

7. Goodwill and Intangible Assets

Goodwill

The following table sets forth the change in the carrying amount of goodwill during the six months ended March 31, 2018 and 2017, respectively (in thousands):

Balance at September 30, 2016	$1,197,565
Acquisitions	31,005
Translation and other adjustments	(511)
Balance at March 31, 2017	$1,228,059
Balance at September 30, 2017	$1,251,986
Acquisitions	1,130,635
Translation and other adjustments	(1,001)
Balance at March 31, 2018	$2,381,620

The change in the carrying amount of goodwill for the six months ended March 31, 2018 and 2017 is primarily attributable to the Company's acquisitions finalized during the respective periods presented (see Note 3).

Intangible Assets

In connection with transactions finalized during the six months ended March 31, 2018 and fiscal year 2017, the Company recorded intangible assets of $1.04 billion ($910.0 million of customer relationships, $6.6 million of beneficial lease arrangements, and $120.0 million of indefinite-lived trademarks). In connection with transactions finalized during fiscal year 2017, the Company recorded intangible assets of $47.4 million ($42.7 million of customer relationships, $4.6 million of amortizable trademarks, and $0.1 million of beneficial lease arrangements).

The following table summarizes intangible assets by category (in thousands, except time period amounts):

	March 31, 2018	September 30, 2017	March 31, 2017	Weighted-Average Remaining Life[1] (Years)
Amortizable intangible assets:				
Non-compete agreements	$2,824	$ 2,824	$2,824	2.91
Customer relationships	1,519,766	610,026	582,028	19.08
Trademarks	10,500	10,500	6,670	7.97
Beneficial lease arrangements	7,644	1,060	960	4.96
Total amortizable intangible assets	1,540,734	624,410	592,482	
Less: Accumulated amortization	(323,482)	(268,391)	(226,025)	
Total amortizable intangible assets, net	$1,217,252	$ 356,019	$366,457	
Indefinite lived trademarks	193,050	73,050	73,050	
Total intangibles, net	$1,410,302	$ 429,069	$439,507	

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1 As of March 31, 2018

For the three months ended March 31, 2018 and 2017, we recorded $37.1 million and $20.3 million of amortization expense relating to the above-listed intangible assets, respectively. For the six months ended March 31, 2018 and 2017, we recorded $55.3 million and $40.4 million of amortization expense relating to the above-listed intangible assets, respectively. The intangible asset lives range from 5 to 20 years and have a weighted-average remaining life of 18.9 years as of March 31, 2018.

The following table summarizes the estimated future amortization expense for intangible assets (in thousands):

Year Ending September 30,	
2018 (Apr - Sept)	$74,619
2019	188,832
2020	181,762

2021	152,665
2022	125,020
Thereafter	494,354
	$1,217,252

8. Financing Arrangements

The following table summarizes all financing arrangements from the respective periods presented (in thousands):

	March 31, 2018	September 30, 2017	March 31, 2017
Revolving Lines of Credit:			
2020 ABL			
U.S. Revolver, expires October 1, 2020 [1]	$-	$ -	$269,124
Canada Revolver, expires October 1, 2020[2]	-	3,205	-
2023 ABL			
U.S. Revolver, expires January 2, 2023[3]	424,528	-	-
Canada Revolver, expires January 2, 2023	-	-	-
Less: current portion	-	-	-
Borrowings under revolving lines of credit, net	$424,528	$ 3,205	$269,124
Term Loans:			
Term Loan, matures October 1, 2022[4]	$-	$ 433,440	$434,912
Term Loan, matures January 2, 2025[5]	931,909	-	-
Less: current portion	(9,700)	(4,500)	(4,500)
Total long-term borrowings under term loans	$922,209	$ 428,940	$430,412
Senior Notes:			
Senior Notes, mature October 2023[6]	292,967	292,328	291,689
Senior Notes, mature November 2025[7]	1,278,713	-	-
Less: current portion	-	-	-
Total long-term borrowings under Senior Notes	$1,571,680	$ 292,328	$291,689
Long-term debt, net	$2,493,889	$ 721,268	$722,101
Equipment Financing Facilities and Other:			
Equipment financing facilities, various maturities through September 2021[8]	$13,347	$ 12,898	$15,577
Capital lease obligations, various maturities through November 2021[9]	14,863	19,956	22,204
Total obligations under equipment financing facilities and other	28,210	32,854	37,781
Less: current portion	(9,897)	(9,641)	(9,514)
Long-term obligations under equipment financing and other, net	$18,313	$ 23,213	$28,267

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[1] Extinguished on January 2, 2018 ; Effective rate on borrowings of 2.97% as of March 31, 2017
[2] Extinguished on January 2, 2018; Effective rate on borrowings of 3.70% as of September 30, 2017
[3] Effective rate on borrowings of 3.41% as of March 31, 2018

[4] Extinguished on January 2, 2018; Interest rate of 3.50% as of September 30, 2017 and March 31, 2017
[5] Interest rate of 3.94% as of March 31, 2018

[6] Interest rate of 6.38% as of March 31, 2018, September 30, 2017 and March 31, 2017
[7] Interest rate of 4.88% as of March 31, 2018
[8] Fixed interest rates ranging from 2.33% to 3.25% as of March 31, 2018, September 30, 2017, and March 31, 2017

[9] Fixed interest rates ranging from 2.72% to 10.39% as of March 31, 2018 , September 30, 2017, and March 31, 2017

Financing - Allied Acquisition

In connection with the Allied Acquisition, the Company entered into various financing arrangements totaling $3.57 billion, including an asset-based revolving line of credit of $1.30 billion (“2023 ABL”), $525.0 million of which was drawn at closing, and a $970.0 million term loan (“2025 Term Loan”). The Company also raised an additional $1.30 billion through the issuance of senior notes (the “2025 Senior Notes”).

The proceeds from these financing arrangements were used to finance the Allied Acquisition, to refinance or otherwise extinguish all third-party indebtedness, to pay fees and expenses associated with the acquisition, and to provide working capital and funds for other general corporate purposes. The Company capitalized new debt issuance costs totaling approximately $67.7 million related to the 2023 ABL, the 2025 Term Loan and the 2025 Senior Notes.

Since the financing arrangements entered into in connection with the Allied Acquisition had certain lenders who also participated in previous financing arrangements entered into by the Company, portions of the transactions were accounted for as either a debt modification or a debt extinguishment. In accordance with the accounting for debt modification, the Company expensed $2.0

million of debt issuance costs related to the Allied financing arrangements and recognized a loss on debt extinguishment of $1.7 million. The remainder of the debt issuance costs will be amortized over the term of the Allied financing arrangements.

2023 ABL

On January 2, 2018, the Company entered into a $1.30 billion asset-based revolving line of credit with Wells Fargo Bank, N.A. and a syndicate of other lenders. The 2023 ABL consists of revolving loans in both the United States ("2023 U.S. Revolver") in the amount of $1.20 billion and Canada ("2023 Canada Revolver") in the amount of $100.0 million. The 2023 ABL has a maturity date of January 2, 2023. The 2023 ABL has various borrowing tranches with an interest rate based on a LIBOR rate (with a floor) plus a fixed spread. The current unused commitment fees on the 2023 ABL are 0.25% per annum.

There is one financial covenant under the 2023 ABL, which is a Consolidated Fixed Charge Ratio. The Consolidated Fixed Charge Ratio is calculated by dividing consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) by Consolidated Fixed Charges (both as defined in the agreement). Per the covenant, the Company's Consolidated Fixed Charge Ratio has to be a minimum of 1.00 at the end of each fiscal quarter, calculated on a trailing four quarter basis.

The 2023 ABL is secured by a first priority lien over substantially all of the Company's and each guarantor's accounts, chattel paper, deposit accounts, books, records and inventory (as well as intangibles related thereto), subject to certain customary exceptions (the "ABL Priority Collateral"), and a second priority lien over substantially all of the Company's and each guarantor's other assets, including all of the equity interests of any subsidiary held by the Company or any guarantor, subject to certain customary exceptions (the "Term Priority Collateral"). The 2023 ABL is guaranteed jointly, severally, fully and unconditionally by the Company's active United States subsidiaries.

As of March 31, 2018, the total balance outstanding on the 2023 ABL, net of $11.8 million of unamortized debt issuance costs,   was $424.5 million. The Company also has outstanding standby letters of credit related to the 2023 U.S. Revolver in the amount of $14.8 million as of March 31, 2018.

2025 Term Loan

On January 2, 2018, the Company entered into a $970.0 million Term Loan with Citibank N.A., and a syndicate of other lenders. The 2025 Term Loan requires quarterly principal payments in the amount of $2.4 million, with the remaining outstanding principal to be paid on its January 2, 2025 maturity date. The interest rate 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.

The 2025 Term Loan is secured by a first priority lien on the Term Priority Collateral and a second priority lien on the ABL Priority Collateral. Certain excluded assets will not be included in the Term Priority Collateral and the Revolving Priority Collateral. The Term Loan is guaranteed jointly, severally, fully and unconditionally by the Company's active United States subsidiaries.

As of March 31, 2018, the outstanding balance on the Term Loan, net of $38.1 million of unamortized debt issuance costs, was $931.9 million.

2025 Senior Notes

On October 25, 2017, Beacon Escrow Corporation, a wholly owned subsidiary of the Company (the "Escrow Issuer"), completed a private offering of $1.30 billion aggregate principal amount of 4.875% Senior Notes due 2025 at an issue price of 100%. The 2025 Senior Notes bear interest at a rate of 4.875% per annum, payable semi-annually in arrears, beginning May 1, 2018. The Company anticipates repaying the 2025 Senior Notes at the maturity date of November 1, 2025. Per the terms of the Escrow Agreement, the net proceeds from the 2025 Senior Notes remained in escrow until they were used to fund a portion of the purchase price of the Allied Acquisition payable at closing on January 2, 2018.

Upon closing of the Allied Acquisition on January 2, 2018, (i) the Escrow Issuer merged with and into the Company, and the Company assumed all obligations under the 2025 Senior Notes; and (ii) all existing domestic subsidiaries of the Company (including the entities acquired in the Allied Acquisition) became guarantors of the 2025 Senior Notes

As of March 31, 2018, the outstanding balance on the 2025 Senior Notes, net of $21.3 million of unamortized debt issuance costs, was $1.28 billion.

Financing - RSG Acquisition

In connection with the RSG Acquisition, the Company entered into various financing arrangements totaling $1.45 billion, including an asset-based revolving line of credit (“2020 ABL”) of $700.0 million ($350.0 million of which was drawn at closing) and a $450.0 million term loan (“2022 Term Loan”). The Company also raised an additional $300.0 million through the issuance of senior notes (the “2023 Senior Notes”).

The proceeds from these financing arrangements 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 debt issuance costs totaling approximately $31.3 million related to the 2020 ABL, 2022 Term Loan and 2023 Senior Notes.

2020 ABL

On October 1, 2015, the Company entered into a $700.0 million asset-based revolving line of credit with Wells Fargo Bank, N.A. and a syndicate of other lenders. The 2020 ABL had an original maturity date of October 2, 2010 and consisted of revolving loans in both the United States (“2020 U.S. Revolver”) in the amount of $670.0 million and Canada (“Canada Revolver”) in the amount of $30.0 million. The 2020 ABL had various borrowing tranches with an interest rate based on a LIBOR rate (with a floor) plus a fixed spread. The full balance of the 2020 ABL was paid on January 2, 2018 in conjunction with the Allied Acquisition.

2022 Term Loan

On October 1, 2015, the Company entered into a $450.0 million Term Loan with Citibank N.A., and a syndicate of other lenders. The 2022 Term Loan required quarterly principal payments in the amount of $1.1 million, with the remaining outstanding principal to be paid on its original maturity date of October 1, 2022. The interest rate was based on a LIBOR rate (with a floor) plus a fixed spread. The Company had the option of selecting a LIBOR period that determined the rate at which interest would accrue, as well as the period in which interest payments are made. The full balance of the 2022 Term Loan was paid on January 2, 2018 in conjunction with the Allied Acquisition, including the write-off of $0.7 million in debt issuance costs.

2023 Senior Notes

On October 1, 2015, the Company raised $300.0 million by issuing senior notes due 2023. The 2023 Senior Notes have a coupon rate of 6.38% per annum and are payable semi-annually in arrears, beginning April 1, 2016. There are early payment provisions in the indenture in which the Company would be subject to “make whole” provisions. The Company anticipates repaying the notes at the maturity date of October 1, 2023.

The 2023 Senior Notes are guaranteed jointly, severally, fully and unconditionally by the Company’s active United States subsidiaries.

As of March 31, 2018, the outstanding balance on the 2023 Senior Notes, net of $7.0 million of unamortized debt issuance costs, was $293.0 million.

Equipment Financing Facilities and Other

As of March 31, 2018, the Company had a $13.3 million outstanding under equipment financing facilities, with fixed interest rates ranging from 2.33% to 3.25% and payments due through September 2021.

As of March 31, 2018, the Company had $14.9 million of capital lease obligations outstanding. These leases have interest rates ranging from 2.72% to 10.39% with payments due through November 2021.

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.

At March 31, 2018, the minimum rental commitments under all non-cancelable operating leases with initial or remaining terms of more than one year were as follows (in thousands):

Year Ending September 30,	
2018 (April - Sept)	$39,484
2019	99,398
2020	86,089
2021	75,097
2022	55,207
Thereafter	135,396
Total minimum lease payments	$490,671

For the three months ended March 31, 2018 and 2017, rent expense was $28.5 million and $14.7 million, respectively. For the six months ended March 31, 2018 and 2017, rent expense was $43.7 million and $28.9 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 tables summarize certain geographic information for the periods presented (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Net sales				
U.S.	$1,404,617	$849,226	$2,480,879	$1,809,461
Canada	21,008	21,498	66,725	63,447
Total net sales	$1,425,625	$870,724	$2,547,604	$1,872,908

	March 31, 2018	September 30, 2017	March 31, 2017
Long-lived assets			
U.S.	$1,499,860	$ 507,236	$511,507
Canada	13,125	13,446	12,841
Total long-lived assets	$1,512,985	$ 520,682	$524,348

11. Fair Value Measurement

As of March 31, 2018, 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).

As of March 31, 2018, based upon recent trading prices (Level 2 — market approach), the fair value of the Company's $300.0 million Senior Notes due in 2023 was $317.0 million and the fair value of the $1.30 billion Senior Notes due 2025 was $1.24 billion.

As of March 31, 2018, the fair value of the Company's term loan and revolving asset-based line of credit 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. Income Taxes

On December 22, 2017, the U.S. federal government officially signed into law the Tax Cut and Jobs Act of 2017 ("TCJA"). ASC 740, Accounting for Income Taxes, requires companies to recognize the effect of tax law changes in the period of enactment even though the effective date for most provisions is for tax years beginning after December 31, 2017, or in the case of certain other provisions, January 1, 2018. Though certain key aspects of the new law are effective January 1, 2018 and have an immediate accounting effect, other significant provisions are not effective or may not result in accounting effects for September 30 fiscal year-end companies until October 1, 2018.

Given the significance of the legislation, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which allows registrants to record provisional amounts during a one year "measurement period" similar to that used when accounting for business combinations. Per SAB 118, the measurement period is deemed to have an earlier end date when the registrant has obtained, prepared and analyzed the information necessary to finalize its accounting. During the measurement period, impacts of the updated tax law are expected to be recorded at the time a reasonable estimate for all, or a portion, of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared or analyzed.

SAB 118 states, that at each reporting period, companies must disclose the effects of the TCJA for areas where accounting is complete, disclose provisional amounts (or adjustments to provisional amounts) for the effects of the TCJA areas where accounting is not complete but a reasonable estimate has been determined, and confirm areas where a reasonable estimate of the effects cannot yet be made, and therefore taxes are reflected in accordance with law prior to the enactment of the TCJA.

As of March 31, 2018, the Company was still assessing the overall impact that the TCJA will have on its financial statements and related disclosures; however, the Company was able to make the following reasonable estimates on the impact of the corporate taxation changes from the TCJA:

- The Company has a blended federal corporate income tax rate for fiscal year 2018 of 24.5%. This transitional tax rate stems from Section 15 of the Internal Revenue Code that states if the tax rate changes in during a tax year, the tax rate for the full year is calculated using the prior and revised tax rates on a proportional basis using the number of days under each legislated rate. For 2019, the Company will have a federal corporate income tax rate of 21%.
- The Company initially remeasured all its deferred tax assets and liabilities based on the revised corporate income tax rate (21%). Due to the Company's status as a non-calendar year-end filer, it was required to perform additional analysis to distinguish those deferred taxes that will be realized during fiscal year 2018 at the blended federal corporate income tax rate of 24.5% from those that will be realized in future years at the revised rate. As a result, the Company recognized a provisional decrease of its deferred tax liabilities and related income tax benefit of $1.5 million and $48.9 million in its consolidated statement of operations for the three and six months ended March 31, 2018, respectively. The Company will continue to refine its deferred tax remeasurement calculation and assess the related impact, which potentially could result in additional adjustments.
- The Company estimated the impact of the mandatory repatriation transition tax on the net accumulated earnings and profits of the Company's foreign subsidiary, Beacon Roofing Supply Canada Company ("BRSCC"). As a result, the Company recognized a provisional expense of $0.9 million for the one-time transition tax liability in its consolidated statement of operations for the three and six months ended March 31, 2018. The Company has not yet finalized its calculation of the repatriation transition tax, as it continues to analyze of the amount of BRSCC earnings held in cash and other specified assets that had been previously deferred from U.S. federal taxation.

State conformity to the TCJA law changes has not been communicated by the state and local jurisdictions at this time; therefore, the Company has not made any provisional adjustments related to the potential impact in its financial statements. The Company will continue to account for items where a reasonable estimate of the impact could not be assessed as of March 31, 2018 under the guidance that was in effect immediately prior to the enactment of the TCJA, ASC 740, Accounting for Income Taxes.

13. Supplemental Guarantor Information

The 2023 Senior Notes and 2025 Senior Notes 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)

	March 31, 2018				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ -	$ 18,746	$ 8,196	$ (10,942)	$ 16,000
Accounts receivable, net	-	816,058	17,905	(1,140)	832,823
Inventories, net	-	978,852	26,725	-	1,005,577
Prepaid expenses and other current assets	35,646	199,947	4,722	-	240,315
Total current assets	35,646	2,013,603	57,548	(12,082)	2,094,715
Intercompany receivable, net	-	1,284,455	-	(1,284,455)	-
Investments in consolidated subsidiaries	5,949,437	-	-	(5,949,437)	-
Deferred income taxes, net	19,902	-	-	(19,902)	-
Property and equipment, net	10,761	272,866	10,595	-	294,222
Goodwill	-	2,351,447	30,173	-	2,381,620
Intangibles, net	-	1,407,772	2,530	-	1,410,302
Other assets, net	1,243	268	-	-	1,511
Total Assets	$ 6,016,989	$ 7,330,411	$ 100,846	$ (7,265,876)	$ 6,182,370
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	$ 21,042	$ 572,222	$ 12,377	$ (12,082)	$ 593,559
Accrued expenses	61,788	281,265	4,997	-	348,050
Current portions of long-term debt	9,700	9,897	-	-	19,597
Total current liabilities	92,530	863,384	17,374	(12,082)	961,206
Intercompany payable, net	1,247,040	-	37,415	(1,284,455)	-
Borrowings under revolving lines of credit, net	-	424,528	-	-	424,528
Long-term debt, net	2,493,889	-	-	-	2,493,889
Deferred income taxes, net	-	110,614	389	(19,902)	91,101
Long-term obligations under equipment financing and other, net	-	18,313	-	-	18,313
Other long-term liabilities	814	9,729	74	-	10,617
Total liabilities	3,834,273	1,426,568	55,252	(1,316,439)	3,999,654
Convertible preferred stock	399,195	-	-	-	399,195

Total stockholders' equity	1,783,521	5,903,843	45,594	(5,949,437)	1,783,521
Total Liabilities and Stockholders' Equity	$6,016,989	$7,330,411	$ 100,846	$(7,265,876)	$6,182,370

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BEACON ROOFING SUPPLY, INC.

Condensed Consolidating Balance Sheets

(Unaudited; In thousands)

	September 30, 2017				
			Non-		
		Guarantor	Guarantor	Eliminations	
	Parent	Subsidiaries	Subsidiaries	and Other	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ -	$ 149,799	$ 1,582	$ (13,131)	$ 138,250
Accounts receivable, net	-	663,034	42,633	(1,140)	704,527
Inventories, net	-	527,226	24,698	-	551,924
Prepaid expenses and other current assets	4,195	198,817	6,126	-	209,138
Total current assets	4,195	1,538,876	75,039	(14,271)	1,603,839
Intercompany receivable, net	-	655,372	-	(655,372)	-
Investments in consolidated subsidiaries	3,160,273	-	-	(3,160,273)	-
Deferred income taxes, net	30,822	-	-	(30,822)	-
Property and equipment, net	6,610	138,955	10,564	-	156,129
Goodwill	-	1,220,812	31,174	-	1,251,986
Intangibles, net	-	426,187	2,882	-	429,069
Other assets, net	2,912	5,622	-	-	8,534
Total Assets	$ 3,204,812	$ 3,985,824	$ 119,659	$ (3,860,738)	$ 3,449,557
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	$ 27,174	$ 468,891	$ 21,903	$ (14,271)	$ 503,697
Accrued expenses	51,183	204,173	5,941	-	261,297
Current portions of long-term obligations	4,500	9,641	-	-	14,141
Total current liabilities	82,857	682,705	27,844	(14,271)	779,135
Intercompany payable, net	618,881	-	36,491	(655,372)	-
Borrowings under revolving lines of credit, net	-	-	3,205	-	3,205
Long-term debt, net	721,268	-	-	-	721,268
Deferred income taxes, net	-	168,209	996	(30,822)	138,383
Long-term obligations under equipment financing and other, net	-	23,147	66	-	23,213
Other long-term liabilities		2,547	-	-	2,547
Total liabilities	1,423,006	876,608	68,602	(700,465)	1,667,751
Total stockholders' equity	1,781,806	3,109,216	51,057	(3,160,273)	1,781,806

Total Liabilities and Stockholders' Equity	$3,204,812	$3,985,824	$ 119,659	$(3,860,738)	$3,449,557

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BEACON ROOFING SUPPLY, INC.

Condensed Consolidating Balance Sheets

(Unaudited; In thousands)

	March 31, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations and Other	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ -	$ 24,181	$ 1,946	$ (16,115)	$ 10,012
Accounts receivable, net	-	490,724	15,437	225	506,386
Inventories, net	-	556,463	24,426	-	580,889
Prepaid expenses and other current assets	28,952	184,764	3,673	-	217,389
Total current assets	28,952	1,256,132	45,482	(15,890)	1,314,676
Intercompany receivable, net	-	961,450	-	(961,450)	-
Investments in consolidated subsidiaries	2,959,542	-	-		