Continental Building Products, Inc.
Form 10-Q
November 03, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

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 1-36293

Continental Building Products, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**61-1718923**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
12950 Worldgate Drive, Suite 700, Herndon VA	**20170**
(Address of principal executive offices)	**(Zip code)**

Registrant s telephone number, including area code (703) 480-3800

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x	Smaller reporting company	¨

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

The number of shares of the registrant s common stock outstanding as of October 31, 2014 was 44,069,000.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Continental Building Products, Inc.

Consolidated (Successor) / Combined (Predecessor) Statements of Operations

(dollars in thousands, except per share data)

(Unaudited)

	Successor Three Months Ended September 30, 2014	Successor July 26 - September 30, 2013	Predecessor July 1 - August 30, 2013
Net Sales	$ 113,804	$ 35,630	$ 69,119
Costs, expenses and other income:			
Cost of goods sold	85,821	31,537	56,190
Selling and administrative:			
Direct	7,774	6,200	6,282
Allocated from Lafarge			1,175
Total selling and administrative	7,774	6,200	7,457
Total costs and operating expenses	93,595	37,737	63,647
Operating income (loss)	20,209	(2,107)	5,472
Other (expense) income, net	(131)	85	176
Interest (expense) income, net	(4,945)	(2,364)	40
Income (loss) before earnings (losses) on equity method and income tax	15,133	(4,386)	5,688
Earnings (losses) from equity method investment	(20)		25
Income (loss) before income tax	15,113	(4,386)	5,713
Income tax (expense) benefit	(5,627)	(254)	(1)
Net income (loss)	$ 9,486	$ (4,640)	$ 5,712
Net income (loss) per share:			
Basic	$ 0.22	$ (0.14)	
Diluted	$ 0.22	$ (0.14)	
Weighted average shares outstanding:			

Basic	44,069,000	32,304,000
Diluted	44,081,402	32,304,000

See accompanying notes to unaudited financial statements.

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Continental Building Products, Inc.

Consolidated (Successor) / Combined (Predecessor) Statements of Operations

(dollars in thousands, except per share data)

(Unaudited)

	Successor Nine Months Ended September 30, 2014	Successor July 26 - September 30, 2013	Predecessor January 1 - August 30, 2013
Net Sales	$ 303,692	$ 35,630	$ 252,248
Costs, expenses and other income:			
Cost of goods sold	241,042	31,537	195,338
Selling and administrative:			
Direct	23,358	6,200	19,338
Allocated from Lafarge			4,945
Total selling and administrative	23,358	6,200	24,283
Total costs and operating expenses	264,400	37,737	219,621
Operating income (loss)	39,292	(2,107)	32,627
Other (expense) income, net	(5,461)	85	(191)
Interest expense, net	(24,518)	(2,364)	(91)
Income (loss) before earnings (losses) on equity method investment and income tax	9,313	(4,386)	32,345
Earnings (losses) from equity method investment	(257)		(30)
Income (loss) before income tax	9,056	(4,386)	32,315
Income tax (expense) benefit	(3,526)	(254)	(130)
Net income (loss)	$ 5,530	$ (4,640)	$ 32,185
Net income (loss) per share:			
Basic	$ 0.13	$ (0.14)	
Diluted	$ 0.13	$ (0.14)	
Weighted average shares outstanding:			
Basic	42,560,667	32,304,000	
Diluted	42,568,885	32,304,000	

See accompanying notes to unaudited financial statements.

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Continental Building Products, Inc.

Consolidated (Successor) / Combined (Predecessor) Statements of Comprehensive Income (Loss)

(dollars in thousands)

(Unaudited)

	Successor	Successor	Predecessor	Successor	Successor	Predecessor
	Three Months Ended September 30, 2014	July 26 - September 30, 2013	July 1 - August 30, 2013	Nine Months Ended September 30, 2014	July 26 - September 30, 2013	January 1 - August 30, 2013
Net income (loss)	$ 9,486	$ (4,640)	$ 5,712	$ 5,530	$ (4,640)	$ 32,185
Foreign currency translation adjustment	(971)	266	205	(1,079)	266	2,707
Gain (loss) on derivatives qualifying as cash flow hedges	56			56		
Less: Reclassification adjustment for gain (loss) on derivatives included in net income						
Comprehensive income (loss)	$ 8,571	$ (4,374)	$ 5,917	$ 4,507	$ (4,374)	$ 34,892

See accompanying notes to unaudited financial statements.

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Continental Building Products, Inc.

Consolidated Balance Sheets

(dollars in thousands)

	As of September 30, 2014 (unaudited)	As of December 31, 2013
Assets		
Cash	$ 12,156	$ 11,822
Receivables, net	39,512	32,328
Inventories	34,737	28,120
Prepaid and other current assets	9,888	4,523
Deferred taxes, current	5,589	2,137
Total current assets	101,882	78,930
Property, plant and equipment, net	359,883	383,625
Customer relationships and other intangibles, net	114,480	126,126
Goodwill	119,945	119,945
Equity method investment	10,989	
Financial interest in Seven Hills		13,000
Debt issuance costs	9,330	17,800
Deferred taxes, non-current	83	950
Total Assets	$ 716,592	$ 740,376
Liabilities and Equity		
Accounts payable	29,865	$ 28,126
Accrued and other liabilities	9,088	11,325
Notes payable, current portion		4,150
Total current liabilities	38,953	43,601
Other long-term liabilities	9,589	
Notes payable, non-current portion	373,967	559,924
Total liabilities	422,509	603,525
Equity		
Common stock	44	32
Additional paid-in capital	287,681	134,968
Accumulated other comprehensive loss	(1,277)	(254)
Accumulated earnings	7,635	2,105
Total equity	294,083	136,851

Total liabilities and equity	$	716,592	$	740,376

See accompanying notes to unaudited financial statements.

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Continental Building Products, Inc.

Consolidated (Successor) / Combined (Predecessor) Statements of Cash Flows

(dollars in thousands)

(Unaudited)

	Successor Nine Months Ended September 30, 2014	Successor July 26 - September 30, 2013	Predecessor January 1 - August 30, 2013
Cash flows from operating activities:			
Net income (loss)	$ 5,530	$ (4,640)	$ 32,185
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	41,324	4,594	16,886
Amortization of debt issuance costs and debt discount	8,560	191	
Loss (gain) on disposal of property, plant and equipment			1,115
Loss from equity method investment	257		30
Share based compensation	344		
Deferred taxes	6,619	254	182
Change in assets and liabilities:			
Receivables	(7,202)	(4,396)	(8,655)
Inventories	(6,731)	2,294	(5,827)
Prepaid expenses and other current assets	(3,616)	(2,157)	(1,783)
Other long-term assets			429
Accounts payable	1,394	1,042	(5,738)
Accrued and other current liabilities	(1,154)	4,806	(3,996)
Other long term liabilities	383		(126)
Net cash provided by operating activities	45,708	1,988	24,702
Cash flows from investing activities:			
Capital expenditures	(6,090)	(43)	(2,506)
Acquisition of predecessor		(700,082)	
Capital contributions to equity method investment			(66)
Distributions from equity method investment	1,754		552
Net cash used in investing activities	(4,336)	(700,125)	(2,020)
Cash flows from financing activities:			
Capital contribution (distribution) from (to) Lafarge NA, net			(22,682)
Capital contribution from Lone Star Funds		265,000	
Net proceeds from issuance of common stock	151,354	436,700	
Principal payments for First Lien Credit Agreement	(36,975)		

Repayment of Second Lien Credit Agreement	(155,000)		
Proceeds from revolving credit facility, net		28,500	
Debt issuance costs		(15,289)	
Net cash (used in) provided by financing activities	(40,621)	714,911	(22,682)
Effect of foreign exchange rates on cash and cash equivalents	(417)	(14)	
Net change in cash and cash equivalents	334	16,760	
Cash, beginning of period	11,822		
Cash, end of period	$ 12,156	$ 16,760	$

See accompanying notes to unaudited financial statements.

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CONTINENTAL BUILDING PRODUCTS, INC.

CONSOLIDATED (SUCCESSOR) / COMBINED (PREDECESSOR) NOTES TO THE

UNAUDITED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 (SUCCESSOR) AND

FOR THE PERIODS JULY 26, 2013 TO SEPTEMBER 30, 2013 (SUCCESSOR), JULY 1, 2013 TO

AUGUST 30, 2013 (PREDECESSOR), AND JANUARY 1, 2013 TO AUGUST 30, 2013 (PREDECESSOR)

1. Background and Nature of Operations

Description of Business

Continental Building Products, Inc. (CBP , the Company , or the Successor) is a Delaware corporation. Prior to the acquisition of the gypsum division of Lafarge North America Inc. (Lafarge N.A.) on August 30, 2013, further described below, CBP had no operating activity. The accompanying consolidated financial statements of CBP for the nine months ended September 30, 2014 and for the period July 26, 2013 to September 30, 2013 contain activity of the acquired business (the Successor) and the combined financial statements for the period January 1, 2013 to August 30, 2013 include the historical accounts of the gypsum division of Lafarge N.A. (the Predecessor).

The Company manufactures gypsum wallboard and related products for commercial and residential buildings and houses. The Company operates a network of three highly efficient wallboard facilities, all located in the eastern United States and produces joint compound at one plant in the United States and at another plant in Canada.

The Acquisition

On June 24, 2013, Lone Star Funds (Lone Star) entered into a definitive agreement with Lafarge N.A. to purchase the assets of its North American gypsum division for a total purchase price of approximately $703.1 million (the Acquisition) in cash. The closing of the Acquisition occurred on August 30, 2013.

Initial Public Offering

On February 10, 2014, the Company completed the initial public offering of 11,765,000 shares of its common stock at an offering price of $14.00 per share (the Initial Public Offering). Net proceeds from the Initial Public Offering after underwriting discounts and commissions, but before other closing costs, were approximately $154 million. The net proceeds were used to pay a $2 million one-time payment to Lone Star in consideration for the termination of the Company s asset advisory agreement with affiliates of Lone Star (See Note 10, Related Party Transactions). The remaining $152 million of net proceeds and cash on hand of $6.1 million were used to repay the $155 million Second Lien Term Loan in full along with a prepayment premium of $3.1 million (See Note 13, Debt). In expectation of the Initial Public Offering, on February 3, 2014, the Company effected a 32,304 for one stock split of its common stock. The Company s common stock trades on the New York Stock Exchange under the symbol CBPX .

2. Significant Accounting Policies

Basis of Presentation Successor

The accompanying consolidated financial statements for CBP have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions have been eliminated.

The Company s financial statements reflect the Acquisition which was accounted for as a business combination. The following table summarizes the finalized fair values of the assets acquired and liabilities assumed at the Acquisition date.

	(in thousands)
Total current assets	$ 70,371
Property, plant and equipment	392,809
Financial interest in Seven Hills JV	13,000
Trademarks	15,000
Customer Relationships	118,000
Goodwill	119,945
Total current liabilities	(25,984)
Total purchase price	$ 703,141

The fair value of accounts receivable acquired was $31.9 million (included in total current assets above), with the gross contractual amount being $33.3 million. The Company expects $1.4 million to be uncollectible. The total purchase price remained the same as the one previously provided for the year-ended December 31, 2013.

There were no loss contingencies identified as part of the Acquisition.

The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of the Company. These come from the synergies that are obtained in operating the plants as part of a network, versus individually, and from an experienced employee base skilled at managing a process-driven manufacturing environment. The goodwill recognized is deductible for income tax purposes.

Basis of Presentation Predecessor

The accompanying combined financial statements for the Predecessor have been prepared in accordance with U.S. GAAP.

The Predecessor financial statements have been derived from the consolidated financial statements and accounting records of Lafarge N.A. using the historical results of operations and historical cost basis of the assets and liabilities of Lafarge N.A. that comprise the business acquired. These Predecessor financial statements have been prepared to demonstrate the historical results of operations, financial position, and cash flows for the indicated periods under Lafarge N.A. s management that were acquired by CBP. All intercompany balances and transactions have been eliminated. Transactions and balances between the Predecessor and Lafarge N.A. and its subsidiaries are reflected as related party transactions within these financial statements.

The accompanying Predecessor combined financial statements include the assets, liabilities, revenues and expenses that are specifically identifiable to the acquired business and reflect all costs of doing business related to their operations, including expenses incurred by other entities on the Predecessor s behalf. In addition, certain costs related to the Predecessor have been allocated from Lafarge N.A. Those allocations are derived from multiple levels of the organization including shared corporate expenses from Lafarge N.A. and fees from Lafarge N.A. s parent company related to certain service and support functions. The costs associated with these services and support functions (indirect costs) have been allocated to the Predecessor using the most meaningful respective allocation methodologies which were primarily based on proportionate revenue, proportionate headcount, or proportionate direct labor costs compared to Lafarge N.A. and/or its subsidiaries. These allocated costs are primarily related to corporate administrative expenses, employee-related costs including pensions and other benefits for corporate and shared employees, and rental and usage fees for shared assets for the following functional groups: information technology, legal services, accounting and finance services, human resources, marketing and contract support, customer support, treasury, facility and other corporate and infrastructural services. Income taxes have been accounted for in the Predecessor financial statements on a separate return basis as described in Note 8, Income Taxes.

The Predecessor utilized Lafarge N.A. s centralized processes and systems for cash management, payroll, and purchasing. As a result, all cash received by the Predecessor was deposited in and commingled with Lafarge N.A. s general corporate funds and was not specifically allocated to the Predecessor. The net results of these cash transactions between the Predecessor and Lafarge N.A. are reflected within Net capital contributions to Lafarge N.A. in the accompanying Combined Statements of Cash Flows.

Management believes the assumptions and allocations underlying the Predecessor combined financial statements are reasonable and appropriate under the circumstances. The expenses and cost allocations have been determined on a basis considered by Lafarge N.A. to be a reasonable reflection of the utilization of services provided to or the benefit received by the Predecessor during the periods presented relative to the total costs incurred by Lafarge N.A. However, the amounts recorded for these transactions and allocations are not necessarily representative of the amount that would have been reflected in the financial statements had the Predecessor been an entity that operated independently of Lafarge N.A. Consequently, future results of operations after the Predecessor s separation from Lafarge N.A. have included and will include costs and expenses incurred by the Company that may be materially different than the Predecessor s historical results of operations. Accordingly, the financial statements for these periods under the Predecessor are not indicative of the Company s future results of operations, financial position and cash flows.

Basis of Presentation for Interim Periods

Certain information and footnote disclosures normally included for the annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted for the interim periods presented. Management believes that the unaudited interim financial statements include all adjustments (which are normal and recurring in nature) necessary to present fairly the financial position of CBP and the Predecessor and results of operations and cash flows for the periods presented.

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The results of operations for the periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. Seasonal changes and other conditions can affect the sales volumes of the Company s products. Therefore, the financial results for any interim period do not necessarily indicate the expected results for the year.

The financial statements should be read in conjunction with CBP s audited consolidated financial statements and the notes thereto for the year ended December 31, 2013 included in CBP s Annual Report on Form 10-K for the fiscal year then-ended. The Company has continued to follow the accounting policies set forth in those financial statements.

Earnings (Loss) Per Share

Basic earnings and loss per share are based on the weighted average number of shares of common stock outstanding assuming the 32,304 for one stock split occurred as of January 1, 2014 and the issuance of 11,765,000 new shares on February 10, 2014 in connection with the Initial Public Offering. Diluted earnings and loss per share are based on the weighted average number of shares outstanding plus the dilutive effect, if any, of outstanding restricted stock and stock options.

Earnings (Loss) Per Share

(in thousands, except per share data)	**Three Months Ended September 30, 2014**	**Nine Months Ended September 30, 2014**	**July 26 - September 30, 2013**
Net income (loss)	$ 9,486	$ 5,530	$ (4,640)
Average number of common shares	44,069	42,561	32,304
Dilutive restricted stock and stock options	12	8	
Average diluted common shares	44,081	42,569	32,304
Basic earnings (loss) per average common share	$ 0.22	$ 0.13	$ (0.14)
Diluted earnings (loss) per average common share	$ 0.22	$ 0.13	$ (0.14)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2014-09, which provides accounting guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers. ASU 2014-09 will be effective for the Company in the first quarter of 2017 and requires retroactive application on either a full or modified basis. Early application is not permitted. The Company is currently evaluating ASU 2014-09 to determine its impact on its consolidated financial statements and disclosures.

3. Receivables

Receivables consist of the following:

(in thousands)	As of September 30, 2014	As of December 31, 2013
Trade receivables	$ 41,393	$ 34,065
Total Allowances	(1,881)	(1,737)
Total receivables, net	**$ 39,512**	**$ 32,328**

Trade receivables are recorded net of credit memos issued during the normal course of business.

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4. Inventories

Inventories consist of the following:

(in thousands)		As of September 30, 2014		As of December 31, 2013
Finished Products	$	8,128	$	3,841
Raw Materials		18,587		16,505
Supplies and other		8,022		7,774
Total Inventories	**$**	**34,737**	**$**	**28,120**

5. Property, Plant and Equipment

Property, plant and equipment consist of the following:

(in thousands)		As of September 30, 2014		As of December 31, 2013
Land	$	12,931	$	12,933
Buildings		109,755		108,737
Plant machinery		267,668		267,146
Mobile equipment		2,990		2,990
Construction in progress		4,705		3,554
Property, plant and equipment, at cost		398,049		395,360
Accumulated depreciation		(38,166)		(11,735)
Total property, plant and equipment, net	**$**	**359,883**	**$**	**383,625**

Depreciation expense was $8.8 million for the three months ended September 30, 2014 (Successor), $26.4 million for the nine months ended September 30, 2014 (Successor), $2.8 million for the period July 26, 2013 to September 30, 2013 (Successor), $4.2 million for the period July 1, 2013 to August 30, 2013 (Predecessor), and $16.1 million for the period January 1, 2013 to August 30, 2013 (Predecessor).

6. Software and Other Intangibles

Customer relationships and other intangibles consist of the following:

(in thousands)		As of September 30, 2014		As of December 31, 2013
Customer relationships	$	117,540	$	117,919

Purchased and internally developed Software		3,618		11
Trademarks		14,943		14,990
Customer relationshipes and other intangibles, at cost		136,101		132,920
Accumulated amortization		(21,621)		(6,794)
Customer relationshipes and other intangibles, net	**$**	**114,480**	**$**	**126,126**

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Amortization expense was $4.7 million for the three months ended September 30, 2014 (Successor), $14.9 million for the nine months ended September 30, 2014 (Successor), $1.8 million for the period July 26, 2013 to September 30, 2013 (Successor), $0.2 million for the period July 1, 2013 to August 30, 2013 (Predecessor), and $0.8 million for the period January 1, 2013 to August 30, 2013 (Predecessor).

Amortization of customer relationships is done over a 15-year period using an accelerated method that reflects the expected future cash flows from the acquired customer-related intangible asset. Trademarks are amortized on a straight-line basis over the estimated useful life of 15 years.

Amortization expense related to capitalized software was $0.01 million for the nine months ended September 30, 2014 (Successor), and $0.3 million for the period January 1, 2013 to August 30, 2013 (Predecessor). CBP did not acquire capitalized software as part of the Acquisition, and capitalized approximately $3.5 million for the nine months ended September 30, 2014 (Successor) related to internal-use software costs for a new enterprise resource planning (ERP) system. In addition, CBP capitalized $0.1million for the development of a new website. Subsequent to the end of the quarter, in October 2014, the new ERP system was placed in service and amortization of the software development costs began over a three-year useful life with the expense to be recorded in selling and administrative expense.

7. Accrued and Other Liabilities

Accrued and other liabilities consist of the following:

(in thousands)		As of September 30, 2014		As of December 31, 2013
Vacation and other employee-related costs		5,877	$	2,948
VAT taxes		1,366		942
Income taxes				4,197
Other		1,845		3,238
Total accrued and other liabilities	**$**	**9,088**	**$**	**11,325**

8. Income Taxes

The Predecessor s operations were included in Lafarge N.A. s combined U.S. Federal and state income tax returns. In addition, the Canadian Predecessor operations were included in Lafarge N.A. s Canadian Federal and provincial income tax returns. The provisions for income taxes in the Predecessor financial statements have been determined on a separate return basis as if the Company filed its own tax returns. The income tax benefits related to net operating losses that have been utilized by Lafarge N.A. are reflected in the Predecessor financial statements as a distribution to Lafarge N.A. Management considered and weighed the available evidence, both positive and negative, to determine whether it is more-likely-than-not that some portion, or all, of the Predecessor s deferred tax assets will not be realized. Given the losses of the Predecessor in the years prior to the Acquisition, the Predecessor established a valuation allowance relating to a portion of the deferred tax assets in the Predecessor financial statements. None of the net operating loss carry-forward carried forward to CBP as of the Acquisition date. The Company has not recorded a valuation allowance at September 30, 2014, as management concluded realization of the deferred tax assets was more likely than not. The Company s projected estimated effective tax rate for the 2014 calendar year is approximately 38% and for the nine months ended September 30, 2014 the Company recognized in income tax expense approximately

$0.1 million of unfavorable discrete tax items. In the third quarter of 2014, the Company recognized in additional paid-in capital approximately $1.0 million for a favorable discrete tax item associated with Initial Public Offering costs.

The Company is subject to audit examinations at federal, state and local levels by tax authorities in those jurisdictions. In addition, the Canadian operations are subject to audit examinations at federal and provincial levels by tax authorities in those jurisdictions. The tax matters challenged by the tax authorities are typically complex; therefore, the ultimate outcome of these challenges is subject to uncertainty. The Company has not identified any issues that did not meet the recognition threshold or would be impacted by the measurement provisions of the uncertain tax position guidance.

9. Commitments and Contingencies

The Company leases certain buildings and equipment. The Company s facility and equipment leases may provide for escalations of rent or rent abatements and payment of pro rata portions of building operating expenses. Minimum lease payments are recognized on a straight-line basis over the minimum lease term. During the three months ended September 30, 2014 (Successor), nine months ended September 30, 2014 (Successor), the period July 26, 2013 to September 30, 2013 (Successor), the period July 1, 2013 to August 30, 2013 (Predecessor), and the period January 1, 2013 to August 30, 2013 (Predecessor), total expenses under operating leases were $1.1 million, $3.6 million, $0.4 million, $4.0 million, and $7.8 million, respectively. The Company also has noncapital purchase commitments that primarily relate to gas, gypsum, paper and other raw materials.

The table below shows the future minimum lease payments due under non-cancelable operating leases and purchase commitments at September 30, 2014 (*in thousands*):

	Total	Remaining 2014	2015	2016	2017	2018	After 2018
Operating Leases (1)	$ 5,668	$ 293	$ 1,425	$ 975	$ 865	$ 616	$ 1,494
Purchase Commitments	166,840	10,686	30,657	28,817	18,997	16,044	61,639
Total Commitments	**$ 172,508**	**$ 10,979**	**$ 32,082**	**$ 29,792**	**$ 19,862**	**$ 16,660**	**$ 63,133**

(1) Future minimum lease payments over the non-cancelable lease terms of the operating leases.

Under certain circumstances, the Company provides letters of credit related to its natural gas and other supply purchases. At September 30, 2014 and December 31, 2013 the Company had outstanding letters of credit of approximately $3.9 million and $2.4 million, respectively.

In the ordinary course of business, the Company executes contracts involving indemnifications standard in the industry. These indemnifications might include claims relating to any of the following: environmental and tax matters; intellectual property rights; governmental regulations and employment-related matters; customer, supplier, and other commercial contractual relationships; and financial matters. While the maximum amount to which the Company may be exposed under such agreements cannot be estimated, it is the opinion of management that these guarantees and indemnifications are not expected to have a materially adverse effect on the Company s financial condition, results of operations or liquidity.

In the ordinary course of business, the Company is involved in certain legal actions and claims, including proceedings under laws and regulations relating to environmental and other matters. Because such matters are subject to many uncertainties and the outcomes are not predictable with assurance, the total liability for these legal actions and claims cannot be determined with certainty. When the Company determines that it is probable that a liability for environmental matters, legal actions or other contingencies has been incurred and the amount of the loss is reasonably estimable, an estimate of the costs to be incurred is recorded as a liability in the financial statements. As of September 30, 2014 and December 31, 2013, such liabilities were not material to the Company s financial statements. While management believes its accruals for such liabilities are adequate, the Company may incur costs in excess of the amounts provided. Although the ultimate amount of liability that may result from these matters or actions is not ascertainable, the Company believes that any amounts exceeding the recorded accruals will not materially affect its financial condition.

Following the Acquisition, the Company s sole membership interest holder, LSF8 Gypsum Holdings, L.P., an affiliate of Lone Star and the Company s current majority stockholder, implemented a cash-based long term incentive plan (the LTIP), in which participants have the potential to earn a cash payout upon a monetization event (as defined in the LTIP). Potential monetization events include the sale of the Company, a public offering where the sponsor reduces its interest to below 50% or at the sponsor s discretion, or through certain cash distributions as defined in the LTIP. At September 30, 2014, no such monetization events had occurred, and therefore no amounts were accrued in the accompanying balance sheet as of September 30, 2014.

10. Related Party Transactions

Allocated Expenses

The Predecessor has been allocated selling and administrative expenses from Lafarge N.A. of $1.2 million and $4.9 million for the period July 1, 2013 to August 30, 2013 and the period January 1, 2013 to August 30, 2013, respectively. These costs from Lafarge N.A. had been derived from multiple levels of the organization including shared corporate expenses and fees from the parent of Lafarge N.A. These allocated costs were primarily related to corporate administrative expenses and reorganization costs, employee-related costs including pensions and other benefits for corporate and shared employees, and rental and usage fees for shared assets for the following functional groups: information technology, legal services, accounting and finance services, human resources, marketing and contract support, customer support, treasury, facility and other corporate and infrastructural services. The costs associated with these services and support functions (indirect costs) have been allocated to the Predecessor using the most meaningful respective allocation methodologies which were primarily based on proportionate revenue, proportionate headcount or proportionate direct labor costs of the Predecessor compared to Lafarge N.A. and/or its subsidiaries.

In addition to the allocated selling and administrative expenses noted above, the Predecessor recorded approximately $2.0 million and $7.6 million for the period July 1, 2013 to August 30, 2013 and the period January 1, 2013 to August 30, 2013, respectively, in pension and other post-retirement benefits expense related to its employees, which has been reflected within Costs of goods sold and Selling and administrative in the accompanying Combined Statements of Operations of the Predecessor. The Predecessor s salaried employees and union hourly employees participated in defined benefit pension plans sponsored by Lafarge N.A. These plans include other Lafarge N.A. employees that are not employees of the Predecessor. Lafarge N.A. also provides certain retiree health and life insurance benefits to eligible employees who have retired from the Predecessor. Salaried participants generally become eligible for retiree health care benefits when they retire from active service at age 55 or later. Benefits, eligibility and cost-sharing provisions for hourly employees vary by location and/or bargaining unit.

Generally, the health care plans pay a stated percentage of most medical and dental expenses reduced for any deductible, copayment and payments made by government programs and other group coverage. The related pension and post-retirement benefit liability has not been allocated to the Predecessor and has not been presented in the accompanying Predecessor balance sheet since the obligation remained a liability of Lafarge N.A. The Successor does not have any defined benefit pension or postretirement benefit plans in place.

Management believes the assumptions and allocations underlying the combined Predecessor financial statements are reasonable and appropriate under the circumstances. The expenses and cost allocations have been determined on a basis considered by Lafarge N.A. to be a reasonable reflection of the utilization of services provided to or the benefit received by the Predecessor during the periods presented relative to the total costs incurred by Lafarge N.A. However, the amounts recorded for these transactions and allocations are not necessarily representative of the amount that would have been reflected in the financial statements had the Predecessor been an entity that operated independently of Lafarge N.A. Consequently, results of operations after the Predecessor s separation from Lafarge N.A. have included and will include costs and expenses that may be materially different than the Predecessor s historical results of operations. Accordingly, the financial statements for these periods are not indicative of the future results of operations, financial position and cash flows.

Other

Since the Acquisition, the Company is no longer part of the Lafarge N.A. organization but does have a Transition Services Agreement to help with certain ongoing back-office functions. These functions include, among others, accounting, treasury, tax, and information technology services. Starting in September 2013, the Company paid Lafarge N.A. a fee for these services of $119,000 per month that escalated to $129,700 per month in 2014. Most of these services are available through February 2015, but can be discontinued early by the Company. By the end of November 2014, CBP will have terminated the remaining services with Lafarge N.A.

On August 30, 2013, the Company entered into an advisory agreement with an affiliate of Lone Star to provide certain management oversight services to the Company, including assistance and advice on strategic plans, obtaining and maintaining certain legal documents, and communicating and coordinating with service providers. The Company paid 110% of actual costs for the services provided and as of December 31, 2013, the Company owed $0.2 million under this agreement. The agreement was terminated upon the closing of the Initial Public Offering and in connection therewith, the Company paid a termination fee of $2.0 million that is included in non-operating expense.

11. Investment in Seven Hills

The Predecessor was a party with an unaffiliated third-party to a paperboard liner venture named Seven Hills Paperboard, LLC (Seven Hills). This venture provided the Predecessor with a continuous supply of high-quality recycled paperboard liner to meet its ongoing production requirements. For the Predecessor financial statements, management evaluated the characteristics of its investment in Seven Hills and concluded that Seven Hills would be deemed a variable interest entity (VIE) as there was not sufficient equity at risk in Seven Hills. Management also considered certain characteristics related to control and the power to direct the activities of Seven Hills that most significantly impact Seven Hills economic performance, including the significant decisions made by the Managing Board and the involvement of the other investor in managing the day-to-day activities. Management concluded the Predecessor was not the primary beneficiary. Accordingly, the Predecessor accounted for its investment in Seven Hills under the equity method of accounting.

From the closing of the Acquisition through March 13, 2014, the venture equity ownership remained with Lafarge N.A., although many of the rights and obligations and underlying economics were contractually transferred to the

Company in connection with the Acquisition. Based on the allocation of the purchase price paid in the Acquisition, $13.0 million related to the financial interest in the Seven Hills venture has been recorded and represents the fair value of the rights retained by the Company after the Acquisition. In the Successor financial statements, the Company elected the option to account for this financial interest at fair value with changes in fair value reflected in earnings during the period in which they occur. The Company elected to measure this financial interest at fair value, as permitted under FASB Accounting Standards Codification (ASC) 825, *Financial Instruments*, to better reflect the expected future benefit of the acquired financial interest.

On March 13, 2014, Lafarge N.A. assigned its interest in the joint venture and the joint venture agreement and the other operative agreements to the Company under the same terms and conditions as existed prior to the Acquisition. As such, at this date of transfer the Company measured the investment at fair value and began accounting for this investment in Seven Hills under the equity method of accounting.

Paperboard purchased from Seven Hills was $12.3 million, $37.3 million, $4.4 million, $9.2 million, and $33.1 million for the three months ended September 30, 2014 (Successor), nine months ended September 30, 2014 (Successor), the period July 26, 2013 to September 30, 2013 (Successor), the period July 1, 2013 to August 30, 2013 (Predecessor), and the period January 1, 2013 to August 30, 2013 (Predecessor), respectively. The Company also has certain paper purchase commitments to Seven Hills totaling $33.0 million through 2017.

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12. Fair Value Measurements

U.S. GAAP provides a framework for measuring fair value, establishes a fair value hierarchy of the valuation techniques used to measure the fair value and requires certain disclosures relating to fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in a market with sufficient activity.

The three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value is as follows:

Level 1 Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities that a Company has the ability to access;

Level 2 Inputs, other than the quoted market prices included in Level 1, which are observable for the asset or liability, either directly or indirectly; and

Level 3 Unobservable inputs for the asset or liability which is typically based on an entity s own assumptions when there is little, if any, related market data available.

The Company evaluates assets and liabilities subject to fair value measurements on a recurring and non-recurring basis to determine the appropriate level to classify them for each reporting period. This determination requires significant judgments to be made by the Company. The fair values of receivables, accounts payable, accrued costs and other current liabilities approximate the carrying values as a result of the short-term nature of these instruments.

The Company estimates the fair value of its debt by discounting the future cash flows of each instrument using estimated market rates of debt instruments with similar maturities and credit profiles. These inputs are classified as Level 3 within the fair value hierarchy. As of December 31, 2013 and September 30, 2014, the carrying value reported in the consolidated balance sheet for the Company s notes payable approximated its fair value.

The only assets or liabilities the Company had at September 30, 2014 that are recorded at fair value on a recurring basis is the interest rate cap that the Company entered into on March 31, 2014 that had a fair value of $0.1 million as of September 30, 2014 (see Note 13, Debt) and natural gas hedges that had a fair value of $0.1 million at September 30, 2014. Both the interest rate cap and the natural gas hedges are classified within Level 2 of the fair value hierarchy as they are valued using third party pricing models which contain inputs that are derived from observable market data.

Assets and liabilities that are measured at fair value on a non-recurring basis include intangible assets and goodwill. These items are recognized at fair value when they are considered to be impaired.

There were no fair value adjustments for assets and liabilities measured on a non-recurring basis. The Company discloses fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value.

13. Debt

Debt consists of the following:

(in thousands)	**As of September 30, 2014**	**As of December 31, 2013**
First Lien Credit Agreement	$ 376,988	$ 413,962
Second Lien Credit Agreement		155,000
Less: Original issue discount (net of amortization)	(3,021)	(4,888)
Total debt	373,967	564,074
Less: Current portion of long-term debt		(4,150)
Long-term debt	**$ 373,967**	**$ 559,924**

On August 30, 2013, the Company and its subsidiary Continental Building Products Operating Company, LLC (OpCo) entered into a first lien credit agreement with Credit Suisse AG, as administrative agent, Credit Suisse Securities (USA) LLC and RBC Capital Markets, as joint lead arrangers and joint bookrunners, and Royal Bank of Canada, as syndication agent (as amended on December 2, 2013, the First Lien Credit Agreement). The First Lien Credit Agreement provided OpCo a term loan facility at an initial amount of $415.0 million and a U.S.

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dollar revolving loan facility of $40.0 million and a Canadian dollar and/or U.S. dollar revolving facility of $10.0 million (such aggregate $50.0 million revolving facilities together, the Revolver), which may be borrowed by OpCo or by its subsidiary, Continental Building Products Canada Inc. in Canadian dollars or U.S. dollars.

On August 30, 2013, the Company and OpCo entered into a second lien credit agreement with Credit Suisse AG, as administrative agent, Credit Suisse Securities (USA) LLC and RBC Capital Markets, as joint lead arrangers and joint bookrunners, and Royal Bank of Canada, as syndication agent (as amended on December 2, 2013, the Second Lien Credit Agreement). The Second Lien Credit Agreement provided OpCo a term loan facility of $155.0 million (the Second Lien Term Loan).

On February 10, 2014, the Company completed the Initial Public Offering and used $152 million of net proceeds from the Initial Public Offering and cash on hand of $6.1 million to repay the $155 million Second Lien Term Loan in full along with a prepayment premium of $3.1 million. The $3.1 million prepayment premium was recorded in other (expense) income. The prepayment of the Second Lien Term Loan also resulted in the write-off of $6.9 million in original issue discount and deferred financing fees that were recorded in interest expense.

Interest under the First Lien Credit Agreement is floating. The interest rate spread over LIBOR, which has a 1% floor, was reduced by 50 basis points in May 2014, from 3.75% to 3.25%, as a result of the Company achieving a total leverage ratio of less than four times net debt to the trailing twelve months adjusted earnings before interest, depreciation and amortization, as of March 31, 2014, as calculated pursuant to the First Lien Credit Agreement. This reduced interest rate for the First Lien Credit Agreement will be in effect for as long as the leverage ratio, as calculated pursuant to the First Lien Credit Agreement, remains below four. The margin applicable to the borrowing was further reduced in the third quarter 2014 by 25 basis points to 3.00% after the Company achieved a B2 rating with a stable outlook by Moody s and will remain in effect as long as this rating and outlook are maintained or better.

The First Lien Credit Agreement is secured by the underlying property and equipment of the Company. During the third quarter 2014, CBP pre-paid $24.9 million of principal payments and no further quarterly mandatory principal payments are required until the final payment of $377.0 million due on August 28, 2020. The annual effective interest rate on the First Lien Credit Agreement including original issue discount and amortization of debt issuance costs was 4.64% at September 30, 2014.

There were no amounts outstanding under the Revolver as of September 30, 2014. The interest rate on amounts outstanding under the Revolver is floating, based on LIBOR (with a floor of 1%), plus 225 basis points. In addition, CBP pays a facility fee of 50 basis points per annum on the total Revolver. Availability under the Revolver, based on draws and outstanding letters of credit and that there are no violations of covenants, was $46.1 million at September 30, 2014.

Total cash interest paid for the three and nine months ended September 30, 2014 (Successor) was $4.2 million and $15.6 million, respectively. No significant amounts of interest were paid by the Predecessor in the prior periods.

The table below shows the future minimum principal payments due under the First Lien Credit Agreement.

(in thousands)	**Amount Due**
Remaining 2014	$
2015	
2016	

2017		
2018		
Thereafter	$	376,988

Under the terms of the First Lien Credit Agreement, the Company is required to comply with certain covenants, including among others, a limitation of indebtedness, limitation on liens, and limitations on certain cash distributions. One single financial covenant governs all of the Company s debt and applies only if the outstanding borrowings of the Revolver plus outstanding letters of credit are greater than $12.5 million as of the end of the quarter. The financial covenant is a total leverage ratio calculation, in which total debt less outstanding cash is divided by adjusted earnings before interest, depreciation and amortization. It would require a leverage ratio below 6.75 as of September 30, 2014. As the sum of outstanding borrowings under the Revolver and outstanding letters of credit were less than $12.5 million at September 30, 2014, the financial covenant was not applicable for the quarter.

14. Derivative Instruments

The Company uses derivative instruments to manage selected commodity price and interest rate exposures. The Company does not use derivative instruments for speculative trading purposes, and typically does not hedge beyond two years. Cash flows from derivative instruments are included in net cash provided by operating activities in the consolidated statements of cash flows.

Commodity Derivative Instruments

As of September 30, 2014, the Company had 875 thousand millions of British Thermal Units (mmBTUs) in aggregate notional amount outstanding natural gas swap contracts to manage commodity price exposures. All of these contracts mature by September 30, 2015. The Company elected to designate these derivative instruments as cash flow hedges in accordance with ASC 815-20, *Derivatives Hedging*. For derivative contracts designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is recorded to accumulated other comprehensive income, and is reclassified to earnings when the underlying forecasted transaction affects earnings. The ineffective portion of changes in the fair value of the derivative is recorded in cost of goods sold. The net unrealized gain that remained in accumulated other comprehensive income (loss), as of September 30, 2014 was $0.1 million. No ineffectiveness was recorded on these contracts during 2014. Gains and losses on these contracts that are designated as cash flow hedges are reclassified into earnings when the underlying forecasted transactions affect earnings. The Company reassesses the probability of the underlying forecasted transactions occurring on a quarterly basis.

On a pre-tax basis, for the quarter and nine months ended September 30, 2014, approximately $0.1 million of gains were recognized in other comprehensive income for the commodity contracts. For the same period, the amount of gain reclassified from accumulated other comprehensive income into income was nominal. As of September 30, 2014, $0.1 million was recorded in other current assets.

Interest Rate Derivative Instrument

At September 30, 2014, the Company had an interest rate cap on three month U.S. Dollar LIBOR of 2% for a notional amount of $205.4 million, representing 54% of the principal amount outstanding under the First Lien Credit Agreement as of September 30, 2014. The notional amount of the interest rate cap declines by $0.5 million each quarter through December 31, 2015. The objective of the hedge is to protect the cash flows from adverse extreme market interest rate changes for a portion of the First Lien Credit Agreement through March 31, 2016. Changes in the fair value of the interest rate cap are expected to be perfectly effective in offsetting the changes in cash flow of interest payments attributable to fluctuations for three month U.S. Dollar LIBOR interest rates above 2%. The hedge is being accounted for as a cash flow hedge.

Changes in the time value of the interest rate cap are reflected directly in earnings through other income / expense in non-operating income. CBP recorded a $0.01 million loss for the three months ended September 30, 2014 (Successor). The fair value of the time value of the interest rate cap of $0.1 million is recorded in other current assets as of September 30, 2014.

Counterparty Risk

The Company is exposed to credit losses in the event of nonperformance by the counterparties to the Company s derivative instruments. As of September 30, 2014, the Company s derivatives were in a $0.1 million net asset position. All of the Company s counterparties have investment grade credit ratings; accordingly, the Company anticipates that the counterparties will be able to fully satisfy their obligations under the contracts. The Company s agreements outline the conditions upon which it or the counterparties are required to post collateral. As of September 30, 2014, the Company had no collateral posted with its counterparties related to the derivatives.

15. Segment Reporting

Segment information is presented in accordance with FASB ASC 280, *Segment Reporting*, which establishes standards for reporting information about operating segments. It also establishes standards for related disclosures about products and geographic areas. The Company s and Predecessor s primary reportable segment is wallboard which for the third quarter 2014 represented approximately 97% of the Company s revenues. This segment produces wallboard for the commercial and residential construction sectors. The Company also operates other business activities, primarily finishing products, which complement the Company s full range of wallboard products.

Revenues from the major products sold to external customers include gypsum wallboard and finishing products.

The Company s and Predecessor s two geographic areas consist of the United States and Canada for which it reports net sales, fixed assets and total assets.

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The Company and Predecessor evaluate operating performance based on profit or loss from operations before certain adjustments as shown below. Revenues are attributed to geographic areas based on the location of the assets producing the revenues. The Company did not provide asset information by segment as the Company s chief operating decision maker does not use such information for purposes of allocating resources and assessing segment performance.

Reportable segment information consists of the following:

(in thousands)	Successor Three Months Ended September 30, 2014	Successor July 26 - September 30, 2013	Predecessor July 1 - August 30, 2013	Successor Nine Months Ended September 30, 2014	Successor July 26 - September 30, 2013	Predecessor January 1 - August 30, 2013
Net Sales:						
Wallboard	110,072	34,291	66,316	292,212	34,291	240,225
Other	3,732	1,339	2,803	11,480	1,339	12,023
Total net sales	113,804	35,630	69,119	303,692	35,630	252,248
Operating income (loss):						
Wallboard	20,479	(2,045)	5,645	39,819	(2,045)	32,699
Other	(270)	(62)	(173)	(527)	(62)	(72)
Adjustments:						
Interest Expense	(4,945)	(2,364)	40	(24,518)	(2,364)	(91)
Gain (loss) from Equity Investment	(20)		25	(257)		(30)
Other non-operating expenses	(131)	85	176	(5,461)	85	(191)
Income (loss) before income tax benefit	15,113	(4,386)	5,713	9,056	(4,386)	32,315
Depreciation and Amortization						
Wallboard	13,211	4,492	4,192	40,423	4,492	16,067
Other	300	102	204	901	102	819
Total depreciation and amortization	13,511	4,594	4,396	41,324	4,594	16,886

16. Share-Based Compensation

In conjunction with the Initial Public Offering, the Company granted employees 142,000 stock options and 75,000 shares of restricted stock that vest over four years. The fair value of stock options was determined using the Black Scholes option pricing model with the following assumptions: (a) a risk free interest rate assumption of 2.15%, based on the U.S. Treasury yield curve in effect at the time of the grant; (b) a dividend yield of 0% as the Company currently has no plans to pay a dividend; (c) a volatility assumption of 50.34%, based on historical volatilities of comparable publicly traded companies, and (d) an expected life of 6.25 years based on the assumption that the options will be exercised evenly from time of vesting to the expiration date. Compensation expense of $0.1 million was recorded for share-based awards for the three months ended September 30, 2014 and $0.3 million for the nine months ended September 30, 2014.

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

The following discussion and analysis is intended to help the reader understand our business, financial condition, results of operations, liquidity and capital resources. You should read this discussion in conjunction with Risk Factors, Forward-Looking Statements, Selected Historical Financial and Operating Data, and our financial statements and related notes included in our Annual Report on Form 10-K for fiscal year 2013 filed with the Securities and Exchange Commission on March 27, 2014 (the 2013 10-K) and elsewhere in this Quarterly Report on Form 10-Q, as applicable.

Until the consummation of the Acquisition, the gypsum division of Lafarge N.A. held all of the historical assets and liabilities related to our business and is referred to as the Predecessor . The Predecessor s and the Successor s financial statements are not readily comparable as a result of applying a new basis of accounting. See Note 2, Significant Accounting Policies, in the Notes to the unaudited financial statements for additional information regarding the accounting treatment of the Acquisition.

Also included in the discussion below are the unaudited pro forma combined results of operations for the three and nine months ended September 30, 2013. The unaudited pro forma combined results of operations are based on our historical financial statements included elsewhere in this Quarterly Report on Form 10-Q, adjusted to give effect to the Acquisition, dividend recapitalization, and our Initial Public Offering, assuming such transactions had been completed as of January 1, 2012. The unaudited pro forma combined results of operations are presented since the quarter and year to date historical results for 2014 are not comparable to the corresponding 2013 periods. As discussed in Part I, Item 1 Financial Statements, the Acquisition occurred on August 30, 2013, and therefore the 2013 historical results are presented separately for the period from January 1, 2013 to August 30, 2013 (Predecessor basis) and the period from July 26, 2013 to September 30, 2013 (Successor basis). Accordingly, it is difficult to make comparisons of the historical results for 2014 to the historical results of 2013. We believe it is a meaningful and useful discussion to compare the results of operations for the quarter and year to date 2014 periods to the corresponding 2013 periods on a combined pro forma basis. The combined pro forma results discussed herein are derived from the combined pro forma financial information presented below under Description of Pro Forma Adjustments for the Unaudited Combined Pro Forma Results of Operations for 2013.

It should be noted, however, that the historical results for net sales for the period from January 1, 2013 to August 30, 2013, when combined with the historical results for net sales for the period from July 26, 2013 to December 31, 2013, are the same as on a pro forma basis.

Overview

We are a leading manufacturer of gypsum wallboard and complementary finishing products in the eastern United States and eastern Canada. We operate highly efficient and automated manufacturing facilities that produce a full range of gypsum wallboard products for our diversified customer base. We sell our products in the new residential, repair and remodel (R&R) and commercial construction markets. We believe our operating efficiencies, favorable plant locations, manufacturing expertise and focus on delivering superior customer service position us to benefit from an anticipated increase in gypsum wallboard demand as the housing market recovers from historic lows.

Basis of Presentation

The historical consolidated financial statements of the Successor for the three and nine months ended September 30, 2014 and for the period July 26, 2013 to September 30, 2013, which are discussed below, include operating results from the acquired business of Lafarge N.A., which was acquired on August 30, 2013. Prior to August 30, 2013, the Company had no operating activity. The historical combined financial statements of the Predecessor for the periods

January 1, 2013 to August 30, 2013 and July 1, 2013 to August 30, 2013, which are discussed below, are derived from Lafarge N.A. s consolidated financial statements and accounting records using the historical results of operations and assets and liabilities attributed to the gypsum operations, and include allocations of expenses from Lafarge N.A. These historical financial statements are not necessarily indicative of future performance or representative of the amounts that would have been incurred had we been a separate, stand-alone entity that operated independently of Lafarge N.A. during the periods prior to the consummation of the Acquisition.

The Predecessor statements of operations include expense allocations for certain corporate functions historically provided by Lafarge N.A. These allocated costs related to corporate administrative expenses, employee related costs, including pensions and other benefits for corporate shared employees, and rental and usage fees for shared assets for the following functional groups: information technology, legal services, accounting and finance services, human resources, marketing and contract support, customer support, treasury, facility and other corporate infrastructural services. The costs of such services have been allocated based on the most meaningful respective allocation methodologies for the service provided, primarily based on proportionate revenue, proportionate headcount or proportionate direct labor costs compared to Lafarge N.A. and/or its subsidiaries. These allocations are reflected in selling and administrative expenses in the Predecessor statements of operations and totaled $1.2 million and $4.9 million for the periods July 1, 2013 to August 30, 2013 and January 1, 2013 to August 30, 2013, respectively. Included in the allocations for the Predecessor are $0.7 million and $3.0 million for periods July 1, 2013 to August 30, 2013 and January 1, 2013 to August 30, 2013, respectively, representing payments to Lafarge N.A. for use of the Lafarge N.A. brand under the master brand agreements which are not incurred by us as a public company. We consider these allocations to be a reasonable reflection of the utilization of services provided. The allocations may not, however, reflect the expense that we would have incurred as a stand-alone company. Prior to the consummation of the Acquisition, the Predecessor used Lafarge N.A. s centralized processes and systems for cash management, payroll, and purchasing. As a result, substantially all cash received by the Predecessor was deposited in and commingled with Lafarge N.A. s general corporate funds and was not specifically allocated to the business. The net results of these cash transactions between Lafarge N.A. and the Predecessor are reflected as net Lafarge N.A. investment within equity in the combined balance sheets of the Predecessor included elsewhere in this Quarterly Report on Form 10-Q. In addition, the net Lafarge N.A. investment represents Lafarge N.A. s interest in the recorded net assets of the business and represents the cumulative net investment by Lafarge N.A. in the business through the dates presented, inclusive of cumulative operating results.

Due to these and other changes in connection with our Initial Public Offering, the historical financial information included in this Quarterly Report on Form 10-Q is not necessarily indicative of our financial position, results of operations and cash flows in the future or what our financial position, results of operations and cash flows would have been had we been a separate, stand-alone entity that operated independently of Lafarge N.A. prior to the consummation of the Acquisition.

Our primary reportable segment is wallboard, which accounted for approximately 97% and 96% of our net sales in the three and nine months ended September 30, 2014, respectively. We also operate other business activities, primarily finishing products, which complement our full range of wallboard products. See Part I, Item 1, Financial Information Notes to Consolidated Financial Statements, Note 15, Segment Reporting.

Factors Affecting our Results

Paper and synthetic gypsum are our principal wallboard raw materials. Paper constitutes our most significant input cost and the most significant driver of our variable manufacturing costs. Energy costs, consisting of natural gas and electricity, and synthetic gypsum are the other key components of variable manufacturing costs. In total, manufacturing cash costs represented 61% and 63% of our costs of goods sold for the nine months ended September 30, 2014 (Successor) and the pro forma nine months ended September 30, 2013, respectively. Depreciation and amortization represented 17% and 16% of our costs of goods sold for the nine months ended September 30, 2014 (Successor) and the pro forma nine months ended September 30, 2013, respectively. Distribution costs to deliver product to our customers represented the remaining portion of our costs of goods sold, or approximately 22% and 21% of our costs of goods sold for the nine months ended September 30, 2014 (Successor) and the pro forma nine months ended September 30, 2013, respectively.

Variable manufacturing costs, including inputs such as paper, gypsum, natural gas, and other raw materials, represented 70% and 64% of our manufacturing cash costs for the nine months ended September 30, 2014 (Successor) and the pro forma nine months ended September 30, 2013, respectively. Fixed production costs excluding depreciation and amortization consisted of labor, maintenance, and other costs that represented 30% and 36% of manufacturing cash costs for the nine months ended September 30, 2014 (Successor) and the pro forma nine months ended September 30, 2013, respectively.

We currently purchase substantially all of our paperboard liner from Seven Hills, a joint venture that was originally between Lafarge N.A. and Rock-Tenn Company (RockTenn), but was assigned to us by Lafarge N.A. effective March 13, 2014. Under the agreement with Seven Hills, the price of paper adjusts based on changes in the underlying costs of production of the paperboard liner, of which the two most significant are recovered waste paper and natural gas. The largest waste paper source used by the operation is old cardboard containers (known as OCC). For our Predecessor financial statements, prior to the Acquisition, Lafarge N.A. treated the joint venture as a variable interest entity in which we were not the primary beneficiary and accounted for our investment in the joint venture using the equity method. For our Successor financial statements, we recorded an asset for the financial interest in Seven Hills at fair value through March 13, 2014, the date of assignment of the venture from Lafarge N.A. to us. Since this assignment, we have accounted for Seven Hills as an equity investment. Seven Hills has the capacity to supply us with approximately 75% of our paper needs at our full capacity utilization and all of our needs at current capacity utilization on market-based pricing terms that we consider favorable. We believe we can also purchase additional paper on the spot market at competitive prices.

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Results of Operations

The table below highlights our results of operations for the three and nine months ended September 30, 2014 (Successor), the period July 26, 2013 to September 30, 2013 (Successor), the periods July 1, 2013 to August 30, 2013 and January 1, 2013 to August 30, 2013 (Predecessor), and the pro forma three and nine months ended September 30, 2013 (in thousands, except per share data):

	Successor	Successor	Predecessor	Pro Forma
	Three Months Ended September 30, 2014	July 26 - September 30, 2013	July 1 - August 30, 2013	Three Months Ended September 30, 2013
Net Sales	$ 113,804	$ 35,630	$ 69,119	$ 104,749
Costs, expenses and other income:				
Cost of goods sold	85,821	31,537	56,190	90,627
Selling and administrative:				
Direct	7,774	6,200	6,282	12,611
Allocated from Lafarge			1,175	1,175
Total selling and administrative	7,774	6,200	7,457	13,786
Total costs and operating expenses	93,595	37,737	63,647	104,413
Operating income (loss)	20,209	(2,107)	5,472	336
Other (expense) income, net	(131)	85	176	261
Interest (expense) income, net	(4,945)	(2,364)	40	(5,789)
Income (loss) before earnings (losses) on equity method and income tax	15,133	(4,386)	5,688	(5,192)
Earnings (losses) from equity method investment	(20)		25	
Income (loss) before income tax	15,113	(4,386)	5,713	(5,192)
Income tax (expense) benefit	(5,627)	(254)	(1)	(255)
Net income (loss)	$ 9,486	$ (4,640)	$ 5,712	$ (5,447)
Net income (loss) per share:				
Basic	$ 0.22	$ (0.14)		$ (0.12)
Diluted	$ 0.22	$ (0.14)		$ (0.12)
Weighted average shares outstanding:				
Basic	44,069,000	32,304,000		44,069,000
Diluted	44,081,402	32,304,000		44,069,000
Other Financial and Operating Data:				
EBITDA (1)	$ 33,720	$ 2,487	$ 9,868	$ 13,726
Adjusted EBITDA (1)	$ 33,720	$ 9,358	$ 16,324	$ 25,553

Capital expenditures	$ 3,219	$ 43	$ 978	$ 1,021
Wallboard sales volume (MSF)	590	195	373	568
Mill net sales price (2)	$ 154.10	$ 144.06	$ 145.43	$ 144.96

(1) EBITDA and Adjusted EBITDA are non-GAAP measures. See Reconciliation of Non-GAAP Measures below for how we calculate and define EBITDA and Adjusted EBITDA as non-GAAP measures, reconciliations thereof to operating income, the most directly comparable GAAP measure, and a description as to why we believe these measures are important.

(2) Mill net sales price represents average selling price per thousand square feet net of freight and delivery costs.

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	Successor Nine Months Ended September 30, 2014	Successor July 26 - September 30, 2013	Predecessor January 1 - August 30, 2013	Pro Forma Nine Months Ended September 30, 2013
Net Sales	$ 303,692	$ 35,630	$ 252,248	$ 287,878
Costs, expenses and other income:				
Cost of goods sold	241,042	31,537	195,338	242,975
Selling and administrative:				
Direct	23,358	6,200	19,338	25,924
Allocated from Lafarge			4,945	4,945
Total selling and administrative	23,358	6,200	24,283	30,869
Total costs and operating expenses	264,400	37,737	219,621	273,844
Operating income (loss)	39,292	(2,107)	32,627	14,034
Other (expense) income, net	(5,461)	85	(191)	(106)
Interest expense, net	(24,518)	(2,364)	(91)	(17,486)
Income (loss) before earnings (losses) on equity method investment and income tax	9,313	(4,386)	32,345	(3,558)
Earnings (losses) from equity method investment	(257)		(30)	
Income (loss) before income tax	9,056	(4,386)	32,315	(3,558)
Income tax (expense) benefit	(3,526)	(254)	(130)	(384)
Net income (loss)	$ 5,530	$ (4,640)	$ 32,185	$ (3,942)
Net income (loss) per share:				
Basic	$ 0.13	$ (0.14)		$ (0.09)
Diluted	$ 0.13	$ (0.14)		$ (0.09)
Weighted average shares outstanding:				
Basic	42,560,667	32,304,000		44,069,000
Diluted	42,568,885	32,304,000		44,069,000
Other Financial and Operating Data:				
EBITDA (1)	$ 80,616	$ 2,487	$ 49,513	$ 53,114
Adjusted EBITDA (1)	$ 80,616	$ 9,358	$ 63,904	$ 72,876
Capital expenditures	$ 6,090	$ 43	$ 2,506	$ 2,549
Wallboard sales volume (million square feet)	1,552	195	1,334	1,528
Mill net sales price (2)	$ 155.57	$ 144.06	$ 147.55	$ 147.11

(1) EBITDA and Adjusted EBITDA are non-GAAP measures. See Reconciliation of Non-GAAP Measures below for how we calculate and define EBITDA and Adjusted EBITDA as non-GAAP measures, reconciliations thereof to operating income, the most directly comparable GAAP measure, and a description as to why we believe these measures are important.

(2) Mill net sales price represents average selling price per thousand square feet net of freight and delivery costs.

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Three and Nine Months Ended September 30, 2014 (Successor) Compared to Prior Periods (Successor and Predecessor) and Pro Forma

Net Sales. Net sales were $113.8 million for the three months ended September 30, 2014 (Successor), an increase of 8.6% from $104.7 million for the pro forma three months ended September 30, 2013. The increase was primarily attributable to the increase in the average mill net selling price for gypsum wallboard, which contributed approximately $6.2 million of additional net sales at constant exchange rates. Total volume growth of 3.8% was driven by a U.S. volume increase of 6.7%, partly offset by a decrease in Canadian volumes. Overall volumes had a $3.8 million favorable impact on net sales. Foreign exchange losses of $0.5 million and lower sales in our other products of $0.4 million contributed to the remaining difference. Net sales for the period July 26 to September 30, 2013 (Successor) was $35.6 million, which represented approximately one month of sales activity after the Acquisition on August 30, 2013. Net sales of $69.1 million for the period July 1 to August 30, 2013 (Predecessor) represented approximately two months of sales activity of the gypsum division of Lafarge N.A. prior to the Acquisition.

Net sales were $303.7 million for the nine months ended September 30, 2014 (Successor), an increase of 5.5% from $287.9 million for the pro forma nine months ended September 30, 2013. The increase was primarily attributable to the increase in the average mill net selling price for gypsum wallboard, which contributed approximately $15.9 million of additional net sales at constant exchange rates. Volumes were up by 1.6% and accounted for an additional $4.3 million in net sales. Foreign exchange losses of $2.5 million and lower sales in our other products of $1.9 million contributed to the remaining difference. Net sales of $252.2 million for the period January 1 to August 30, 2013 (Predecessor) represented approximately eight months of sales activity of the gypsum division of Lafarge N.A. prior to the Acquisition.

Total Costs and Operating Expenses. Total costs and operating expenses decreased by 10.4% to $93.6 million for the three months ended September 30, 2014 (Successor) compared to $104.4 million for the pro forma three months ended September 30, 2013. Cost of goods sold was $85.8 million for the three months ended September 30, 2014 (Successor), a decrease of 5.3% from $90.6 million in the prior period on a pro forma basis. Approximately $5.8 million of the decrease in cost of goods sold was due to one-time lease termination costs incurred in the third quarter of 2013 with no lease terminations in the third quarter of 2014. Freight costs rose $1.1 million, while higher raw material costs, primarily energy, combined with higher volumes, increased costs by approximately $2.3 million along with depreciation moving up approximately $0.2 million. Cost control measures reduced fixed costs by approximately $2.1 million, primarily in the area of labor, and favorable foreign exchange rates reduced costs by an additional $0.5 million. Total costs and operating expenses for the period July 26 to September 30, 2013 were $37.7 million which represented approximately one month of activity after the Acquisition on August 30, 2013. Total costs and operating expenses of $63.6 million for the period July 1 to August 30, 2013 (Predecessor) represented approximately two months of sales activity of the gypsum division of Lafarge N.A. prior to the Acquisition.

Total costs and operating expenses decreased by 3.4% to $264.4 million for the nine months ended September 30, 2014 (Successor) compared to $273.8 million for the pro forma nine months ended September 30, 2013. Cost of goods sold was $241.0 million for the nine months ended September 30, 2014 (Successor), a decrease of 0.8% from $243.0 million in the prior period. Approximately $5.8 million of the decrease in cost of goods sold was due to one-time lease termination costs incurred in the third quarter of 2013 with no lease terminations in the nine months ended September 30, 2014. Freight costs increased by $1.8 million, while higher raw material costs, primarily energy, combined with higher volumes, increased costs by approximately $6.5 million. Depreciation accounted for the remaining $2.6 million increase in cost of goods sold. Cost control measures reduced fixed costs by approximately $4.8 million, primarily in the area of labor, and favorable foreign exchange rates reduced costs by an additional $2.3 million. Total costs and operating expenses of $219.6 million for the period January 1 to August 30, 2013

(Predecessor) represented approximately eight months of sales activity of the gypsum division of Lafarge N.A. prior to the Acquisition.

Selling and Administrative Expense. Selling and administrative expense decreased $6.0 million, down 43.6% to $7.8 million for the three months ended September 30, 2014 (Successor) compared to $13.8 million for the pro forma three months ended September 30, 2013. This decrease was primarily driven by higher non-recurring costs that occurred in 2013 and not in 2014. These non-recurring costs include $3.3 million of closing fees for the Acquisition on August 30, 2013 and other costs that did not carry over to the Successor, including $0.6 million of pension costs and $0.7 million in master branding agreement costs for the pro forma three months ended September 30, 2013. Cost reduction efforts and certain other non-recurring costs resulted in a $1.8 million decrease in selling and administrative expense. Higher labor and professional fees associated with the transition to being a stand-alone public company, along with $0.4 million of fees paid to Lafarge N.A. under the transition services agreement incurred in the three months ended September 30, 2014 (Successor), partially offset this decrease. Total selling and administrative expenses for the period July 26 to September 30, 2013 (Successor) were $6.2 million, which represented approximately one month of activity after the Acquisition on August 30, 2013. Total selling and administrative expenses of $7.5 million for the period July 1 to August 30, 2013 (Predecessor) represented approximately two months of selling and administrative activity of the gypsum division of Lafarge N.A. prior to the Acquisition.

Selling and administrative expense decreased $7.5 million, down 24.3% to $23.4 million for the nine months ended September 30, 2014 (Successor) compared to $30.9 million for the pro forma nine months ended September 30, 2013. This decrease was primarily driven by costs that did not carry over to the Successor, including $3.3 million of closing fees for the Acquisition on August 30, 2014, $2.2 million of pension costs and $3.0 million in master branding agreement costs for the pro forma nine months ended September 30, 2013. Cost control measures contributed to an additional $0.2 million decrease in selling and administrative expense. Higher labor and professional fees associated with the transition to being a stand-alone public company and $1.2 million of fees paid to Lafarge N.A. under the transition services agreement incurred

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in the nine months ended September 30, 2014 (Successor) partially offset this decrease. Total selling and administrative expenses of $24.3 million for the period January 1 to August 30, 2013 (Predecessor) represented approximately eight months of selling and administrative activity of the gypsum division of Lafarge N.A. prior to the Acquisition.

Operating (Loss) Income. Operating income of $20.2 million for the three months ended September 30, 2014 (Successor) increased from operating income of $0.3 million for the pro forma three months ended September 30, 2013. The difference was driven mostly by $9.1 million higher net sales, $6.0 million lower selling and administrative expense and $4.8 million lower cost of goods sold. Operating income of $39.3 million for the nine months ended September 30, 2014 (Successor) increased from operating income of $14.0 million for the pro forma nine months ended September 30, 2013. The increase is driven by $15.8 million increase in higher net sales, $7.5 million lower selling and administrative expense and $2.0 million lower cost of goods sold. Operating loss for the period July 26 to September 30, 2013 (Successor) was $2.1 million which represented approximately one month of activity after the Acquisition on August 30, 2013. Operating income of $5.5 million and $32.6 million for the periods July 1 to August 30, 2013 (Predecessor) and January 1, 2013 to August 30, 2013 (Predecessor), respectively, represented activity of the gypsum division of Lafarge N.A. prior to the Acquisition.

Other (Expense) Income, Net. Other (expense) income, net, was a net expense of $0.1 million for the three months ended September 30, 2014 (Successor), slightly lower than the pro forma other (expense) income, net, of $0.3 million in the prior year period. For the nine months ended September 30, 2014 (Successor), other (expense) income, net, was a net expense of $5.5 million, an increase from a net expense of $0.1 million for the pro forma nine months ended September 30, 2013, primarily due to the $3.1 million prepayment premium for the repayment of the Second Lien Credit Agreement and $2.0 million for the payment of termination fees to affiliates of Lone Star in connection with the termination of our assets advisory agreement. Other (expense) income, net, for the period July 26 to September 30, 2013 (Successor) was $0.1 million which represented approximately one month of activity after the Acquisition on August 30, 2013. Other (expense) income, net, of $0.2 million and ($0.2) million for the periods July 1 to August 30, 2013 (Predecessor) and January 1, 2013 to August 30, 2013 (Predecessor), respectively, represented activity of the gypsum division of Lafarge N.A. prior to the Acquisition.

Interest Expense, Net. Interest expense was $4.9 million and $24.5 million for the three and nine months ended September 30, 2014 (Successor), higher than prior periods as it reflects the debt incurred on August 30, 2013 in connection with the Acquisition. All interest expense for the three months ended September 30, 2014 (Successor) relates to the First Lien Credit Agreement. In May 2014, the interest rate on the First Lien Credit Agreement was reduced by 0.5% due to reaching lower leverage ratios as outlined in the First Lien Credit Agreement. In August 2014, the interest rate on the First Lien Credit Agreement was further reduced by 0.25% due to a ratings upgrade by Moody s (See Note 13, Debt, in the Notes to the unaudited financial statements). As a result, the effective interest rate on the First Lien Credit Agreement as of September 30, 2014 was 4.64% and the effective interest rate on the Revolver was 3.25%. Included in the nine months ended September 30, 2014 (Successor) interest expense is a write-off of $6.9 million of original issue discount and deferred financing fees associated with the early repayment of the Second Lien Credit Agreement on February 10, 2014.

Income Tax Benefit (Expense). Income tax expense was $5.6 million and $3.5 million for the three and nine months ended September 30, 2014 (Successor), respectively. A valuation allowance was not recorded as of September 30, 2014 as we believe it is more likely than not that the tax asset will be realized. Income tax (expense) was minimal in the prior Predecessor periods for 2013 due to the benefit of net operating losses that had been previously reserved with a valuation allowance.

Net income (loss). Net income for the three and nine months ended September 30, 2014 (Successor) was $9.5 million and $5.5 million, respectively. Higher depreciation and amortization and interest costs due to the Acquisition were partially offset by higher prices. Net loss for the period July 26 to September 30, 2013 (Successor) was $4.6 million which represented approximately one month of activity after the Acquisition on August 30, 2013. Net income of $5.7 million and $32.2 million for the periods July 1 to August 30, 2013 (Predecessor) and January 1, 2013 to August 30, 2013 (Predecessor), respectively, represented approximately two and eight months of activity of the Gypsum division of Lafarge N.A. prior to the Acquisition.

Description of Pro forma Adjustments for the Unaudited Combined Pro Forma Results of Operations for 2013

The following unaudited pro forma combined statements of operations data for the three and nine months ended September 30, 2013 have been derived by application of pro forma adjustments to our historical combined financial statements included elsewhere in this Quarterly Report on Form 10-Q. The unaudited pro forma combined financial information is for illustrative and informational purposes only and does not purport to represent what our financial position or results of operations would have been if we had operated as a stand-alone public company during the periods presented or if the transactions described below had actually occurred as of the dates indicated, nor does it project our financial position at any future date or our results of operations or cash flows for any future period.

Our unaudited pro forma combined financial information has been prepared to reflect adjustments to our historical financial information that are: (1) directly attributable to the transactions described below; (2) factually supportable; and (3) expected to have a continuing impact on our results. The unaudited pro forma combined financial information does not include non-recurring items, including, but not limited to, legal and advisory fees related to our Initial Public Offering. The unaudited pro forma combined financial information gives effect to the following transactions, or the Pro Forma Transactions, as if they had occurred as of January 1, 2012:

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the Acquisition;

the additional borrowings under our First and Second Lien Credit Agreements and the distribution of such borrowings to our sponsor, Lone Star;

the completion of our Initial Public Offering;

use of the net proceeds of our Initial Public Offering to repay debt; and

other adjustments described in the notes to the unaudited pro forma combined financial statements.

At the closing of the Acquisition, we entered into a transitional services agreement, under which Lafarge N.A. provides certain services to us that were previously provided when we were wholly owned by Lafarge N.A. for fees specified in that agreement. The services include corporate services, such as information technology, accounting and finance services, marketing support, customer support, treasury, facility and other corporate and infrastructural services. We also incur additional costs for financial reporting and compliance, corporate governance, treasury and investor relations activities, which costs include additional compensation to current and future employees and professional fees to external service providers. No pro forma adjustments have been made to the historical financial statements to reflect the additional costs and expenses described in this paragraph.

Continental Building Products, Inc.

Pro Forma Combined Statements of Operations for the Three and Nine Months Ended September 30, 2013

(dollars in thousands)

(Unaudited)

	Successor July 26 - September 30, 2013	Predecessor July 1 - August 30, 2013	Pro forma Adjustments		Pro Forma Three Months Ended September 30, 2013
Net Sales	$ 35,630	$ 69,119	$		$ 104,749
Costs, expenses and other income:					
Cost of goods sold	31,537	56,190	2,900	(a)	90,627
Selling and administrative:					
Direct	6,200	6,282	129	(b)	12,611
Allocated from Lafarge		1,175			1,175
Total selling and administrative	6,200	7,457	129		13,786
Total costs and operating expenses	37,737	63,647	3,029		104,413

Operating income (loss)	(2,107)	5,472	(3,029)		336
Other (expense) income, net	85	176			261
Interest expense, net	(2,364)	40	(3,465)	(c)	(5,789)
Income (loss) before earnings (losses) on equity method investment and income tax	(4,386)	5,688	(6,494)		(5,192)
Earnings (losses) from equity method investment		25	(25)	(d)	
Income (loss) before income tax	(4,386)	5,713	(6,519)		(5,192)
Income tax (expense) benefit	(254)	(1)		(e)	(255)
Net income (loss)	$ (4,640)	$ 5,712	$ (6,519)		$ (5,447)

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	Successor July 26 - September 30, 2013	Predecessor January 1 - August 30, 2013	Pro forma Adjustments		Pro Forma Nine Months Ended September 30, 2013
Net Sales	$ 35,630	$ 252,248			$ 287,878
Costs, expenses and other income:					
Cost of goods sold	31,537	195,338	16,100	(a)	242,975
Selling and administrative:					
Direct	6,200	19,338	386	(b)	25,924
Allocated from Lafarge		4,945			4,945
Total selling and administrative	6,200	24,283	386		30,869
Total costs and operating expenses	37,737	219,621	16,486		273,844
Operating income (loss)	(2,107)	32,627	(16,486)		14,034
Other (expense) income, net	85	(191)			(106)
Interest expense, net	(2,364)	(91)	(15,031)	(c)	(17,486)
Income (loss) before earnings (losses) on equity method investment and income tax	(4,386)	32,345	(31,517)		(3,558)
Earnings (losses) from equity method investment		(30)	30	(d)	
Income (loss) before income tax	(4,386)	32,315	(31,487)		(3,558)
Income tax (expense) benefit	(254)	(130)		(e)	(384)
Net income (loss)	$ (4,640)	$ 32,185	$ (31,487)		$ (3,942)

Notes to the unaudited pro forma statements of operations:

(a) Purchase Accounting

The unaudited pro forma combined statements of operations reflect an adjustment for the increase in depreciation and amortization expenses related to the fair value adjustments to tangible and long-lived intangible assets with definite lives assuming the Acquisition occurred at January 1, 2012. The incremental pro forma amortization expense for long-lived intangible assets with definite lives was $ 2.6 million and $10.4 million for the three and nine months ended September 30, 2013, respectively. The incremental pro forma depreciation expense for long-lived tangible assets was $1.8 million and $7.2 million for the three and nine months ended September 30, 2013, respectively.

The Successor results for the period July 26 to September 30, 2013 include an additional expense of $1.5 million for inventory that was stepped up to fair value as part of purchase accounting on August 30, 2013 and expensed through cost of sales as the inventory was sold. The unaudited pro forma combined statements of operations for both the three and nine months ended September 30, 2013 reflect an adjustment to lower cost of sales by $1.5 million as this purchase accounting adjustment is assumed to have taken place on January 1, 2012, the date that the transaction is assumed to have occurred for pro forma purposes.

(b) Equity Awards

In conjunction with our Initial Public Offering that we completed in February 2014, we granted approximately 142,000 stock options and 75,000 restricted shares to employees. The fair value of the restricted shares is based on the share price on the date of grant, which was the offering price of $14.00 per share. The unaudited combined statements of operations reflect compensation expense for this award assuming the awards were granted on January 1, 2012. Pro forma compensation expense of $0.1 million and $0.4 million has been recognized in selling and administrative expense for the three and nine months ended September 30, 2013 based on a graded vesting period of four years.

(c) Debt Financing

In connection with the Acquisition, we entered into a $320 million First Lien Credit Agreement that also included a revolving credit facility of up to $50 million U.S. dollars, and a $120 million Second Lien Credit Agreement. At the closing of the Acquisition, US $28.5 million was borrowed under the Revolver. On December 2, 2013, we entered into amendments to the First Lien Credit Agreement and the Second Lien Credit Agreement pursuant to which we issued additional term loans in an aggregate principal amount of $95 million under the First Lien Credit Agreement and $35 million under the Second Lien Credit Agreement with the proceeds distributed as a return of capital to our owner, Lone Star. On February 10, we used the proceeds from our Initial Public Offering to completely repay the $155 million due under the Second Lien Credit Agreement. For our pro forma statements of operations, all three of these events are assumed to have happened on January 1, 2012 and result in the unaudited pro forma combined statements of operations reflecting an adjustment for interest expense and the amortization of deferred financing costs on the $415 million First Lien term loans and approximately $28.5 million Revolver borrowings. Incremental pro forma interest expense was $3.5 million and $15.0 million for the three and nine months ended September 30, 2013, respectively.

The borrowings for the debt assumed to be outstanding at January 1, 2012 are floating rate at LIBOR plus a specified spread (plus 3.75% for the First Lien Term Loans and plus 3.00% for the Revolver), with the agreements stipulating a LIBOR floor of 1%. A rise of current interest rate levels to above the 1% floor would be required to increase our interest expense and a reduction in interest rates would have no impact. As of September 30, 2014, we had elected to use three month LIBOR with a rate of 0.25%. A hypothetical 1% increase in interest rates would have increased interest expense by $0.2 million and $0.7 million for the pro forma three and nine months ended September 30, 2013, respectively.

The termination fee of $2.0 million for the asset advisory agreement with an affiliate of Lone Star and the $3.1 million for the 2% call premium on early repayment of our Second Lien Credit Agreement were not included in the pro forma income statement as each represents a non-recurring expense.

(d) Interest in Seven Hills

As of the Acquisition and through September 30, 2013, the equity interest in Seven Hills remained with Lafarge. Under the terms of the Asset Purchase Agreement entered into in connection with the Acquisition, Lafarge passed through all of the benefits and burdens of the Joint Venture Agreement and the other operative agreements to us, and our supply of paper from the joint venture has continued after the closing of the Acquisition under the same terms and conditions as existed prior to the Acquisition. We elected to measure this financial interest in Seven Hills at fair value and the pro forma combined statements of operations eliminate the equity earnings of this investment.

(e) Income Taxes

Due to our limited history and the history of pre-tax losses generated by the Predecessor, deferred tax benefits were not recorded on the pro forma adjustments.

Reconciliation of Non-GAAP Measures

EBITDA and Adjusted EBITDA have been presented in this Quarterly Report on Form 10-Q as supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. We have presented EBITDA and Adjusted EBITDA as supplemental performance measures because we believe that they facilitate a comparative assessment of our operating performance relative to our performance based on our results under GAAP while isolating the effects of some items that vary from period to period without any correlation to core operating performance and eliminate certain charges that we believe do not reflect our operations and underlying operational performance. Management also believes that EBITDA and Adjusted EBITDA are useful to investors because they present a better reflection of our performance as an independent company following the Acquisition and allow investors to view our business through the eyes of management and the Board of Directors, facilitating comparison of results across historical periods.

EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies because other companies may not calculate EBITDA and Adjusted EBITDA in the same manner as we do. EBITDA and Adjusted

EBITDA are not measurements of our financial performance under GAAP and should not be considered in isolation or as alternatives to operating income determined in accordance with GAAP or any other financial statement data presented as indicators of financial performance or liquidity, each as calculated and presented in accordance with GAAP.

The following tables reconcile the non-GAAP measures to GAAP measures:

(in thousands)		Successor Three Months Ended September 30, 2014	Successor July 26 - September 30, 2013	Predecessor July 1 - August 30, 2013	Pro Forma Three Months Ended September 30, 2013
Operating Income - GAAP Measure		**$ 20,209**	**$ (2,107)**	**$ 5,472**	**$ 336**
Depreciation and amortization		13,511	4,594	4,396	13,390
EBITDA - Non-GAAP Measure		**33,720**	**2,487**	**9,868**	**13,726**
Pension and post-retiree costs retained by Lafarge	*(a)*			1,961	1,961
Master Brand Agreement	*(b)*			744	744
Newark lease termination	*(c)*			2,556	2,556
Co-generation lease termination	*(d)*		2,075	1,195	3,270
Acquisition costs	*(e)*		3,296		3,296
Inventory step-up	*(f)*		1,500		
Adjusted EBITDA - Non-GAAP Measure		**$ 33,720**	**$ 9,358**	**$ 16,324**	**$ 25,553**

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(in thousands)		Successor Nine Months Ended September 30, 2014	Successor July 26 - September 30, 2013	Predecessor January 1 - August 30, 2013	Pro forma Nine Months Ended September 30, 2013
Operating Income -GAAP Measure		**$ 39,292**	**$ (2,107)**	**$ 32,627**	**$ 14,034**
Depreciation and amortization		41,324	4,594	16,886	39,080
EBITDA -Non-GAAP Measure		**80,616**	**2,487**	**49,513**	**53,114**
Pension and post-retiree costs retained by Lafarge	*(a)*			7,636	7,636
Master Brand Agreement	*(b)*			3,004	3,004
Newark lease termination	*(c)*			2,556	2,556
Co-generation lease termination	*(d)*		2,075	1,195	3,270
Acquisition costs	*(e)*		3,296		3,296
Inventory step-up	*(f)*		1,500		
Adjusted EBITDA - Non-GAAP Measure		**$ 80,616**	**$ 9,358**	**$ 63,904**	**$ 72,876**

(a) Lafarge N.A. retained the pension and post-retiree liabilities related to its gypsum division and no new plans have been established by us. The adjustment represents pension and post-retiree benefit costs allocated to the Predecessor.

(b) Adjusts for the amounts paid to Lafarge SA under the master brand agreements by Lafarge SA that were discontinued after the Acquisition.

(c) Adjusts for the payment of a lease termination fee for the Port of Newark related the Newark, New Jersey gypsum wallboard plant that was closed.

(d) Adjusts for the payment of a lease termination fee to discontinue the use of the co-generation power plant.

(e) Adjusts for the transaction costs associated with the Acquisition.

(f) Adjusts for step-up to fair value of inventory that increased cost of sales for one month after the Acquisition.

Liquidity and Capital Resources

Historically, the Predecessor s primary source of liquidity was cash from operations and borrowings or advances from Lafarge N.A. The Predecessor used Lafarge N.A. s centralized processes and systems for cash management, payroll and purchasing. As a result, all cash received by the business was deposited in and commingled with Lafarge N.A. s general corporate funds and was not specifically allocated to the business. The combined financial statements for the periods prior to the consummation of the Acquisition therefore reflect a cash sweep or contribution at the end of the relevant fiscal periods and no retained cash balances.

Since the Acquisition, our primary sources of liquidity are cash on hand, cash from operations, and borrowings under the debt financing arrangements that we entered into in connection with the Acquisition. We believe these sources will be sufficient to fund our planned operations and capital expenditures. See Part I, Item 1, Financial Information Notes to Consolidated Financial Statements, Note 13, Debt, and the 2013 10-K for a more detailed discussion of our debt financing arrangements.

The following table sets forth a summary of the net cash provided by (used in) operating, investing and financing activities for the Company for the nine months ended September 30, 2014 (Successor) and prior periods:

	Successor Nine Months Ended September 30, 2014	Successor July 26 - September 30, 2013	Predecessor January 1 - August 30, 2013
Net cash provided by operating activities	$ 45,708	$ 1,988	$ 24,702
Net cash used in investing activities	(4,336)	(700,125)	(2,020)
Net cash (used in) provided by financing activities	(40,621)	714,911	(22,682)
Effect of foreign exchange rates	(417)	(14)	
Net change in cash and cash equivalents	$ 334	$ 16,760	$

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Net Cash Provided by Operating Activities

Net cash provided by operating activities was $45.7 million for the nine months ended September 30, 2014 (Successor). Net cash provided by operating activities for the period July 26 to September 30, 2013 (Successor) was $2.0 million and for the period January 1, 2013 to August 30, 2013 (Predecessor) was $24.7 million. Net cash provided by operating activities for the nine months ended September 30, 2014 (Successor) was impacted by higher interest costs partially offset by improvements in working capital.

Net Cash Used In Investing Activities

Net cash used in investing activities was $4.3 million for the nine months ended September 30, 2014 (Successor), $700.1 million for the period July 26 to September 30, 2013 (Successor), and $2.0 million for the period January 1, 2013 to August 30, 2013 (Predecessor). Net cash used in investing activities for the nine months ended September 30, 2014 (Successor) reflects $6.1 million in capital expenditures, partially offset by $1.8 million in distributions received from our equity investment in Seven Hills. The investing activities for the period July 26 to September 30, 2013 (Successor) include $700.1 million purchase price of the Acquisition.

Net Cash Used In Financing Activities

Net cash provided by (used in) financing activities was ($40.6) million for the nine months ended September 30, 2014 (Successor), $714.9 million for the period July 26 to September 30, 2013 (Successor), and ($22.7) million for the period January 1, 2013 to August 30, 2013 (Predecessor). In 2014, net proceeds of $151.4 million from the Initial Public Offering were used to repay a portion of the Second Lien Credit Agreement. In addition, $2.1 million in quarterly principal payments were made on the First Lien Credit Agreement in addition to voluntary prepayments of $34.9 million. The next required mandatory principal payment on the First Lien Credit Agreement is the amount due at maturity on August 28, 2020.

Critical Accounting Policies

The preparation of our financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the periods presented. Our 2013 10-K includes a summary of the critical accounting policies we believe are the most important to aid in understanding our financial results. There have been no changes to those critical accounting policies that have had a material impact on our reported amounts of assets, liabilities, revenues or expenses during the first nine months of 2014.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. These forward-looking statements are included throughout this Quarterly Report on Form 10-Q, and relate to matters such as our industry, business strategy, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity, capital resources and other financial and operating information. We have used the words anticipate, assume, believe, contemplate, continue, could, estimate, expect, future, intend, may, plan, potential, p should, target, will and similar terms and phrases to identify forward-looking statements in this Quarterly Report on Form 10-Q. All of our forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we are expecting, including:

cyclicality in our markets, especially the new residential construction market;

the highly competitive nature of our industry and the substitutability of competitors products;

disruptions in our supply of synthetic gypsum due to regulatory changes or coal-fired power plants switching to natural gas or ceasing operations;

changes to environmental and safety laws and regulations requiring modifications to our manufacturing systems;

disruptions to our supply of paperboard liner;

potential losses of customers;

changes in affordability of energy and transportation costs;

material disruptions at our facilities or the facilities of our suppliers;

changes in, cost of compliance with or the failure or inability to comply with governmental laws and regulations, in particular environmental regulations;

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- our involvement in legal and regulatory proceedings;
- our ability to attract and retain key management employees;
- disruptions in our information technology systems;
- labor disruptions;
- seasonal nature of our business;
- the effectiveness of our internal control over financial reporting;
- increased costs and demands on management as a public company;
- our lack of public company operating experience;
- our current reliance on Lafarge N.A. for many of our administrative services;
- our relationship, and actual and potential conflicts of interest, with Lone Star; and
- additional factors discussed under the sections captioned Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business in our 2013 10-K and subsequent Quarterly Report on Form 10-Q, as applicable.

The forward-looking statements contained in this Quarterly Report on Form 10-Q are based on historical performance and management s current plans, estimates and expectations in light of information currently available to us and are subject to uncertainty and changes in circumstances. There can be no assurance that future developments affecting us will be those that we have anticipated. Actual results may differ materially from these expectations due to changes in global, regional or local political, economic, business, competitive, market, regulatory and other factors, many of which are beyond our control. We believe that these factors include those described in Risk Factors. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove to be incorrect, our actual results may vary in material respects from what we may have expressed or implied by these forward-looking statements. We caution that you should not place undue reliance on any of our forward-looking statements. Any forward-looking statement made by us in this Quarterly Report on Form 10-Q speaks only as of the date on which we make it. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by applicable securities laws.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

In the normal course of business, we are exposed to financial risks such as changes in interest rates, foreign currency exchange rates, and commodity price risk associated with our input costs. We use derivative instruments to manage certain commodity price and interest rate exposures. We do not use derivative instruments for speculative trading purposes, and we typically do not hedge beyond two years. See Note 14 to the consolidated financial statements for additional information regarding our financial exposures.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our outstanding debt, and cash and cash equivalents. As of September 30, 2014, we had $12.2 million in cash and cash equivalents. The interest expense associated with First Lien Credit Agreement and any loans under the Revolver will vary with market rates.

Our exposure to market risk for changes in interest rates related to our outstanding debt is somewhat mitigated as the First Lien Term Loan and the Revolver have a LIBOR floor of 1%. A rise of current interest rate levels to above the 1% floor would be required to increase our interest expense and a reduction in interest rates would have no impact on our interest expense. As of September 30, 2014, we elected to use three month LIBOR with a rate of 0.25%. A hypothetical 1% increase in interest rates would have increased interest expense by approximately $0.2 million and $0.7 million for the three months and nine months ended September 30, 2014, respectively.

At March 31, 2014, the Company entered into an interest rate cap on three months US Dollar LIBOR of 2% for a notional amount of $206.5 million, which represented one-half of the principal amount due under our First Lien Credit Agreement at March 31, 2014. The notional amount of the interest rate cap declines by approximately $0.5 million each quarter through December 31, 2015, and was $205.4 million as of September 30, 2014. The objective of the hedge is to protect our cash flows for a portion of the First Lien Credit Agreement from adverse extreme market interest rate changes through March 31, 2016. As U.S. Dollar LIBOR interest rates remain below 2%, the fair value of this contract at September 30, 2014 was $0.1 million and related solely to the remaining time value of money of the premium paid for this contract.

The return on our cash equivalents balance was less than one percent. Therefore, although investment interest rates may continue to decrease in the future, the corresponding impact to our interest income, and likewise to our income and cash flow, would not be material.

Foreign Currency Risk

Approximately 7% and 9% of our sales for the three and nine months ended September 30, 2014 (Successor), respectively, and 11% and 12% of our sales for each of the pro forma three and nine months ended September 30, 2013, respectively, were in Canada. As a result, we are exposed to movements in foreign exchange rates between the U.S. dollar and Canadian dollar. We estimate that a 1% change in the exchange rate between the U.S. and Canadian currencies would impact net sales by approximately $0.1 million and $0.3 million based on 2014 (Successor) results for the three and nine months ended September 30, 2014, respectively. This may differ from actual results depending on the level of sales volumes in Canada. During the reported periods we did not use foreign currency hedges to manage this risk.

Commodity Price Risk

Some of our key production inputs, such as paper and natural gas, are commodities whose prices are determined by the market s supply and demand for such products. Price fluctuations on our key input costs have a significant effect on our financial performance. The markets for most of these commodities are cyclical and are affected by factors such as global economic conditions, changes in or disruptions to industry production capacity, changes in inventory levels and other factors beyond our control.

We use natural gas swaps contracts to manage our exposure to fluctuations in commodity prices associated with anticipated purchases of natural gas. Currently, a portion of our anticipated purchases of natural gas for 2014 and 2015 is hedged. The aggregate notional amount of these hedge contracts in place as of September 30, 2014 was 875 thousand mmBTUs and we entered into an additional notional amount of 1.2 million mmBTUs subsequent to September 30, 2014. We review our positions regularly and make adjustments as market and business conditions warrant. The fair value of the outstanding quarter-end contracts was an unrealized gain of $0.1 million as of September 30, 2014.

Seasonality

Sales of our wallboard products are, similar to many building products, seasonal in that sales are generally slightly higher from spring through autumn when construction activity is greatest in our markets.

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Item 4. Controls and Procedures

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report.

The design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Because of its inherent limitations, disclosure controls and procedures may not prevent or detect all misstatements. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Changes in Internal Controls Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We have been from time to time, and may in the future become, party to litigation or other legal proceedings that we consider to be part of the ordinary course of our business. We are not currently involved in any legal proceedings that could be reasonably expected to have a material adverse effect on our business or our results of operations. We may become involved in material legal proceedings in the future. See Part I, Item 1, Financial Information Notes to Consolidated Financial Statements, Note 9, Commitments and Contingencies, for information on certain legal proceedings.

Item 1A. Risk Factors

We are subject to risks and uncertainties that could cause our actual results to differ materially from the expectations expressed in the forward looking statements. Factors that could cause our actual results to differ from expectations are described under Item 1A. Risk Factors in the 2013 10-K, to which there were no material changes during the period covered by this Quarterly Report on Form 10-Q.

Item 6. Exhibits

31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Continental Building Products, Inc.

By: /s/ Isaac Preston
Name: Isaac Preston
Title: Chief Executive Officer

By: /s/ James Bachmann
Name: James Bachmann
Title: Chief Financial Officer

Date: November 3, 2014

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