

EXIDE TECHNOLOGIES  
Form 10-K/A  
March 01, 2005  
Table of Contents

---

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

---

**FORM 10-K/A**

---

**FOR ANNUAL AND TRANSITION REPORTS  
PURSUANT TO SECTIONS 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

For the fiscal year ended March 31, 2004

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 1-11263

---

# Exide Technologies

(Exact Name of Registrant as Specified in Its Charter)

---

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**23-0552730**  
(I.R.S. Employer  
Identification No.)

**Crossroads Corporate Center, 3150 Brunswick Pike, Suite 230 Lawrenceville, New Jersey 08648**

**Telephone: (609) 512-3000**

(Address, including zip code, and telephone number, including area code, of Registrant's Principal Executive Offices)

---

**Securities registered pursuant to Section 12(b) of the Act:**

**None**

**Securities registered pursuant to Section 12(g) of the Act:**

**Common Stock, \$.01 par value**

**Warrants to subscribe for Common Stock**

---

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the Registrant's old voting stock held by non-affiliates of the Registrant as of September 30, 2003, based on the average bid and asked prices of the Registrant's old common stock on the over-the-counter market on such date of \$0.03 per share, was approximately \$684,577.

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to distribution of securities confirmed by a Court. Yes  No

As of June 24, 2004, there were outstanding 23,414,327 shares of the Registrant's new common stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

None

---

**Table of Contents**

**EXIDE TECHNOLOGIES**

**TABLE OF CONTENTS**

**PART II**

- Item 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
- Item 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SIGNATURES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

**Table of Contents**

**Explanatory Note:** This Form 10-K/A amends Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and certain footnotes to the financial statements filed with our Annual Report on Form 10-K filed with the Securities and Exchange Commission on June 29, 2004 (the Original Form 10-K ) and includes a revised report of our independent registered public accounting firm with respect to such financial statements. As a result of this, the Section 302 and Section 906 certifications filed as exhibits to the Original 10-K have been re-executed as of the date of this Form 10-K/A. Except for the aforementioned amendments, this Form 10-K/A does not modify or update other disclosures in the Original Form 10-K, including the nature and character of such disclosures, to reflect events occurring, or items discovered, after the original filing date of the Original Form 10-K. Accordingly, this Form 10-K/A should be read in conjunction with the Company's filings made with the Securities and Exchange Commission subsequent to the original filing date of the Original Form 10-K, including any amendments to those filings.

## **Table of Contents**

### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

(in thousands, except per share data)

#### **Important Matters**

After April 15, 2002, the Debtors operated their businesses and managed their properties as debtors-in-possession throughout the course of the bankruptcy case. The Debtors, along with the Official Committee of Unsecured Creditors filed the Plan with the Bankruptcy Court on February 27, 2004 and, on April 21, 2004, the Bankruptcy Court confirmed the Plan. As of the Effective Date, the Debtors substantially consummated the transactions provided for in the Plan. See Item 1. Business Emergence from Chapter 11 Bankruptcy Protection, which contains a summary of certain transactions that became effective on the Effective Date.

The Consolidated Financial Statements for fiscal 2004 and 2003 contained herein have been prepared in accordance with Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code (SOP 90-7). The Consolidated Financial Statements for fiscal 2002 are not prepared in accordance with SOP 90-7 because the Chapter 11 cases were filed in fiscal 2003. See Note 1 to the Consolidated Financial Statements. The amounts reported in subsequent financial statements will materially change due to the restructuring of the Company's assets and liabilities as a result of the Plan and the application of the provisions of SOP 90-7 with respect to reporting upon emergence from Chapter 11 (fresh start accounting). Financial statements for periods subsequent to the Company's emergence from Chapter 11 will not be comparable with those of prior periods.

#### **External Factors That Affect Our Financial Performance**

*Competition.* The global transportation, motive power and network power battery markets, particularly in North America and Europe, are highly competitive. In recent years, competition has continued to intensify and the Company continues to come under increasing pressure for price reductions. This competition has been exacerbated by excess capacity and fluctuating lead prices as well as low-priced Asian imports impacting our markets.

*Exchange Rates.* The Company is exposed to foreign currency risk in most European countries, principally from fluctuations in the Euro and British Pound. The Company is also exposed, although to a lesser extent, to foreign currency risk in Australia and the Pacific Rim. Movements of exchange rates against the U.S. dollar can result in variations in the U.S. dollar value of non-U.S. sales. In some instances, gains in one currency may be offset by losses in another. Movements in European currencies impacted the Company's results for the periods presented herein.

*Markets.* The Company is subject to concentrations of customers and sales in a few geographic locations and is dependent on customers in certain industries, including the automotive, telecommunications and material handling markets. Economic difficulties experienced in these markets and geographic locations have and continue to impact the Company's financial results.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

*Seasonality and weather.* The Company sells most of its automotive aftermarket batteries during the fall and early winter (the Company's second and third fiscal quarters). Retailers buy automotive batteries during these periods so they will have enough inventory when cold weather strikes. In addition, many of the Company's industrial battery customers in Europe do not place their battery orders until the end of the calendar year. The seasonality of the Company's business increases its working capital requirements.

Demand for automotive aftermarket batteries is significantly affected by the weather. Unusually cold winters or hot summers accelerate battery failure and increase demand for automotive replacement batteries. Mild winters and cool summers have the opposite effect. As a result, if the Company's sales are reduced by an unusually warm winter or cool summer, it is not possible for the Company to recover these sales in later periods. Further, if the Company's sales are adversely affected by the weather, the Company cannot make offsetting cost reductions to protect its gross margins in the short-term because a large portion of the Company's manufacturing and distribution costs are fixed.

## **Table of Contents**

*Interest rates.* The Company is exposed to fluctuations in interest rates on its variable rate debt.

*Lead.* Lead is the primary material by weight used in the manufacture of batteries, representing approximately one-third of the Company's cost of goods sold. The market price of lead fluctuates. Generally, when lead prices decrease, customers may seek disproportionate price reductions from the Company, and when lead prices increase, customers may resist price increases.

## **Critical Accounting Policies and Estimates**

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies and estimates affect the preparation of its Consolidated Financial Statements.

*Inventory Reserves.* The Company writes down its inventory to estimated market value based upon assumptions of future demand and market conditions. If actual market conditions are less favorable than those projected by the Company, additional inventory write-downs may be required. During the third quarter of fiscal 2002, the Company began a company-wide effort to reduce inventory levels. Based on those findings, the Company concluded that it would not recover the carrying costs of certain of this excess inventory. This excess inventory has been written down to its estimated recoverable value. As this effort continues, the Company may determine that actual recoveries differ from those estimated.

*Valuation of Long-lived Assets.* The Company's long-lived assets include property, plant and equipment, goodwill and identified intangible assets. Long-lived assets (other than goodwill and indefinite lived intangible assets) are depreciated over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value may not be recoverable. Goodwill and indefinite-lived intangible assets are reviewed for impairment on both an annual basis and whenever changes in circumstances indicate the carrying value may not be recoverable. The fair value of goodwill and indefinite-lived intangible assets are based upon the Company's estimates of future cash flows and other factors including discount rates to determine the fair value of the respective assets. If these assets or their related assumptions change in the future, the Company may be required to record impairment charges. An erosion of future business results in any of the Company's business units could create impairment in goodwill or other long-lived assets and require a significant write down in future periods.

*Employee Benefit Plans.* The Company's pension plans and postretirement benefit plans are accounted for using actuarial valuations required by SFAS No. 87, *Employers' Accounting for Pensions* ( SFAS 87 ) and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* ( SFAS 106 ) . The Company considers accounting for employee benefit plans critical because management is required to make significant subjective judgments about a number of actuarial assumptions, including discount rates, compensation growth, long-term return on plan assets, retirement, turnover, health care cost trend rates and mortality rates. Depending on the assumptions and estimates used, the pension and postretirement benefit expense could vary within a range of outcomes and have a material effect on reported results. In addition, the assumptions can materially affect accumulated benefit obligations and future cash funding. For a detailed discussion of the Company's retirement benefits, see Employee Benefit Plans herein and Note 14 to the Consolidated Financial Statements.





## **Table of Contents**

*Deferred Taxes.* The Company records valuation allowances to reduce its deferred tax assets to amounts that are more likely than not to be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for valuation allowances, if the Company were to determine that it would be able to realize deferred tax assets in the future in excess of the Company's net recorded amount, an adjustment to the net deferred tax asset would increase income in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the net deferred tax asset would decrease income in the period such determination was made. The Company has historically recorded full valuation allowances against deferred tax assets in the U.S. and the United Kingdom.

*Revenue recognition.* The Company records sales when revenue is earned. Shipment terms are generally FOB shipping point and revenue is recognized when product is shipped to the customer. In limited cases, terms are FOB destination and in these cases, revenue is recognized when product is delivered to the customer's delivery site. The Company records sales net of estimated reserves for warranties, discounts, customer allowances and returns.

*Warranty Reserves.* The Company recognizes a provision for the estimated cost of product warranties in the period in which the related revenue is recognized. While the Company engages in product quality programs and processes, including independent testing of product performance and compliance to ratings, the Company's warranty obligations are affected by product failure rates and customers' in-store return policies and procedures. In addition, should actual product return rates or the lag between the date of sale and claim/return date differ from the Company's estimates, revisions to estimated warranty reserves would be required.

*Environmental Reserves.* The Company is subject to numerous environmental laws and regulations in all the countries in which it operates. In addition, the Company can be held liable for investigation and remediation of sites impacted by its past operating activities. In certain countries including the United States, the Company maintains reserves for the reasonable cost of addressing these liabilities. These estimates are determined through a combination of methods, including outside estimates of likely expense and the Company's historical experience in the management of these matters.

Because environmental liabilities are not accrued until a liability is determined to be probable and reasonably estimable and there is a constructive obligation to remediate, not all potential future environmental liabilities have been included in the Company's environmental reserves and, therefore, additional earnings charges are possible. Also, future findings or changes in estimates could result in either an increase or decrease in the reserves and have a significant impact on the Company's liquidity.

*Purchase Commitments.* The Company has three worldwide supply agreements expiring in December 2009 to purchase its polyethylene battery separators. The supply agreements were entered into in fiscal 2000 with Daramic, the party that purchased the Company's battery separators manufacturing operation, as a condition of the sale of those operations. At the time of the sale, the agreements contained minimum annual purchase commitments in excess of the Company's requirements. Accordingly, the Company established a reserve, and reduced the gain on sale of the manufacturing operations, for commitments in excess of the Company's requirements and for the contractual purchase prices in excess of market. The Company currently has a reserve for the incremental purchase requirements over the remaining life of the agreement in excess of the Company's projected requirements. Whenever there is a significant change in the Company's unit volume outlook based on changes to its business plan, this reserve will be adjusted.

*Litigation.* The Company has legal contingencies that have a high degree of uncertainty. When a contingency becomes probable and reasonably estimable, a reserve is established. Numerous lawsuits have been filed against the Company for which the liabilities are not considered probable and/or reasonably estimable. Consequently, no reserves have been established for these matters. If future litigation or other resolution of these matters result in liability to the Company, such liability could have a significant impact on the Company's future results and liquidity.



---

**Table of Contents**

*Recently Issued Accounting Standards.*

Effective April 1, 2003, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 143, Accounting for Asset Retirement Obligations ( SFAS 143 ). The provisions of SFAS 143 address financial accounting and reporting requirements for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs and require companies to record an asset and related liability for the cost associated with the retirement of long-lived tangible assets if a legal liability to retire the asset exists.

The adoption of SFAS 143 resulted in a charge, which is reflected in the consolidated statements of operations as a cumulative effect of change in accounting principle of \$15,593, or \$0.57 per share in the first quarter of fiscal 2004. The charge results from certain commitments made by the Company in accordance with permit requirements for its North American lead recycling and hazardous waste facilities. The Company is obligated under these permits to undertake agreed-upon remediation and decommissioning activities in the event of a facility closure. The recorded asset retirement obligation is based upon estimated investigation, remediation and decommissioning costs. These estimates are determined through a combination of methods including outside estimates of likely expense and the Company's historical experience in the management of these matters. Future findings or changes in estimates could result in either an increase or decrease in the asset retirement obligation. The pro forma impact on net loss before cumulative effect of change in accounting principle for the year ended March 31, 2003 would have been immaterial.

In May 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections . This Statement requires gains and losses from extinguishments of debt to be classified as an extraordinary item only if the criterion in Opinion 30 has been met. Further, lease modification with economic effects similar to sale-leaseback transactions must be accounted for in the same manner as sale-leaseback transactions. While the technical corrections to existing pronouncements are not substantive in nature, in some instances they may change accounting practice. The provisions of this Statement related to the rescission of SFAS No. 4 and the amendment of SFAS No. 13 are effective beginning in fiscal 2003 and for transactions occurring after May 15, 2002, respectively, and did not have a material impact on the Company's Consolidated Financial Statements. All other provisions are effective for financial statements issued on or after May 15, 2002, and did not have a material impact on the Company's Consolidated Financial Statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Exit or Disposal Activities ( SFAS 146 ). SFAS 146 provides guidance on the recognition and measurement of liabilities for costs associated with exit or disposal activities that are initiated after December 31, 2002, including restructuring activities that were previously accounted for pursuant to the guidance that the emerging Issues Task Force ( EITF ) set forth in EITF Issue No. 94-3. The Company has applied the provisions of this statement to restructuring activities following the Effective Date.

In January 2003, the FASB issued FASB Interpretation No. ( FIN ) 46, Consolidation of Variable Interest Entities, an Interpretation of ARB 51 . This Interpretation addresses consolidation by business enterprises of certain variable interest entities ( VIEs ). The Interpretation was effective immediately for all enterprises with variable interests in VIEs created after January 31, 2003. For variable interests in special purpose entities created before February 1, 2003, the provisions of this Interpretation became applicable on December 31, 2003. For all other variable interests in VIEs created before February 1, 2003, the provisions of this Interpretation were applicable on March 31, 2004. Further, the disclosure requirements of the Interpretation were applicable for all financial statements initially issued after January 31, 2003, regardless of the date on which the VIE was created. The Company has performed an evaluation to identify such entities and does not believe that it has arrangements with any entities that fall within the scope of this standard, other than the special purpose entity established in connection with the Company's European accounts receivable securitization facility, which was accounted for as a secured borrowing in accordance with the requirements of SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities , until refinanced in February 2004.

## **Table of Contents**

In April 2003, the FASB issued SFAS No. 149, Amendment of FASB Statement 133 on Derivative Instruments and Hedging Activities. This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative discussed in SFAS No. 133, clarifies when a derivative contains a financing component, amends the definition of an underlying to conform it to language used in FIN No. 45, and amends certain other existing pronouncements. This Statement is effective for contracts entered into or modified after June 30, 2003.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity ( SFAS 150 ). SFAS 150 addresses how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The Company adopted SFAS 150 as of July 1, 2003. As of March 31, 2004, and for the year then ended, the Company had no such financial instruments outstanding.

In May 2003, the Emerging Issues Task Force ( EITF ) reached a consensus on Issue No. 01-08, Determining Whether an Arrangement Contains a Lease. EITF Issue No. 01-08 provides guidance on how to determine if an arrangement contains a lease that is within the scope of SFAS 13, Accounting for Leases. The Company adopted EITF Issue No. 01-08 as of July 1, 2003. The adoption of EITF Issue No. 01-08 did not have a material impact on the Company's Consolidated Financial Statements.

On December 8, 2003, President Bush signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) into law. In May 2004, the FASB issued FASB Staff Position No. FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, which provides guidance on accounting for the federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. This guidance is effective for periods beginning after June 15, 2004. The Company expects that application of this guidance will not have a material impact on the Company's Consolidated Financial Statements.

## **Results of Operations**

The Company has previously reported its results for three global business segments, Transportation, Motive Power and Network Power. Effective April 1, 2004, the Company consolidated Motive Power and Network Power into one business unit, Industrial Energy, coincident with organizational changes the Company enacted. In light of ongoing organizational changes, effective October 1, 2004, the Company split its two then-existing business units into separate geographic regions. The Company now reports its results for four business segments, Transportation North America, Transportation Europe and Rest of World ( ROW ), Industrial Energy North America and Industrial Energy Europe and ROW. Segment results for fiscal years 2004, 2003 and 2002 have been reclassified to conform to the current presentation. The Company will continue to evaluate its reporting segments pending the current changes and such future organizational changes that may take place.

### ***Fiscal Year Ended March 31, 2004 compared with Fiscal Year Ended March 31, 2003***

#### *Overview*

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

Net loss for fiscal 2004 was \$114,083, or \$4.17 per diluted share versus fiscal 2003 net loss of \$140,885, or \$5.14 per diluted share. Included in fiscal 2004 consolidated net loss were reorganization items in connection with the bankruptcy of \$67,042, restructuring costs of \$52,708 (\$35,326 after tax) and a charge of \$15,593 for the cumulative effect of a change in accounting principle. Included in the consolidated net loss for fiscal 2003 were reorganization items of \$36,370, restructuring costs of \$25,658 and a non-cash charge of \$37,000 for goodwill impairment resulting from an evaluation of results and updated projections of the Industrial Energy Europe and ROW segment, following the deterioration of this segment's performance. In addition, currency remeasurement gains of \$43,846 and \$22,753, primarily on U.S. dollar denominated debt in Europe, have been recognized in Other (income) expense, net in fiscal 2004 and 2003, respectively.

## **Table of Contents**

### *Net Sales*

Net sales were \$2,500,493 for fiscal 2004 versus \$2,361,101 in fiscal 2003. Currency positively impacted net sales for fiscal 2004 by approximately \$229,000. The strength of the Euro in the Company's European markets also resulted in competitive pricing pressures from Asian imports, negatively impacting average selling prices.

Transportation North America net sales were \$817,710 for fiscal 2004 versus \$833,493 for fiscal 2003. Revenues declined slightly due to reduced unit volumes in both the aftermarket and original equipment channels.

Transportation Europe and ROW net sales were \$760,512 for fiscal 2004 versus \$660,417 for fiscal 2003. Volumes declined in the original equipment channel following the loss of certain original equipment business. Selling prices were lower in fiscal 2004, principally because of competitive pricing pressures. Currency positively impacted Transportation Europe and ROW net sales in fiscal 2004 by approximately \$120,000.

Industrial Energy North America net sales were \$210,572 for fiscal 2004 versus \$199,856 for fiscal 2003. The increase was primarily due to higher material handling application volumes and higher telecommunications market volumes.

Industrial Energy Europe and ROW net sales were \$711,699 for fiscal 2004 versus \$667,335 for fiscal 2003. Sales volumes were lower due to lower European material handling application shipments, reductions from strong European military shipments in fiscal 2003 and weakness in the Asian market, including disruption of the Company's Chinese operations. Sales were also negatively impacted by competitive pricing pressures in Europe, including the impact of Asian imports. Currency positively impacted Industrial Energy Europe and ROW net sales in fiscal 2004 by approximately \$109,000.

### *Gross Profit*

Gross profit was \$509,325 in fiscal 2004 versus \$516,541 in fiscal 2003. Gross profit margin decreased to 20.4% in fiscal 2004 from 21.9% in fiscal 2003. Gross profit was negatively impacted by lower sales volumes, competitive pricing pressures and higher benefit costs, including medical and pension expenses, offset partially by the Company's cost reduction programs. Currency positively impacted gross profit in fiscal 2004 by approximately \$47,300. The strength of the Euro in the Company's European markets also resulted in competitive pricing pressures from Asian imports, negatively impacting margins.

Transportation North America gross profit was \$146,790 or 18.0% of net sales in fiscal 2004 versus \$154,349 or 18.5% of net sales in fiscal 2003. The decrease was primarily due to the effects of lower sales volumes

Transportation Europe and ROW gross profit was \$159,062 or 20.9% of net sales in fiscal 2004 versus \$154,079 or 23.3% of net sales in fiscal 2003. The effects of lower sales volumes and lower pricing were partially offset by the benefits from plant rationalization and headcount reductions. Currency positively impacted Transportation Europe and ROW gross profit in fiscal 2004 by approximately \$24,500.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

Industrial Energy North America gross profit was \$47,032 or 22.3% of net sales in fiscal 2004 versus \$47,889 or 24.0% of net sales in fiscal 2003. Gross profit was negatively impacted by competitive pricing pressures, partially offset by higher sales volume.

Industrial Energy Europe and ROW gross profit was \$156,441 or 22.0% of net sales in fiscal 2004 versus \$160,224 or 24.0% of net sales in fiscal 2003. Gross profit was negatively impacted by lower sales volumes and competitive pricing pressures. Currency positively impacted Industrial Energy Europe and ROW gross profit in fiscal 2004 by approximately \$22,800.



---

**Table of Contents**

*Expenses*

Expenses were \$537,035 in fiscal 2004 versus \$593,887 in fiscal 2003. Included in expenses are restructuring charges of \$52,708 in fiscal 2004 and \$25,658 in fiscal 2003. Also included in fiscal 2003 expenses is a charge for goodwill impairment of \$37,000. Excluding these items, expenses were \$484,327 and \$531,229 in fiscal 2004 and 2003, respectively. Currency unfavorably impacted expenses by approximately \$45,600 in fiscal 2004. The net decrease in expenses was impacted by the following matters: (i) fiscal 2004 selling, marketing and advertising costs in each of the Company's business segments were favorably impacted by the Company's cost-reduction programs, primarily through headcount reductions; (ii) expenses in each of the Company's business segments for fiscal 2004 were negatively impacted by an increase in benefit costs, including medical and pension expenses; (iii) expenses for fiscal 2004 include \$9,700 net gain on asset sales, included in Other (income) expense, net; and (iv) fiscal 2004 and 2003 expenses included currency remeasurement gains of \$43,846 and \$22,753, respectively, included in Other (income) expense, net.

Transportation North America expenses were \$83,770 in fiscal 2004 versus \$90,624 in fiscal 2003. The decrease in expenses was due primarily to the Company's cost reduction programs, offset partially by increased benefit costs, including medical and pension expenses.

Transportation Europe and ROW expenses were \$83,422 in fiscal 2004 versus \$71,440 in fiscal 2003. Currency unfavorably impacted Transportation Europe and ROW expenses in fiscal 2004 by approximately \$12,400. The resulting decrease in expenses was due primarily to the Company's cost reduction programs, offset partially by increased benefit costs, including pension expense.

Industrial Energy North America expenses were \$32,635 in fiscal 2004 versus \$43,263 in fiscal 2003. The decrease was due primarily to the Company's cost reduction programs and restructuring expenses in fiscal 2003 associated with the downsizing of a manufacturing facility, partially offset by higher selling expenses and increased benefit costs, including medical and pension expenses.

Industrial Energy Europe and ROW expenses were \$152,002 in fiscal 2004 versus \$165,593 in fiscal 2003. Fiscal 2004 expenses included a \$3,175 gain on the sale of the Company's European non-lead battery assets. Fiscal 2003 expenses included a goodwill impairment charge of \$37,000. Excluding these items, expenses were \$155,177 and \$128,593 in fiscal 2004 and 2003, respectively. The increase was due primarily to restructuring expenses associated with the Company's European consolidation efforts and increased benefit costs, including pension expense, partially offset by the Company's cost reduction programs. Currency unfavorably impacted Industrial Energy Europe and ROW expenses in fiscal 2004 by approximately \$20,500.

Unallocated expenses, net, which include corporate expenses, interest expense, currency remeasurement losses (gains) and losses on sales of accounts receivable, were \$185,206 in fiscal 2004 versus \$222,967 in fiscal 2003. Expenses for fiscal 2004 and 2003 included currency remeasurement gains of \$43,846 and \$22,753, respectively. Currency unfavorably impacted unallocated expenses in fiscal 2004 by approximately \$12,700. Corporate expenses in fiscal 2004 and fiscal 2003 were \$118,765 and \$127,943, respectively. The decrease in corporate expenses was due to the favorable impact of the Company's cost-reduction programs, offset partially by increased benefit costs, including medical and pension expenses and higher restructuring costs. Interest expense, net was \$99,027 in fiscal 2004 versus \$105,788 in fiscal 2003. The decrease in interest expense is due to lower interest rates and lower amortization expense associated with deferred financing costs.

Loss before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$27,710, or (1.1)% of net sales in fiscal 2004 versus \$77,346, or (3.3)% of net sales in fiscal 2003 due to the items discussed above.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

Transportation North America income before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$63,020, or 7.7% of net sales in fiscal 2004 versus \$63,725, or 7.6% of net sales in fiscal 2003, due to the items discussed above.

## **Table of Contents**

Transportation Europe and ROW income before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$75,640, or 9.9% of net sales in fiscal 2004 versus \$82,639, or 12.5% of net sales in fiscal 2003, due to the items discussed above.

Industrial Energy North America income before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$14,397, or 6.8% of net sales in fiscal 2004 versus \$4,626, or 2.3% of net sales in fiscal 2003, due to the items discussed above.

Industrial Energy Europe and ROW income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$4,439, or 0.6% of net sales in fiscal 2004 versus (\$5,369), or (0.8)% of net sales in fiscal 2003, due to the items discussed above.

### *Reorganization Items*

Reorganization items represent amounts the Company incurred as a result of the Chapter 11 filing and are presented separately in the Consolidated Statements of Operations. Reorganization items for fiscal 2004 and 2003 were \$67,042 and \$36,370, respectively. These items include professional fees including financial and legal services, employee retention costs for key members of management, costs associated with rejection of certain executory contracts and interest income earned as a result of having assumed excess cash balances due to the Chapter 11 filing. The increase in reorganization expenses for fiscal 2004 reflects a significant increase in legal costs associated with development of the Company's Plan and preparation for Bankruptcy Court hearings. See Note 8 to the Consolidated Financial Statements.

### *Income Taxes*

In fiscal 2004, an income tax provision of \$3,271 was recorded on a pre-tax loss of \$94,752. In fiscal 2003, an income tax provision of \$26,969 was recorded on a pre-tax loss of \$113,716. The effective tax rate was (3.5%) and (23.7%) in fiscal 2004 and 2003, respectively. The effective tax rate for fiscal 2004 and fiscal 2003 was impacted by the generation of income in tax-paying jurisdictions, principally Europe, with limited or no offset on a consolidated basis as a result of recognition of valuation allowances on tax benefits generated from current period losses in both the U.S. and certain international regions. The effective tax rate for fiscal 2004 was also impacted by the adjustment of previously recognized valuation allowances in certain international jurisdictions based on updated financial projections. The effective tax rate for fiscal 2003 was also impacted by the non-deductibility of the \$37,000 Industrial Energy Europe and ROW goodwill impairment charge.

During fiscal 2003, the Company reorganized the ownership structure of certain of its foreign subsidiaries and recorded an impairment charge on certain intercompany investments for statutory purposes. These actions have no effect on reported pre-tax operating results but resulted in a net tax benefit.

### *Fiscal Year Ended March 31, 2003 compared with Fiscal Year Ended March 31, 2002*

*Overview*

Net loss for fiscal 2003 was \$140,885, or \$5.14 per diluted share versus fiscal 2002 net loss of \$304,082 or \$11.35 per diluted share. Included in the consolidated net loss for fiscal 2003 is a non-cash charge of \$37,000 for goodwill impairment resulting from an evaluation of results and updated projections of the Industrial Energy Europe and ROW segment, following the deterioration of this segment's performance. Results also include fiscal 2003 restructuring costs of \$25,658 and reorganization items in connection with the Bankruptcy of \$36,370. Fiscal 2002 results included a goodwill impairment charge of \$105,000 in the Industrial North America segment, restructuring costs of \$33,122 related to work force reductions and a \$13,873 charge related to debt-for-equity exchanges. In addition, the Company recorded a gain of \$8,185 during fiscal 2002 relating to the early termination of a purchased research and development agreement with Lion Compact Energy, a privately held company conducting research in dual-graphite technology ( LCE ). In addition, currency remeasurement loss

## **Table of Contents**

(gain) of (\$23,753) and \$5,108, primarily on U.S. dollar denominated debt in Europe, have been recognized in Other (income) expense, net in fiscal 2003 and 2002, respectively.

### *Net Sales*

Net sales were \$2,361,101 for fiscal 2003 versus \$2,428,550 in fiscal 2002. This decrease resulted from lower sales volumes in all of the Company's business segments during fiscal 2003. Net sales were positively impacted by \$136,900 due to the strong Euro.

Transportation North America net sales were \$833,493 for fiscal 2003 versus \$893,695 for fiscal 2002. Revenues declined due to reduced unit volumes principally due to lost business and territories in our aftermarket accounts. These reductions were partially offset by benefits from warranty management programs. Results for fiscal 2003 were also favorably impacted by approximately \$4,800 from changes in estimates of historical warranty obligations based upon new commercial arrangements.

Transportation Europe and ROW net sales were \$660,417 for fiscal 2003 versus \$624,424 for fiscal 2002. Sales volumes were slightly lower, primarily in original equipment. Currency positively impacted Transportation Europe and ROW net sales in fiscal 2003 by approximately \$68,800.

Industrial Energy North America net sales were \$199,856 for fiscal 2003 versus \$254,643 for fiscal 2002. Lower sales volumes resulted from the general softness in the United States economy, including the impact on demand for material handling application volumes and a significant decline in capital spending in the telecommunications sector.

Industrial Energy Europe and ROW net sales were \$667,335 for fiscal 2003 versus \$655,788 for fiscal 2002. Lower sales volumes were a direct result of the significantly weaker telecommunications markets in Europe and Asia. Currency positively impacted Industrial Energy Europe and ROW net sales in fiscal 2003 by approximately \$68,100.

### *Gross Profit*

Gross profit was \$516,541 in fiscal 2003 versus \$463,919 in fiscal 2002. Gross profit margin increased to 21.9% in fiscal 2003 from 19.1% in fiscal 2002. The favorable change in gross profit is primarily due to the warranty management programs in Transportation North America, including a \$4,800 reduction in warranty reserves related to changes in estimates of historical obligations, continued plant rationalization and headcount reduction programs and lower lead pricing in Europe, offset partially by lower sales volumes and higher production costs related to under-absorption of fixed overheads. The strong Euro versus the U.S. dollar positively impacted gross profit in fiscal 2003 by approximately \$32,800.

Transportation North America gross profit was \$154,349 or 18.5% of net sales in fiscal 2003 versus \$117,059 or 13.1% of net sales in fiscal 2002. The effect of lower sales volumes was more than offset by the benefits from plant rationalization and headcount reductions and warranty management programs, including a \$4,800 reduction in warranty reserves related to a change in estimate of historical obligations. Fiscal 2002

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

gross profit was reduced by a \$15,500 charge to costs of sales to increase reserves for purchase commitments (See Note 23) and a \$500 charge to write down excess inventories.

Transportation Europe and ROW gross profit was \$154,079 or 23.3% of net sales in fiscal 2003 versus \$127,511 or 20.4% of net sales in fiscal 2002. The increase was due primarily to the benefits from plant rationalization and headcount reductions, lower lead pricing in Europe and European currency effects. Fiscal 2002 gross profit was reduced by a \$2,500 charge to write down excess inventories. Currency positively impacted Transportation Europe and ROW gross profit in fiscal 2003 by approximately \$16,500.

---

**Table of Contents**

Industrial Energy North America gross profit was \$47,889 or 24.0% of net sales in fiscal 2003 versus \$89,040 or 35.0% of net sales in fiscal 2002. Gross profit was negatively impacted by lower sales volumes, unfavorable sales mix (smaller size battery systems) and higher production costs related to under-absorption of fixed overheads. Gross profit in fiscal 2002 was negatively impacted by a \$500 charge to write down excess inventories.

Industrial Energy Europe and ROW gross profit was \$160,224 or 24.0% of net sales in fiscal 2003 versus \$130,309 or 19.9% of net sales in fiscal 2002. The increase was due to positive currency impact, lower lead pricing in Europe and the benefits from plant rationalization and headcount reductions, partially offset by significantly weaker demand in the telecommunications market and higher production costs related to under-absorption of fixed overheads. Gross profit in fiscal 2002 was negatively affected by a \$6,500 charge to write down excess inventories and a \$2,200 charge to write-off inventory in the Company's operation in China. Currency positively impacted Industrial Energy Europe and ROW gross profit in fiscal 2003 by approximately \$16,300.

*Expenses*

Expenses were \$593,887 in fiscal 2003 versus \$768,716 in fiscal 2002. Fiscal 2003 and fiscal 2002 expenses included charges for goodwill impairment of \$37,000 and \$105,000, respectively. Also included in expenses are restructuring charges of \$25,658 in fiscal 2003 and \$33,122 in fiscal 2002. Fiscal 2002 expenses also include bad debt provisions of \$16,000 related to Kmart receivables and the Company's China operations, a \$13,873 non-cash charge related to debt-for-equity exchanges included in Other (income) expense, net, and a credit of \$8,185 related to the early termination of a purchased research and development agreement with LCE. Excluding these items, expenses were \$531,229 and \$608,906 in fiscal 2003 and 2002, respectively. Stronger European currencies unfavorably impacted expenses by approximately \$30,500 in fiscal 2003. The change in expenses was impacted by the following matters: (i) fiscal 2003 selling, marketing and advertising costs in each of the Company's business segments were favorably impacted by the Company's cost-reduction programs, primarily through headcount reductions; (ii) general and administrative expenses in fiscal 2003 were unfavorably impacted by higher pension costs, rising insurance premiums and information technology costs, offset partially by cost-reduction programs; (iii) interest, net decreased \$30,453, principally due to ceasing accruing certain interest on pre-petition debt classified as subject to compromise; and (iv) fiscal 2003 expenses included currency remeasurement gains of \$22,753.

Transportation North America expenses were \$90,624 in fiscal 2003 versus \$131,046 in fiscal 2002. Fiscal 2002 expenses include a \$12,600 bad debt provision on Kmart receivables. The remaining decrease in expenses was due primarily to the Company's cost reduction programs.

Transportation Europe and ROW expenses were \$71,440 in fiscal 2003 versus \$62,095 in fiscal 2002. The increase in expenses was due primarily to unfavorable currency impact and higher restructuring and impairment costs, partially offset by the Company's cost reduction programs. Currency unfavorably impacted Transportation Europe and ROW expenses in fiscal 2003 by approximately \$7,200.

Industrial Energy North America expenses were \$43,263 in fiscal 2003 versus \$158,644 in fiscal 2002. Fiscal 2002 expenses include a goodwill impairment charge of \$105,000. The remaining decrease was primarily due to the Company's cost reduction programs.

Industrial Energy Europe and ROW expenses were \$165,593 in fiscal 2003 versus \$120,954 in fiscal 2002. Fiscal 2003 expenses include a goodwill impairment charge of \$37,000. Fiscal 2002 includes a \$3,400 provision for bad debts related to the Company's operations in China. Excluding these items, operating expenses were \$128,593 and \$117,554 in fiscal 2003 and 2002, respectively. The increase was primarily due to unfavorable currency impact, partially offset by the Company's cost reduction programs. Currency unfavorably impacted Industrial Energy Europe and ROW expenses in fiscal 2003 by approximately \$13,000.





## **Table of Contents**

Unallocated expenses, net, which include corporate expenses, interest expense, currency remeasurement losses (gains) and losses on sales of accounts receivable, were \$222,967 in fiscal 2003 versus \$295,977 in fiscal 2002. Fiscal 2003 net expenses include currency remeasurement gains of \$22,753. Fiscal 2002 net expenses include a gain of \$8,200 due to the LCE agreement termination, \$13,873 of charges related to debt-for-equity exchanges, currency remeasurement losses of \$5,109 and costs incurred in connection with debt waivers obtained. Currency unfavorably impacted unallocated expenses in fiscal 2003 by approximately \$10,300. Corporate expenses in fiscal 2004 and fiscal 2003 were \$127,943 and \$139,992, respectively. The Company's cost-reduction programs favorably impacted corporate expenses in fiscal 2003. Interest expense, net was \$105,788 in fiscal 2003 versus \$136,241 in fiscal 2002. The decrease is due to ceasing accruing certain interest on pre-petition debt classified as subject to compromise in the Company's consolidated balance sheet in accordance with SOP 90-7. Interest at the stated contractual amount on debt that was not charged to operations for fiscal 2003 was approximately \$39,600. Excluding interest not charged pursuant to SOP 90-7, higher interest costs in fiscal 2003 were driven by the DIP Credit Facility and amortization of deferred financing costs incurred on the DIP Credit Facility and European accounts receivable securitization facility.

Loss before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$77,346, or (3.3)% of net sales in fiscal 2003 versus \$304,797, or (12.6)% of net sales in fiscal 2002 due to the items discussed above.

Transportation North America income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$63,725, or 7.6% of net sales in fiscal 2003, versus (\$13,987), or (1.6)% of net sales in fiscal 2002, due to the items discussed above.

Transportation Europe and ROW income before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$82,639, or 12.5% of net sales in fiscal 2003, versus \$65,416, or 10.5% of net sales in fiscal 2002, due to the items discussed above.

Industrial Energy North America income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$4,626, or 2.3% of net sales in fiscal 2003, versus (\$69,604), or (27.3)% of net sales in fiscal 2002, due to the items discussed above.

Industrial Energy Europe and ROW income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was (\$5,369), or (0.8)% of net sales in fiscal 2003, versus \$9,355, or 1.4% of net sales in fiscal 2002 due to the items discussed above.

### *Reorganization Items*

Reorganization items represent amounts the Company incurred as a result of the Chapter 11 filing and are presented separately in the consolidated statements of operations. Reorganization items for fiscal 2003 were \$36,370. These items include professional fees including financial and legal services, employee retention costs for key members of management and interest income earned as a result of having assumed excess cash balances due to the Chapter 11 filing. See Note 8 to the Consolidated Financial Statements.

### *Income Taxes*

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

In fiscal 2003, an income tax provision of \$26,969 was recorded on a pre-tax loss of \$113,717. In fiscal 2002, an income tax benefit of \$1,422 was recorded on a pre-tax loss of \$304,796. The effective tax rate was (23.7%) and 0.5% in fiscal 2003 and 2002, respectively. The effective tax rate for fiscal 2003 was impacted by the generation of income in tax-paying jurisdictions, principally Europe, with no offset on a consolidated basis as a result of recognition of valuation allowances on tax benefits generated from current period losses in both the U.S. and certain international regions as well as the non-deductibility of the \$37,000 Industrial Energy Europe and ROW goodwill impairment charge. The effective tax rate for fiscal 2002 was impacted by the recognition of

## **Table of Contents**

valuation allowances on tax benefits generated from current period losses in both the United States and certain international regions, the tax treatment of the debt-for-equity exchanges and LCE agreement termination as well as the non-deductibility of the \$105,000 Industrial Energy North America goodwill impairment charge. As a result of certain pledges of stock of foreign subsidiaries in connection with bank amendments obtained during fiscal 2002, the Company was required to recognize certain foreign sourced income ( Subpart F Income ) as a constructive dividend for U.S. tax purposes. The constructive dividend has otherwise reduced operating loss tax carry-forwards. During fiscal 2003 and 2002 the Company reorganized the ownership structure of certain of its foreign subsidiaries and recorded an impairment charge on certain inter-company investments for statutory purposes. These actions have no effect on reported pre-tax operating results but resulted in a net tax benefit.

## **Lion Compact Energy**

In fiscal 2000, the Company recorded charges totaling approximately \$14,300 for purchased in-process research and development resulting from the acquisition of a controlling interest in LCE.

Purchased in-process research and development represents the value assigned in a purchase business combination to research and development projects of the acquired business that were commenced, but not yet completed, at the date of acquisition and which, if unsuccessful, have no alternative future use in research and development activities or otherwise. In accordance with SFAS No. 2, Accounting for Research and Development Costs, as interpreted by FASB Interpretation No. 4, amounts assigned to purchased in-process research and development meeting the above criteria must be charged to expense at the date of consummation of the purchase business combination.

The Company obtained appraisals in connection with the valuation of the acquired assets of LCE, principally purchased in-process research and development. The valuation was completed based on an analysis of discounted cash flow, using assumptions and estimates about the range of possible cash flows, and their probabilities.

During fiscal 2002, the Company exercised an option to re-convey its interest in LCE to the seller in exchange for extinguishment of the remaining purchase price obligations due. The Company recorded a credit to income of \$8,200, at that time, equal to the present value of the expected future purchase price payments.

## **Liquidity and Capital Resources**

### *Capitalization*

On February 13, 2004, the Company entered into the Replacement DIP Credit Facility which replaced the prior DIP Credit Facility. In addition to refinancing the prior DIP Credit Facility, the Replacement DIP Credit Facility refinanced the Company's European accounts receivable securitization facility. The Replacement DIP Credit Facility also included a commitment to refinance the 9.125% Senior Notes which were due April 15, 2004, and provided additional working capital borrowing availability. The Replacement DIP Credit Facility provided for interest at LIBOR plus 3.75% per annum. Total availability under the Replacement DIP Credit Facility as of March 31, 2004 was \$43,400.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

On April 15, 2004 the Company paid off the 9.125% Senior Notes using funds borrowed under the Replacement DIP Credit Facility.

On May 5, 2004, the Effective Date, the Company entered into a new \$600,000 Senior Secured Credit Agreement (the Credit Agreement ) which includes a \$500,000 Multi-Currency Term Loan Facility and a \$100,000 Multi-Currency Revolving Loan Facility including a letter of credit sub-facility of up to \$40,000. The Revolving Loan Facility matures on May 5, 2009, while the Term Loan Facility, which includes quarterly principal payments beginning in September 2005, matures on May 5, 2010. The Term Loan Facility bears interest at LIBOR plus 3.5% per annum and EURO-LIBOR plus 4.0% per annum for the U.S. Dollar and Euro

## Table of Contents

components, respectively. The Revolving Loan Facility bears interest at LIBOR plus 4.0% per annum. As of the Effective Date, the Company had \$500,000 outstanding under the Term Loan Facility and had not drawn on the Revolving Loan Facility.

Proceeds of the Term Loan Facility were used to finance the repayment of the Replacement DIP Credit Facility and to finance various costs and expenses associated with the exit financing and the Plan.

The Credit Agreement requires the Company to comply with financial covenants with respect to certain ratios and tests, as defined in the Credit Agreement, including interest coverage, leverage, earnings, asset coverage and capital expenditures. Although there can be no assurances, the Company believes, based upon its financial forecast and plans, that it will comply with these covenants for the foreseeable future. Failure to comply with such covenants, without waiver, would result in an event of default under the Credit Agreement. If the Company were not able to maintain compliance with these covenants, it would have to consider additional actions, including refinancings, asset sales and further restructurings. Credit Agreement borrowings are guaranteed by substantially all of the subsidiaries of the Company and are secured by substantially all of the assets of the Company and the subsidiary guarantors. The Credit Agreement also contains other customary covenants, including reporting covenants and covenants that restrict the Company's ability to incur indebtedness, create or incur liens, sell or dispose of assets, make investments, pay dividends, change the nature of the Company's business or enter into related party transactions.

Total availability under the Credit Agreement as of June 24, 2004 was \$80,750.

At March 31, 2004, the Company had outstanding letters of credit with a face value of \$2,732 and surety bonds with a face value of \$43,264. The majority of the letters of credit and surety bonds have been issued as collateral or financial assurance with respect to certain liabilities the Company has recorded, including but not limited to environmental remediation obligations and self-insured workers compensation reserves. Failure of the Company to satisfy its obligations with respect to the primary obligations secured by the letters of credit or surety bonds could entitle the beneficiary of the related letter of credit or surety bond to demand payments pursuant to such instruments. The financial institution issuing the surety bonds (the Surety) holds approximately \$8,200 in cash collateral as security against demands made by the beneficiaries of such bonds. The letters of credit generally have terms up to one year. The Company expects limited availability of new surety bonds from traditional sources, which could impact the Company's liquidity needs in future periods. Pursuant to authorization from the Bankruptcy Court, the Company reached agreement with the Surety to maintain its current surety bonds through July 31, 2006. The agreement requires the Company to increase the cash collateral held by the Surety in several stages: forty percent collateralization of outstanding bonds by January 31, 2004; seventy percent collateralization of outstanding bonds by August 1, 2004; and full collateralization by August 1, 2005. The Company has amended the agreement with the Surety regarding the terms of the initial forty percent collateralization of which \$750 was paid on February 15, 2004 and the remainder was paid on June 16, 2004.

### *Sources of Cash*

The Company's liquidity requirements have been met historically through operating cash flows, borrowed funds and the proceeds of sales of accounts receivable and sale-leaseback transactions. Additional cash has been generated in recent years from the sale of non-core businesses and assets.

The Company generated \$26,717 and \$6,783 in cash from the sale of non-core businesses and other assets in fiscal 2004 and fiscal 2003, respectively. On April 15, 2003, the Company sold its European non-lead battery assets for proceeds of \$16,300. Of this amount, \$12,600 was held in escrow pursuant to the Company's borrowing arrangements and is included in restricted cash in the consolidated balance sheet at March 31, 2004. See Note 22 to the Consolidated Financial Statements. In accordance with the Plan, these funds were remitted to the Company on the

Effective Date. Remaining proceeds from asset sales in fiscal 2004 were primarily used to reduce debt.

## **Table of Contents**

Cash flows (used in) provided by financing activities were (\$9,667) and \$278,882 in fiscal 2004 and fiscal 2003, respectively. Cash flows used in financing activities in fiscal 2004 relate primarily to financing costs incurred in conjunction with the Replacement DIP Credit Facility and net repayments of other debt obligations. Cash flows provided by financing activities in fiscal 2003 relate primarily to net borrowings under the DIP Credit Facility and the impact of the European asset securitization refinancing.

Total debt at March 31, 2004 was \$1,847,656, as compared to \$1,804,903 at March 31, 2003. The increase in total debt was principally due to currency translation of non-U.S. dollar debt. See Note 13 to the Consolidated Financial Statements for the composition of such debt. On the Effective Date, indebtedness of the Debtors classified as subject to compromise, amounting to approximately \$1,081,293 at March 31, 2004, was discharged or exchanged for new common stock and Warrants, in accordance with the Plan.

Going forward, in addition to operating cash flows, the Company's principal sources of liquidity will be cash from operations, the Credit Agreement, and proceeds from any asset sales.

### *Uses of Cash*

The Company's liquidity needs arise primarily from the funding of working capital needs, obligations on indebtedness and capital expenditures. Because of the seasonality of the Company's business, more cash has been typically generated in the third and fourth fiscal quarters than the first and second fiscal quarters. Greatest cash demands from operations have historically occurred during the months of June through October.

Cash flows provided by (used in) operating activities were \$40,551 in fiscal 2004 and (\$239,858) (including \$261,723 usage of cash related to the net change from sales of receivables) in fiscal 2003. Excluding the effect of the accounts receivable securitization activity in fiscal 2003, comparative cash flows were positively impacted by higher accounts receivable collections, offset by higher payments of accrued expenses, reflecting the payment of accrued professional fees associated with the Chapter 11 reorganization process as well as payment of accrued restructuring costs.

The Company expects that it will have ongoing liquidity needs to support its operational restructuring programs during fiscal 2005 and fiscal 2006, including payment of remaining accrued restructuring costs of approximately \$42,500 as of March 31, 2004. The Company's ability to successfully implement these restructuring strategies on a timely basis may be impacted by its access to sources of liquidity.

Prior to and during the Company's Chapter 11 proceeding, the Company experienced a tightening of trade credit availability and terms. The Company expects improvement in its ability to obtain favorable trade credit terms following its emergence from Chapter 11.

Capital expenditures were \$65,128 and \$45,878 in fiscal 2004 and fiscal 2003, respectively. Capital expenditures during fiscal 2003 were impacted by the Chapter 11 filing, related liquidity availability and cost containment efforts. Capital expenditures for fiscal 2004 were also higher due to investment in new technologies for charging batteries. Subject to restrictions under the Credit Agreement, capital expenditures are expected to be approximately \$60,000 in fiscal 2005.

**Employee Benefit Plans**

*Description*

The Company has noncontributory defined benefit pension plans covering substantially all hourly and salaried employees in North America. Plans covering hourly employees provide pension benefits of stated amounts for each year of credited service. Salaried employees in North America are covered by a cash balance plan providing benefits as a percentage of salary up to qualified limits.



## **Table of Contents**

European subsidiaries of the Company sponsor defined benefit plans that cover substantially all employees who are not covered by statutory plans. In most cases the defined benefit plans in Europe are not funded and the benefit formulas are similar to those used by the North American hourly plans.

The Company provides certain health care and life insurance benefits for a limited number of retired employees.

Assets funded under both the North American and European defined benefit plans consist primarily of equity and fixed income securities. At March 31, 2004, the fair market value of assets for the Company's defined benefit plans was \$283,967, compared to \$236,157 at March 31, 2003.

### *Accounting and Significant Assumptions*

The Company accounts for pension benefits using the accrual method set forth in SFAS 87, *Employers Accounting for Pensions*. The accrual method of accounting for pensions involves the use of actuarial assumptions concerning future events that impact estimates of the amount and timing of benefit obligations and future benefit payments.

The significant assumptions used in calculating the Company's pension benefit obligations and related expense are the discount rate, rate of compensation increase and the expected long-term rate of return on plan assets. The Company establishes these underlying assumptions in consultation with its actuaries. Depending on the assumptions used, pension obligations and related expense could vary within a range of outcomes and have a material effect on reported results, benefit obligations and cash funding requirements.

The discount rates used by the Company for determining benefit obligations are generally based on high quality corporate bonds. The assumed rate of compensation increase reflects an estimate of the projected change in compensation levels based on future expectations, general price levels, productivity and historical experience, among other factors. In evaluating the expected long term rate of return on plan assets, the Company considers the allocation of assets and the expected return on various asset classes in the context of the long-term nature of pension obligations.

A one-percentage point change in the weighted average expected return on plan assets would change net periodic benefit cost by approximately \$2,400 in fiscal 2004. A one-percentage point change in the weighted average discount rate would change net periodic benefit cost by approximately \$6,000 in fiscal 2004.

At March 31, 2004 and March 31, 2003, the Company has lowered the discount rates used to value its pension benefit obligations to reflect the decline in yields on high quality corporate bonds. As of March 31, 2003, the Company lowered the rate of compensation increase to reflect current inflationary expectations and lowered the expected long term return on plan assets in light of market conditions and recent equity market performance. The aggregate effect of these changes increased the present value of future benefit obligations as of March 31, 2004 and had the effect of increasing pension expense in fiscal 2004. Pension expense for its defined benefit pension plans was \$34,650 in fiscal 2004 compared to \$23,917 in fiscal 2003, reflecting the impact of these changes, as well as amortization of previously unrecognized actuarial losses described below.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

As of March 31, 2004, unrecognized actuarial losses for the Company's defined benefit plans were \$184,779, compared to \$164,457 at March 31, 2003. The unrecognized actuarial losses principally reflect declines in the fair market value of plan assets, actual asset return experience falling short of actuarial assumptions and the reduction in discount rates since fiscal 2002. SFAS 87 provides for delayed recognition of such actuarial losses, whereby these losses, to the extent they exceed 10% of the greater of the projected benefit obligation or the market related value of plan assets are amortized as a component of pension expense over a period that approximates the average remaining service period of active employees (for the Company a period of approximately 10 years), unless and to the extent they are not offset by actuarial gains in future years. The amortization of actuarial losses increased pension expense by approximately \$5,800 in fiscal 2004 from 2003.

## **Table of Contents**

### *Minimum Pension Obligations*

To the extent that the fair market value of pension plan assets of an individual plan is less than the accumulated benefit obligation for such plan, SFAS 87 may require recognition of an additional minimum pension liability, and in such circumstances a reduction in stockholders' equity or establishment of an intangible asset. The Company has recognized additional minimum pension liabilities of \$156,714 and \$139,051 as of March 31, 2004 and March 31, 2003, respectively, resulting in charges in accumulated other comprehensive loss included in stockholders' equity (deficit) and establishment of intangible assets.

### *Plan Funding Requirements*

Cash contributions to the Company's plans are generally made in accordance with minimum regulatory requirements. Because of the downturn experienced in global equity markets and ongoing benefit payments, the Company's North American plans are currently significantly under-funded. Based on current assumptions and regulatory requirements, the Company's minimum future cash contribution requirements for its North American plans are expected to increase significantly in future fiscal years, and unless provided regulatory or other relief available under IRS regulations, are expected to approximate \$140,000 during the next four years.

The Company has applied for the temporary waiver of its minimum funding requirements for its North American plans for calendar years 2003 and 2004 under Section 412(d) of the Internal Revenue Code. If granted, the waiver would provide for deferral of the Company's minimum contributions for those years to be paid over a subsequent five-year period. There can be no assurances that the Company's waiver application will be granted. If the waiver is not granted, the Company's liquidity would be adversely impacted.

## **Restructuring Activities and Related Impairment Charges**

Following the acquisition of GNB Technologies in September 2000, the Company initiated various restructuring programs involving facility, branch and corporate office closures and consolidation, principally in connection with overall integration plans to affect the combination of the two organizations. Such actions impacted both existing Exide and acquired GNB employees and facilities. The specific actions taken under the overall restructuring plan were designed to reduce costs and improve earnings and cash flows with an expected annual benefit of approximately \$90,000. The impact of the benefits of restructuring initiatives on operating results have been more than offset by lower volumes and ongoing fixed costs.

During fiscal 2002, 2003 and 2004, the Company continued to implement operational changes to streamline and rationalize its structure in an effort to simplify the organization and eliminate redundant and/or unnecessary costs. As part of these restructuring programs, the nature of the positions eliminated ranged from plant employees and clerical workers to operational and sales management.

### *Fiscal 2004*

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

During fiscal 2004, the Company recognized restructuring and impairment charges of \$52,708, representing \$43,519 for severance, \$8,972 for related closure costs and \$217 for non-cash charges related to write down of property, plant and equipment.

During the fourth quarter of fiscal 2004, the Company recognized restructuring and impairment charges of \$32,734, representing \$25,605 for severance, \$6,968 for related closure costs, and \$161 for a non-cash charge related to the write down of machinery and equipment. During the third quarter of fiscal 2004, the Company recognized restructuring and impairment charges of \$12,662, representing \$11,857 for severance and \$805 for related closure costs. During the second quarter of fiscal 2004, the Company recognized restructuring and impairment charges of \$4,827, representing \$4,121 for severance and \$706 for related closure costs. During the first quarter of fiscal 2004, the Company recognized restructuring and impairment charges of \$2,485, representing \$1,936 for severance, \$493 for related closure costs and \$56 for a non-cash charge related to the write down of

## **Table of Contents**

machinery and equipment. These charges resulted from actions undertaken during fiscal 2004 related to Industrial Energy Europe and ROW consolidation efforts, the announced closure of the Company's Industrial Energy Europe and ROW facility in Weiden, Germany, the announced closure of the Company's Industrial Energy Europe and ROW facility in Casalnuovo, Italy, Corporate severance, Transportation Europe and ROW headcount reductions and the closure of a Transportation North America facility. Approximately 275 positions have been eliminated in connection with fourth quarter fiscal 2004 plans, 330 positions have been eliminated in connection with the third quarter fiscal 2004 plans, 100 positions have been eliminated in connection with the second quarter fiscal 2004 plans and approximately 75 positions have been eliminated in connection with the first quarter fiscal 2004 plans. These actions provide annual savings through reduced wages and salaries, reductions in facility costs, lower depreciation and improved manufacturing plant absorption. In the aggregate, payments made during fiscal 2004 from operating cash flows to terminated employees and third parties for other closure costs totaled approximately \$33,000.

### *Fiscal 2003*

During fiscal 2003, the Company recognized restructuring and impairment charges of \$25,658, representing \$18,519 for severance, \$2,754 for related closure costs and \$4,385 for non-cash charges related to the write-down of property, plant and equipment.

Of these total charges, \$9,142 for severance, \$1,841 for related closure costs and \$3,139 for non-cash charges related to the write-off of property, plant and equipment were recorded during the first three quarters of the year. The charges for the first quarter of fiscal 2003 related to the downsizing of an Industrial Energy North America facility in Kankakee, Illinois and the closure of a Transportation Europe and ROW facility in Cwmbran, UK. Approximately 300 positions, principally plant employees, were eliminated in connection with the first quarter fiscal 2003 plans. The charges for the second quarter of fiscal 2003 principally resulted from corporate severance and the closure of a Transportation North America facility in Florence, Mississippi. Approximately 120 positions were eliminated in connection with the second quarter fiscal 2003 plans. The charges for the third quarter of fiscal 2003 resulted from European headcount reductions, changes in prior estimates of fiscal 2002 pension curtailment obligations at the Maple, Ontario plant and ongoing costs associated with fiscal 2002 North American plastics and manufacturing facility closures. Approximately 15 positions were eliminated in connection with these third quarter actions.

During the fourth quarter of fiscal 2003, the Company recognized net restructuring and impairment charges of \$11,536, representing \$9,377 severance, \$913 related closure costs and \$1,246 of non-cash charges related to the write-down of machinery and equipment. Approximately 215 employees were terminated in connection with the fourth quarter plans. The fourth quarter fiscal 2003 charge includes a credit of \$3,100, following recently finalized changes to the Company's original plans for restructuring of its European shared services operations.

As a result of the fiscal 2003 actions and plans, financial results for future years will be benefited through lower depreciation and reduced salary costs, favorably impacting cost of sales and other operating expenses. In the aggregate, payments made during fiscal 2003 from operating cash flows to terminated employees and third parties for other closure costs totaled approximately \$24,000.

### *Fiscal 2002*

During fiscal 2002, the Company recognized restructuring and impairment charges of \$33,100, representing severance and related costs of \$20,000, \$2,700 for related closure costs and \$10,400 of non-cash charges related to the write-down of property, plant and equipment.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

During the second and third quarters of fiscal 2002, the Company recognized restructuring and impairment charges of \$24,700 representing severance and related costs of \$16,600, \$2,700 for related closure costs and \$5,400 of non-cash charges related to the write-down of property, plant and equipment at the Maple, Ontario

## **Table of Contents**

facility. Approximately 1,300 employees were terminated in connection with these restructuring actions and plans. As a result of these actions and plans, future financial results will be benefited through lower depreciation and reduced salary costs, favorably impacting cost of sales and other operating expenses.

During the fourth quarter of fiscal 2002, the Company recognized restructuring and impairment charges of \$8,403, representing \$3,403 severance and related costs and approximately \$5,000 of non-cash charges related to the write-down of property, plant and equipment. These charges resulted from plans involving the closure of two Transportation North America plastics manufacturing plants, an Industrial Energy North America facility and office consolidations in Alpharetta, Georgia and Lombard, Illinois. Approximately 500 employees were terminated in connection with these plans. These actions are expected to provide annual savings through reduced wages and salaries, lower depreciation and improved manufacturing overhead absorption.

In the aggregate, payments made during fiscal 2002 from operating cash flows to terminated employees and third parties for other costs totaled approximately \$65,200.

There have been no material changes to the fiscal 2002 restructuring charge accrued or the approved actions and plans to which this charge relates, other than the change in the prior estimate of the pension curtailment obligation at the Maple, Ontario plant, as discussed above, for which an additional charge was recognized in fiscal 2003. As a result of the unexpected downturn in the telecommunication industry and its negative impact on the Company's Industrial Energy North America operations, in November 2001, the Company announced that the Maple, Ontario manufacturing operations would not be reopened as an Industrial Energy North America manufacturing plant as previously announced.

## **Financial Instruments and Market Risk**

The Company's ability to utilize financial instruments has been significantly restricted because of the Chapter 11 cases and the resultant tightening, and/or elimination of credit availability with counter-parties. While the Company's emergence from Chapter 11 may improve the Company's ability to utilize financial instruments, there can be no assurance that the Company will be able to do so in the future. At March 31, 2004, the Company had no outstanding hedging contracts. Accordingly, the Company is now exposed to greater risk with respect to its ability to manage exposures to fluctuations in foreign currencies, interest rates, our financial condition, operating results and/or cash flows. If we fail to comply with DOT regulations or the regulations become more stringent, we could experience increased inspections, regulatory authorities could take remedial action including imposing fines or shutting down our operations and we could be subject to increased audit and compliance costs. We organize our transportation operations as a separate legal entity in certain states, including Ohio and Indiana, to take advantage of sales tax exemptions relating to vehicle operating costs. If legislation is enacted that modifies or eliminates these exemptions, our costs may increase. If any of these events were to occur, our financial condition, results of operations and cash flows may be adversely affected.

In addition, the residential construction industry is subject to various federal, state and local statutes, ordinances, rules and regulations concerning zoning, building design and safety, construction, contractors' licensing, energy conservation and similar matters, including regulations that impose restrictive zoning and density requirements on the residential new construction industry or that limit the number of homes that can be built within the boundaries of a particular area. Regulatory restrictions and industry standards may require us to alter our installation processes and our sourcing, increase our operating expenses and limit the availability of suitable building lots for our customers, any of which could negatively affect our business, financial condition and results of operations.

**Table of Contents**

**We are subject to environmental regulation and potential exposure to environmental liabilities.**

We are subject to various federal, state and local environmental laws and regulations. Although we believe that we operate our business, including each of our locations, in compliance with applicable laws and regulations and maintain all material permits required under such laws and regulations to operate our business, we may be held liable or incur fines or penalties in connection with such requirements. Certain types of insulation, particularly spray foam applications, require our employees to handle potentially hazardous or toxic substances. While our employees who handle these and other potentially hazardous or toxic materials, including lead-based paint, receive specialized training and wear protective clothing, there is still a risk that they, or others, may be exposed to these substances. Exposure to these substances could result in significant injury to our employees and others, including site occupants, and damage to our property or the property of others, including natural resource damage. Our personnel and others at our work sites are also at risk for other workplace-related injuries, including slips and falls. In addition, as owners and lessees of real property, we may be held liable for, among other things, hazardous or toxic substances, including asbestos or petroleum products on, at, under or emanating from currently or formerly owned or operated properties, or any off-site disposal locations, or for any known or newly discovered environmental conditions at or relating to any of our properties, including those arising from activities conducted by previous occupants or at adjoining properties, without regard to whether we knew of or were responsible for such release. We may be required to investigate, remove, remediate or monitor the presence or release of such hazardous or toxic substances or petroleum products. We may also be held liable for fines, penalties or damages, including for bodily injury, property damage and natural resource damage in connection with the presence or release of hazardous or toxic substances or petroleum products. In addition, expenditures may be required in the future as a result of releases of, or exposure to, hazardous or toxic substances or petroleum products, the discovery of currently unknown environmental conditions or changes in environmental laws and regulations or their interpretation or enforcement and, in certain instances, such expenditures may be material.

**Increases in union organizing activity and work stoppages could delay or reduce availability of products that we install and increase our costs.**

Less than one percent of our employees are currently covered by collective bargaining or other similar labor agreements. However, if a larger number of our employees were to unionize, including in the wake of any future legislation that makes it easier for employees to unionize, our business could be negatively affected. Any inability by us to negotiate collective bargaining arrangements could cause strikes or other work stoppages, and new contracts could result in increased operating costs. If any such strikes or other work stoppages occur, or if other employees become represented by a union, we could experience a disruption of our operations and higher labor costs.

In addition, certain of our suppliers have unionized work forces and certain of our products are transported by unionized truckers. Strikes or work stoppages could result in slowdowns or closures of facilities where the products that we install are manufactured or could affect the ability of our suppliers to deliver such products to us. Any interruption in the production or delivery of these products could delay or reduce availability of these products and increase our costs.

**Increases in fuel costs could adversely affect our results of operations.**

The price of oil has fluctuated over the last few years, creating volatility in our fuel costs. We do not currently hedge our fuel costs. Increases in fuel costs can negatively impact our cost to deliver our products to our customers and thus increase our cost of sales. If we are unable to increase the selling price of our products to our customers to cover any increases in fuel costs, net income may be adversely affected.



**We may be adversely affected by disruptions in our information technology systems.**

Our operations are dependent upon our information technology systems, including our web-enabled internal software technology, jobCORE. The jobCORE software provides in-depth operational and financial performance data from individual branch locations to the corporate office. We rely upon such information technology systems

## **Table of Contents**

to manage customer orders on a timely basis, coordinate our sales and installation activities across locations and manage invoicing. A substantial disruption in our information technology systems for any prolonged time period (arising from, for example, system capacity limits from unexpected increases in our volume of business, outages, computer viruses, unauthorized access or delays in our service) could result in delays in receiving inventory and supplies or installing our products on a timely basis for our customers, which could adversely affect our reputation and customer relationships. Our systems might be damaged or interrupted by natural or man-made events, computer viruses, physical or electronic break-ins or similar disruptions affecting the Internet and our disaster recovery plan may be ineffective at mitigating the effects of these risks. Such delays, problems or costs could have a material adverse effect on our financial condition, results of operations and cash flows.

**Because we operate our business through highly dispersed locations across the United States, our operations may be materially adversely affected by inconsistent practices and the operating results of individual branches may vary.**

We operate our business through a network of highly dispersed locations throughout the United States, supported by corporate executives and services at our headquarters, with local branch management retaining responsibility for day-to-day operations and adherence to applicable local laws. Our operating structure can make it difficult for us to coordinate procedures across our operations in a timely manner or at all. In addition, our branches may require significant oversight and coordination from headquarters to support their growth. Inconsistent implementation of corporate strategy and policies at the local level could materially and adversely affect our overall profitability, business, results of operations, financial condition and prospects.

In addition, the operating results of an individual branch may differ from that of another branch for a variety of reasons, including market size, management practices, competitive landscape, regulatory requirements and local economic conditions. As a result, certain of our branches may experience higher or lower levels of growth than other branches. Therefore, our overall financial performance and results of operations may not be indicative of the performance and results of operations of any individual branch.

**Restrictions in our credit agreement, or any other indebtedness we may incur in the future, could adversely affect our business, financial condition, results of operations, ability to make distributions to stockholders and the value of our common stock.**

Our credit agreement, or any future credit facility or other indebtedness we enter into, may limit our ability to, among other things:

incur or guarantee additional debt;

make distributions or dividends on or redeem or repurchase shares of common stock;

make certain investments and acquisitions;

make capital expenditures;

incur certain liens or permit them to exist;

enter into certain types of transactions with affiliates;

acquire, merge or consolidate with another company; and

transfer, sell or otherwise dispose of all or substantially all of our assets.

Our credit agreement contains, and any future credit facility or other debt instruments we may enter into will also likely contain, covenants requiring us to maintain certain financial ratios and meet certain tests, such as a fixed charge coverage ratio, leverage ratio or debt to earnings ratio. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources, Credit and Security Agreement. Our ability to comply with those financial ratios and tests can be affected by events beyond our control, and we may not be able to comply with those ratios and tests when required to do so under the applicable debt instruments.

## **Table of Contents**

The provisions of our credit agreement or other debt instruments may affect our ability to obtain future financing and pursue attractive business opportunities and our flexibility in planning for, and reacting to, changes in business conditions. In addition, a failure to comply with the provisions of our credit agreement, any future credit facility or other debt instruments could result in a default or an event of default that could enable our lenders or other debt holders to declare the outstanding principal of that debt, together with accrued and unpaid interest, to be immediately due and payable. If the payment of our debt is accelerated, our assets may be insufficient to repay such debt in full, and our stockholders could experience a partial or total loss of their investment.

### **We may require additional capital in the future, which may not be available on favorable terms or at all.**

Our future capital requirements will depend on many factors, including industry and market conditions, our ability to successfully complete future business combinations, and expansion of our existing operations. We anticipate that we may need to raise additional funds in order to grow our business and implement our business strategy. We anticipate that any such additional funds may be raised through equity or debt financings. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. Even if we are able to raise capital through equity or debt financings, as to which there can be no assurance, the interest of existing shareholders in our company may be diluted, and the securities we issue may have rights, preferences and privileges that are senior to those of our common stock or may otherwise materially and adversely affect the holdings or rights of our existing shareholders. If we cannot obtain adequate capital, we may not be able to fully implement our business strategy, and our business, results of operations and financial condition could be adversely affected.

### **We could manage working capital in ways that may affect our cash flow from operations.**

Since we aim to continuously manage our working capital, we could manage our payments to suppliers differently in the future. Changes in how we manage our payments to suppliers could change our cash flow from operations and change our working capital as a percentage of sales. In addition, we have two supply contracts with minimum purchase requirements based on quantity rather than a specific market rate. These obligations may cause us to purchase materials earlier than we otherwise would and increase our working capital requirements. There is no guarantee that our working capital as a percentage of sales will not continue to increase in the future.

## **RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK**

### **The price of our common stock may fluctuate substantially, and your investment may decline in value.**

The market price of our common stock may be significantly affected by factors, such as:

market conditions affecting the residential construction and building products industries;

quarterly variations in our results of operations;

changes in government regulations;

the announcement of acquisitions by us or our competitors;

changes in general economic and political conditions;

volatility in the financial markets;

results of our operations and the operations of others in our industry;

changes in interest rates;

threatened or actual litigation and government investigations;

the addition or departure of key personnel;

## **Table of Contents**

actions taken by our stockholders, including the sale or disposition of their shares of our common stock;

differences between our actual financial and operating results and those expected by investors and analysts and changes in analysts' recommendations or projections.

These and other factors may lower the market price of our common stock, regardless of our actual operating performance.

Furthermore, in recent years the stock market has experienced significant price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industry. The changes frequently appear to occur without regard to the operating performance of the affected companies. Hence, the price of our common stock could fluctuate based upon factors that have little or nothing to do with us, and these fluctuations could materially reduce the price of our common stock and materially affect the value of your investment.

### **The dilutive effect of future issuances of securities may have an adverse impact on a stockholder's proportionate ownership interest.**

Existing stockholders do not have preemptive rights in any securities issued in the future. The rights of existing stockholders may be diluted by any such issuance. The issuance of shares of our securities in additional capital-raising or employee compensation transactions or acquisitions may dilute, and thereby reduce, each existing stockholder's proportionate ownership interest in our securities.

### **The obligations associated with being a public company require significant resources and management attention.**

As a public company, we face increased legal, accounting, administrative and other costs and expenses that we did not incur as a private company, particularly after we are no longer an emerging growth company. We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which requires that we file annual, quarterly and current reports with respect to our business and financial condition and proxy and other information statements, and the rules and regulations implemented by the SEC, the Sarbanes-Oxley Act, the Dodd-Frank Act, the Public Company Accounting Oversight Board (PCAOB) and the New York Stock Exchange (NYSE) each of which imposes additional reporting and other obligations on public companies. As a public company, we are required to:

prepare and distribute periodic reports, proxy statements and other stockholder communications in compliance with the federal securities laws and the NYSE rules;

expand the roles and duties of our board of directors and committees thereof;

maintain an internal audit function;

institute more comprehensive financial reporting and disclosure compliance functions;

involve and retain to a greater degree outside counsel and accountants in the activities listed above;

enhance our investor relations function;

establish new internal policies, including those relating to trading in our securities and disclosure controls and procedures;

retain additional personnel;

comply with NYSE listing standards; and

comply with the Sarbanes-Oxley Act.

## **Table of Contents**

We expect these rules and regulations and changes in laws, regulations and standards relating to corporate governance and public disclosure, which have created uncertainty for public companies, to increase legal and financial compliance costs and make some activities more time consuming and costly. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. Our investment in compliance with existing and evolving regulatory requirements will result in increased administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

These increased costs may lessen our ability to expand our business and achieve our strategic objectives. We also expect that it will be expensive to maintain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and civil litigation.

### **Our internal controls over financial reporting may not be effective, which could have a significant and adverse effect on our business and reputation.**

As a public company, we are required to comply with the SEC's rules implementing Sections 302 and 404 of the Sarbanes-Oxley Act, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of controls over financial reporting. As an emerging growth company, as defined in the JOBS Act, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal controls over financial reporting pursuant to Section 404 until the date we are no longer an emerging growth company. At such time, our independent registered public accounting firm may issue a report that is adverse in the event that it is not satisfied with the level at which our controls are documented, designed or operating.

To comply with the requirements of being a public company, we may undertake various actions, such as implementing additional internal controls and procedures and hiring additional accounting or internal audit staff. Testing and maintaining internal controls can divert our management's attention from other matters that are important to the operation of our business. If we identify material weaknesses in our internal controls over financial reporting or are unable to comply with the requirements of Section 404 or are unable to assert that our internal controls over financial reporting are effective, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by the SEC or other regulatory authorities, which could require additional financial and management resources.

### **We are an emerging growth company and, as a result of the reduced disclosure and governance requirements applicable to emerging growth companies, our common stock may be less attractive to investors.**

We are an emerging growth company, as defined in the JOBS Act, and we are eligible to take advantage of certain exemptions from various reporting requirements applicable to other public companies. Those exemptions include, but are not limited to, an exemption from the auditor attestation requirement of Section 404 of the Sarbanes-Oxley Act, reduced disclosure about executive compensation arrangements pursuant to the rules applicable to smaller reporting companies and no requirement to seek non-binding advisory votes on executive compensation or golden parachute



arrangements. We have elected to adopt these reduced disclosure requirements. We may take advantage of these provisions until we are no longer an emerging growth company.

## **Table of Contents**

We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year: (a) following the fifth anniversary of the first sale of our common stock pursuant to an effective registration statement, or February 12, 2019; (b) in which we have total annual gross revenue of at least \$1.0 billion; or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the prior June 30th, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period. We cannot predict if investors will find our common stock less attractive as a result of our taking advantage of these exemptions. If some investors find our common stock less attractive as a result of our choices, there may be a less active trading market for our common stock and our stock price may be more volatile.

### **Future sales of our common stock, or the perception in the public markets that these sales may occur, may depress our stock price.**

The market price of our common stock could decline significantly as a result of sales of a large number of shares of our common stock. These sales, or the perception that these sales might occur, could depress the market price of our common stock or make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

We have approximately 31.4 million shares of common stock outstanding as of December 31, 2015. The shares of common stock are freely tradable, except for any shares of common stock that may be held or acquired by our directors, executive officers and other affiliates, the sale of which will be restricted under the Securities Act of 1933, as amended, or the Securities Act. As of December 31, 2015, approximately 2.8 million of the 3.0 million shares of common stock authorized for issuance under the 2014 Omnibus Incentive Plan were available for issuance. These shares will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations.

Moreover, pursuant to a registration rights agreement among us and certain of our current stockholders, certain of our stockholders have the right to require us to register under the Securities Act. See Certain Relationships and Related-Party Transactions-Registration Rights Agreement. If our existing stockholders sell substantial amounts of our common stock in the public market, or if the public perceives that such sales could occur, this could have an adverse impact on the market price of our common stock, even if there is no relationship between such sales and the performance of our business.

Also, in the future, we may issue shares of our common stock in connection with investments or acquisitions. The amount of shares of our common stock issued in connection with an investment or acquisition could constitute a material portion of our then-outstanding shares of our common stock.

### **Jeff Edwards has significant ownership of our common stock and may have interests that conflict with those of our other stockholders.**

As of December 31, 2015, Jeff Edwards beneficially owns approximately 27.1% of our outstanding common stock. As a result of his beneficial ownership of our common stock, he has sufficient voting power to significantly influence all matters requiring stockholder approval, including the election of directors, amendment of our amended and restated certificate of incorporation and approval of significant corporate transactions, and he has significant influence over our management and policies. This concentration of voting power may have the effect of delaying or preventing a change in control of us or discouraging others from making tender offers for our shares of common stock, which could prevent stockholders from receiving a premium for their shares of common stock. These actions may be taken even if other stockholders oppose them. The interests of Jeff Edwards may not always coincide with the interests of other

stockholders, and he may act in a manner that advances his best interests and not necessarily those of our other stockholders. In addition, under our amended and restated certificate of incorporation, Jeff Edwards is permitted to pursue corporate opportunities for himself, rather than for us.

**Table of Contents**

**Certain of our stockholders that are controlled by Jeff Edwards have pledged shares of our common stock as collateral for loans, which may cause Jeff Edwards' interests to conflict with the interests of our other stockholders and may adversely affect the trading price of our common stock.**

Certain of our stockholders, PJAM IBP Holdings, LLC, Installed Building Systems, Inc. and Jeff Edwards, which are controlled by Jeff Edwards, or the Edwards Stockholders, have pledged shares of our common stock as collateral for loans. The Edwards Stockholders currently have pledged approximately 7.8 million shares of our common stock as collateral for loans. We are not a party to these loans, which are full recourse against the Edwards Stockholders and are secured, in part, by pledges of a portion of our common stock currently beneficially owned by Jeff Edwards and the Edwards Stockholders. The terms of these loans were negotiated directly between Jeff Edwards and members of his family and the respective lending institutions.

These pledges of shares of our common stock may cause Jeff Edwards' interests to not always coincide with the interests of other stockholders, and he may act in a manner that advances his interests and not necessarily those of our other stockholders. The occurrence of certain events under these loan agreements could result in the future sales of such shares and significantly reduce Jeff Edwards' ownership in us. Such sales could adversely affect the market and trading price of our common stock. In addition, if the value of our common stock declines, the lending institutions may require additional collateral for the loans, which could cause the Edwards Stockholders to pledge additional shares of our common stock. We can give no assurances that the Edwards Stockholders will not pledge additional shares of our common stock in the future, whether as a result of lender calls requiring additional collateral or their entry into new loans that require them to pledge shares of our common stock.

In addition, our directors, executive officers and other stockholders may pledge shares of our common stock in the future. Depending on the occurrence of certain events relating to the obligations for which these pledges may serve as collateral, our directors, executive officers or other stockholders may experience a foreclosure or margin call that could result in the sale of such pledged shares of our common stock, in the open market or otherwise. Such sales could adversely affect the market and trading price of our common stock.

**Capped call transactions that were entered into by parties affiliated with Jeff Edwards may affect the value of our common stock.**

At the same time as our secondary offering of our common stock, certain of our stockholders entered into a capped call agreement with the underwriters of the offering completed on June 17, 2014. This agreement provides that these stockholders have the option to call from the underwriters a total of approximately 1.0 million shares of our common stock at a capped price. The option can be exercised within specific dates based on the then current price of the underlying shares and will be settled in cash. The capped call agreement is between the stockholders and the underwriters and does not represent compensation to the stockholders for services rendered to us. The price paid for the option represents the fair value of that transaction and we are not a party to the agreement. In connection with establishing its initial hedge of the capped call transactions, the option counterparty (or one of its affiliates) purchased shares of our common stock.

In addition, the option counterparty (or one of its affiliates) may modify its hedge position by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling common stock or other securities of ours in secondary market transactions from time to time. This activity could also cause or mitigate an increase or decrease in the market price of our common stock. We cannot predict what effect the capped call transactions could have on the price of our common stock.

**Provisions of our charter documents and Delaware law could delay, discourage or prevent an acquisition of us, even if the acquisition would be beneficial to our stockholders, and could make it more difficult for our stockholders to change our management.**

Our amended and restated certificate of incorporation and bylaws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares of our common stock. In addition, these

**Table of Contents**

provisions may frustrate or prevent any attempt by our stockholders to replace or remove our current management by making it more difficult to replace or remove members of our board of directors. These provisions include the following:

a classified board of directors with three-year staggered terms;

no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;

the exclusive right of our board of directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;

the ability of our board of directors to authorize the issuance of shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of the holders of our stock or a hostile acquirer;

a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;

a requirement that a special meeting of stockholders may be called only by a resolution duly adopted by our board of directors; and

advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

In addition, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with a stockholder owning 15% or more of such corporation's outstanding voting stock for a period of three years following the date on which such stockholder became an interested stockholder. In order for us to consummate a business combination with an interested stockholder within three years of the date on which the stockholder became interested, either (1) the business combination or the transaction that resulted in the stockholder becoming interested must be approved by our board of directors prior to the date the stockholder became interested, (2) the interested stockholder must own at least 85% of our outstanding voting stock at the time the transaction commences (excluding voting stock owned by directors who are also officers and certain employee stock plans) or (3) the business combination must be approved by our board of directors and authorized by at least two-thirds of our stockholders (excluding the interested stockholder). This provision could have the effect of delaying or preventing a change of control, whether or not it is desired by or beneficial to our stockholders. Any delay or prevention of a change of control transaction or changes in our board of

directors and management could deter potential acquirers or prevent the completion of a transaction in which our stockholders could receive a substantial premium over the then-current market price for their shares of our common stock.

**We do not expect to pay any dividends in the foreseeable future.**

We intend to retain our future earnings, if any, in order to reinvest in the development and growth of our business and, therefore, do not intend to pay dividends on our common stock for the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, the limits imposed by the terms of our credit agreement, or any then-existing debt instruments, and such other factors as our board of directors deems relevant. Accordingly, investors in our common stock may need to sell their shares to realize a return on their investment in our common stock, and investors may not be able to sell their shares at or above the prices paid for them.

**Table of Contents**

**If securities analysts do not publish favorable reports about us or if we, or our industry, are the subject of unfavorable commentary, the price of our common stock could decline.**

The trading price for our common stock depends in part on the research and reports about us that are published by analysts in the financial industry. Analysts could issue negative commentary about us or our industry, or they could downgrade our common stock. We may also not receive sufficient research coverage or visibility in the market. Any of these factors could result in the decline of the trading price of our common stock, causing investors in our common stock to lose all or a portion of their investment.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties****Real Property**

We lease office and warehouse space in 36 states, including our corporate office in Columbus, Ohio. Our leases are typically short in duration with customary extensions at our option. We also own one adjoining property in Mars, Pennsylvania. We believe suitable alternative space is available in all of our markets. The table below summarizes our locations as of December 31, 2015.

State	Number of Locations	Approximate Total Square Footage
Alabama	1	10,500
Arizona	1	6,300
California	11	106,000
Colorado	5	35,400
Connecticut	3	28,100
Delaware	1	9,600
Florida	9	94,000
Georgia	6	72,200
Idaho	3	23,000
Illinois	2	24,300
Indiana	10	204,500
Kentucky	3	25,800
Louisiana	2	21,000
Maine	2	32,500
Maryland	3	34,700
Massachusetts	4	45,300
Michigan	1	21,300
Minnesota	3	62,800



	Number of Locations	Approximate Total Square Footage
Mississippi	1	8,000
Nebraska	1	9,200
New Hampshire	5	44,600
New Jersey	2	26,300
New York	8	93,300
North Carolina	5	33,300
Ohio	10	262,700
Oklahoma	1	18,300
Oregon	2	21,300
Pennsylvania	3*	9,200
South Carolina	5	75,800
Tennessee	2	36,700
Texas	6	101,100
Utah	2	14,400
Vermont	2	37,600
Virginia	4	45,400
Washington	3	34,600
Wisconsin	1	16,600

\* Includes one owned property.

### **Our Fleet**

As of December 31, 2015, our fleet consisted of 2,632 total vehicles that we either lease or own, including 2,335 installation vehicles which our installers use to deliver and install products from our local locations to job sites and 297 other vehicles that are utilized by our sales staff, branch managers and various senior management personnel.

**Table of Contents****Item 3. Legal Proceedings**

We are involved in various claims and lawsuits incidental to the conduct of our business in the ordinary course. We carry insurance coverage that we believe to be reasonable under the circumstances, although insurance may or may not cover any or all of our liabilities in respect of claims and lawsuits. While management currently believes that the ultimate resolution of these matters, individually or in the aggregate, will not have a material adverse effect on our consolidated financial position, results of operations or cash flows, such matters are subject to inherent uncertainties.

**Item 4. Mine Safety Disclosures**

Not applicable.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information for Common Stock**

Our common stock has been traded on the New York Stock Exchange under the symbol "IBP" since February 13, 2014. The following table sets forth, for the periods indicated, our high and low sales prices for our common stock as reported by the New York Stock Exchange:

2015	High	Low
First Quarter	\$ 22.10	\$ 16.88
Second Quarter	\$ 24.70	\$ 19.36
Third Quarter	\$ 29.97	\$ 23.94
Fourth Quarter	\$ 26.98	\$ 19.92
2014	High	Low
First Quarter (1)	\$ 15.47	\$ 12.03
Second Quarter	\$ 14.71	\$ 11.75
Third Quarter	\$ 14.63	\$ 10.82
Fourth Quarter	\$ 18.89	\$ 13.77

- (1) Beginning February 13, 2014, the date that our common stock began trading on the New York Stock Exchange.

**Holders of Record**

As of March 2, 2016, there were 136 holders of record of our common stock, one of which was Cede & Co., which is the holder of shares held through the Depository Trust Company.

**Dividend Policy**

During the years ended 2015 and 2014, we did not declare or pay any cash dividends on our capital stock. We currently do not anticipate paying dividends for the foreseeable future. Any future determination relating to dividends will be made at the discretion of our board of directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition, future prospects, contractual restrictions, legal requirements and other factors our board of directors may deem relevant.

**Table of Contents****Stock Performance Graph**

The table below compares the cumulative total shareholder return on our common stock with the cumulative total return of (i) the Russell 2000 Index ( Russell 2000 ), (ii) the Standard & Poor's Industrials Index ( S&P Industrials ) and (iii) the S&P Smallcap 600 Index (New) ( S&P Smallcap 600 (New) ). For comparison purposes, we have included the S&P Smallcap 600 given our inclusion in the index after the close of trading on December 11, 2015. The graph assumes investments of \$100 in our common stock and in each of the three indices and the reinvestment of dividends from February 13, 2014, the date of our initial public offering ( IPO ), through December 31, 2015.

	2/13/2014	3/31/2014	6/30/2014	9/30/2014	12/31/2014	3/31/2015	6/30/2015	9/30/2015	12/31/2015
<b>IBP</b>	100	109	96	110	139	170	191	198	194
<b>Russell 2000</b>	100	108	110	102	112	117	117	103	107
<b>S&amp;P 500 Industrials</b>	100	113	117	116	124	123	120	112	121
<b>S&amp;P Smallcap 600 (New)</b>	100	109	111	104	114	118	118	108	112

**Table of Contents****Item 6. Selected Financial Data**

The following tables set forth selected historical consolidated financial data that should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements and notes thereto included in Part II, Item 8, Financial Statements and Supplementary Data, of this Form 10-K. The consolidated statements of operations data for the year ended and the consolidated balance sheet data as of December 31, 2015, 2014, 2013, 2012 and 2011 are derived from our audited consolidated financial statements. The selected historical consolidated financial data in this section is not intended to replace our historical consolidated financial statements and the related notes thereto. Our historical results are not necessarily indicative of future results.

	Years ended December 31,				
	2015	2014	2013	2012	2011
<b>Statement of operations:</b>					
<b>(in thousands, except per share amounts)</b>					
Net revenue	\$ 662,719	\$ 518,020	\$ 431,929	\$ 301,253	\$ 238,447
Cost of sales	474,426	377,968	322,241	227,210	181,221
Gross profit	188,293	140,052	109,688	74,043	57,226
Operating expenses					
Selling	37,702	30,951	25,509	19,807	18,446
Administrative (1)	105,639	83,515	71,101	56,132	55,910
Operating income (loss)	44,952	25,586	13,078	(1,896)	(17,130)
Other expense (income)	3,022	2,999	2,224	1,843	(11,389)
Income (loss) before income taxes	41,930	22,587	10,854	(3,739)	(5,741)
Income tax provision	15,413	8,607	4,216	555	1,449
Net income (loss) from continuing operations	26,517	13,980	6,638	(4,294)	(7,190)
Discontinued Operations					
Loss (income) from discontinued operations, net of tax		48	598	(2,388)	1,795
Net income (loss)	26,517	13,932	6,040	(1,906)	(8,985)
Accretion charges on redeemable preferred stock		(19,897)	(6,223)	(5,529)	(811)
Accretion charges on Pre-Recapitalization Preferred Units					(1,621)
Gain on Extinguishment of Pre-Recapitalization Preferred Units					85,040
Net income (loss) attributable to common stockholders	\$ 26,517	\$ (5,965)	\$ (183)	\$ (7,435)	\$ 73,623
Income (loss) per share attributable to common stockholders (basic and diluted)	\$ 0.85	\$ (0.20)	\$ (0.01)	\$ (0.37)	\$ 3.78

**Balance sheet data:****(in millions)**

Cash	\$ 6,818	\$ 10,761	\$ 4,065	\$ 3,898	\$ 2,528
Total current assets	\$ 150,232	\$ 119,288	\$ 95,512	\$ 75,768	\$ 56,554
Property and equipment, net	\$ 57,592	\$ 39,370	\$ 29,475	\$ 17,931	\$ 8,198
Total assets	\$ 374,082	\$ 234,162	\$ 191,070	\$ 160,752	\$ 127,526
Total funded debt (2)	\$ 144,187	\$ 53,738	\$ 50,059	\$ 30,075	\$ 21,255
Mezzanine equity (3)	\$	\$	\$ 136,848	\$ 66,861	\$ 59,587
Total stockholders equity (deficit)	\$ 114,483	\$ 91,874	\$ (71,429)	\$ (7,482)	\$ (9,560)
Total mezzanine equity and stockholders equity	\$ 114,483	\$ 91,874	\$ 65,419	\$ 59,379	\$ 50,027

**Table of Contents**

- (1) Prior to November 1, 2013, Jeff Edwards served as a consultant and non-employee officer to us. As such he did not receive a salary or bonus for 2012 or 2011. The costs of Jeff Edwards' services were paid through various management agreements. In anticipation of our IPO and with a view towards operating as a public company, we entered into an employment agreement with Jeff Edwards on November 1, 2013 that pays Mr. Edwards a minimum annual base salary of \$600,000 and provides him an opportunity to participate in the Company's annual incentive and benefit programs. Compensation paid by us to Mr. Edwards since November 1, 2013 has been recorded as an administrative expense in our consolidated statement of operations.
- (2) Total funded debt consists of current and long-term portions of long-term debt, capital lease obligations, non-compete obligations, and vehicle financing arrangements.
- (3) Consists of Series A Preferred Stock, \$0.01 par value per share (the Redeemable Preferred Stock) and Redeemable Common Stock. This treatment is no longer required as of the date of our IPO in February 2014. See Note 1, Organize, 2014 Initial Public Offering (IPO), of our audited consolidated financial statements included in Item 8 of Part II of this Form 10-K for more information.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following in conjunction with the consolidated financial statements and related notes thereto included in Item 8, Financial Statements and Supplemental Data, in this Form 10-K. This discussion contains forward-looking statements reflecting current expectations that involve risks and uncertainties. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed in the section captioned Risk Factors and elsewhere in this Form 10-K. Share numbers presented in this Form 10-K give effect to our 19.5-for-one stock split of our common stock that occurred on February 10, 2014.*

**OVERVIEW**

We are the second largest new residential insulation installer in the United States based on our internal estimates, with a national platform consisting of over 100 locations serving customers in all 48 continental states and the District of Columbia. We also install complementary building products, including garage doors, rain gutters, shower doors, closet shelving and mirrors. Substantially all of our net revenue comes from service-based installation of these products in the residential new construction, repair and remodel and commercial construction end markets.

A large portion of our net revenue comes from the U.S. residential new construction market, which depends upon a number of economic factors, including demographic trends, interest rates, consumer confidence, employment rates, housing inventory levels, foreclosure rates, the health of the economy and availability of mortgage financing. The strategic acquisitions of multiple companies in 2015 and 2014 contributed meaningfully to our 27.9% increase in net revenue to \$662.7 million during the year ended December 31, 2015 compared to \$518.0 million in the same period in 2014. The construction of new homes increased in most of our markets during 2015, also contributing to the increase in net revenue in 2015.

We believe our business is well positioned to continue to profitably grow during the housing recovery due to our strong balance sheet, liquidity and our continuing acquisition strategy. We may adjust our strategies based on housing demand and our performance in each of our markets. Nevertheless, the pace of the housing recovery and our future results could be negatively affected by weakening economic conditions and decreases in housing demand and affordability as well as increases in interest rates and tightening of mortgage lending practices.





---

**Table of Contents**

**KEY FACTORS AFFECTING OUR OPERATING RESULTS**

*Conditions in the U.S. residential new construction industry and U.S. economy.*

The housing downturn that began in 2006 caused many builders to significantly decrease their production of housing units because of lower demand and excess inventory. Due to the lower levels in housing starts and construction activity, we experienced pressure on both our gross and operating margins until the housing recovery began in 2012.

We believe there are several trends that should drive long-term growth in the housing market. These trends include housing affordability, an aging housing stock, population growth and growth in household formation. These positive trends are reflected in Blue Chip's February 2016 consensus forecast, which projects housing starts to increase from approximately 1.1 million in 2015 to approximately 1.3 million in 2016 and approximately 1.4 million in 2017. We expect that our net revenue, gross profit, and operating income will benefit from this growth. In addition, we continue to experience improved operating efficiencies resulting from certain costs, such as administrative wages and benefits, facility costs and other operating and administrative costs, increasing at a lower rate than the rate at which net revenue increases. Operating expenses as a percentage of net revenue were approximately 21.6%, 22.1% and 22.4% for the years ended December 31, 2015, 2014 and 2013, respectively.

*Trends in the construction industry*

Our operating results may vary based on the amount and type of products we install and the mix of our end markets among new single-family, multi-family and commercial builders and owners of existing homes. Forecasts issued by various third-party industry sources suggest a higher rate of growth in single-family new home construction compared to that for multi-family new home construction over the next couple of years. We expect to benefit from this shift in mix as our net revenue per single-family completion is higher than our net revenue per multi-family completion. In addition, our total net revenue from single-family completions is higher than from multi-family completions. As the housing market recovery continues and stabilizes, we expect to benefit from the continued participation of large homebuilders as well as the increased participation of custom builders and individual lot owners. We maintain an attractive mix of business among all types of homebuilders ranging from small custom builders to large regional and national homebuilders as well as a wide range of commercial builders. Net revenue derived from our ten largest homebuilder customers in the United States was approximately 14.0% in the year ended December 31, 2015. We are also well positioned with custom home builders, given our geography and market share position with these customers, to benefit from the later stages of the recovery cycle. We also provide services to the commercial construction end market, which represented approximately 11.0% of our total net revenue in each of the years ended December 31, 2015, 2014 and 2013. The 2016 Dodge Construction Outlook (fourth quarter 2015 update) forecasts an 11% year-over-year increase in the overall commercial construction market in 2016. As the housing market recovery progresses, we also expect to see an increase in repair and remodel activity, which represented approximately 7.9% of our total net revenue for the year ended December 31, 2015.

*Material costs*

We purchase the materials that we install primarily from manufacturers. We believe that, as a result of our national scale and long-standing relationships with many of our suppliers, we will continue to have access to an adequate supply of these materials at favorable prices to keep up with the growing demand for our products as the housing market continues to recover. Prices for our products have generally been subject to cyclical market fluctuations that track the strength of the U.S. residential new construction market. In the event that increased demand leads to higher prices for the products we install, due to the fragmented and competitive nature of our industry, we may have limited, if any, ability to pass on price increases in a timely manner or at all. In the past, we have generally been able to pass

on these increases to our customers over time.

## **Table of Contents**

### *Labor costs*

Our business is labor intensive. As of December 31, 2015, we had 4,510 employees, most of whom work as installers on local construction sites. As the housing market continues to recover, we expect that labor markets will tighten as the demand increases for installers. Tight labor markets may make it more difficult for us to hire and retain installers and could increase our labor costs. We expect to spend more on training as we hire additional installers to support our growing business. We offer a comprehensive benefits package, which many of our local competitors are not able to provide, which will increase costs as we hire additional personnel. Our workers' compensation costs also continue to increase as we increase our coverage for additional personnel. With the enactment in 2010 of the U.S. Patient Protection and Affordable Care Act, or the Affordable Care Act, we are required to provide affordable coverage, as defined in the Affordable Care Act, to all employees, or otherwise be subject to a payment per employee based on the affordability criteria therein, therefore health care costs are expected to increase proportionately with increases in the labor force.

### *Other factors*

We expect our selling and administrative expenses to continue to increase as our business grows, which could impact our future operating profitability.

## **INFLATION**

Our performance is dependent to a significant extent upon the levels of U.S. residential new construction spending, which is affected by factors such as interest rates, inflation, consumer confidence and unemployment. We do not believe that inflation has had a material impact on our business, financial condition or results of operations during the housing recovery.

## **ACQUISITIONS**

Since 1999, our acquisition strategy has allowed us to generate significant scale, diversify our product offering and expand into many of the largest housing markets in the United States. We have pursued and expect to continue to pursue both geographic expansion and tuck-in acquisitions in existing markets. We expect to target acquisition candidates that meet our criteria, which often include a strong local reputation and high-quality management and labor force. Our acquisition strategy is also focused on using our national buying power, value-enhancing technology and proven operating platform to achieve operating efficiencies in our acquisitions.

During each of 2015, 2014 and 2013, we completed multiple acquisitions, all of which qualify as business combinations as defined by Accounting Standards Codification 805, Business Combinations. Our 2015 acquisitions expanded our market presence in California, Florida, Idaho, Kentucky, New Hampshire, New Jersey, New York, North Carolina, Texas, Vermont, Virginia, Utah and Washington. Our 2014 acquisitions expanded our market presence in Idaho, Minnesota, Wisconsin, North Dakota and the New York Tri-State region.

Direct acquisition and integration costs totaled \$1.0 million for the year ended December 31, 2015 and were not material and were expensed as incurred for the years ended December 31, 2014 and 2013. We have in the past been, and may in the future be, subject to post-closing payment obligations under contracts we enter into with businesses we acquire.

## **SEASONALITY**

We tend to have higher sales during the second half of the year as our homebuilder customers complete construction of homes placed under contract for sale in the traditionally stronger spring selling season. In addition, some of our larger branches operate in states impacted by winter weather and as such experience a slowdown in construction activity during the first quarter of the calendar year. This winter slowdown contributes to traditionally lower sales and profitability in our first quarter. See Item 1, Business, for further information.

**Table of Contents**

**COMPONENTS OF RESULTS OF OPERATIONS**

*Net Revenue.* Net revenue is derived from installation of products sold to our customers. Revenue from the sale and installation of products to customers is recognized at the time installation is complete.

*Cost of Sales.* Our cost of sales is comprised of the costs of materials and labor to purchase and install our products for our customers. Also included in our cost of sales are the cost of safety and other supplies, workers compensation insurance and certain costs to manage our warehouses, as well as the following vehicle-related expenses: fuel, repairs and maintenance, depreciation, lease expense, insurance, licensing and titling.

*Selling Expenses.* Selling expenses primarily include wages and commissions for our sales staff, advertising and bad debt expense.

*Administrative Expenses.* Administrative expenses include wages and benefits for branch management and administrative personnel, corporate office personnel, non-cash stock compensation when applicable, facility costs, office supplies, telecommunications, legal, accounting and general liability insurance costs.

*Amortization Expense.* Amortization expense represents the decline in value over time of definite-lived intangible assets such as trademarks, trade names, customer lists and non-competition agreements obtained as a result of past acquisitions.

*Interest Expense.* Interest expense relates primarily to our interest expense on capital leases, our revolving lines of credit and our term loan.

*Other Expense (Income).* Other expense (income) includes the profit or loss of minor activities not fundamental to ongoing operations. For the year ended December 31, 2015, this category also includes a \$1.1 million gain on bargain purchase associated with one of our business combinations during 2015. See Note 12, Business Combinations, of our audited consolidated financial statements included in Item 8 of Part II of this Form 10-K for more information.

*Income Taxes.* Income taxes are recorded using the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to be recovered or settled.

*Discontinued Operations.* Loss from discontinued operations represents the after tax loss on the sale or closure of operations of a portion of our business and the after tax effect of the discontinued operations for all periods presented.

*Accretion Charges on Redeemable Preferred Stock.* Accretion charges on Redeemable Preferred Stock represents the change in carrying value of such shares during the period as they are accreted from the initial carrying value at the date of issuance to the redemption value at the earliest redemption date. The Redeemable Preferred Stock was redeemed in full on February 19, 2014 in connection with our IPO.

**Table of Contents****Annual Results of Operations**

The following table sets forth our operating results for the periods indicated (in thousands):

	Years ended December 31,					
	2015		2014		2013	
Net revenue	\$ 662,719	100.0%	\$ 518,020	100.0%	\$ 431,929	100.0%
Cost of sales	474,426	71.6	377,968	73.0	322,241	74.6
Gross profit	188,293	28.4	140,052	27.0	109,688	25.4
Operating expenses						
Selling	37,702	5.7	30,951	6.0	25,509	5.9
Administrative and other (1)	105,639	15.9	83,515	16.1	71,101	16.5
Operating income	44,952	6.8	25,586	4.9	13,078	3.0
Other expense	3,022	0.5	2,999	0.5	2,224	0.5
Income before income taxes	41,930	6.3	22,587	4.4	10,854	2.5
Income tax provision	15,413	2.3	8,607	1.7	4,216	1.0
Net income from continuing operations	26,517	4.0	13,980	2.7	6,638	1.5
Discontinued operations						
Loss from discontinued operations, net of income taxes			48	0.0	598	0.1
Net income	26,517	4.0	13,932	2.7	6,040	1.4
Accretion charges on redeemable preferred stock			(19,897)	(3.9)	(6,223)	(1.4)
Net income (loss) attributable to common stockholders	\$ 26,517	4.0%	\$ (5,965)	(1.2)%	\$ (183)	(0.0)%

- (1) Prior to November 1, 2013, Jeff Edwards served as a consultant and non-employee officer to us. As such he did not receive a salary or bonus for 2012 or 2011. The costs of Jeff Edwards' services were paid through the management agreements discussed above. Jeff Edwards did not receive any compensation in 2013 prior to November 1, 2013. In anticipation of our IPO and with a view towards operating as a public company, we entered into an employment agreement with Jeff Edwards on November 1, 2013 that pays Mr. Edwards a minimum annual base salary of \$0.6 million and provides him an opportunity to participate in the Company's annual incentive and benefit programs. Compensation paid by us to Mr. Edwards on or after November 1, 2013 has been recorded as an administrative expense in our consolidated statement of operations. As a result of the foregoing, our performance for the years ended December 31, 2015, 2014 and 2013 will not be comparable in this respect to our operations in prior or subsequent periods and may not be indicative of future results.

**Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014**

*Net revenue*

For the year ended December 31, 2015, net revenue increased \$144.7 million, or 27.9%, to \$662.7 million from \$518.0 million during the year ended December 31, 2014. The increase in net revenue included revenue from acquisitions of approximately \$84.1 million. Approximately \$29.6 million was predominantly attributable to organic growth in the volume of completed jobs in all of our end markets. The remaining increase in net revenue of approximately \$31.0 million resulted from a variety of factors including customer and product mix, market pricing variations and insulation volumes driven by building code requirements. None of these additional factors was more significant than any other.

---

**Table of Contents***Cost of sales*

For the year ended December 31, 2015, cost of sales increased \$96.5 million, or 25.5%, to \$474.4 million from \$378.0 million during the year ended December 31, 2014. As a percent of sales, cost of sales decreased to 71.6% during the year ended December 31, 2015 from 73.0% during the year ended December 31, 2014 attributable to improved direct labor efficiency and savings in materials, fuel prices and fuel utilization. On a dollar basis, cost of sales included increases from acquired businesses of approximately \$56.4 million. Approximately \$20.9 million was predominantly attributable to organic growth in the volume of completed jobs in the residential new construction end market. Depreciation expense increased \$4.5 million as a result of increased investment in vehicles and equipment to support our growth. Additionally, cost of sales increased \$14.7 million as a result of a variety of factors including customer and product mix, market pricing variations and insulation volumes driven by building code requirements. No factor was more significant than any other.

*Gross profit*

For the year ended December 31, 2015, gross profit increased \$48.2 million to \$188.3 million from \$140.1 million during the year ended December 31, 2014. As a percentage of net revenue, gross profit increased to 28.4% for the year ended December 31, 2015 from 27.0% for the year ended December 31, 2014 primarily from a favorable change in our customer and product mix, market pricing variations and insulation volumes.

*Operating expenses***Selling**

For the year ended December 31, 2015, selling expenses increased \$6.7 million, or 21.8%, to \$37.7 million from \$31.0 million for the year ended December 31, 2014. As a percent of sales, selling expenses decreased to 5.7% during the year ended December 31, 2015 from 6.0% during the year ended December 31, 2014 primarily due to lower bad debt expense. On a dollar basis, the increase in selling expenses was primarily due to higher commissions, wages and benefits of \$6.9 million and increased advertising costs of \$0.7 million, each of which supported both organic and acquisition-related growth. Partially offsetting those increases was a reduction of \$0.9 million in bad debt expense.

**Administrative and other**

For the year ended December 31, 2015, administrative and other increased \$22.1 million, or 26.5%, to \$105.6 million from \$83.5 million for the year ended December 31, 2014. Wages and benefits increased \$13.2 million, of which \$5.3 million was attributable to acquisitions and \$7.9 million was to support our organic growth. Amortization of intangibles increased \$3.4 million attributable to acquisitions and our facility costs increased \$1.7 million primarily due to leases from the branches of acquired companies. Of the remaining \$3.8 million increase in administrative and other expenses, \$0.8 was attributable to travel and entertainment with approximately \$3.0 million related to other minor increases across several categories.

*Other expense*

Other expense was flat for the year ended December 31, 2015 compared to the year ended December 31, 2014. Included in the year ended December 31, 2015 was a one-time bargain purchase gain of \$1.1 million related to one of our business combinations completed during 2015. This gain was offset by additional interest expense of \$0.6 million incurred due to higher debt levels to support our growth related to acquisitions. This net gain of \$0.5 million is approximately comparable in amount to a one-time gain of \$0.5 million recognized in the year ended December 31,



2014 upon termination of the put option on our Redeemable Preferred Stock.

---

**Table of Contents***Income tax provision*

During the twelve months ended December 31, 2015, we recorded an income tax provision of \$15.4 million on our income from continuing operations before income taxes of \$41.9 million, or an effective tax rate of 36.8%. This rate was favorably impacted by deductions related to domestic production activities as well as a non-taxable bargain purchase gain. The favorable impact was offset by separate tax filing entities in a loss position for which a full valuation allowance will be accounted for against the losses, causing no tax benefit to be recognized on the losses, an increase in the state income tax rate and various other unfavorable permanent items.

During the twelve months ended December 31, 2014, we recorded an income tax provision of \$8.6 million on our income from continuing operations before income taxes of \$22.6 million, or an effective tax rate of 38.1%. This rate was favorably impacted by deductions related to domestic production activities and a benefit for a cancelled put option related to our Redeemable Preferred Stock. See Note 6, Fair Value Measurements, Assets and Liabilities Measured at Fair Value on a Recurring Basis of our audited consolidated financial statements included in Item 8 of Part II of this Form 10-K for more information on the put option. The favorability was offset by a non-deductible permanent item related to our secondary offering during the second quarter, an increase in our valuation allowance for separate tax filing entities, and an increase in the state income tax rate.

*Loss from discontinued operations, net of income taxes*

We did not discontinue any operations during the year ended December 31, 2015 nor did we incur any expenses related to discontinued operations. For the year ended December 31, 2014, we had loss from discontinued operations of \$48 thousand. We did not discontinue any operations during the year ended 2014 and all expenses incurred during the year ended December 31, 2014 relate to operations discontinued in prior periods.

**Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013***Net revenue*

For the year ended December 31, 2014, net revenue increased \$86.1 million, or 19.9%, to \$518.0 million from \$431.9 million during the year ended December 31, 2013. The increase in net revenue included revenue from acquisitions of approximately \$15.4 million. Approximately \$52.1 million was predominantly attributable to organic growth in the volume of completed jobs in all of our end markets. The remaining increase in net revenue of approximately \$18.6 million resulted from a variety of factors including customer and product mix, market pricing variations and insulation volumes driven by building code requirements. Of these, no one factor was more significant than any other.

*Cost of sales*

For the year ended December 31, 2014, cost of sales increased \$55.7 million, or 17.3%, to \$377.9 million from \$322.2 million during the year ended December 31, 2013. As a percent of sales, cost of sales decreased to 73.0% during the year ended December 31, 2014 from 74.6% during the year ended December 31, 2013 primarily due to savings in installer labor and material costs. On a dollar basis, cost of sales included increases from acquired businesses of approximately \$11.0 million. Approximately \$37.9 million was predominantly attributable to organic growth in the volume of completed jobs in the residential new construction end market. Depreciation expense increased \$3.6 million as a result of increased investment in vehicles and equipment to support our growth. Additionally, cost of sales increased \$3.2 million as a result of a variety of factors including customer and product mix, market pricing variations and insulation volumes driven by building code requirements. Of these items, no one was more significant than the other.

*Gross profit*

For the year ended December 31, 2014, gross profit increased \$30.4 million to \$140.1 million from \$109.7 million during the year ended December 31, 2013. As a percentage of net revenue, gross profit increased to

## Table of Contents

27.0% for the year ended December 31, 2014 from 25.4% for the year ended December 31, 2013 primarily from operating efficiencies gained with higher sales levels in most cost of sales categories, especially material and labor costs, as well as an improvement in our customer and product mix and lower fuel costs.

### *Operating expenses*

#### Selling

For the year ended December 31, 2014, selling expenses increased \$5.5 million, or 21.3%, to \$31.0 million from \$25.5 million for the year ended December 31, 2013. As a percent of sales, selling expenses were relatively flat, decreasing to 6.0% during the year ended December 31, 2014 from 5.9% during the year ended December 31, 2013. On a dollar basis, selling expenses increased due to higher commissions, wages and benefits of \$4.6 million to support our growth as well as an increase in bad debt expense of \$0.9 million. Selling expenses increased 0.1% as a percentage of net revenue for the year ended December 31, 2014 as compared to the year ended December 31, 2013, as a result of increases in commissions to support more profitable sales growth.

#### Administrative and other

For the year ended December 31, 2014, administrative and other expenses increased \$12.4 million, or 17.5%, to \$83.5 million from \$71.1 million for the year ended December 31, 2013. The increase in administrative and other expenses was primarily due to increased wages and benefits costs of \$7.2 million to support our growth, increased accounting and legal fees primarily associated with our status as a public company of \$2.1 million (including secondary public offering costs of \$0.8 million), increased facility costs of \$1.4 million, increased technology costs of \$0.5 million, and net changes in several other administrative expenses of approximately \$1.2 million to support our growth.

### *Other expense*

For the year ended December 31, 2014, other expense was \$3.0 million, compared to \$2.2 million for the year ended December 31, 2013. This increase of \$0.8 million is primarily reflected in interest expense and includes an increase of \$0.7 million in interest associated with capital lease obligations as well as a write-off of capitalized loan costs associated with our previous credit agreement of \$0.2 million, offset by a decrease of \$0.1 million attributable to a lower interest rate on our term loan compared to the interest rate on our previous debt arrangements.

### *Income tax provision*

For the year ended December 31, 2014, we recorded an income tax provision of \$8.6 million on our income from continuing operations before income taxes of \$22.6 million, or an effective tax rate of 38.1%. This rate was favorably impacted by deductions related to domestic production activities and a benefit for a cancelled put option related to our Redeemable Preferred Stock. See Note 6, Fair Value Measurements, Assets and Liabilities Measured at Fair Value on a Recurring Basis of our audited consolidated financial statements included in Item 8 of Part II of this Form 10-K for more information on the put option. The favorability was offset by a non-deductible permanent item related to our secondary offering during the second quarter, an increase in our valuation allowance for separate tax filing entities, and an increase in the state income tax rate.

For the year ended December 31, 2013, we recorded an income tax provision of \$4.2 million on our income from continuing operations before income taxes of \$10.9 million, or an effective tax rate of 39.0%. The provision was primarily driven by the impact of IRC Section 199 deductions and a change in the deferred tax asset valuation allowance.

*Loss from discontinued operations, net of income taxes*

For the year ended December 31, 2014, we had loss from discontinued operations of \$48 thousand compared to a loss from discontinued operations of \$0.6 million for the year ended December 31, 2013. We did not discontinue

## **Table of Contents**

any operations during the year ended December 31, 2014 and all expenses incurred during that period relate to operations discontinued in prior periods. During the year ended December 31, 2013, we elected to discontinue operations in certain underperforming markets.

## **Liquidity and Capital Resources**

Our primary capital requirements are to fund working capital needs, operating expenses, acquisitions and capital expenditures and meet required principal and interest payments. Our capital resources primarily consist of cash from operations and borrowings under our credit agreement and capital equipment leases and loans.

The residential construction industry, and therefore our business, experienced a significant downturn that started in 2006. However, housing completions began to increase meaningfully in 2012. Since 2012, we have experienced improved profitability and liquidity and have invested significantly in acquisitions, supported by our cash from operations and credit agreement. Additionally, we have utilized capitalized leases and loans to finance the increase in the number of our vehicles and equipment.

As of December 31, 2015, we had \$6.8 million in cash and nothing drawn on our \$100.0 million revolver. In addition, \$12.3 million letters of credit were issued and outstanding under our credit agreement (the *Prior Credit Agreement* ).

On February 29, 2016, we entered into an amended and restated Credit and Security Agreement (the *Credit and Security Agreement* ) with a bank group with an aggregate commitment of \$325 million and a maturity date of February 28, 2021. We used a portion of the funds from the Credit and Security Agreement to pay off the outstanding balances under our previous credit agreement. See Note 15, Subsequent Events, of our audited consolidated financial statements included in Item 8 of Part II of this Form 10-K for further information.

We intend to use the Credit and Security Agreement to refinance existing indebtedness and fund ongoing operating and working capital needs and other general corporate purposes, including growth and acquisition initiatives, and for certain fees and expenses associated with the closing of the Credit and Security Agreement.

We believe that our cash flows from operations, combined with our current cash levels and available borrowing capacity, will be adequate to support our ongoing operations and to fund our debt service requirements, capital expenditures and working capital for at least the next 12 months.

## **Historical cash flow information**

### *Working capital*

We carefully manage our working capital and operating expenses. As of December 31, 2015 and 2014, our working capital, including cash, was \$52.8 million, or 8.0% of net revenue, and \$42.7 million, or 8.2% of net revenue, respectively. While we continue to look for opportunities to reduce our working capital as a percentage of net revenue, we may decide in the future to negotiate additional discounted payment terms with our vendors, potentially resulting in lower accounts payable balances, which could increase our working capital as a percentage of net revenue.

The increase in accounts receivable of \$30.9 million as of December 31, 2015 as compared to December 31, 2014 is primarily a result of higher net revenue from both organic and acquisition related growth in 2015. Days sales outstanding as of December 31, 2015 and 2014 were approximately 56.8 and 50.9 days, respectively. The fluctuation in days sales outstanding is impacted by increases or decreases in accounts receivable as seasonality and the housing market cycle impacts collection rates. The days sales outstanding calculation is also impacted by the timing and

magnitude of acquisitions. There has been no material changes in collection terms with customers during the year ended December 31, 2015.

The increase in inventories of \$5.4 million as of December 31, 2015 as compared to December 31, 2014 is primarily a result of increased net revenue from both organic and acquisition related growth in 2015. Inventory turns as of December 31, 2015 and 2014 were comparable at approximately 10.2 and 9.8, respectively.

---

**Table of Contents**

Other current assets decreased \$1.4 million as of December 31, 2015 as compared to December 31, 2014 primarily due to our tax position changing from a receivable position in 2014 to a payable position in 2015, resulting in a change of \$1.7 million in other current assets. Additionally, our prepaid insurance balance decreased \$1.2 million primarily due to timing of payments. These items were partially offset by an increase in our rebate receivables of \$1.4 million due to higher purchase volumes.

Accounts payable increased \$4.3 million as of December 31, 2015 as compared to December 31, 2014 primarily as a result of changes in the volume of inventory purchases due to higher net revenue leading up to each balance sheet date and also as a result of acquisitions in 2015.

Accrued compensation and other current liabilities increased \$9.3 million as of December 31, 2015 as compared to December 31, 2014 due to a \$3.2 million increase in accrued compensation and a \$2.8 million increase in covenants not-to-compete primarily related to newly-acquired businesses. Additionally, income taxes payable increased \$1.7 million due to timing of tax payments and higher pre-tax income resulting in a payable in 2015 versus a receivable in 2014. The remaining \$1.6 million increase was attributable to several changes, none of which were more significant than any other.

*Cash flow from operating activities*

Net cash provided by operating activities was \$34.5 million, \$19.6 million, and \$4.2 million for the twelve months ended December 31, 2015, 2014 and 2013, respectively, and consisted primarily of net income of \$26.5 million, \$13.9 million, and \$6.0 million respectively, adjusted for non-cash and certain other items. Included in the net cash provided in 2015 were non-cash adjustments for depreciation and amortization expense on our expanded base of property, plant and equipment to support our growth totaling \$17.0 million as well as for amortization on our growing intangible asset base totaling \$6.3 million. These adjustments were coupled with other changes in working capital, most notably a net \$2.5 million change in accounts payable due to a one-time negotiated change in payment terms with one of our large suppliers offsetting additional accounts payable resulting from the increase in net revenue in 2015, as well as a reduction in cash of \$17.5 million due to increased accounts receivable balances compared to the beginning of the period resulting from higher sales in the twelve months ended December 31, 2015. Included in the net cash provided in 2014 was a non-cash adjustment for depreciation and amortization expense on our expanded base of property, plant and equipment to support our growth totaling \$12.2 million as well as other changes in working capital, most notably \$4.6 million of additional accounts payable resulting from an increase in purchases to support our growth as well as a \$5.2 million change in other liabilities due primarily to increases in accruals for wages, workers compensation and other insurances, offset by a reduction in cash of \$10.7 million due to increased accounts receivable balances compared to the beginning of the period resulting from higher sales in the twelve months ended December 31, 2014. Included in the net cash provided in 2013 was \$8.4 million of depreciation and amortization expense on our growing base of property, plant and equipment to support our growth as well as other changes in working capital, most notably \$3.9 million of additional accounts payable offset by \$12.8 million of additional accounts receivable, both resulting from the increase in net revenue.

*Cash flows from investing activities*

Net cash used in investing activities was \$111.4 million, \$16.1 million and \$2.5 million for the years ended December 31, 2015, 2014 and 2013, respectively. In 2015, we made cash payments, net of cash acquired, of \$84.3 million on business combinations and \$27.3 million to purchase property and equipment primarily to expand our fleet to support our growing business. See *Capital expenditures* below for more information on the increase in cash paid for purchases of property and equipment in 2015. In 2014 we made cash payments, net of cash acquired, of \$12.4 million on business combinations and \$6.2 million to purchase property and equipment primarily to expand our fleet to



support our growing business. In 2013 we made cash payments of \$2.7 million to purchase property and equipment primarily to expand our fleet and \$1.2 million on business combinations.

---

**Table of Contents***Cash flows from financing activities*

Net cash provided by financing activities was \$72.9 million for the year ended December 31, 2015 compared to \$3.2 million for the year ended December 31, 2014 and cash used in financing activities of \$1.5 million for the year ended December 31, 2013. Net cash provided in 2015 was primarily the result of amending our credit agreement, resulting in increased borrowing capacity to support operations and continuing acquisitions. During the twelve months ended December 31, 2015, our term loan balance increased \$25.3 million on a net basis and our delayed draw term loan balance increased \$50.0 million in support of those initiatives. We also received proceeds from vehicle and equipment notes payable of \$21.3 million to finance the expansion of our fleet, offset by \$9.7 million in principal payments on capital lease obligations, \$6.1 million to repurchase 315,000 shares of our common stock, \$4.1 million in principal payments on long term debt, and \$3.2 million in principal payments on acquisition-related obligations. Net cash provided in 2014 was primarily the result of net proceeds from our IPO and secondary offerings of \$87.6 million and \$14.4 million, respectively, in addition to \$25.0 million of proceeds from our previous credit agreement. Cash provided from these activities was offset by the redemption of our Redeemable Preferred Stock of \$75.7 million, net payments on our previous credit agreement of \$27.3 million, vehicle capital lease principal payments of \$9.4 million, the repurchase of common stock of \$5.3 million, and cash payments for offering costs related to our IPO and secondary public offerings of \$4.4 million. Net cash used in 2013 was primarily the result of vehicle capital lease principle payments to support our growing business of \$6.6 million and cash payments for offering costs related to our IPO of \$4.4 million, offset by proceeds from our previous credit agreement of \$10.0 million.

*Capital expenditures*

Capital expenditures vary depending on prevailing business factors, including current and anticipated market conditions. Total capital expenditures were \$27.3 million, \$6.2 million and \$2.7 million for the years ended December 31, 2015, 2014 and 2013, respectively, and primarily related to purchases of vehicles and various equipment to support our operations and increased net revenue. We expect to continue to support any increases in 2016 net revenue through further capital expenditures. Subsequent to September 30, 2014, we began financing a significant portion of our capital expenditures under the Master Loan Agreement or the Master Equipment Agreement (each as defined below in Vehicle and Equipment Notes), which allow us to benefit from depreciation for tax purposes. These arrangements require us to pay cash up front for vehicles and equipment. We are reimbursed for the upfront cash payments after the assets are financed under the agreements. Of the \$27.3 million in capital expenditures during the twelve months ended December 31, 2015, \$21.3 million was converted to a financing arrangement by December 31, 2015 under the Master Loan Agreement or Master Equipment Agreement and we expect another \$2.7 million of 2015 expenditures to be financed in 2016. During the year ended December 31, 2014, we obtained the majority of our new vehicles and equipment through capital lease arrangements for which there is no immediate cash outflow. As a result, cash outflows from investing activities during the year ended December 31, 2015 were significantly higher than during the year ended December 31, 2014 and were partially offset by proceeds from vehicle and equipment notes payable.

*Credit and Security Agreement*

On February 29, 2016, we entered into the Credit and Security Agreement with a bank group, which provides for an aggregate commitment amount of \$325.0 million, including a \$100.0 million revolving credit facility, a \$100.0 million term loan (which was borrowed at closing) and a delayed draw term loan facility providing for up to \$125.0 million in additional term loan draws during the first year of the Credit and Security Agreement. The Credit and Security Agreement also includes an accordion feature which allows us, at our option but subject to lender and certain other approvals, to add up to an aggregate of \$75.0 million in principal amount of term loans or additional revolving credit commitments, subject to the same terms as the revolving credit facility and term loan. As of February 29, 2016,

there were approximately \$12.3 million in letters of credit issued and no other borrowings outstanding under the revolving credit facility, and no borrowings under the delayed draw term loan facility. The Credit and Security Agreement matures on February 28, 2021.

The Credit and Security Agreement amends and restates the Prior Credit Agreement, which was scheduled to mature in April 2020. We used a portion of the funds from the Credit and Security Agreement to pay off the outstanding balances under our previous credit agreement. As of December 31, 2015, we were in compliance with all covenants of the Prior Credit Agreement.

## **Table of Contents**

Loans under the Credit and Security Agreement bear interest at either the eurodollar rate or the base rate, at our election, plus a margin based on the type of rate applied and the value (represented as a ratio) of our total debt to earnings. In addition to interest, we are required to pay commitment fees ranging from 0.200% to 0.300% per annum on the unused portion of the revolving credit facility and a ticking fee of 0.375% per annum on the unused portion of the delayed draw term loan facility until it is borrowed or February 28, 2017, whichever is earlier.

All of the obligations under the Credit and Security Agreement will be guaranteed by our existing and future direct and indirect material domestic subsidiaries, other than Suburban Insulation, Inc. (the Guarantors). Subject to certain restrictions, all of our and each Guarantor's obligations under the Credit and Security Agreement are secured by: (1) all of our and each Guarantor's tangible and intangible personal property and real property, excluding those assets pledged under capital leases and capital equipment loans; (2) a pledge of, and first priority perfected lien on, 100% of the capital stock or other equity interests of our and the Guarantors' domestic subsidiaries; and (3) a negative pledge on all of our and each our Guarantor's assets.

The Credit and Security Agreement contains covenants (as defined in the Credit and Security Agreement) that require us, commencing with the first quarter ending June 30, 2016, to (1) maintain a fixed charge coverage ratio of not less than 1.10 to 1.0 and (2) maintain a leverage ratio of no greater than (a) 3.50 to 1.00 through December 30, 2016; (b) 3.25 to 1.00 on December 31, 2016 through June 29, 2017; (c) 3.00 to 1.00 on June 30, 2017 through December 30, 2017; (d) 2.75 to 1.00 on December 31, 2017 through June 29, 2018; and (e) 2.50 to 1.00 on June 30, 2018 and thereafter. The Credit and Security Agreement also contains various restrictive non-financial covenants and a provision that, upon an event of default (as defined by the Credit and Security Agreement), amounts outstanding under the Credit and Security Agreement would bear interest at the rate as determined above plus 2.0%.

See Note 15, Subsequent Events, of our audited consolidated financial statements included in Item 8 of Part II of this Form 10-K for further information.

## **Vehicle and Equipment Notes**

In 2014 and 2015, we entered into a Master Loan and Security Agreement ( Master Loan Agreement ) and a Master Equipment and Lease Agreement ( Master Equipment Agreement ), respectively, with various lenders to provide financing for the purpose of purchasing or leasing vehicles and equipment used in the normal course of business. Each financing arrangement under these agreements constitutes a separate note and obligation. Vehicles and equipment purchased or leased under each financing arrangement serve as collateral for the note applicable to such financing arrangement. Regular payments are due under each note for a period of typically 60 consecutive months after the incurrence of the obligation. The specific terms of each note are based on specific criteria, including the type of vehicle or equipment and the market interest rates at the time. No termination date applies to these agreements. The total aggregate balance under these agreements was \$21.1 million and \$1.3 million as of December 31, 2015 and 2014, respectively.

## ***Letters of Credit and Bonds***

We use letters of credit to secure our performance under our general liability and workers compensation insurance programs. Our workers compensation insurance program is considered a high deductible program whereby we are responsible for the cost of claims under approximately \$0.8 million. If we do not pay these claims, our workers compensation insurance carriers are required to make these payments to the claimants on our behalf. Our general liability insurance program is considered a high deductible program whereby we are responsible for the cost of claims up to \$2.0 million. If we do not pay these claims, our general liability insurance carrier is required to make these payments to the claimants on our behalf. As of December 31, 2015, we had \$12.3 million of outstanding letters of

credit including \$0.3 million in cash securing our performance under these insurance programs. We occasionally use performance bonds to ensure completion of our work on certain larger customer contracts that can span multiple accounting periods. As of December 31, 2015, we had approximately

**Table of Contents**

12 performance bonds outstanding, totaling approximately \$1.6 million. Performance bonds generally do not have stated expiration dates; rather, we are released from the bonds as the contractual performance is completed. As of December 31, 2015, we had 240 permit and license bonds outstanding, totaling approximately \$3.9 million. Permit and license bonds are typically issued for one year and are required by certain municipalities when we obtain licenses and permits to perform work in their jurisdictions.

**Capped Call Agreement**

Certain of our stockholders entered into a capped call agreement with the underwriters of the secondary offering of our common stock completed on June 17, 2014. This agreement provides that these stockholders have the option to call a total of approximately 1.1 million shares of our common stock at a capped price. The option can be exercised within specific dates based on the then current price of the underlying shares and will be settled in cash. The capped call agreement is between the stockholders and the underwriters and does not represent compensation to the stockholders for services rendered to us. The price paid for the option represents the fair value of that transaction and we are not a party to the agreement. Accordingly, we have not recorded any expense related to this transaction.

**Contractual Obligations**

In the table below, we set forth our enforceable and legally binding obligations as of December 31, 2015. Some of the amounts included in the table are based on management's estimates and assumptions about these obligations, including their duration, the possibility of renewal, anticipated actions by third parties and other factors. Because these estimates and assumptions are necessarily subjective, our actual payments may vary from those reflected in the table. In addition, our unrecognized tax benefits under ASC 740, *Income Taxes*, have been excluded from the contractual obligations table because of the inherent uncertainty and the inability to reasonably estimate the timing of cash outflows.

(in thousands)	Total	Payments due by period					
		2016	2017	2018	2019	2020	Thereafter
Long-term debt obligations (1)	\$ 134,188	\$ 12,573	\$ 13,902	\$ 13,984	\$ 15,685	\$ 73,497	\$ 4,547
Capital lease obligations (2)	22,993	9,766	6,600	3,982	2,554	91	
Operating lease obligations (3)	22,491	8,379	5,981	3,120	2,069	1,704	1,238
Purchase Obligations (4)	48,830	48,830					

- (1) Long-term debt obligations include principal and interest payments on the term loan and delayed draw term loan under the Prior Credit Agreement as of December 31, 2015. See Item 8, Financial Statements, Note 5, Long-Term Debt, for information on the Prior Credit Agreement. Long-term debt obligations also include principal and interest payments on various notes payable to sellers of acquired businesses and to financial institutions for financing vehicle and equipment purchases, with interest estimated using current market rates, maturing through March 2025. See Item 8, Financial Statements, Note 5, Long-Term Debt, for information on our Vehicle and Equipment Notes.
- (2) We maintain certain production vehicles under a capital lease structure. The leases expire on various dates through May 2020. Capital lease obligations, as disclosed above, include estimated interest expense payments. In determining expected interest expense payments, we utilize the current market rate.
- (3) We lease certain locations, vehicles and equipment under operating lease agreements, including, but not limited to, corporate offices, branch locations and various office and operating equipment. In some instances, these

location lease agreements exist with related parties. See Note 10, Related Party Transactions, of our audited consolidated financial statements included in Item 8 of Part II of this Form 10-K for further information.

- (4) As of December 31, 2015, we had two product supply contracts, one extending through December 31, 2016 and one extending through August 31, 2017, which has been suspended through December 31, 2016. Our obligations for both contracts are based on quantity without a specific rate applied and therefore are not

## **Table of Contents**

quantifiable. The amounts in the above table represent our best estimate as to the prices that will be payable for the minimum volume of purchases that must be made under the contract extending through December 31, 2016.

## **Off-Balance Sheet Arrangements**

As of December 31, 2015 and 2014, other than operating leases and purchase obligations described above, letters of credit issued under our revolving credit facility and performance and license bonds, we had no material off-balance sheet arrangements with unconsolidated entities.

## **Critical Accounting Policies and Estimates**

Management's discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Certain accounting policies involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts could have been reported using different assumptions or under different conditions. We evaluate our estimates and assumptions on a regular basis. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of our assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions used in preparation of our consolidated financial statements. We provide discussion of our more significant accounting policies, estimates, assumptions and judgments used in preparation of our consolidated financial statements below.

### *Revenue Recognition*

Revenue from the sale and installation of products is recognized when all of the following have occurred:

(i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the price is fixed or determinable; and (iv) the ability to collect is reasonably assured. Revenue from the sale and installation of products is recognized net of adjustments and discounts and at the time the installation is complete.

### *Business Combinations*

The purchase price for business combinations is allocated to the estimated fair values of acquired tangible and intangible assets, including goodwill, and assumed liabilities, where applicable. Additionally, we recognize customer relationships, trademarks and trade names, and non-competition agreements as identifiable intangible assets. These assets are recorded at fair value as of the transaction date. The fair value of these intangibles is determined primarily using the income approach and using current industry information which involves significant unobservable inputs classified as Level 3 inputs. These inputs include projected sales, margin, and tax rate.

At times, the total purchase price for a business combination could be less than the estimated fair values of acquired tangible and intangible assets. In these cases, we record a gain on bargain purchase within Other Expenses in the Consolidated Statements of Operations rather than goodwill in accordance with generally accepted accounting principles.

### *Insurance Liabilities*

We carry insurance for a number of risks, including, but not limited to, workers' compensation, general liability, vehicle liability, property and our obligation for employee-related health care benefits. Liabilities relating to claims



associated with these risks are estimated by considering historical claims experience, including frequency, severity, demographic factors, and other actuarial assumptions. In estimating our liability for such claims, we

## **Table of Contents**

periodically analyze our historical trends, including loss development, and apply appropriate loss development factors to the incurred costs associated with the claims with the assistance of external actuarial consultants. While we do not expect the amounts ultimately paid to differ significantly from our estimates, our reserves and corresponding expenses could be affected if future claim experience differs significantly from historical trends and actuarial assumptions.

### *Taxes*

We account for income taxes using the asset and liability method. Under this method, the amount of taxes currently payable or refundable are accrued and deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences that currently exist between the tax basis and financial reporting basis of our assets and liabilities.

Valuation allowances are established against deferred tax assets when it is more likely than not that the realization of those deferred tax assets will not occur. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, the ability to produce future taxable income, tax planning strategies available and recent financial operations. In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and changes in accounting policies and incorporate assumptions, including the amount of future federal and state pretax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies.

Deferred tax assets and liabilities are measured using the enacted tax rates in effect in the years when those temporary differences are expected to reverse. The effect on deferred taxes from a change in tax rate is recognized through continuing operations in the period that includes the enactment date of the change.

A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. We recognize tax liabilities for uncertain tax positions and adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available.

Our income tax expense, deferred tax assets and liabilities and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes in the United States which includes numerous state and local jurisdictions. Significant judgments and estimates are required in determining the income tax expense.

## **Recent Accounting Pronouncements**

### **Recently Adopted Accounting Pronouncements**

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in this update change the requirements for reporting discontinued operations in Subtopic 205-20. A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. We adopted this ASU effective January 1, 2015 and have concluded that it has not had a material impact on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740), Balance Sheet Classification of Deferred Assets. This ASU is intended to simplify the presentation of deferred taxes on the balance sheet and will require an entity to present all deferred tax assets and deferred tax liabilities as non-current on the balance sheet. Under the current guidance, entities are required to separately present deferred taxes as current or non-current. Netting deferred tax assets and deferred tax liabilities by tax jurisdiction will still be required under the

---

**Table of Contents**

new guidance. The new accounting guidance is effective for annual periods beginning after December 15, 2016 with early adoption permitted. We adopted ASU 2015-17 as of December 31, 2015 and applied the new guidance prospectively. Our deferred tax balances as of December 31, 2014 have not been revised. We have concluded this new ASU has not had and will not have a material impact on our consolidated financial statements.

**Recently Issued Accounting Pronouncements Not Yet Adopted**

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 sets forth a new revenue recognition model that requires identifying the contract(s) with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations and recognizing the revenue upon satisfaction of performance obligations. In July 2015, the FASB voted to defer the application of the provisions of this standard for public companies until annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. We are still evaluating whether this ASU will have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest Imputation of Interest. The amendments in this update require 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 that debt liability, consistent with debt discounts. For public business entities, the amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. We are still evaluating whether this ASU will have a material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330). The amendments in this update require an entity to measure inventory within the scope of this update at the lower of cost and net realizable value. For public business entities, the amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. We are still evaluating whether this ASU will have a material impact on our consolidated financial statements.

In August 2015, the FASB issued ASU 2015-15, Imputation of Interest (Subtopic 835-30). This ASU amends ASU 2015-03 regarding the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. Specifically, it provides guidance for deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. For public business entities, the amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. We are still evaluating whether this ASU will have a material impact on our consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805). This ASU requires that an acquirer retrospectively adjust provisional amounts recognized in a business combination during the measurement period. To simplify the accounting for adjustments made to provisional amounts, the amendments in this update require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments in this update

are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. We are still evaluating whether this ASU will have a material impact on our consolidated financial statements.

---

**Table of Contents**

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The amendments in this update amend the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. For public business entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted as of the standard's issuance date. ASU 2016-02 requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. We are still evaluating whether this ASU will have a material impact on our consolidated financial statements.

**IMPLICATIONS OF BEING AN EMERGING GROWTH COMPANY**

We qualify as an emerging growth company as defined in the Jumpstart our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include:

an exemption from the auditor attestation requirement in the assessment of internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act;

reduced disclosure about executive compensation arrangements; and

no requirement to seek non-binding advisory votes on executive compensation or golden parachute arrangements.

We have elected to adopt these reduced disclosure requirements and may take advantage of the provisions listed above until we are no longer an emerging growth company. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the completion of our common stock offering, (b) in which we have total annual gross revenue of at least \$1.0 billion or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the prior June 30th, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period. We may choose to take advantage of some but not all of these reduced disclosure requirements.

The JOBS Act also permits emerging growth companies to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We chose to opt out of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted. This decision to opt out of the extended transition period is irrevocable.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risks related to fluctuations in interest rates on our outstanding variable rate debt. As of December 31, 2015, we had approximately \$48.1 million outstanding under the term loan under the Prior Credit Agreement, \$50.0 million outstanding under the delayed draw term loan under the Prior Credit Agreement and \$5.6 million outstanding under various capital leases subject to variable interest rates. A hypothetical one percentage point increase (decrease) in interest rates on our variable rate debt would increase (decrease) our annual interest expense by

approximately \$1.0 million.

For variable rate debt, interest rate changes generally do not affect the fair value of the debt instrument, but do impact future earnings and cash flows, assuming other factors are held constant. We did not utilize swaps, forward or option contracts on interest rates or commodities, or other types of derivative financial instruments during 2015 or 2014. We have not entered into and currently do not hold derivatives for trading or speculative purposes.

**Item 8. Financial Statements and Supplementary Data**

**Table of Contents**

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(e) under the Exchange Act). Our internal control over financial reporting is a process 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 of America.

Management, under the supervision of the principal executive officer and the principal financial officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2015 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework (2013). Based on this assessment, management has determined that our internal control over financial reporting was effective as of December 31, 2015.



**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Installed Building Products, Inc. and subsidiaries

Columbus, Ohio

We have audited the accompanying consolidated balance sheets of Installed Building Products, Inc. and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders equity (deficit) and redeemable instruments and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Installed Building Products, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Columbus, Ohio

March 9, 2016

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	As of December 31,	
	2015	2014
<b>ASSETS</b>		
Current assets		
Cash	\$ 6,818	\$ 10,761
Accounts receivable (less allowance for doubtful accounts of \$2,486 and \$2,661 at December 31, 2015 and 2014, respectively)	103,198	72,280
Inventories	29,337	23,971
Other current assets	10,879	12,276
<b>Total current assets</b>	<b>150,232</b>	<b>119,288</b>
Property and equipment, net	57,592	39,370
Non-current assets		
Goodwill	90,512	53,393
Intangibles, net	67,218	17,718
Other non-current assets	8,528	4,393
<b>Total non-current assets</b>	<b>166,258</b>	<b>75,504</b>
<b>Total assets</b>	<b>\$ 374,082</b>	<b>\$ 234,162</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Current maturities of long-term debt	\$ 10,021	\$ 1,786
Current maturities of capital lease obligations	8,411	9,374
Accounts payable	50,867	46,584
Accrued compensation	14,488	11,311
Other current liabilities	13,635	7,501
<b>Total current liabilities</b>	<b>97,422</b>	<b>76,556</b>
Long-term debt	113,724	25,070
Capital lease obligations, less current maturities	12,031	17,508
Deferred income taxes	14,582	9,746
Other long-term liabilities	21,840	13,408
<b>Total liabilities</b>	<b>259,599</b>	<b>142,288</b>
Commitments and contingencies (Note 11)		
Stockholders equity		
Preferred Stock; \$0.01 par value: 5,000,000 authorized and 0 shares issued and outstanding at December 31, 2015 and 2014, respectively		

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

Common Stock; \$0.01 par value: 100,000,000 authorized, 31,982,888 and 31,839,087 issued and 31,366,328 and 31,539,087 shares outstanding at December 31, 2015 and 2014, respectively (Note 7)	320	319
Additional paid in capital	156,688	154,497
Accumulated deficit	(31,142)	(57,659)
Treasury Stock; at cost: 616,560 and 300,000 shares at December 31, 2015 and 2014, respectively	(11,383)	(5,283)
<b>Total stockholders equity</b>	<b>114,483</b>	<b>91,874</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 374,082</b>	<b>\$ 234,162</b>

See accompanying notes to consolidated financial statements

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)

	Years ended December 31,		
	2015	2014	2013
Net revenue	\$ 662,719	\$ 518,020	\$ 431,929
Cost of sales	474,426	377,968	322,241
Gross profit	188,293	140,052	109,688
Operating expenses			
Selling	37,702	30,951	25,509
Administrative	99,375	80,678	67,194
Amortization	6,264	2,837	3,057
Other			850
Operating income	44,952	25,586	13,078
Other expense (income)			
Interest expense	3,738	3,166	2,257
Other	(716)	(167)	(33)
	3,022	2,999	2,224
Income before income taxes	41,930	22,587	10,854
Income tax provision	15,413	8,607	4,216
Net income from continuing operations	26,517	13,980	6,638
Discontinued operations			
Loss from discontinued operations		78	960
Income tax benefit		(30)	(362)
Loss from discontinued operations, net of income taxes		48	598
Net income	26,517	13,932	6,040
Accretion charges on redeemable preferred stock		(19,897)	(6,223)
<b>Net income (loss) attributable to common stockholders</b>	<b>\$ 26,517</b>	<b>\$ (5,965)</b>	<b>\$ (183)</b>
<b>Basic and diluted net income (loss) per share attributable to common stockholders:</b>			
Income (loss) per share from continuing operations	\$ 0.85	\$ (0.20)	\$ 0.02
Loss from discontinued operations			(0.03)

Net income (loss) per share	\$	0.85	\$	(0.20)	\$	(0.01)
-----------------------------	----	------	----	--------	----	--------

**Weighted average shares outstanding:**

Basic	31,298,163	30,106,862	22,033,901
Diluted	31,334,569	30,106,862	22,033,901

See accompanying notes to consolidated financial statements

Table of Contents

## INSTALLED BUILDING PRODUCTS, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) AND REDEEMABLE INSTRUMENTS

(in thousands, except share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Accumulated Deficit	Treasury Shares Shares	Treasury Shares Amount	Stockholders (Deficit) Equity	Preferred Stock Shares	Preferred Stock Amount	Redeemable Common Shares
January 1,	16,183,901	\$ 162	\$ 3,959	\$(11,603) 6,040		\$	\$ (7,482) 6,040	1,000	\$ 49,615	5,850,000
of Redeemable Redemption			(3,959)	(2,264)			(6,223)		6,223	
as to Common Value at				(63,764)			(63,764)			
January 1,	16,183,901	\$ 162	\$	\$(71,591) 13,932		\$	\$ (71,429) 13,932	1,000	\$ 55,838	5,850,000
of Offering	8,567,500	86	78,863				78,949			
of Public	1,214,196	12	14,280				14,292			
of Preferred								(1,000)	(75,735)	
of Feature	5,850,000	58	89,309				89,367			(5,850,000)
of Redeemable Redemption			(19,897)				(19,897)		19,897	
as to Common Value at			(8,357)				(8,357)			
of on issued to	23,490	1	299		(300,000)	(5,283)	300 (5,283)			

ock

January 1,	31,839,087	\$ 319	\$ 154,497	\$(57,659)	(300,000)	\$ (5,283)	\$ 91,874	\$
				26,517			26,517	
Restricted ds to	130,613	1	(1)					
F Restricted ds by					(1,560)			
on Expense			1,816				1,816	
on issued to	13,188		300				300	
from Stock			76				76	
ock					(315,000)	(6,100)	(6,100)	
December 31,	31,982,888	\$ 320	\$ 156,688	\$(31,142)	(616,560)	\$ (11,383)	\$ 114,483	\$

See accompanying notes to consolidated financial statements

**Table of Contents**

INSTALLED BUILDING PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years ended December 31,		
	2015	2014	2013
<b>Cash flows from operating activities</b>			
Net income	\$ 26,517	\$ 13,932	\$ 6,040
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization of property and equipment	16,975	12,174	8,374
Amortization of intangibles	6,264	2,837	3,057
Amortization of deferred financing costs	264	159	175
Provision for doubtful accounts	919	1,900	1,038
Write-off of debt issuance costs		233	
Gain on sale of property and equipment	(409)	(460)	(372)
Gain on bargain purchase	(1,116)		
Noncash stock compensation	2,116	300	
Deferred income taxes	(1,515)	(378)	(1,782)
Other		(490)	(292)
Changes in assets and liabilities, excluding effects of acquisitions			
Accounts receivable	(17,526)	(10,688)	(12,777)
Inventories	(2,846)	(2,925)	(2,945)
Other assets	823	(5,121)	(2,270)
Accounts payable	(2,511)	4,585	3,902
Income taxes receivable (payable)	3,592	(1,678)	(2,602)
Other liabilities	3,000	5,222	4,678
Net cash provided by operating activities	34,547	19,602	4,224
<b>Cash flows from investing activities</b>			
Restricted cash		1,708	95
Purchases of property and equipment	(27,305)	(6,176)	(2,665)
Acquisitions of businesses, net of cash acquired of \$926, \$53 and \$0 in 2015, 2014 and 2013, respectively	(84,274)	(12,364)	(1,181)
Proceeds from sale of property and equipment	634	689	1,240
Other	(420)		
Net cash used in investing activities	(111,365)	(16,143)	(2,511)
<b>Cash flows from financing activities</b>			
Proceeds from initial public offering of common stock, net of costs		87,645	
Proceeds from secondary public offering of common stock, net of costs		14,418	
Redemption of Redeemable Preferred Stock		(75,735)	



Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

Net payments on previous revolving line of credit		(27,269)	10,038
Proceeds from new revolving line of credit	149,350		
Payments on new revolving line of credit	(149,350)		
Proceeds from previous term loan		25,000	
Payments on previous term loan	(24,688)		
Proceeds from new term loan	50,000		
Proceeds from delayed draw term loan	50,000		
Proceeds from vehicle and equipment notes payable	21,334		
Debt issuance costs	(758)	(714)	
Principal payments on long term debt	(4,088)	(1,081)	(513)
Principal payments on capital lease obligations	(9,674)	(9,364)	(6,625)
Acquisition-related obligations	(3,151)		
Payments for deferred initial public offering costs		(4,254)	(4,446)
Payments for deferred secondary public offering costs		(126)	
Repurchase of common stock	(6,100)	(5,283)	
Net cash provided by (used in) financing activities	72,875	3,237	(1,546)
Net change in cash	(3,943)	6,696	167
Cash at beginning of year	10,761	4,065	3,898
Cash at end of year	\$ 6,818	\$ 10,761	\$ 4,065

Supplemental disclosures of cash flow information

Net cash paid during the year for:

Interest	\$ 3,287	\$ 2,669	\$ 2,038
Income taxes, net of refunds	13,493	9,134	8,254
Supplemental disclosure of noncash investing and financing activities			
Vehicles capitalized under capital leases and related lease obligations	3,379	14,583	17,123
Seller obligations in connection with acquisition of businesses	13,180	3,544	300
Unpaid offering costs			710

See accompanying notes to consolidated financial statements

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1 ORGANIZATION**

Installed Building Products, Inc. ( IBP ), a Delaware corporation formed on October 28, 2011, and its wholly owned subsidiaries (collectively referred to as the Company and we , us and our ), primarily install insulation, garage doors, rain gutters, shower doors, closet shelving and mirrors, and other products for residential and commercial builders located in the continental United States. The Company operates in over 100 locations within the continental United States and its corporate office is located in Columbus, Ohio.

We have one operating segment and a single reportable segment. Substantially all of our sales come from service-based installation of various products in the residential new construction, repair and remodel and commercial construction end markets. Each of our branches has the capacity to serve all of our end markets. The following table sets forth the annual percentage of our net revenue by end market:

	Years ended December 31,		
	2015	2014	2013
Residential new construction and repair and remodel	89%	89%	89%
Commercial construction	11	11	11
	100%	100%	100%

The following is a summary of the annual percentage of installation net revenue by product category:

	Years ended December 31,		
	2015	2014	2013
Insulation	78%	76%	74%
Garage doors	6	7	8
Shower doors, shelving and mirrors	5	6	6
Rain gutters	5	6	6
Other building products	6	5	6
	100%	100%	100%

**2014 Initial Public Offering ( IPO )**

On February 10, 2014, in anticipation of our IPO, we executed a 19.5-for-one stock split of our common stock, which consisted of 1,129,944 shares of common stock issued and outstanding immediately prior to the stock split. The effect of the stock split on outstanding shares and earnings per share has been retroactively applied to all periods presented. Following the split, we had 22,033,901 stock-split adjusted shares of common stock issued and outstanding.

On February 19, 2014, we completed an IPO of our common stock, which resulted in the sale of 8,567,500 shares. We received total proceeds from the IPO of \$94,242 based upon the price of \$11.00 per share. We used \$6,597 of the proceeds from our IPO to pay underwriting fees, \$75,735 to redeem our Series A Preferred Stock, \$0.01 par value per

share (the Redeemable Preferred Stock ), and \$11,910 to pay down our revolving credit facility. Our common stock is listed on The New York Stock Exchange under the symbol IBP.

### **2014 Secondary Public Offering**

On June 17, 2014, we completed a secondary offering of 9,314,196 shares of our common stock at a public offering price of \$12.50 per share. The total offering size reflects 8,100,000 shares of common stock offered and sold on behalf of certain selling stockholders (the Selling Stockholders ) and 1,214,196 shares that were offered and sold by us pursuant to the exercise of the underwriters' option to purchase additional shares. We did not

**Table of Contents**

INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

receive any proceeds from the sale of shares by the Selling Stockholders. However, we received \$14,418, after deducting underwriting discounts but before estimated offering expenses payable by us, from the exercise of the underwriters' option to purchase additional shares.

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation and Principles of Consolidation**

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). The accompanying consolidated financial statements include all of our wholly owned subsidiaries and majority owned subsidiaries. The non-controlling interest relating to a majority owned subsidiary is not significant for presentation. All intercompany accounts and transactions have been eliminated.

**Use of Estimates**

Preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowance for doubtful accounts, valuation allowance on deferred tax assets, valuation of the reporting unit, intangible assets and other long-lived assets, share based compensation, reserves for general liability, and workers' compensation and medical insurance. Management believes the accounting estimates are appropriate and reasonably determined; however, due to the inherent uncertainties in making these estimates, actual amounts could differ from such estimates.

**Cash and Cash Equivalents**

We consider all highly-liquid investments purchased with original term to maturity of three months or less to be cash equivalents. All such items referenced herein are classified as cash and we have no items classified as cash equivalents as of the years ended December 31, 2015 or 2014. Substantially all cash is held in two banks at December 31, 2015. The banks provide FDIC coverage of \$0.25 million per depositor.

**Revenue Recognition**

Revenue from the sale and installation of products is recognized when all of the following have occurred: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the price is fixed or determinable; and (iv) the ability to collect is reasonably assured. Revenue from the sale and installation of products is recognized net of adjustments and discounts and at the time the installation is complete.

**Business Combinations**

The purchase price for business combinations is allocated to the estimated fair values of acquired tangible and intangible assets, including goodwill, and assumed liabilities, where applicable. Additionally, we recognize customer

relationships, trademarks and trade names, and non-competition agreements as identifiable intangible assets. These assets are recorded at fair value as of the transaction date. The fair value of these intangibles is determined primarily using the income approach and using current industry information which involves significant unobservable inputs (Level 3 inputs). These inputs include projected sales, margin, and tax rate.

At times, the total purchase price for a business combination could be less than the estimated fair values of acquired tangible and intangible assets. In these cases, we record a gain on bargain purchase within Other Expenses in the Consolidated Statements of Operations rather than goodwill in accordance with generally accepted accounting principles.

Table of Contents

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounts Receivable

We account for trade receivables based on amounts billed to customers. Past due receivables are determined based on contractual terms. We do not accrue interest on any of our trade receivables.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the failure of customers to make required payments. The allowance is determined by management based on our historical losses, specific customer circumstances, and general economic conditions. We analyze aged accounts receivable and generally increase the allowance as receivables age. Management reviews accounts receivable and records an allowance for specific customers based on current circumstances and charges off the receivable against the allowance when all attempts to collect the receivable have failed. This analysis is performed regularly and the allowance is adjusted accordingly. The following sets forth our allowance for doubtful accounts (in thousands):

Allowance for doubtful accounts receivable	
January 1, 2013	\$ 1,412
Charged to costs and expenses	1,038
Charged to other accounts (1)	479
Deductions (2)	(1,191)
December 31, 2013	\$ 1,738
Charged to costs and expenses	1,900
Charged to other accounts (1)	292
Deductions (2)	(1,269)
December 31, 2014	\$ 2,661
Charged to costs and expenses	919
Charged to other accounts (1)	533
Deductions (2)	(1,627)
December 31, 2015	\$ 2,486

(1) Recovery of receivables previously written off as bad debt and other

(2) Write-off of uncollectible accounts receivable

Concentration of Credit Risk

Credit risk is our risk of financial loss from the non-performance of a contractual obligation on the part of our counterparty. Such risk arises principally from our receivables from customers and cash and bank balances. Substantially all of our trade accounts receivable are from entities engaged in residential and commercial construction. We perform periodic credit evaluations of our customers' financial condition. The general credit risk of our counterparties is not considered to be significant. In addition, no individual customer made up more than 3% of accounts receivable or 4% of net revenue for the years ended December 31, 2015, 2014 and 2013.

#### Inventories

Inventories consist of insulation, garage doors, rain gutters, shower doors, mirrors, closet shelving and other products. We install these products but do not manufacture them. We value inventory at the lower of cost or market with cost determined using the first-in, first-out ( FIFO ) method. As of December 31, 2015 and 2014, all inventory was finished goods.

Table of Contents

INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. We provide for depreciation and amortization of property and equipment using the straight-line method, over the expected useful lives of the assets. Expected useful lives of property and equipment vary but generally are the shorter of lease life or five years for vehicles and leasehold improvements, three to five years for furniture, fixtures and equipment and 30 years for buildings.

Major renewals and improvements are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded.

Goodwill

Goodwill results from business combinations and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Annually, on October 1, or if conditions indicate an earlier review is necessary, we assess qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount and if it is necessary to perform the quantitative two-step goodwill impairment test. If we perform the quantitative test, we compare the carrying value of the reporting unit to an estimate of the reporting unit's fair value to identify potential impairment. The estimate of the reporting unit's fair value is determined by weighting a discounted cash flow model and a market-related model using current industry information that involve significant unobservable inputs (Level 3 inputs). In determining the estimated future cash flow, we consider and apply certain estimates and judgments, including current and projected future levels of income based on management's plans, business trends, prospects and market and economic conditions and market-participant considerations. If the estimated fair value of the reporting unit is less than the carrying value, a second step is performed to determine the amount of the potential goodwill impairment. If impaired, goodwill is written down to its estimated implied fair value.

Impairment of Other Intangible and Long-Lived Assets

Other intangible assets consist of customer relationships, non-competition agreements and business trademarks and trade names. Amortization of finite lived intangible assets is recorded to reflect the pattern of economic benefits based on projected revenues over their respective estimated useful lives (customer relationships eight to 15 years, non-competition agreements two to five years and business trademarks and trade names eight to 15 years). We do not have any indefinite-lived intangible assets other than goodwill.

We review long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when estimated future cash flows expected to result from the use of an asset and its eventual disposition are less than its carrying amount. When impairment is identified, the carrying amount of the asset is reduced to its estimated fair value. Assets to be disposed of are recorded at the lower of net book value or fair market value less cost to sell at the date management commits to a plan of disposal. There was no impairment loss for the years ended December 31, 2015, 2014 and 2013.



Other Liabilities

Our workers' compensation insurance is primarily under a high-deductible insurance policy and our general liability insurance is under a self-insured retention program ( SIR ). We are insured for covered claims above the deductible and SIR. The liabilities represent our best estimate of our costs, using generally accepted actuarial reserving methods, of the ultimate obligations for reported claims plus those incurred but not reported for all

Table of Contents

INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

claims incurred through December 31, 2015 and 2014. We establish case reserves for reported claims using case-basis evaluation of the underlying claims data and we update as information becomes known. We regularly monitor the potential for changes in estimates, evaluate our insurance accruals and adjust our recorded provisions.

The assumptions underlying the ultimate costs of existing claim losses are subject to a high degree of unpredictability, which can affect the liability recorded for such claims. For example, variability in inflation rates of health care costs inherent in workers' compensation claims can affect the ultimate costs. Similarly, changes in legal trends and interpretations, as well as a change in the nature and method of how claims are settled can affect ultimate costs. Our estimates of liabilities incurred do not anticipate significant changes in historical trends for these variables, and any changes could have a considerable effect on future claim costs and currently recorded liabilities.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was approximately \$2.3 million, \$1.6 million and \$1.6 million for the years ended December 31, 2015, 2014 and 2013, respectively, and is included in selling expense on the Consolidated Statements of Operations.

Other Operating Expenses

We recorded \$1.4 million of settlement expenses in 2013 related to two lawsuits against us, of which approximately \$0.9 million was included in Other operating expenses and \$0.5 million was included in Administrative operating expenses during the year ended December 31, 2013. All expenses were paid by December 31, 2014.

Deferred Financing Costs

Deferred financing costs totaling \$1.1 million and \$0.6 million, net are amortized over the term of the related debt on a straight-line basis which approximates the effective interest method and are included in other non-current assets on the Consolidated Balance Sheets as of December 31, 2015 and 2014, respectively. The related amortization expense of these costs was \$0.3 million, \$0.2 million and \$0.2 million and is included in interest expense on the Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013, respectively. We also wrote off the remaining loan costs associated with our old credit agreement upon entering into our previous credit agreement. These costs of \$0.2 million are included in interest expense on the Consolidated Statements of Operations for the year ended December 31, 2014. See Note 5, Long-Term Debt, for more information on our credit agreement.

Share-Based Compensation

Our share-based compensation program is designed to attract and retain employees while also aligning employees interests with the interests of our stockholders. Restricted stock awards are periodically granted to certain employees, officers, and non-employee members of our Board of Directors under the stockholder-approved 2014 Omnibus Incentive Plan. The awards are deemed to be equity-based with a service condition and do not contain a market condition. Fair value of the awards to employees and officers is measured at the grant date and amortized to expense over the vesting period of the awards using the straight-line attribution method for all service-based awards with a

graded vesting feature. This fair value is reduced by assumed forfeitures and adjusted for actual forfeitures until vesting. Employees and officers are subject to tax at the vesting date based on the market price of the shares on that date, or on the grant date if an election is made. The future income tax benefit associated with these awards is recorded over the vesting period. In the event dividends are ultimately declared and paid, a forfeiture rate for the unvested restricted shares would be applied.

Table of Contents

INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Insurance Liabilities

We carry insurance for a number of risks, including, but not limited to, workers' compensation, general liability, vehicle liability, property and our obligation for employee-related health care benefits. Liabilities relating to claims associated with these risks are estimated by considering historical claims experience, including frequency, severity, demographic factors, and other actuarial assumptions. In estimating our liability for such claims, we periodically analyze our historical trends, including loss development, and apply appropriate loss development factors to the incurred costs associated with the claims with the assistance of external actuarial consultants. While we do not expect the amounts ultimately paid to differ significantly from our estimates, our reserves and corresponding expenses could be affected if future claim experience differs significantly from historical trends and actuarial assumptions.

Income Taxes

We account for income taxes using the asset and liability method. Under this method, the amount of taxes currently payable or refundable are accrued and deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences that currently exist between the tax basis and financial reporting basis of our assets and liabilities.

Valuation allowances are established against deferred tax assets when it is more likely than not that the realization of those deferred tax assets will not occur. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, the ability to produce future taxable income, prudent and feasible tax planning strategies and recent financial operations. In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and changes in accounting policies and incorporate assumptions including the amount of future federal and state pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage the underlying businesses.

Deferred tax assets and liabilities are measured using the enacted tax rates in effect in the years when those temporary differences are expected to reverse. The effect on deferred taxes from a change in tax rate is recognized through continuing operations in the period that includes the enactment date of the change. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Management is not aware of any such changes that would have a material effect on our results of operations, cash flows, or financial position.

A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more likely than not recognition threshold to be recognized.

We recognize tax liabilities for uncertain tax positions and adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Liabilities related to uncertain tax positions are recorded in other current liabilities and other long-term liabilities on the Consolidated Balance Sheets. Due to the

complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense and the effective tax rate in the period in which the new information becomes available. Interest and penalties related to unrecognized tax benefits are recognized within income tax expense in the Consolidated Statements of Operations. Accrued interest and penalties are recognized in accrued expenses on the Consolidated Balance Sheets.

Table of Contents

INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Our income tax expense, deferred tax assets and liabilities and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes in the United States which includes numerous state and local jurisdictions. Significant judgments and estimates are required in determining the income tax expense, deferred tax assets and liabilities and the reserve for unrecognized tax benefits.

Discontinued Operations

We continually review each of our markets in order to refine our overall investment strategy and optimize capital and resource allocations in an effort to enhance our financial position and increase our value. If a component of the Company or a group of components of the Company are disposed, we will report the activities of the component or group of components in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on our operations and financial results. Customers of discontinued locations will not be served by other locations. There were no material assets or liabilities related to our discontinued operations as of December 31, 2015 or 2014. Discontinued operations were not segregated in the Consolidated Statements of Cash Flows.

This policy was implemented upon the adoption of ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity on January 1, 2015. Prior to the adoption of the new standard, we performed a review of both external market factors and our position in each market. We did not discontinue any operations during the year ended December 31, 2014 and all expenses incurred during that period relate to operations discontinued in prior periods. During the year ended December 31, 2013, we elected to discontinue operations in certain underperforming markets.

Estimated Fair Value of Financial Instruments

Accounts receivable, accounts payable, and accrued liabilities as of December 31, 2015 and 2014 approximate their fair value due to the short-term maturities of these financial instruments. The carrying amounts of the long-term debt, including the term loan, delayed draw term loan and revolving credit facility, under the Prior Credit Agreement and the Term Loan, Delayed Draw Term Loan Facility and Revolving LOC under the new Credit and Security Agreement, approximate their fair values as of December 31, 2015 and 2014 due to the short term maturities of the underlying variable rate LIBOR agreements. The carrying amount of the obligations associated with our capital leases approximate fair value as of December 31, 2015 and 2014 because the associated assets generate sufficient cash to settle the obligations. All debt classifications represent value measurements.

Recently Adopted Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in this update change the requirements for reporting discontinued operations in Subtopic 205-20. A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations

if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. We adopted this ASU effective January 1, 2015 and have concluded that it has not had a material impact on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740), Balance Sheet Classification of Deferred Assets. This ASU is intended to simplify the presentation of deferred taxes on the balance sheet and will require an entity to present all deferred tax assets and deferred tax liabilities as non-current on the balance sheet. Under the current guidance, entities are required to separately present deferred taxes as current or non-current. Netting deferred tax assets and deferred tax liabilities by tax jurisdiction will still be required under the

**Table of Contents**

INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

new guidance. The new accounting guidance is effective for annual periods beginning after December 15, 2016 with early adoption permitted. We adopted ASU 2015-17 as of December 31, 2015 and applied the new guidance prospectively. Our deferred tax balances as of December 31, 2014 have not been revised. We have concluded this new ASU has not had and will not have a material impact on our consolidated financial statements.

**Recently Issued Accounting Pronouncements Not Yet Adopted**

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 sets forth a new revenue recognition model that requires identifying the contract(s) with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations and recognizing the revenue upon satisfaction of performance obligations. In July 2015, the FASB voted to defer the application of the provisions of this standard for public companies until annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. We are still evaluating whether this ASU will have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest Imputation of Interest. The amendments in this update require 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 that debt liability, consistent with debt discounts. For public business entities, the amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. We are still evaluating whether this ASU will have a material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330). The amendments in this update require an entity to measure inventory within the scope of this update at the lower of cost and net realizable value. For public business entities, the amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. We are still evaluating whether this ASU will have a material impact on our consolidated financial statements.

In August 2015, the FASB issued ASU 2015-15, Imputation of Interest (Subtopic 835-30). This ASU amends ASU 2015-03 regarding the presentation and subsequent measurement of debt issuance costs related to line of credit arrangements. Specifically, it provides guidance for deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line of credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement. For public business entities, the amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. We are still evaluating whether this ASU will have a material impact on our consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805). This ASU requires an acquirer to retrospectively adjust provisional amounts recognized in a business combination during the measurement period. To simplify the accounting for adjustments made to provisional amounts, the amendments in this update require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement-period in the reporting period in which the adjustment amount is determined. The acquirer is required to



also record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. We are still evaluating whether this ASU will have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The amendments in this update amend the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. For public business entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted as of the standard's issuance date. ASU 2016-02 requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. We are still evaluating whether this ASU will have a material impact on our consolidated financial statements.

**NOTE 3 PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following (in thousands):

	As of December 31,	
	2015	2014
Land	\$ 66	\$ 66
Buildings	218	218
Leasehold improvements	4,431	4,028
Furniture, fixtures and equipment	23,177	17,814
Vehicles and equipment	100,657	75,731
	128,549	97,857
Less: accumulated depreciation and amortization	(70,957)	(58,487)
	\$ 57,592	\$ 39,370

Property and equipment as of December 31, 2015 and 2014 of \$36.5 million and \$37.0 million, respectively, were fully depreciated but still being utilized in our business. Depreciation and amortization expense during the years ended December 31, 2015, 2014 and 2013 was \$17.0 million, \$12.2 million and \$8.4 million, respectively.

**NOTE 4 GOODWILL AND INTANGIBLES****Goodwill**

The change in carrying amount of goodwill was as follows (in thousands):

	Goodwill (Gross)	Accumulated Impairment Losses	Goodwill (Net)
January 1, 2014	\$ 119,332	\$ (70,004)	\$ 49,328
Business combinations	4,065		4,065
December 31, 2014	123,397	(70,004)	53,393
Business combinations	37,119		37,119
December 31, 2015	\$ 160,516	\$ (70,004)	\$ 90,512

Table of Contents

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At October 1, 2015, our measurement date, we performed a qualitative analysis that weighed all evidence of potential impairment, whether positive or negative, and determined that no factors existed that indicated an impairment more likely than not existed. No impairment of goodwill was recognized for the years ended December 31, 2015, 2014 or 2013. See Note 12, Business Combinations, for more information on goodwill increases from business combinations.

Intangibles, net

The following table provides the gross carrying amount, accumulated amortization and net book value for each major class of intangibles (in thousands):

	As of December 31,					
	2015		Net	2014		Net
	Gross Carrying Amount	Accumulated Amortization	Book Value	Gross Carrying Amount	Accumulated Amortization	Book Value
<b>Amortized intangibles:</b>						
Customer relationships	\$ 62,399	\$ 20,231	\$ 42,168	\$ 26,119	\$ 16,151	\$ 9,968
Covenants not-to-compete	5,729	847	4,882	883	202	681
Trademarks and tradenames	28,320	8,152	20,168	13,681	6,612	7,069
	\$ 96,448	\$ 29,230	\$ 67,218	\$ 40,683	\$ 22,965	\$ 17,718

There was no intangible asset impairment loss for the years ended December 31, 2015, 2014 and 2013.

The gross carrying amount of intangibles increased approximately \$55.8 million and \$7.0 million during the years ended December 31, 2015 and 2014, respectively. Intangibles associated with business combinations accounted for approximately \$55.4 million and \$7.1 million of the increases during the years ended December 31, 2015 and 2014, respectively, with the remaining changes due to other factors. See Note 12, Business Combinations, for more information. Amortization expense on intangible assets totaled approximately \$6.3 million, \$2.8 million and \$3.1 million during the years ended December 31, 2015, 2014 and 2013, respectively. Remaining estimated aggregate annual amortization expense is as follows (in thousands):

2016	\$ 9,290
2017	8,633
2018	8,392
2019	7,987
2020	7,394
Thereafter	25,522



Table of Contents

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 5 LONG-TERM DEBT**

Long-term debt consisted of the following (in thousands):

	As of December 31,	
	2015	2014
Term loan	\$ 48,125	\$ 24,688
Delayed draw term loan	50,000	
Vehicle and equipment notes	21,091	1,346
Various notes payable, maturing through March 2025; payable in various monthly installments, including interest rates ranging from 0.0% to 10.0%	4,529	822
	123,745	26,856
Less: current maturities	(10,021)	(1,786)
Long-term debt, less current maturities	\$ 113,724	\$ 25,070

As of December 31, 2015, we had \$87.7 million of unused borrowing capacity under our \$200.0 million credit agreement (the Prior Credit Agreement), and we had \$12.3 million of letters of credit outstanding under the Prior Credit Agreement. We had no outstanding balance under the revolving line of credit under the Prior Credit Agreement at December 31, 2015 or 2014.

On February 29, 2016 we entered into an amended and restated Credit and Security Agreement with a bank group with an aggregate commitment of \$325.0 million and a maturity date of February 21, 2021 (the Credit and Security Agreement). We used a portion of the funds from the Credit and Security Agreement to pay off the outstanding balances under our previous credit agreement. See Note 15, Subsequent Events for further information.

Vehicle and Equipment Notes

In 2014 and 2015, we entered into a Master Loan and Security Agreement (Master Loan Agreement) and a Master Equipment Lease Agreement (Master Equipment Agreement) with various lenders to provide financing for the purpose of purchasing or leasing vehicles and equipment used in the normal course of business. Each financing arrangement under these agreements constitutes a separate note and obligation. Vehicles and equipment purchased or leased under each financing arrangement serve as collateral for the note applicable to such financing arrangement. Regular payments are due under each note for a period of typically 60 consecutive months after the incurrence of the obligation. The specific terms of each note are based on specific criteria, including the type of vehicle or equipment and the market interest rates at the time. No termination date applies to these agreements.

Total gross assets relating to our master loan agreements were \$25.4 million and \$1.4 million as of December 31, 2015 and 2014, respectively, none of which were fully depreciated as of December 31, 2015 and 2014, respectively. The net book value of assets under these agreements was \$22.4 million and \$1.3 million as of December 31, 2015 and 2014, respectively, net of accumulated depreciation of \$3.0 million and \$0.1 million as of December 31, 2015 and 2014, respectively. Depreciation of assets held under these agreements is included within cost of sales on the Consolidated Statements of Operations.

**NOTE 6 FAIR VALUE MEASUREMENTS**

Fair Values

Fair value is the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

**Table of Contents**

INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Standards Codification ( ASC ) 820, Fair Value Measurement, establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

**Estimated Fair Value of Financial Instruments**

Accounts receivable, accounts payable, and accrued liabilities as of December 31, 2015 and 2014 approximate their fair value due to the short-term maturities of these financial instruments. The carrying amounts of the long-term debt, including the Term Loan, DDTL and LOC, under the Prior Credit Agreement and the Term Loan, Delayed Draw Term Loan Facility and Revolving LOC under the new Credit and Security Agreement approximate their fair values as of December 31, 2015 and 2014 due to the short term maturities of the underlying variable rate LIBOR agreements. The carrying amounts of the obligations associated with our capital leases approximate fair value as of December 31, 2015 and 2014 because the associated costs generate sufficient cash to settle the obligations.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. During the periods presented, there were no transfers between fair value hierarchical levels.

Our Redeemable Preferred Stock was redeemed in February 2014 with proceeds from our initial public offering ( IPO ), eliminating the associated put option. In addition, the redeemable feature of our Redeemable Common Stock was terminated upon the IPO. As such, these balances were zero as of December 31, 2015 and 2014.

The following is a general description of the valuation methodologies used for liabilities and mezzanine equity (which includes preferred redeemable and common stock) items measured at fair value:

**Put option Redeemable Preferred Stock** We identified a certain embedded feature in the Redeemable Preferred Stock that was required to be bifurcated and accounted for as a derivative. The identified put option allowed Redeemable Preferred stockholders to put their shares upon a change in control. The estimated fair value of the put option on Redeemable Preferred Stock was determined using our estimates of the probability of a change in control during each period the option is outstanding in combination with the accreted fair value of the Redeemable Preferred Stock during



the option period. Those resulting probabilities were then calculated at net present value. An increase in the probability of the change in control would have increased the fair value of the embedded derivative. We have not entered into and currently do not hold derivatives for trading or speculative purposes.

**Redeemable Common Stock** The estimated fair value of the redeemable feature of certain shares of our outstanding common stock was determined using a combination of discounted cash flows and market multiple approach modeling. The fair value was estimated using this method to mark the Redeemable Common Stock to market at each period end. The weighted average cost of capital ( WACC ) used to estimate fair value was approximately 18% as of December 31, 2013.

Table of Contents

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in the fair value of recurring fair value measurements using significant unobservable inputs (Level 3) for the year ended December 31, 2014 were as follows (in thousands):

Balance as of January 1, 2013	\$ 18,028
Adjustments to fair value measurement impacting the Statement of Stockholders Deficit and Redeemable Instruments	63,764
Adjustments to fair value measurement impacting the Statement of Operations	(292)
Balance as of January 1, 2014	81,500
Adjustments to fair value measurement impacting the Statement of Stockholders Deficit and Redeemable Instruments	8,357
Adjustments to fair value measurement impacting the Statement of Operations	(490)
Termination of Redemption Feature on common stock and put option	(89,367)
Balance as of December 31, 2014	\$

The unrealized gain related to the put option liabilities is recorded within other expense (income) on the Consolidated Statements of Operations.

Assets Measured at Fair Value on a Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition. Assets measured at fair value on a nonrecurring basis as of December 31, 2015 and 2014 are categorized based on the lowest level of significant input to the valuation. The assets are measured at fair value when our impairment assessment indicates a carrying value for each of the assets in excess of the asset's estimated fair value. Undiscounted cash flows, a Level 3 input, are utilized in determining estimated fair values. During each of the years ended December 31, 2015, 2014 and 2013, we did not record any impairments on these assets required to be measured at fair value on a nonrecurring basis. See the Impairment of Other Intangible and Long-Lived Assets caption of Note 2, Significant Accounting Policies, for more information.

**NOTE 7 STOCKHOLDERS EQUITY AND REDEEMABLE INSTRUMENTS**

As of December 31, 2015 and 2014, we had 5.0 million shares of preferred stock authorized with no shares issued or outstanding, 100.0 million shares of common stock authorized, approximately 32.0 million and 31.8 million shares of common stock issued and approximately 31.4 million and 31.5 million shares of common stock outstanding, all with

par value of \$0.01, and approximately 0.6 million and 0.3 million shares of treasury stock at cost, respectively.

In December 2014, we entered into a share repurchase agreement with Cetus Capital II, LLC, a related party, for the purchase of 300,000 shares of our common stock for an aggregate purchase price of \$5.3 million, or \$17.61 per share, which was the last reported sales price of the company's common stock on December 11, 2014. The effect of these treasury shares reducing the number of common shares outstanding is reflected in our earnings per share calculation. For additional information on the related party relationship, see Note 10, Related Party Transactions.

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In March 2015, we entered into a share repurchase agreement with Installed Building Systems, Inc. ( IBS ), a related party, for the purchase of approximately 0.3 million shares of our common stock for a purchase price of approximately \$6.1 million (or \$19.23 per share, which represented a 7.5% discount to the last reported price of our common stock on March 13, 2015). The effect of these treasury shares reducing the number of common shares outstanding is reflected in our earnings per share calculation. For additional information on the related party relationship, see Note 10, Related Party Transactions.

**NOTE 8 EMPLOYEE BENEFITS****Healthcare**

We participate in multiple healthcare plans, of which our primary plan is partially self-funded with an insurance company paying benefits in excess of stop loss limits per individual. Our healthcare benefit expense (net of employee contributions) was approximately \$11.8 million, \$8.1 million and \$8.0 million for the years ended December 31, 2015, 2014 and 2013, respectively for all plans. An accrual for estimated healthcare claims incurred but not reported ( IBNR ) is included within accrued compensation on the Consolidated Balance Sheets and was \$1.5 million and \$1.1 million as of December 31, 2015 and 2014, respectively.

**Workers Compensation**

We participate in multiple workers compensation plans. Under these plans, we use a high deductible program to cover losses above the deductible amount on a per claim basis. We accrue for the estimated losses occurring from both asserted and unasserted claims. Workers compensation liability for premiums is included in other current liabilities on the Consolidated Balance Sheets. Insurance claims and reserves include accruals of estimated settlements for known claims, as well as accruals of actuarial estimates of IBNR. In estimating these reserves, historical loss experience and judgments about the expected levels of costs per claim are considered. These claims are accounted for based on actuarial estimates of the undiscounted claims, including IBNR. We believe the use of actuarial methods to account for these liabilities provides a consistent and effective way to measure these highly judgmental accruals.

Workers compensation expense totaled \$12.0 million, \$9.8 million and \$5.9 million for the years ended December 31, 2015, 2014 and 2013, respectively. Workers compensation known claims and IBNR reserves included on the Consolidated Balance Sheets were as follows (in thousands):

	December 31, 2015	December 31, 2014
Included in other current liabilities	\$ 3,263	\$ 2,504
Included in other long-term liabilities	7,132	5,752
	\$ 10,395	\$ 8,256

We also had an insurance receivable for claims that exceeded the stop loss limit included on the Consolidated Balance Sheets. That receivable offsets an equal liability included within the reserve amounts noted above and was as follows (in thousands):

	December 31, 2015	December 31, 2014
Included in other non-current assets	\$ 1,542	\$ 2,286

Table of Contents

INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Profit-Sharing Plans

We also participate in various profit-sharing and 401(k) plans. Certain plans provide that eligible employees can defer a portion of their wages into the trust, subject to current Internal Revenue Code rules and limitations. We provide a matching contribution of wages deferred by employees and can also make discretionary contributions to each plan. Certain plans allow for discretionary employer contributions only. These plans cover substantially all our eligible employees. During the years ended December 31, 2015, 2014 and 2013, we recognized 401(k) plan expenses of \$0.8 million, \$0.7 million and \$0.7 million, respectively, which is included in administrative expenses on the accompanying Consolidated Statements of Operations.

Share-Based Compensation

*Directors*

We periodically grant shares of restricted stock to members of our Board of Directors. Accordingly, we record compensation expense within administrative expenses on the Consolidated Statements of Operations at the time of the grant.

In 2015 and 2014, we granted approximately 13 thousand and 23 thousand shares of restricted stock, respectively, at a price of \$22.74 and \$12.77 per share, respectively (which represents market price on the grant dates), to non-employee members of our Board of Directors. Accordingly, for each of the years ended December 31, 2015 and 2014, we recorded \$0.3 million in compensation expense related to these grants within administrative expenses on the Consolidated Statements of Operations. These shares effectively vested on the grant date since there is deemed to be no service period associated with these awards. The lack of a vesting or service period may not apply to any future share grants under our 2014 Omnibus Incentive Plan.

The weighted-average grant date fair value is the same as the issue price for all shares.

*Employees*

During the twelve months ended December 31, 2015, we granted approximately 0.1 million shares of restricted stock which vest between January 7, 2016 and March 31, 2016 for non-executive employees and in three equal installments (rounded to the nearest whole share) on each of March 31, 2016, March 31, 2017 and March 31, 2018 for certain officers. We recorded \$1.8 million in compensation expense related to these grants within administrative expenses on the Consolidated Statements of Operations for the year ended December 31, 2015. No shares of restricted stock were awarded during the year ended December 31, 2014, and, accordingly, no expense was incurred.

Nonvested restricted stock for employees as of December 31, 2015 was as follows:

	Restricted Stock Awards	Weighted Average Grant Date Fair Market Value Per Share
Nonvested restricted stock at December 31, 2014		\$
Granted	130,613	21.53
Vested		
Forfeited	(1,560)	21.79
Nonvested restricted stock at December 31, 2015	129,053	\$ 21.52

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2015, there was \$0.9 million of unrecognized compensation expense related to nonvested restricted stock. This expense is subject to future adjustments for forfeitures and is expected to be recognized on a straight-line basis over the remaining weighted-average period of 1.2 years. Shares forfeited are returned as treasury shares and available for future issuances.

As of December 31, 2015, approximately 2.8 million of the 3.0 million shares of common stock authorized for issuance were available for issuance under the 2014 Omnibus Incentive Plan.

**NOTE 9 INCOME TAXES**

As of December 31, 2015, our tax years for 2012 through 2014 are subject to examination by the tax authorities. The provision for income taxes from continuing operations is comprised of (in thousands):

	Years ended December 31,		
	2015	2014	2013
<b>Current:</b>			
Federal	\$ 13,939	\$ 7,616	\$ 5,289
State	2,989	1,369	677
	16,928	8,985	5,966
<b>Deferred:</b>			
Federal	(1,255)	(676)	(1,554)
State	(260)	298	(196)
	(1,515)	(378)	(1,750)
<b>Total tax expense</b>	<b>\$ 15,413</b>	<b>\$ 8,607</b>	<b>\$ 4,216</b>

The reconciliation between our effective tax rate on net income from continuing operations and the federal statutory rate is as follows (dollars in thousands):

	Years ended December 31,					
	2015		2014		2013	
Income tax at federal statutory rate	\$ 14,676	35.0%	\$ 7,905	35.0%	\$ 3,799	35.0%
Stock Compensation		0.0%		0.0%	(97)	(0.9%)
Qualified Production Activity Deduction	(1,347)	(3.2%)	(694)	(3.1%)	(454)	(4.2%)
Other permanent items	(69)	(0.2%)	(272)	(1.2%)	7	0.1%
Change in valuation allowance	467	1.1%	585	2.6%	647	6.0%



Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

Changes in uncertain tax positions	(559)	(1.3%)		0.0%		0.0%
State income taxes, net of federal benefit	2,245	5.4%	1,083	4.8%	314	2.9%
Total tax expense	\$ 15,413	36.8%	\$ 8,607	38.1%	\$ 4,216	38.9%

65

Table of Contents

INSTALLED BUILDING PRODUCTS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Components of the net deferred tax asset or liability are as follows (in thousands):

	At December 31, 2015	At December 31, 2014
Deferred Tax Assets		
Current		
Accruals, prepaid items and allowances	\$	\$ 208
Inventories		75
Current deferred tax assets		283
Long-term		
Accrued reserves and allowances	648	
Inventories	88	
Property and equipment	2	1
Intangibles	180	
Net operating loss carryforwards	2,999	1,925
Long-term deferred tax assets	3,917	1,926
Total deferred tax assets	3,917	2,209
Less: Valuation allowance	(1,974)	(1,506)
Net deferred tax assets	1,943	703
Deferred Tax Liabilities		
Current		
Accruals, prepaid items and allowances		(26)
Other		(59)
Current deferred tax liabilities		(85)
Long-term		
Accrued reserves and allowances	(136)	
Property and equipment	(1,475)	(327)
Intangibles	(5,626)	(783)
Investment in partnership	(8,757)	(9,206)
Other	(59)	
Long-term deferred tax liabilities	(16,053)	(10,316)
Total deferred tax liabilities	(16,053)	(10,401)

Net deferred tax liabilities	\$	(14,110)	\$	(9,698)
------------------------------	----	----------	----	---------

We adopted ASU 2015-17 as of December 31, 2015 and applied the new guidance prospectively. Our deferred tax balances as of December 31, 2014 have not been revised. ASU 2015-17 allows for the classification of all deferred tax assets and liabilities as long-term.

As of December 31, 2015, we have federal and state income tax net operating loss (NOL) carryforwards of \$8.0 million, the earliest of which expires in 2030.

#### Valuation Allowance

We assess the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets on a jurisdiction and by tax filing entity basis. A significant piece of objective negative evidence evaluated is cumulative losses incurred over the most recent three-year period. Such objective evidence limits our ability to consider other subjective positive evidence such as our projections for future growth.

Table of Contents

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Based on this evaluation, a valuation allowance has been recorded as of December 31, 2015 and 2014 for the net deferred tax assets recorded on certain of our wholly owned subsidiaries. Such deferred tax assets relate primarily to net operating losses that are not more likely than not realizable. However, the amount of the deferred tax asset considered realizable could be adjusted if our estimate of future taxable income during the carryforward period changes, or if objective negative evidence in the form of cumulative losses is no longer present. Additional weight may be given to subjective evidence such as our projections for growth in this situation.

Uncertain Tax Positions

We are subject to taxation in the United States and various state jurisdictions. As of December 31, 2015, our tax years for 2012 through 2014 are subject to examination by the tax authorities. A rollforward of the gross unrecognized tax benefits is as follows (in thousands):

Unrecognized tax benefit, January 1, 2014	\$ 1,311
Increase as a result of tax positions taken during the period	2,545
Decrease as a result of tax positions taken during the period	(1,039)
Unrecognized tax benefit, December 31, 2014	2,817
Increase as a result of tax positions taken during the period	2,647
Decrease as a result of tax positions taken during the period	(1,415)
Decrease as a result of expiring statutes	(463)
Unrecognized tax benefit, December 31, 2015	\$ 3,586

The amount of unrecognized tax benefits at December 31, 2015 that would affect the effective tax rate is \$1.9 million. Interest expense and penalties accrued related to uncertain tax positions as of December 31, 2015 are \$84 thousand.

We expect a decrease to the amount of unrecognized tax benefits (exclusive of penalties and interest) within the next twelve months of zero to \$1.7 million.

Determining uncertain tax positions and the related estimated amounts requires judgment and carry estimation risk. If future tax law changes or interpretations should come to light, or additional information should become known, our conclusions regarding unrecognized tax benefits may change.

**NOTE 10 RELATED PARTY TRANSACTIONS**

We sell installation services to other companies related to us through common or affiliated ownership and/or Board of Directors and/or management relationships. We also purchase services and materials and pay rent to companies with common or related ownership. See Note 11, Commitments and Contingencies, for future minimum lease payments to be paid to these related parties.



**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2015, 2014 and 2013, the amount of sales to common or related parties as well as the purchases from and rent expense paid to common or related parties were as follows (in thousands):

	Years ended December 31,		
	2015	2014	2013
Sales	\$ 6,720	\$ 6,026	\$ 1,188
Purchases	480	3,100	10,292
Rent	598	600	671

During the second quarter of 2014, we appointed a new member to our Board of Directors who is the CEO of M/I Homes, Inc. (NYSE: MHO), one of our customers. As a result, we have included all sales to this customer in the above table beginning in the year ended December 31, 2014, which coincides with the year the member joined our Board of Directors.

At December 31, 2015 and 2014, we had related party balances of approximately \$1.8 million and \$1.3 million, respectively, included in accounts receivable on our Consolidated Balance Sheets. These balances primarily represent trade accounts receivable arising during the normal course of business with various related parties. M/I Homes, Inc. accounted for \$1.0 million and \$0.6 million of the total accounts receivable, related party balances as of December 31, 2015 and 2014, respectively.

On March 13, 2015, we entered into a share repurchase agreement with IBS for the purchase of 0.3 million shares of our common stock. Jeff Edwards, our Chief Executive Officer, is the President of IBS and, in such role, has sole voting and dispositive power over the shares held by IBS and is deemed beneficial ownership in the shares of our common stock held by IBS. See Note 7, Stockholders' Equity, for additional information.

In December 2014, we entered into a share repurchase agreement with Cetus Capital II, LLC ( Cetus ) for the purchase of 0.3 million shares of our common stock for an aggregate purchase price of \$5.3 million. A member of our Board of Directors is affiliated with Cetus, thus classifying this as a transaction with a related party. See Note 7, Stockholders' Equity, for additional information.

As a result of our acquisition of TCI Contracting, LLC ( TCI ) in 2012, one of our existing suppliers became classified as a related party until a change in ownership of the supplier resulted in an end to such classification during 2014. While still classified as a related party to us, purchases made from this supplier during the years ended December 31, 2014 and 2013 were approximately \$2.6 million and \$10.1 million, respectively, and are included in total related party purchases in the preceding table.

As of December 31, 2014, the Company maintained a receivable from IBP Holding Company, related to us through direct control by Jeff Edwards, in the amount of approximately \$0.6 million. The receivable represented amounts owed to us for wages and related expenses paid by the Company during 2011 to former employees of IBP Holding Company and was included in other current assets on the Consolidated Balance Sheet as of December 31, 2014. During the year ended December 31, 2015, we received the full remaining balance and accordingly, no such

receivable existed as of December 31, 2015.

Table of Contents

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 11 COMMITMENTS AND CONTINGENCIES**Accrued General Liability

Accrued general insurance reserves included on the Consolidated Balance Sheets were as follows (in thousands):

	December 31, 2015	December 31, 2014
Included in other current liabilities	\$ 1,304	\$ 1,379
Included in other long-term liabilities	6,879	3,754
	\$ 8,183	\$ 5,133

We also had insurance receivables included on the Consolidated Balance Sheets that, in aggregate, offset an equal liability included within the reserve amounts noted above. The amounts were as follows (in thousands):

	December 31, 2015	December 31, 2014
Insurance receivable and indemnification asset for claims under a fully insured policy	\$ 2,815	\$ 677
Insurance receivable for claims that exceeded the stop loss limit	821	677
Total insurance receivables included in other non-current assets	\$ 3,636	\$ 677

Leases

We are obligated under capital leases covering vehicles and certain equipment. Total assets relating to capital leases were approximately \$64.9 million and \$65.2 million as of December 31, 2015 and 2014, respectively, and a total of approximately \$19.1 million and \$20.5 million were fully depreciated as of December 31, 2015 and 2014, respectively. The vehicle and equipment leases generally have terms ranging from four to six years. The net book value of assets under capital leases was approximately \$22.1 and \$28.8 million as of December 31, 2015 and 2014, respectively, net of accumulated depreciation of approximately \$42.8 million and \$36.4 million, respectively. Amortization of assets held under capital leases is included within cost of sales on the Consolidated Statements of Operations.

We also have several noncancellable operating leases, primarily for buildings, improvements, equipment, and certain vehicles. These leases generally contain renewal options for periods ranging from one to five years and require us to pay all executory costs such as property taxes, maintenance and insurance.





Table of Contents

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Future minimum lease payments under noncancellable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of December 31, 2015 are as follows (in thousands):

	Capital Leases		Operating Leases	
		Related Party	Other	Total Operating
2016	\$ 9,766	\$ 593	\$ 7,786	\$ 8,379
2017	6,600	366	5,615	5,981
2018	3,982	155	2,965	3,120
2019	2,554		2,069	2,069
2020	91		1,704	1,704
Thereafter			1,238	1,238
	22,993	\$ 1,114	\$ 21,377	\$ 22,491
Less: Amounts representing executory costs	(614)			
Less: Amounts representing interest	(1,937)			
Total obligation under capital leases	20,442			
Less: Current portion of capital leases	(8,411)			
Long term capital lease obligation	\$ 12,031			

Total rent expense under these operating leases for the years ended December 31, 2015, 2014 and 2013 was approximately \$9.4 million, \$7.9 million and \$7.2 million, respectively, which is included in the Consolidated Statements of Operations as follows (in thousands):

	Years ended December 31,		
	2015	2014	2013
Cost of Sales	\$ 855	\$ 733	\$ 573
Administrative	8,507	7,138	6,598
Total	\$ 9,362	\$ 7,871	\$ 7,171

Supply Contract Commitments

As of December 31, 2015, we had two product supply contracts, one extending through December 31, 2016 and one extending through August 31, 2017. The contract extending through August 31, 2017 has been suspended through December 31, 2016. Our obligations for both contracts are based on quantity without a specific rate applied and

therefore are not quantifiable. We expect our quantity purchases to exceed the minimum quantity commitments for all years covered by the contracts. Actual purchases made under the contract extending through December 31, 2016 for the years ended December 31, 2015, 2014 and 2013 were approximately \$61.0 million, \$46.4 million and \$16.6 million, respectively.

Other Commitments and Contingencies

From time to time, various claims and litigation are asserted or commenced against us principally arising from contractual matters and personnel and employment disputes. In determining loss contingencies, management considers the likelihood of loss as well as the ability to reasonably estimate the amount of such loss or liability. An estimated loss is recorded when it is considered probable that such a liability has been incurred and when the amount of loss can be reasonably estimated. As litigation is subject to inherent uncertainties, we cannot be

**Table of Contents**

INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

certain that we will prevail in these matters. However, we do not believe that the ultimate outcome of any pending matters will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

**NOTE 12 BUSINESS COMBINATIONS**

As part of our ongoing strategy to increase market share in certain markets, we completed multiple business combinations during each of the years ended December 31, 2015, 2014 and 2013. The goodwill to be recognized in conjunction with these business combinations is attributable to expected improvement in the business of these acquired companies. We estimate approximately \$24.0 million of the goodwill resulting from the 2015 acquisitions is expected to be deductible for tax purposes.

**2015**

On March 12, 2015, we acquired 100% of the stock and membership interests of nine different legal entities, collectively referred to as BDI Insulation ( BDI ). The purchase price consisted of cash of \$30.7 million and seller obligations of \$5.8 million. Revenue and net income since the date of acquisition included in our Consolidated Statement of Operations for the year ended December 31, 2015 were \$32.5 million and \$2.0 million, respectively.

On April 6, 2015, we acquired 100% of the common stock of C.Q. Insulation Inc. ( CQ ). The purchase price consisted of cash of \$5.2 million and seller obligations of \$2.3 million, of which approximately \$1.8 million was contingent upon certain requirements of the seller. All requirements were met and the full amount was paid during the year ended December 31, 2015. Revenue and net income since the date of acquisition included in our Consolidated Statement of Operations for the year ended December 31, 2015 were \$7.8 million and \$0.6 million, respectively.

On June 1, 2015, we acquired substantially all of the assets of Layman Brothers Contracting ( Layman ). The purchase price consisted of cash of \$9.1 million and seller obligations of \$0.6 million. Revenue and net income since the date of acquisition included in our Consolidated Statement of Operations for the year ended December 31, 2015 were \$8.2 million and \$0.5 million, respectively.

On July 1, 2015, we acquired substantially all of the assets of EcoLogic Energy Solutions ( EcoLogic ). The purchase price consisted of cash of \$3.0 million and seller obligations of \$0.5 million. Revenue and net income (loss) since the date of acquisition included in our Consolidated Statement of Operations for the year ended December 31, 2015 were \$3.9 million and \$(0.2) million, respectively.

On August 10, 2015, we acquired 100% of the common stock of Eastern Contractor Services ( Eastern ). The purchase price consisted of cash of \$24.2 million and seller obligations of \$2.9 million. Revenue and net income since the date of acquisition included in our Consolidated Statement of Operations for the year ended December 31, 2015 were \$7.4 million and \$0.3 million, respectively.

On November 9, 2015, we acquired substantially all of the assets of Sierra Insulation Contractors, Inc. ( Sierra ) and Eco-Tect Insulation, Inc. ( Eco-Tect ). The purchase price consisted of cash of \$3.2 million and seller obligations of \$0.5 million. Revenue and net income since the date of acquisition included in our Consolidated Statement of

Operations for the year ended December 31, 2015 were \$0.8 million and \$40 thousand, respectively.

On November 10, 2015, we acquired substantially all of the assets of Overhead Door Company of Burlington ( Overhead Door ). The purchase price consisted of cash of \$5.1 and seller obligations of \$0.1 million. Revenue and net income since the date of acquisition included in our Consolidated Statement of Operations for the year ended December 31, 2015 were \$1.0 million and \$14 thousand, respectively.

Table of Contents

INSTALLED BUILDING PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On December 7, 2015, we acquired substantially all of the assets of BioFoam of North Carolina, LLC, d/b/a Prime Energy Group ( Prime Energy ). The purchase price consisted of cash of \$4.7 million and seller obligations of \$0.5 million. Revenue and net income since the date of acquisition included in our Consolidated Statement of Operations for the year ended December 31, 2015 were \$0.6 million and \$20 thousand, respectively.

2014

On March 24, 2014, we acquired 100% of the common stock of U.S. Insulation Corp. ( U.S. Insulation ). The purchase price consisted of cash of \$2.0 million and seller obligations of \$0.3 million. Revenue and net income since the date of acquisition included in our Consolidated Statement of Operations for the year ended December 31, 2014 were \$9.7 million and \$0.8 million, respectively.

On August 11, 2014, we acquired 100% of the common stock of Marv's Insulation, Inc. ( Marv's Insulation ). The purchase price consisted of cash of \$1.4 million and seller obligations of \$0.2 million. Revenue and net income since the date of acquisition included in our Consolidated Statement of Operations for the year ended December 31, 2014 were \$1.5 million and \$0.2 million, respectively.

On November 10, 2014, we acquired substantially all of the assets of Installed Building Systems ( IBS ). The purchase price consisted of cash of \$9.0 million and seller obligations of \$3.0 million. Revenue and net loss since the date of acquisition included in our Consolidated Statement of Operations for the year ended December 31, 2014 were \$2.3 million and \$5 thousand, respectively.

2013

On March 16, 2013, we acquired 100% of the membership interests of Ace Insulation Contractors, Inc. ( Ace ) and on November 1, 2013 we acquired 100% of the membership interest of KMB Contracting Services, Inc. ( KMB ). The purchase price of our 2013 acquisitions consisted of cash of \$1.2 million and a seller obligation for \$0.4 million. We combined Ace and KMB with existing branches upon acquisition and as such, we are unable to differentiate the results of operations between Ace, KMB, and the existing branches for the year ended December 31, 2013.

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The estimated fair values of the assets acquired and liabilities assumed for the acquisitions, as well as total purchase prices and cash paid, approximated the following (in thousands):

	2015					2014	2013	
	BDI	CQ	Layman	Eastern	Other	Total		
Estimated fair values:								
Cash	\$ 661	\$ 100	\$	\$ 165	\$	\$ 926	\$ 53	\$
Accounts receivable	4,735	1,423	1,293	2,768	4,093	14,312	4,666	213
Inventories	980	152	267	335	720	2,454	1,315	68
Other current assets	368	39		109	102	618	195	37
Property and equipment	1,006	190	733	1,364	1,574	4,867	1,576	338
Intangibles	21,280	4,350	5,330	13,871	10,534	55,365	7,111	1,332
Goodwill	16,213	3,035	3,095	9,904	4,774	37,021	4,065	182
Other non-current assets	3,736			322	60	4,118		
Accounts payable and other current liabilities	(3,303)	(1,539)	(1,030)	(1,681)	(2,255)	(9,808)	(2,470)	(609)
Deferred income tax liabilities	(5,495)				(825)	(6,320)	(515)	
Long-term debt				(82)		(82)		
Other long-term liabilities	(3,736)	(238)		(1)		(3,975)	(35)	
Fair value of assets acquired	36,445	7,512	9,688	27,074	18,777	99,496	15,961	1,561
Gain on bargain purchase					(1,116)	(1,116)		
Total purchase price	36,445	7,512	9,688	27,074	17,661	98,380	15,961	1,561
Less seller obligations	5,765	2,319	600	2,875	1,621	13,180	3,544	380
Cash paid	\$ 30,680	\$ 5,193	\$ 9,088	\$ 24,199	\$ 16,040	\$ 85,200	\$ 12,417	\$ 1,181

Goodwill and Intangibles, net per the above table do not agree to the total gross increases of these assets, as shown in Note 4 Goodwill and Intangibles, to our audited consolidated financial statements included in this Form 10-K for the Company. Goodwill and intangibles, net for the Company were increased due to a small tuck-in acquisition and therefore do not appear in the above table. Intangibles, net also increased for other minor intangible assets added during the ordinary course of business.

The fair value of the net assets acquired, including identifiable intangible assets, relating to one of the business combinations included within the Other column in the above table was approximately \$4.8 million, which exceeds the purchase price of \$3.7 million. Accordingly, we recognized the excess of the fair value of the net assets acquired over purchase price paid of approximately \$1.1 million as a gain on bargain purchase. The gain on bargain purchase was included in Other income in our Consolidated Statements of Operations. Prior to recognizing the gain, we reassessed the fair value of the assets acquired and liabilities assumed in the business combination including consultation with

our external valuation experts. Assets were valued using the same methodology as our other business combinations, including the use of a discounted cash flow model as well as several other factors. We believe we were able to acquire this entity for less than the fair value of its net assets due to an absence of multiple bidders combined with the significant improvement of our purchasing power.

The provisional amounts for BDI originally reported in our Condensed Consolidated Balance Sheets included in our Quarterly Report on Form 10-Q for the period ended March 31, 2015 were adjusted to reflect the review and ongoing analysis of the fair value measurements. As a result of an independent appraisal, we increased goodwill by approximately \$1.4 million and our seller obligations by approximately \$0.3 million for an adjustment to the fair value of a working capital contingent liability. These adjustments, as well as various other insignificant adjustments, resulted in a total purchase price increase for BDI of approximately \$0.3 million as reflected within the above table and were within applicable measurement period guidelines.



Table of Contents

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The provisional amounts for CQ originally reported in our Condensed Consolidated Balance Sheets included in our Quarterly Report on Form 10-Q for the period ended June 30, 2015 were adjusted to reflect the review and ongoing analysis of the fair value measurements. As a result of an independent appraisal, we increased goodwill by approximately \$0.5 million and our seller obligations by approximately \$0.3 million for an adjustment to the fair value of a contingent consideration liability. These adjustments, as well as various other insignificant adjustments, resulted in a total purchase price increase for CQ of approximately \$0.5 million as reflected within the above table and were within applicable measurement period guidelines.

Further adjustments to the allocation for all acquisitions described above are expected as third-party or internal valuations are finalized, certain tax aspects of the transaction are completed, and customary post-closing reviews are concluded during the measurement period attributable to each individual business combination. As a result, additional minor adjustments to the fair value of assets acquired, and in some cases total purchase price, have been made to certain business combinations since the date of acquisition and future adjustments may be made through the end of each measurement period.

Included in other noncurrent assets in the above table as of the year ended December 31, 2015 is an insurance receivable of \$2.0 million and an indemnification asset associated with the acquisition of BDI in the amount of \$1.7 million. These assets offset equal liabilities included in other long-term liabilities in the above table, which represent additional insurance reserves and an uncertain tax position liability for which we may be liable. All amounts are measured at their acquisition date fair value.

Estimates of acquired intangible assets related to the acquisitions are as follows (dollars in thousands):

	2015		2014		2013	
	Estimated Fair Value	Weighted Average Estimated Useful Life (yrs)	Estimated Fair Value	Weighted Average Estimated Useful Life (yrs)	Estimated Fair Value	Weighted Average Estimated Useful Life (yrs)
Acquired intangibles assets						
Customer relationships	\$ 36,129	8	\$ 4,708	14	\$ 972	10
Trademarks and trade names	14,567	15	1,799	15	338	15
Non-competition agreements	4,668	5	604	5	22	5

Pro Forma Information (unaudited)

The unaudited pro forma information has been prepared as if the 2015 acquisitions had taken place on January 1, 2014, the 2014 acquisitions had taken place on January 1, 2013 and the 2013 acquisitions had taken place on January 1, 2012. The unaudited pro forma information is not necessarily indicative of the results that we would have achieved had the transactions actually taken place on January 1, 2014 and 2013, and the unaudited pro forma information does not purport to be indicative of future financial operating results (in thousands, except for per share

data).

	Pro Forma for the years ended December 31,		
	2015	2014	2013
Net revenue	\$ 710,438	\$ 637,434	\$ 459,195
Net income	\$ 28,083	\$ 15,219	\$ 6,811
Accretion charges on Series A Redeemable Preferred Stock		(19,897)	(6,223)
Net income (loss) attributable to common stockholders	\$ 28,083	\$ (4,678)	\$ 588
Net income (loss) per share attributable to common stockholders (basic and diluted)	\$ 0.90	\$ (0.16)	\$ 0.03

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pro forma data for Parker Insulation and Building Products ( Parker ), a subsidiary of Eastern, is not included in the above table. Results for Parker represent an insignificant portion of the financial data of Eastern as a whole. We were unable to obtain complete financial data prior to the date of acquisition despite reasonable efforts. As a result, only financial information since the date of acquisition is included.

Unaudited pro forma net income has been calculated after adjusting our consolidated results to reflect additional intangible asset amortization expense of \$3.3 million, \$6.8 million and \$0.6 million for the years ended December 31, 2015, 2014 and 2013, respectively. In addition, unaudited pro forma net income includes income tax effects of \$0.9 million and \$0.8 million for the years ended December 31, 2015 and 2014, respectively. We included approximately \$1.0 million in transaction costs incurred by a seller resulting from a business combination occurring in the year ended December 31, 2015 in earnings for the year ended December 31, 2014 as though the acquisition occurred as of the beginning of the comparable period.

**NOTE 13 DISCONTINUED OPERATIONS**

During the years ended December 31, 2015 and 2014, we did not discontinue operations in any of our markets since no closures representing a strategic shift in operations were made. During the year ended December 31, 2013, we made the decision to close our branches in Oklahoma City, Oklahoma and Williston, North Dakota along with our distribution facility in Hebron, Ohio. We have presented the operations of these closed branches as discontinued operations in the Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013.

All closures made during the year ended December 31, 2013 were made in order to optimize capital and resource allocations and enhance our financial position. We have no continuing involvement with or cash flows from the closed branches. Further, the customers associated with closed branches and other discontinued operations will not be served by other branches. A summary of operations we discontinued in these markets for the years ended December 31, 2015, 2014 and 2013 is as follows (in thousands):

	Years ended December 31,		
	2015	2014	2013
Net revenue	\$	\$	\$ 765
Loss from discontinued operations, before income taxes		(78)	(960)
Income tax benefit		30	362
Loss from discontinued operations, after tax	\$	\$ (48)	\$ (598)

**NOTE 14 INCOME (LOSS) PER COMMON SHARE**

Basic net income (loss) per common share is calculated by dividing net income (loss) attributable to common stockholders by the weighted average shares outstanding during the period, without consideration for common stock

equivalents.

Table of Contents

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Diluted net income (loss) per common share is calculated by adjusting weighted average shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury stock method. Potential common stock is included in the diluted income (loss) per common share calculation when dilutive. Basic and diluted income (loss) per common share was as follows (in thousands, except share and per share data):

	Years ended December 31,		
	2015	2014	2013
Net income (loss) attributable to common stockholders basic and diluted	\$ 26,517	\$ (5,965)	\$ (183)
Weighted average number of common shares outstanding	31,298,163	30,106,862	22,033,901
Dilutive effect of outstanding restricted stock awards after application of the Treasury Stock Method	36,406		
Diluted shares outstanding	31,334,569	30,106,862	22,033,901
Basic and diluted income (loss) per share attributable to common stockholders	\$ 0.85	\$ (0.20)	\$ (0.01)

There were no common stock equivalents with a dilutive effect during the years ended December 31, 2014 and 2013. Loss attributable to common stockholders includes the accretion of Redeemable Preferred Stock in 2014 and 2013.

**NOTE 15 SUBSEQUENT EVENTS**Business Combination

On January 25, 2016, we acquired substantially all of the assets of Key Green Builder Services, LLC d/b/a Key Insulation for total consideration of approximately \$5.6 million, subject to a working capital adjustment. The initial accounting for the business combination was not complete at the time the financial statements were issued due to the timing of the acquisition and the filing of this Annual Report on Form 10-K. As a result, disclosures required under ASC 805-10-50, Business Combinations, cannot be made at this time.

On February 2, 2016, we acquired substantially all of the assets of Marshall Insulation, LLC for total consideration of approximately \$1.0 million, subject to a working capital adjustment. The initial accounting for the business combination was not complete at the time the financial statements were issued due to the timing of the acquisition and the filing of this Annual Report on Form 10-K. As a result, disclosures required under ASC 805-10-50, Business

Combinations, cannot be made at this time.

On February 29, 2016, we acquired substantially all of the assets of Kern Door Company for total consideration of approximately \$3.1 million, subject to a working capital adjustment. The initial accounting for the business combination was not complete at the time the financial statements were issued due to the timing of the acquisition and the filing of this Annual Report on Form 10-K. As a result, disclosures required under ASC 805-10-50, Business Combinations, cannot be made at this time.

#### New Credit Facility

On February 29, 2016, we entered into the Credit and Security Agreement with the lenders named therein and KeyBank National Association, as joint lead arranger, sole book runner, administrative agent, swing line lender and issuing lender. The Credit and Security Agreement amends and restates the Prior Credit and Security

---

**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Agreement, which was scheduled to mature in April 2020. We used a portion of the funds from the Credit and Security Agreement to pay off the outstanding balances under our previous credit agreement. The Credit and Security Agreement provides for a five-year senior secured credit facility in an aggregate principal amount of up to \$325.0 million, exclusive of the available accordion feature, consisting of a \$100.0 million revolving line of credit (the Revolving LOC ), a \$100.0 million term loan (the Term Loan ), which was borrowed at closing, and a delayed draw term loan facility (the Delayed Draw Term Loan Facility ) providing for up to \$125.0 million in additional term loan draws during the first year of the Credit and Security Agreement. Under the Revolving LOC, up to an aggregate of \$20.0 million will be available to us for the issuance of letters of credit and up to an aggregate of \$5.0 million will be available to us for swing line loans. The Credit and Security Agreement also includes an accordion feature which allows us, at our option but subject to lender and certain other approvals, to add up to an aggregate of \$75.0 million in principal amount of term loans or additional revolving credit commitments, subject to the same terms as the Revolving LOC and Term Loan. As of February 29, 2016, there were approximately \$12.3 million in letters of credit issued and no other borrowings outstanding under the Revolving LOC, and no borrowings under the Delayed Draw Term Loan Facility.

The Term Loan amortizes in quarterly principal payments of \$1.1 million starting on June 30, 2016, with the quarterly payment amount increasing to \$2.5 million through December 31, 2020. Draws under the Delayed Draw Term Loan Facility convert to an amortizing term loan (the DDTL Term Loan ) on the earlier of (1) the date the Delayed Draw Term Loan Facility is fully drawn and (2) February 28, 2017, when it will begin to amortize in quarterly principal payments equal (on a percentage basis) to the then-current amortization rate on the Term Loan. Draws under the Delayed Draw Term Loan Facility may be used only for acquisitions or major capital expenditures. In addition to scheduled amortization payments, if our leverage ratio for any fiscal year is greater than or equal to 3.00 to 1.00, we would be required to make additional payments on the Term Loan and DDTL Term Loan for such fiscal year in an amount of not less than 50% of our excess cash flow (as defined in the Credit and Security Agreement) for such fiscal year within 10 days of our delivery of the financial reports required under the Credit and Security Agreement. Any remaining unpaid balances of the Term Loan or the DDTL Term Loan Facility are due on February 28, 2021 (the Maturity Date ).

Loans under the Credit and Security Agreement bear interest at either the eurodollar rate or the base rate, at our election, plus a margin based on the type of rate applied and the value (represented as a ratio) of our total debt to earnings. In addition to interest, we are required to pay commitment fees on the unused portion of the Revolving LOC. The commitment fee rate for the period from February 29, 2016 through August 31, 2016, will be 0.225%. Thereafter, the commitment fee rate, like the interest rate spreads, is subject to adjustment based on our leverage ratio, with possible future commitment fees ranging from 0.200% to 0.300% per annum. We are also required to pay a ticking fee of 0.375% per annum on the unused portion of the Delayed Draw Term Loan Facility until it is borrowed or the end of the Delayed Draw Term Loan Facility period on February 28, 2017.

All of the obligations under the Credit and Security Agreement will be guaranteed by our existing and future direct and indirect material domestic subsidiaries, other than Suburban Insulation, Inc. (the Guarantors ). Subject to certain restrictions, all of our and each Guarantor's obligations under the Credit and Security Agreement are secured by: (1) all of our and each Guarantor's tangible and intangible personal property and real property, excluding those assets pledged under capital leases and capital equipment loans; (2) a pledge of, and first priority perfected lien on, 100% of the

capital stock or other equity interests of our and each Guarantor's domestic subsidiaries; and (3) a negative pledge on all of our and each Guarantor's assets.

The Credit and Security Agreement contains covenants (as defined in the Credit and Security Agreement) that require us, commencing with the first quarter ending June 30, 2016, to (1) maintain a fixed charge coverage ratio of not less than 1.10 to 1.0 and (2) maintain a leverage ratio of no greater than (a) 3.50 to 1.00 through December 30, 2016; (b) 3.25 to 1.00 on December 31, 2016 through June 29, 2017; (c) 3.00 to 1.00 on June 30, 2017



**Table of Contents**

## INSTALLED BUILDING PRODUCTS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

through December 30, 2017; (d) 2.75 to 1.00 on December 31, 2017 through June 29, 2018; and (e) 2.50 to 1.00 on June 30, 2018 and thereafter. The Credit and Security Agreement also contains various restrictive non-financial covenants and a provision that, upon an event of default (as defined by the Credit and Security Agreement), amounts outstanding under the Credit and Security Agreement would bear interest at the rate as determined above plus 2.0%.

**NOTE 16 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

Summarized unaudited quarterly financial results for 2015 and 2014 is as follows (in thousands, except per share data):

**2015**

	March 31	June 30	September 30	December 31	Total Year
Net revenue	\$ 129,948	\$ 159,693	\$ 181,579	\$ 191,499	\$ 662,719
Gross profit	34,126	46,282	53,417	54,468	188,293
Net income from continuing operations	1,242	6,507	9,481	9,287	26,517
Net income	1,242	6,507	9,481	9,287	26,517
Net income attributable to common stockholders	1,242	6,507	9,481	9,287	26,517
Net income per share (basic and diluted):					
Income per share from continuing operations attributable to common stockholders	\$ 0.04	\$ 0.21	\$ 0.30	\$ 0.30	\$ 0.85
Income per share attributable to common stockholders	\$ 0.04	\$ 0.21	\$ 0.30	\$ 0.30	\$ 0.85

**2014**

	March 31 (a)	June 30	September 30	December 31	Total Year
Net revenue	\$ 105,946	\$ 126,348	\$ 140,456	\$ 145,270	\$ 518,020
Gross profit	26,405	34,809	39,628	39,210	140,052
Net income from continuing operations	401	2,327	6,196	5,056	13,980
Net income	373	2,307	6,196	5,056	13,932
Net (loss) income attributable to common stockholders	(19,524)	2,307	6,196	5,056	(5,965)
Net (loss) income per share (basic and diluted):					
(Loss) income per share from continuing operations attributable to common	\$ (0.75)	\$ 0.08	\$ 0.19	\$ 0.16	\$ (0.20)

## stockholders

(Loss) income per share attributable to

common stockholders	\$	(0.76)	\$	0.07	\$	0.19	\$	0.16	\$	(0.20)
---------------------	----	--------	----	------	----	------	----	------	----	--------

- (a) Net loss attributable to common stockholders for the quarter ended March 31, 2014 included approximately \$19.9 million of accretion of Redeemable Preferred Stock to its redemption value at the time of our IPO. Prior to the redemption, we accounted for the difference between the carrying amount of the Redeemable Preferred Stock and the redemption amount by increasing the carrying amount for the periodic accretion which reduces net income to arrive at net loss attributable to common stockholders.

Earnings-per-share amounts are computed independently each quarter for net income from continuing operations attributable to common stockholders and net income (loss) attributable to common stockholders. As a result, the sum of each quarter's per-share amount may not equal the total per-share amount for the respective year, and the sum of per-share amounts from continuing operations and discontinued operations may not equal the total per-share amounts for net loss attributable to common stockholders for the respective quarters.

**Table of Contents**

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

**Item 9A. Controls and Procedures**

**(a) Evaluation of Disclosure Controls and Procedures**

We conducted an evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2015 with the participation of the Company's principal executive officer and principal financial officer as required by Exchange Act Rules 13a-15(b). Based on that the Company's principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2015.

**(b) Management's Report on Internal Control over Financial Reporting**

Management's report on our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) is included in this Form 10-K under Item 8. Financial Statements and Supplementary Data, under the heading, Management's Report on Internal Control over Financial Reporting and is incorporated herein by reference.

**(c) Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended December 31, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

Not Applicable.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item will be set forth under the headings Election of Directors, Executive Officers, Corporate Governance and Section 16(a) Beneficial Ownership Reporting Compliance in our definitive proxy statement for the 2016 Annual Meeting of Stockholders (2016 Proxy Statement) to be filed with the SEC within 120 days of the fiscal year ended December 31, 2015 and is incorporated herein by reference.

Our board of directors has adopted a code of business conduct and ethics that applies to all of our employees, officers and directors, including our Chief Executive Officer, Chief Financial Officer and other executive and senior financial officers. The full text of our code of business conduct and ethics is posted on the investor relations page on our website which is located at <http://investors.installex.com>. We will post any amendments to our code of business conduct and ethics, or waivers of its requirements, on our website.

**Item 11. Executive Compensation**

The information required by this item will be set forth under the headings Compensation of our Executive Officers and Directors and Compensation Committee Interlocks and Insider Participation in our 2016 Proxy Statement and is incorporated herein by reference.

**Table of Contents**

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information regarding security ownership of certain beneficial owners and management and related stockholder matters, as well as equity compensation plan information, will be presented in our Proxy Statement for our 2016 Annual Meeting of Stockholders, to be filed on or before April 30, 2016, and such information is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item will be set forth under the headings Certain Relationships and Related Transactions and Corporate Governance in our 2016 Proxy Statement and is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services**

The information required by this item will be set forth under the heading Independent Registered Public Accounting Firm Fees and Pre-Approval Policies and Procedures in our 2016 Proxy Statement and is incorporated herein by reference.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedule**

(a) The following documents are filed as a part of this Form 10-K:

1. Financial Statements: The Consolidated Financial Statements, the Notes to Consolidated Financial Statements, and the Report of Independent Registered Public Accounting Firm for Installed Building Products, Inc. are presented in Item 8, Financial Statements and Supplementary Data, of this Form 10-K.
2. Financial Schedules: All financial statement schedules have been omitted because they are inapplicable, not required, or shown in the consolidated financial statements and notes in Item 8, Financial Statements and Supplementary Data, of this Form 10-K.
3. Exhibits: A list of the exhibits required to be filed as part of this report is set forth in the Index to Exhibits and is incorporated by reference.

(b) See Index to Exhibits.

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 9, 2016

INSTALLED BUILDING PRODUCTS, INC.

/s/ Jeffrey W. Edwards

By: Jeffrey W. Edwards

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Jeffrey W. Edwards	President, Chief Executive Officer and Chairman of the Board of Directors	March 9, 2016
Jeffrey W. Edwards	(Principal Executive Officer)	
/s/ Michael T. Miller	Executive Vice President, Chief Financial Officer and Director	March 9, 2016
Michael T. Miller	(Principal Financial Officer)	
/s/ Todd R. Fry	Chief Accounting Officer	March 9, 2016
Todd R. Fry	and Treasurer (Principal Accounting Officer)	
/s/ Margot L. Carter	Director	March 9, 2016
Margot L. Carter		
/s/ Lawrence A. Hilsheimer	Director	March 9, 2016
Lawrence A. Hilsheimer		
/s/ Janet E. Jackson	Director	March 9, 2016
Janet E. Jackson		

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

/s/ J. Michael Nixon	Director	March 9, 2016
J. Michael Nixon		
/s/ Steven G. Raich	Director	March 9, 2016
Steven G. Raich		
/s/ Robert H. Schottenstein	Director	March 9, 2016
Robert H. Schottenstein		
/s/ Michael H. Thomas	Director	March 9, 2016
Michael H. Thomas		

**Table of Contents****INDEX TO EXHIBITS**

Filed or Furnished With this Form 10-K for the Year Ended December 31, 2015

<b>Exhibit Number</b>	<b>Description</b>	<b>Incorporation by Reference</b>			<b>Filing Date</b>	<b>Filed or Furnished Herewith</b>
		<b>Form</b>	<b>File No.</b>	<b>Exhibit(s)</b>		
3.1	Second Amended and Restated Certificate of Incorporation of Installed Building Products, Inc.	8-K	001-36307	3.1	02/25/2014	
3.2	Amended and Restated Bylaws of Installed Building Products, Inc.	S-1 Amend. No. 2	333-193247	3.4	02/03/2014	
4.1	Form of Common Stock Certificate of Installed Building Products, Inc.	S-1 Amend. No. 1	333-193247	4.1	01/27/2014	
4.2	Rights Agreement, dated as of November 4, 2011, by and among OCM IBP Holdings, Inc., CCIB Holdco, Inc. and Cetus Capital II, LLC.	S-1	333-193247	4.2	01/09/2014	
4.3	Recapitalization and Exchange Agreement by and between CCIB Holdco, Inc. and Cetus Capital II, LLC, dated as of November 4, 2011.	S-1 Amend. No. 1	333-193247	4.7	01/27/2014	
4.4	Registration Rights Agreement dated as of November 6, 2013 by and among Installed Building Products, Inc., Cetus Capital II, LLC, IBP Investment Holdings, LLC, IBP Management Holdings, LLC and TCI Holdings, LLC.	S-1	333-193247	4.3	01/09/2014	
4.5	Amendment No. 1 to the Recapitalization and Exchange Agreement, dated as of January 27, 2014.	S-1 Amend. No. 1	333-193247	4.8	01/27/2014	
10.1	Contribution and Exchange Agreement, dated as of	S-1	333-193247	10.12	01/09/2014	



November 4, 2011, by and among CCIB Holdco, Inc., IBHL A Holding Company, Inc., IBHL B Holding Company, Inc. and IBP Holdings, LLC.

10.2	Membership Interest Purchase Agreement, dated as of August 31, 2012, by and among Installed Building Products, LLC, CCIB Holdco, Inc., and GNV Holdings, LLC (now known as TCI Holdings, LLC).	S-1	333-193247	10.13	01/09/2014
------	--	-----	------------	-------	------------

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>	<b>Incorporation by Reference</b>			<b>Filing Date</b>	<b>Filed or Furnished Herewith</b>
		<b>Form</b>	<b>File No.</b>	<b>Exhibit(s)</b>		
10.3	Management Services and Fee Agreement, dated as of December 18, 2012, among Littlejohn Managers, LLC, Jeff Edwards, IBP Holding Company, GNV Holdings, LLC (now known as TCI Holdings, LLC) and CCIB Holdco, Inc.#	S-1	333-193247	10.14	01/09/2014	
10.4	Termination of Management Services and Fee Agreement, dated November 22, 2013.#	S-1	333-193247	10.5	01/09/2014	
10.5	Loan and Security Agreement with Bank of America, N.A., dated as of November 4, 2011.	S-1	333-193247	10.2	01/09/2014	
10.6	First Amendment to Loan and Security Agreement with Bank of America, N.A., dated as of April 20, 2012.	S-1	333-193247	10.3	01/09/2014	
10.7	Second Amendment to Loan and Security Agreement with Bank of America, N.A., dated as of August 31, 2012.	S-1	333-193247	10.4	01/09/2014	
10.8	Third Amendment to Loan and Security Agreement with Bank of America, N.A., dated as of October 22, 2012.	S-1	333-193247	10.5	01/09/2014	
10.9	Fourth Amendment to Loan and Security Agreement with Bank of America, N.A., dated as of December 21, 2012.	S-1	333-193247	10.6	01/09/2014	
10.10	Fifth Amendment to Loan and Security Agreement with Bank of America, N.A., dated as of July 30, 2013.	S-1	333-193247	10.7	01/09/2014	
10.11	Sixth Amendment to Loan and Security Agreement with Bank of America, N.A., dated as of January 27, 2014.	S-1 Amend. No. 2	333-193247	10.22	02/03/2014	

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

10.12	Form of Indemnification Agreement for directors and officers.#	S-1 Amend. No. 1	333-193247	10.1	01/27/2014
10.13	Employment Agreement, dated as of November 1, 2013, by and between Installed Building Products, Inc. and Jeff Edwards.#	S-1	333-193247	10.20	01/09/2014
10.14	Installed Building Products, Inc. 2014 Omnibus Incentive Plan.#	S-1 Amend. No. 1	333-193247	10.21	01/27/2014

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>	<b>Incorporation by Reference</b>			<b>Filing Date</b>	<b>Filed or Furnished Herewith</b>
		<b>Form</b>	<b>File No.</b>	<b>Exhibit(s)</b>		
10.15	Credit and Security Agreement dated, July 8, 2014, by and between Installed Building Products, Inc. and the lenders party thereto, and KeyBank National Association, as lead arranger, sole book runner, administrative agent, swing line lender and issuing lender.	8-K	001-36307	10.1	7/10/2014	
10.16	Pledge Agreement, dated July 8, 2014, by Installed Building Products, Inc. in favor of KeyBank National Association, as administrative agent, under the Credit and Security Agreement dated July 8, 2014.	8-K	001-36307	10.2	7/10/2014	
10.17	Security Agreement, dated July 8, 2014, by each domestic subsidiary as defined in the Credit and Security Agreement dated July 8, 2014, in favor of KeyBank National Association, as administrative agent, under the Credit and Security Agreement dated July 8, 2014.	8-K	001-36307	10.3	7/10/2014	
10.18	Share Repurchase Agreement, dated December 11, 2014, by and between Installed Building Products, Inc. and Cetus Capital II, LLC.	8-K	001-36307	10.1	12/12/2014	
10.19	First Amendment Agreement, dated December 10, 2014, to the Credit and Security Agreement dated July 8, 2014, by and among Installed Building Products, Inc., the lenders party thereto, and KeyBank National Association, as lead arranger, sole book runner, administrative agent, swing line lender and issuing lender.	8-K	001-36307	10.1	12/16/2014	
10.20	Credit and Security Agreement dated, July 8, 2014, as amended and restated as of April 28, 2015, by and between Installed Building Products, Inc. and the lenders party thereto, and KeyBank National Association, as joint lead arranger, sole book runner, administrative agent, swing line lender	8-K	001-36307	10.1	4/30/2015	

and issuing lender.

10.21	First Amendment Agreement, dated as of October 16, 2015, by and among Installed Building Products, Inc., the lenders named therein and KeyBank National Association, as administrative agent for the lenders	8-K	001-36307	10.1	10/22/15
-------	--	-----	-----------	------	----------

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>	<b>Incorporation by Reference</b>			<b>Filing Date</b>	<b>Filed or Furnished Herewith</b>
		<b>Form</b>	<b>File No.</b>	<b>Exhibit(s)</b>		
10.22	Credit and Security Agreement dated, July 8, 2014, as amended and restated as of February 29, 2016, by and between Installed Building Products, Inc. and the lenders party thereto, and KeyBank National Association, as joint lead arranger, sole book runner, administrative agent, swing line lender and issuing lender.	8-K	001-36307	10.1	03/01/2016	
10.23	Share Repurchase Agreement, dated March 13, 2015, by and between Installed Building Products, Inc. and Installed Building Systems, Inc.	8-K	001-36307	10.1	3/16/2015	
10.24	Form of Restricted Stock Agreement.#	10-Q	001-36307	10.1	5/14/2014	
10.25	Form of Performance Share Award Agreement.#	10-Q	001-36307	10.4	8/13/2014	
10.26	Form of Restricted Stock Agreement for Employees.#	10-K	001-36307	10.22	3/13/2015	
21.1	List of Subsidiaries of Installed Building Products, Inc.					X
23.1	Consent of Deloitte & Touche LLP.					X
31.1	CEO Certification pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	CFO Certification pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1	CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2	CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101	Interactive Data File					X

# Indicates management contract or compensatory plan.