Continental Building Products, Inc.
Form 10-K
February 22, 2019
Table of Contents

As filed with the Securities and Exchange Commission on February 22, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________.

Commission File Number: 001-36293

CONTINENTAL BUILDING PRODUCTS, INC.
(Exact name of registrant as specified in its charter)

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

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $0.001 par value per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

Title of Each Class	Name of Exchange on Which Registered
None	n/a

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ¨ No x
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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer x Accelerated filer ¨

Non-accelerated filer ¨ Smaller Reporting Company ¨

Emerging growth company ¨

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act)

Yes ¨ No x

As of February 21, 2019, the registrant had outstanding 35,593,775 shares of the registrant's common stock, which amount excludes 9,262,253 shares of common stock held by the registrant as treasury shares.

The aggregate market value of the registrant's common stock, $0.001 par value, held by non-affiliates of the registrant, as of June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $1,159.4 million, based upon the last reported sales price for such date on the New York Stock Exchange.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information called for by Part III is incorporated by reference to certain sections in the registrant's definitive proxy statement relating to the 2018 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2018.

1

Table of Contents

Table of Contents to 2018 Form 10-K

Table of Contents

Table of Contents to 2018 Form 10-K (continued)

Table of Contents

PART I

Item 1. Business

Unless otherwise specified, references in this Annual Report on Form 10-K to "our," "we," "us," the "Company" and "our business" refer to Continental Building Products, Inc., in each case together with its consolidated subsidiaries.

General

We are a leading, high margin manufacturer of gypsum wallboard and complementary finishing products. Gypsum wallboard is a low-cost, widely used building product for interior and exterior walls and ceilings in residential and commercial structures. It is highly regarded for its ease and speed of application and its superior performance in providing comfort, fire resistance and thermal and sound insulation. The principal sources of demand for gypsum wallboard are residential construction, repair and remodel ("R&R"), and commercial construction. The commercial construction market encompasses areas such as office, retail, healthcare, hospitality and government building projects.

Our manufacturing facilities and sales efforts are concentrated in the eastern United States and eastern Canada. We estimate that in 2018 our market share in the United States east of the Mississippi River, a market which accounted for more than 55% of total U.S. wallboard demand, was approximately 18%, and our share is significantly higher in many of the major metropolitan areas within a shipping radius of 300 miles of our facilities, which include New York, Miami, Tampa, Orlando, Cincinnati, Cleveland, Columbus, Indianapolis, Nashville, Jacksonville and Hartford.

We estimate that new residential and R&R construction accounted for more than 80% of 2018 industry wallboard demand. Demand for gypsum wallboard is cyclical and closely follows construction industry cycles, particularly housing construction. For example, U.S. housing starts fell from a peak of 2.1 million in 2005 to a 50-year low of 554,000 in 2009. Correspondingly, U.S. wallboard consumption declined by more than 50% from 36.2 billion square feet, or bsf, in 2005 to a low of 17.1 bsf in 2010. Recently, the U.S. housing market has experienced moderate growth. According to the U.S. Census Bureau, U.S. housing starts reached 1.17 million in 2016 and 1.20 million in 2017. According to the February 2019 Blue Chip Economic Indicators report housing starts are estimated to be 1.26 million in 2018. This drove wallboard consumption to 24.7 bsf, 25.3 bsf and 24.9 bsf, for 2016, 2017 and 2018, respectively. We believe that there is room for continued improvement in housing starts. Housing starts have averaged 1.44 million over the past 50 years, which is approximately 14% greater than the 2018 starts of 1.26 million.

The effects of market conditions on our operations are further discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

We strive to be a low cost producer of gypsum wallboard. We have adopted a strategy of lean manufacturing and continuous improvement, which we call the Bison Way, as one of the tools we use in attempting to eliminate waste and become more efficient in all aspects of our business.

Continental Building Products, Inc. was founded in 2013 when it was acquired from Lafarge North America. Prior to that, it operated as the gypsum division of Lafarge North America from 1996 to 2013. Lafarge North America founded its U.S. wallboard business in 1996 when it acquired two manufacturing facilities, including our Buchanan plant, from Georgia Pacific.

Products and Customers

We offer our customers a full range of gypsum wallboard products, including LiftLite ®, our lightweight product designed to be easier to lift and install, our Mold Defense ® line of products designed for enhanced protection against mold and mildew, and our Weather Defense ® line of moisture and mold-resistant exterior sheathing. To complement our wallboard business and to better serve our customers, we also operate a finishing products business that manufactures a comprehensive line of joint compounds at our plant in Silver Grove (Kentucky) and our joint compound plant in Chambly (Quebec). We provide superior customer service based on customer needs, consistently delivering high quality finished product and providing orders accurately with fast delivery times. Certain customers and markets have also favored the use of synthetic gypsum products, which we manufacture, versus natural gypsum products for the additional benefit of receiving Leadership in Energy and Environmental Design, or LEED, ratings to support environmentally responsible initiatives.

Our marketing and sales strategy consists of targeted direct sales efforts to existing and potential customers using an experienced sales force. We operate a single centralized customer-service call center. We also have a centralized logistics team for all of our operations that manages freight, storage and other distribution-related tasks. As is customary in the industry, we do not enter into long-term agreements with our customers. To encourage our customers to order our products and to increase their loyalty, we offer incentive programs, which provide for customer rebates that are triggered when specified sales volumes or net sales are reached. We generally bear the cost of delivering our finished products to our customers. We deliver by truck and, in the case of our Silver Grove and Palatka plants, by truck and rail. At each of our facilities, we have one or two carriers under contract that provide the majority of our shipping services.

We regularly achieve high rankings in customer service surveys and have received numerous "supplier of the year" awards from major customers. We consistently provide a high level of service to our customers through a combination of product availability and quality, on-time delivery, and timely and accurate invoicing. We sell our products through several different channels, including gypsum wallboard distributors, buying groups, wholesalers and mass merchants. Lowes, our largest customer, represented 13%, 14% and 15% of our net sales in the years ended December 31, 2018, 2017 and 2016, respectively. Foundation Building Materials represented 11% of our net sales in the years ended December 31, 2018 and 2017. L&W represented 10% of our net sales in the year ended December 31, 2018. No other customer represented more than 10% of our net sales in any of the years ended December 31, 2018, 2017 and 2016.

Manufacturing and Distribution

We operate highly efficient and automated manufacturing facilities in Silver Grove (Kentucky), Palatka (Florida) and Buchanan (New York) that produce a full range of gypsum wallboard products for our diversified customer base. We are committed to operational excellence and have invested heavily in our facilities, which we believe are among the newest, largest and most efficient wallboard plants in North America.

Gypsum wallboard is manufactured by mixing finely ground, partially dehydrated, or calcined, gypsum with water and forming the resulting slurry between two layers of continuous paperboard liner. It is allowed to harden briefly before being dried and cut to specification.

The manufacturing process is tightly controlled to achieve uniformity and desired board characteristics. Additives can be introduced to the slurry at the beginning of the process to give the resulting board enhanced properties. For instance, fiberglass can be added to enhance fire resistance or fungicides added to defend against mold. Additives are also used to control the manufacturing process and to counteract impurities occurring in the gypsum.

Gypsum can be either natural or synthetic. We use predominantly synthetic gypsum in our wallboard products, which we believe enhances our manufacturing quality and consistency, reduces production costs and provides important environmental benefits relative to natural gypsum. Synthetic gypsum is principally produced through a process known as flue gas desulfurization, or FGD. The FGD process typically takes place in scrubbing towers in coal-fired power plants. Our strategically positioned plants provide us with two key benefits: cost-effective access to our primary supplies of synthetic gypsum, which reduces our inbound transportation costs, and close proximity to many major metropolitan areas, which decreases our product delivery costs. Natural gypsum is a mineral mined in select areas throughout North America.

We purchase the majority of our synthetic gypsum supplies from coal-fired power plants with operations near, or easily accessible to, our wallboard facilities. To secure our primary supplies of synthetic gypsum, we have entered into long-term agreements with major suppliers with remaining terms (with extensions) ranging from approximately 10 years to 31 years. Our supply contracts typically provide for a base price with escalation provisions. We supplement our long term gypsum supply agreements with a variety of shorter term agreements, including spot market purchases and short term agreements with terms that extend for several years. Each of our plants obtains its gypsum from multiple sources. Our current supply agreements fulfill our current gypsum requirements. We believe that we would be able to purchase additional synthetic gypsum on the open market to the extent any production increases require it.

Our Seven Hills joint venture with WestRock Company, or WestRock, provides us with a reliable source of high-quality paperboard liner required for consistent wallboard production. We therefore have a long-term supply agreement that fulfills most of our current paper requirements. The Seven Hills joint venture has the capacity to supply us with approximately 80% of our paper needs at our full capacity.

Our manufacturing processes utilize significant amounts of natural gas and electricity. We purchase both natural gas and electricity on the open market. 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 one year. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk, for additional information regarding our financial exposures.

Our wallboard facilities are located in close proximity to major metropolitan areas in the eastern United States and eastern Canada, lowering both our inbound and outbound transportation costs and facilitating timely delivery to our customers. Each of our facilities allows us to offer same-day delivery service to many of our key metropolitan markets, including our Buchanan plant, which provides same-day delivery service to customers in the New York City tri-state area, which management believes provides us with a competitive advantage.

Table of Contents

Competition

The market for our wallboard and finishing products is highly competitive. We believe the key competitive factors in the market include:

- price;
- service;
- product quality; and
- product range.

There are currently seven gypsum wallboard manufacturers in the United States: USG, National Gypsum, Georgia-Pacific, CertainTeed, Eagle Materials, Pabco Gypsum, and us. Of these, we believe only six compete in the eastern United States. Gypsum wallboard has a high weight-to-value ratio, so it is advantageous to both source raw materials and produce gypsum wallboard in close proximity to where it is used. If manufacturing facilities are not located in close proximity to end markets, transportation costs can render the cost of finished goods uncompetitive compared to locally manufactured wallboard. Accordingly, competition in the industry occurs principally on a regional basis. Each competitive geographic region has a different group of manufacturers and customers and, as a result, a different competitive landscape. A number of our competitors are larger than us and may have greater resources or lower costs of capital than we do.

Although gypsum wallboard remains a regional industry, consolidation in the industry has resulted in increased market share for certain industry participants, including us. In 1997 there were thirteen gypsum wallboard producers, compared to seven in 2018. This consolidation has occurred almost entirely amongst the smaller producers. Since 1997, our national market share has grown from 3% to 11%.

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.

Employees

We had 645 employees as of December 31, 2018. Some of our employees at our Buchanan wallboard plant, representing approximately 12% of our workforce, are represented by two unions. The collective bargaining agreements with these two unions will expire on November 30, 2020. Our remaining employees are non-union. We believe our relationships with both our union and non-union employees are good.

Intellectual Property

We maintain many trademarks for our wallboard and finishing products, including, among others, LiftLite ®, Firecheck ®, Mold Defense ® and Rapid Coat ®. We also rely on patents and trade secret law to protect some of our manufacturing processes. Loss of one or more of our patents, trademarks or licenses would not have a material impact on our business or our ability to continue our operations in the foreseeable future.

Environmental Matters

Our wallboard and finishing products businesses are subject to numerous federal, state and local laws and regulations pertaining to health, safety and the environment. Some of these laws, such as the federal Clean Air Act and the federal Clean Water Act (and analogous state laws), impose environmental permitting obligations and govern the nature and amount of emissions that may be generated. Some laws, such as the Federal Superfund law (and analogous state laws), impose obligations to clean up or remediate spills of hazardous materials into the environment. Some laws, such as the federal Resource Conservation and Recovery Act, or RCRA, (and analogous state laws), impose obligations on us with respect to the management of waste products. None of our operations are the subject of any material local, state or federal environmental proceedings or inquiries. We do not, and have not, used asbestos in any of our products.

Our manufacturing processes for wallboard use a significant amount of energy, especially natural gas. Increased regulation of energy use to address the possible emission of greenhouse gases and climate change could materially increase our manufacturing costs. Enactment of new climate control legislation or other regulatory initiatives by the U.S. Congress or various states, or the adoption of additional regulations by the EPA and analogous state or Canadian governmental agencies that restrict emissions of greenhouse gases in areas in which we conduct business, could have a material adverse effect on our business, financial condition and results of operations. From time to time, legislation has been introduced proposing a "carbon tax" on energy use or establishing a so-called "cap and trade" system. Such legislation would likely increase the cost of energy

6

Table of Contents

and therefore could materially increase our manufacturing costs. See Risk Factors for information regarding the possible effects that compliance with environmental laws and regulations may have on our business and operating results.

Segment Information

See Note 17 to the Consolidated Financial Statements for net sales and other financial information pertaining to our Wallboard segment.

Available Information

Our website address is www.continental-bp.com. Information contained on our website or connected thereto does not constitute a part of this Annual Report on Form 10-K or any other filing we make with the Securities and Exchange Commission, or the SEC. We make available free of charge on our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements on Schedule 14A and amendments or supplements to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practical after we file such material with, or furnish it to, the SEC. The SEC also maintains an Internet website that contains reports, and other information regarding issuers that file electronically with the SEC at www.sec.gov. We also make available free of charge on our website our Principles of Corporate Governance, our Code of Ethics and Business Conduct, and the Charters of our Audit Committee, Nominating and Corporate Governance Committee, and Compensation Committee of our Board of Directors.

Table of Contents

Item 1A. Risk Factors

Our business, financial condition and results of operations are subject to various risks and uncertainties. We have described below significant factors that may adversely affect our business, financial condition and results of operations as well as our industry. You should carefully consider these factors, together with all of the other information in this Annual Report on Form 10-K and in other documents that we file with the SEC, before making any investment decision about our securities. Adverse developments or changes, including those related to any of the factors discussed below, could materially and adversely affect our business, financial condition and results of operations.

Risks Relating to Our Business and Industry

Demand for our products is closely related to construction activity, particularly new residential construction, which is cyclical.

Historically, demand for the products that we manufacture has been closely correlated with new residential construction in the United States and Canada and, to a lesser extent, commercial construction and R&R activity, all of which are cyclical in nature. Accordingly, our business is also cyclical and subject to changes in general economic conditions, and we may incur losses during cyclical downturns. For example, from 2008 to 2014, new residential construction activities were at their lowest levels since 1949 and, correspondingly, demand for the products that we manufacture was weak, and prices fell significantly across the industry. Although conditions have improved in recent years, there is uncertainty regarding the extent and sustainability of the current expansion in such construction activity and resulting product demand levels. Demand for new residential construction is influenced by mortgage availability and interest rates, employment levels, household formation rates, domestic population growth, immigration rates, residential vacancy and foreclosure rates, demand for second homes, existing home prices, rental prices, housing inventory levels, consumer confidence, seasonal weather factors and other general economic factors. Our growth prospects depend, to a significant extent, on the degree to which conditions in the residential construction market continue to improve in the future. We cannot control the foregoing and, as a result, our business, financial condition and results of operations may vary materially in response to market conditions and changes in the supply and demand balance for our primary products.

If our coal-fired power plant synthetic gypsum suppliers convert to natural gas or reduce or cease operations, our supply of synthetic gypsum could be constrained and our business, financial condition and results of operations may be materially and adversely affected.

Most of the gypsum used in our plants is synthetic gypsum. Most synthetic gypsum is a coal-combustion residual, resulting from flue gas desulfurization, carried out by electric generation plants burning coal as a fuel, although other industrial activities can also produce synthetic gypsum. The suppliers of synthetic gypsum are primarily power companies. As a result of the increase in coal price relative to natural gas and other reasons, some power companies have ceased operations or reduced power generation at certain high cost coal fired plants or at plants that are not compliant with current or anticipated environmental laws or have converted such plants to using natural gas instead of coal for their electric generation needs. On September 28, 2017, Seminole Electric Cooperative, Inc. announced plans to remove one of its two coal fired electrical generating units located at a plant that currently supplies our Palatka, Florida plant with synthetic gypsum, and to build a natural gas fired unit at its plant, effective approximately five years from the date of the announcement and there can be no assurances we will be able to obtain alternative supplies of gypsum to replace what we currently source from Seminole at a cost we consider acceptable. Additionally, existing or future changes in environmental regulations could make it more difficult or costly for power providers or industrial plants to burn coal. In the event any of the power companies with which we have synthetic gypsum supply agreements, for these or other reasons, reduce their power generation, convert to using natural gas instead of coal or cease operations completely, our access to synthetic gypsum may be constrained or the cost to obtain gypsum could increase. We could incur substantial costs in connection with any significant reduction in the availability of synthetic gypsum, including costs to install equipment capable of processing natural gypsum and costs to substitute natural gypsum for synthetic gypsum, which could have an adverse effect on our business, financial condition and results of operations. In that event, there can be no assurance that we could find alternative sources of synthetic gypsum in reasonable quantities or at reasonable prices.

Significant changes in the cost and availability of transportation could adversely affect our business, financial condition and results of operations.

Because manufacturers are responsible for delivering wallboard to their customers in our industry, transportation costs associated with the delivery of our wallboard products are a significant portion of our variable costs. Increases in the cost of fuel or energy can result in increases in the cost of transportation, which could materially and adversely affect our operating profits. In recent years there has been a shortage of truck drivers, which has led to higher trucker salaries and higher freight rates and greater difficulty securing the trucking needed to service our customers. Reductions in the availability or increases in

Table of Contents

the costs of certain modes of transportation, such as trucking or rail, could limit our ability to deliver our products in a cost-effective manner or at all and therefore materially and adversely affect our operating profits.

The competitive labor market has resulted in high employee turnover, which may affect performance, and our business, financial condition and results of operations may be materially and adversely affected.

In recent years the competitive labor market has resulted in relatively high employee turnover at certain of our plants. The higher employee turnover may result in lower plant performance, a higher likelihood of us being unable to supply customer demand, overall higher labor costs and other disruptions, any of which could have a material adverse effect on our business, financial condition and results of operations.

We are reliant on WestRock for paper and we may require additional supplies of paper if our current supply is disrupted or our utilization increases.

We currently purchase most of our paperboard liner from the Seven Hills joint venture with WestRock, and purchase the balance on the open market. While the joint venture has the capacity to supply us with approximately 80% of our paper needs at our full capacity and most of our needs at current capacity, supply disruptions or additional paper demand that cannot be fulfilled on the open market could adversely affect our business, financial condition and results of operations. Since we only have one major supplier of paper, our risk of supply disruption may be greater than that of some of our competitors. Paper is a significant component of our variable costs. To the extent we are required to purchase additional paper on the open market, such paper costs would be subject to market conditions and could increase, which could have a negative impact on our business, financial condition and results of operations.

Certain of our customers have significant buying power, which may materially and adversely affect our business, financial condition and results of operations.

Some of our customers are large companies with significant buying power. In addition, consolidation currently taking place in our distribution channel could enhance the ability of these customers to seek more favorable terms, including pricing, for the products they purchase from us. Accordingly, our ability to maintain or raise prices in the future may be limited, including during periods of raw material and other cost increases. If we are forced to reduce prices or to maintain prices during periods of increased costs, or if we lose customers because of pricing or other methods of competition, our business, financial condition and results of operations may be materially and adversely affected.

We do not have long-term contracts with our customers, and our sales volume could be reduced if our customers switch some or all of their business with us to other suppliers.

As is customary in the industry, we do not enter into long-term contracts with our customers. Our customers may choose to stop or reduce purchases of our products at any time in the future. A significant loss of our customers or a significant reduction in their purchases could have a material negative impact on our sales volume and business, or cause us to reduce our prices, any of which could have a material adverse effect on our business, financial condition and results of operations.

The loss of sales to any significant customer or a significant group of customers could have a material adverse effect on our business, financial condition and results of operations.

For the years ended December 31, 2018, 2017 and 2016, Lowe's accounted for 13%, 14% and 15% of our net sales, respectively. Foundation Building Materials accounted for 11% of our net sales in each of December 31, 2018 and 2017. L&W accounted for 10% of our net sales in the year ended December 31, 2018. If any of these or other significant customers or a significant group of customers reduces, delays or cancels a substantial number of orders, our business, financial condition and results of operations may be materially and adversely affected, particularly for the period in which the reduction, delay or cancellation occurs and also possibly for subsequent periods.

Because we do not have binding long-term purchasing agreements with Lowe's, Foundation Building Materials, or L&W, there can be no assurance that they will continue to purchase products from us at current levels or at all.

If we cannot effectively compete in our markets, our business, financial condition and results of operations may be materially and adversely affected.

Many of the wallboard products sold by our competitors are close substitutes for our products and there is excess wallboard production capacity in the United States. Because of these and other factors, competition among manufacturers is based in large part on price, as well as service, quality and range of products. Actions of our competitors, or the entry of new competitors into our markets, could lead to lower pricing in an effort to maintain our customer base and could also lead to lower sales volumes. At times, the price for any one or more of the products that we produce may fall below our production

Table of Contents

costs, requiring us to either incur losses on product sales or cease production of one or more of our product lines or at one or more of our manufacturing facilities. There can be no assurance that prices for products sold by us will not decline in the future or that such declines will not have a material adverse effect on our business, financial condition and results of operations.

Some of our competitors are larger companies and, therefore, have access to greater financial and other resources than we do. These resources may afford those competitors greater purchasing power, increased financial flexibility and more capital resources for expansion and improvement, which may enable those competitors to compete more effectively than we can. If we fail to compete effectively, we could suffer a loss of sales.

A material disruption at one of our manufacturing facilities or at one of our suppliers' facilities could prevent us from meeting customer demand, reduce our sales and/or negatively affect our financial results.

Any of our manufacturing facilities, or any of our machines within an otherwise operational facility, could cease operations unexpectedly due to a number of events, including but not limited to:

- major equipment failure;
- fires, floods, earthquakes, hurricanes, environmental incidents or other catastrophes;
- utility and transportation infrastructure disruptions;
- labor difficulties;
- other operational problems; or
- war, acts of terrorism or other unexpected events, including cyber security attacks.

Any downtime or facility damage could prevent us from meeting customer demand for our products or require us to make unplanned capital expenditures. If our machines or facilities were to incur significant downtime, our ability to satisfy customer requirements could be impaired, resulting in decreased customer satisfaction and lower sales and net income. During periods of downtime, customers may choose to source from our competitors and may not return to purchase product from us when operations commence again. Because we operate at a limited number of facilities, the effects of any particular shutdown or facility damage could be significant to our operations as a whole and pronounced in the markets near the facility affected.

In addition, our suppliers of synthetic gypsum and paperboard liner are subject to the manufacturing facility disruption risks noted above. Our suppliers' inability to produce the necessary raw materials for our manufacturing processes may adversely impact our business, financial condition and results of operations. Because we rely on a limited number of suppliers, a disruption at any one of our suppliers' facilities could also have a significant impact on our business, financial condition and results of operations.

If the cost of energy or other raw materials increases, our cost of goods sold will increase and our business, financial condition and results of operations may be materially and adversely affected.

Our manufacturing processes use substantial amounts of natural gas and electricity, which are major components of our cost of goods sold. Energy costs are affected by various market factors, including the availability of supplies of particular forms of energy, energy prices and local and national regulatory decisions. Prices for natural gas and electrical power have been volatile in recent years. There may be substantial increases in the price of energy in the future, which may be pronounced if there are dislocations in the energy markets due to political instability or other unforeseeable events. Our policy, which is designed to decrease volatility, is to hedge no more than 50% of our historical gas usage and to maintain hedges for no more than one year. We have entered into a contract to purchase most of our electricity requirements at our Buchanan, New York plant at fixed rates. We purchase our other electricity requirements at market rates and we currently do not hedge our electricity purchases. Consequently, our business, financial condition and results of operations may be adversely impacted by increases in price more than competitors utilizing a more comprehensive hedging strategy, particularly in respect of electricity purchases. There can be no assurances we will continue to utilize this hedging strategy in the future or whether it or any other strategy we implement, including not hedging at all, will be successful.

We also use substantial quantities of other raw materials including gypsum, paperboard liner, starch and other manufacturing additives. The cost of certain of these raw materials has been volatile, and the cost of delivered gypsum has risen in recent years and is expected to continue to rise. Because we do not hedge any of these costs, significant increases in the cost or changes in the availability of one or more of these raw materials could materially and adversely affect our business, financial condition and results of operations.

Table of Contents

We and our suppliers are subject to environmental and safety laws and regulations and these laws and regulations may change. These laws and regulations could cause us or our suppliers to make modifications to how we or they manufacture and price our or their products. These laws could also require that we or our suppliers make significant capital investments or otherwise increase our or their costs.

We and our suppliers are subject to federal, state, local and foreign laws and regulations governing the protection of the environment and occupational health and safety, including those governing air emissions, wastewater discharges, the management, disposal and cleanup of hazardous materials and wastes and the health and safety of our employees. We are also required to obtain permits from governmental authorities for certain operations, and if we expand or modify our facilities, or if environmental laws change, we could be required to obtain new or modified permits. If we were to fail to comply with these laws, regulations or permits, we could incur fines, penalties or other sanctions. In addition, we could be held responsible for costs and damages arising from claims or liabilities under these laws and regulations, such as with respect to any contamination at our facilities or at third-party waste disposal sites. We cannot completely eliminate the risk of contamination or injury resulting from hazardous materials. Environmental laws and regulations tend to become more stringent over time, and we could incur material additional expenses relating to compliance with future environmental laws.

For example, our manufacturing processes for wallboard use a significant amount of energy, especially natural gas. Increased regulation of energy use to address the possible emission of greenhouse gases and climate change could materially increase our manufacturing costs. Enactment of new climate control legislation or other regulatory initiatives by the U.S. Congress or various states, or the adoption of additional regulations by the EPA and analogous state or Canadian governmental agencies that restrict emissions of greenhouse gases in areas in which we conduct business, could have a material adverse effect on our business, financial condition and results of operations. From time to time, legislation has been introduced proposing a "carbon tax" on energy use or establishing a so-called "cap and trade" system. Such legislation would likely increase the cost of energy and therefore could materially increase our manufacturing costs.

Environmental regulatory changes or changes in methods used to comply with environmental regulations could adversely affect our suppliers, and therefore the price and availability of synthetic gypsum. If regulatory changes or changes in methods used to comply with environmental regulations adversely affect our suppliers or the price and availability of synthetic gypsum, our business, financial condition and results of operations may be materially and adversely affected.

It is difficult to accurately predict whether or when currently proposed or additional laws and regulations regarding emissions and other environmental concerns will be enacted or what capital expenditures might be required as a result of them. Stricter regulation of emissions might require us or our suppliers to install emissions control or other equipment at some or all of our or their manufacturing facilities, requiring significant additional capital investments. Any such laws, regulations or regulatory changes could result in higher costs that could have a material and adverse effect on our business, financial condition or results of operations.

Our financial results may be affected by various legal and regulatory proceedings.

We are subject to litigation and regulatory proceedings in the normal course of business and could become subject to additional claims in the future, some of which could be material. The outcome of legal proceedings may differ from our expectations because the outcomes of litigation and similar disputes are often difficult to predict reliably. Various factors and developments could lead us to make changes in initial estimates of liabilities and related insurance receivables, where applicable, or make additional estimates, including new or modified estimates as a result of a judicial ruling or judgment, a settlement, regulatory developments or changes in applicable law. A future adverse ruling, settlement or unfavorable development could result in charges that could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to attract and retain key management employees.

Our key management personnel are important to our success. Our ability to retain our key management personnel or to attract suitable replacements should any members of our management team leave is dependent on the competitive nature of the employment market. Additionally, because of our relatively flat organizational structure, there is a relatively limited pool of internal candidates for key management positions. The loss of services from key management personnel or a limitation in their availability could materially and adversely impact our business, financial condition and results of operations.

Table of Contents

We are subject to cybersecurity risks that could adversely affect us, and we may incur increasing costs in an effort to minimize those risks.

Our business relies on systems, including those of third parties with whom we do business. Our systems and those of our third parties we work with have been and may in the future be subjected to computer viruses or other malicious codes, unauthorized access attempts and cyber-attacks that include phishing-attacks, ransomware, malware, and hacking. Although no incidents to date have been material, breach of our systems or those of third parties with whom we do business could compromise our confidential information and that of our customers or employees, impede or interrupt our business operations, and may result in other negative consequences, including remediation costs, loss of revenue, litigation, significant legal and financial exposure, loss of intellectual property and reputational damage.

As cyber-attacks become more sophisticated generally, and as we implement changes giving customers and suppliers greater electronic access to our systems, we may be required to incur additional costs to strengthen our systems from outside intrusions and/or maintain insurance coverage related to the threat of such attacks. Further, the regulatory environment related to information security and privacy is increasingly rigorous, with new and constantly changing requirements applicable to our business and those of third parties with whom we do business, and compliance with those requirements could result in additional costs. Despite our efforts, we may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber-attacks on our systems or those of the third parties with whom we do business. While we have implemented administrative and technical controls such as malware and ransomware defense software, regular patching of our software and training of our employees on cybersecurity risk awareness, and taken other preventive actions to reduce the risk of cyber incidents, these measures, and other measures we may take in the future, can be expensive, and may be insufficient, circumvented, or may become ineffective. Any of the foregoing risks and increased costs could have a material adverse effect on our business, financial condition and results of operations.

We may experience disruptions in our information technology system and computer networks due to catastrophic events or data security breaches.

We use information technology systems to collect, store and transmit the data needed to operate our business. We may be subject to information technology system failures and network disruptions. These may be caused by delays or disruptions due to system updates, natural disasters, malicious cyber attacks, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins or similar events or disruptions. We may in the future add applications to operate more efficiently. Predictions regarding benefits resulting from the implementation of these projects are subject to uncertainties. We may not be able to successfully implement the projects without experiencing difficulties. In addition, any expected benefits of implementing projects might not be realized or the costs of implementation might outweigh the benefits realized.

A disruption in our information technology systems due to a catastrophic event or security breach could interrupt or damage our operations. In addition, we could be subject to reputational harm or liability if confidential customer information is misappropriated from our information technology systems. Despite our security measures and business continuity plans, these systems could be vulnerable to disruption, and any such disruption could negatively affect our business, financial condition and results of operations.

Labor disruptions or cost increases could adversely affect our business, financial condition and results of operations.

A work stoppage at one of our facilities could cause us to lose sales, incur increased costs and adversely affect our ability to meet customers' needs. A plant shutdown or a substantial modification to employment terms could negatively impact us. Approximately 12% of our 645 employees were unionized as of December 31, 2018. The current collective bargaining agreements with our unionized employees at our Buchanan plant expire on November 30, 2020. We cannot assure you that we will be able to negotiate new collective bargaining agreements on the same or similar terms as those in the current agreements, or at all, without production interruptions, including labor stoppages. In the past, we have experienced union organizing efforts directed at our non-union employees. We may also experience labor cost increases or disruptions in our non-union facilities in circumstances in which we must compete for employees with necessary skills and experience or in tight labor markets. Any such cost increases, work stoppages or disruptions could limit production, sales volumes and profitability and have a material adverse effect on our business, financial condition, and results of operations.

Our business can be seasonal in nature, and this may cause our quarterly results to vary.

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. As a result, our quarterly results have varied in the past and may vary from quarter to quarter in the future. Such variations could have a negative impact on the price of our

Table of Contents

common stock. Additionally, because our business is seasonal, unfavorable weather conditions during peak construction periods could have an adverse effect on our business, financial condition and results of operations.

Risks Relating to our Indebtedness

Our current indebtedness, and any future indebtedness we may incur, may limit our operational and financing flexibility and negatively impact our business, financial condition and results of operations.

Our subsidiary, Continental Building Products Operating Company, LLC, or OpCo, is a party to an amended and restated credit agreement that was entered into in August of 2016 or the Amended and Restated Credit Agreement that provided for a $275.0 million senior secured term loan facility, or the Term Loan, and a $75.0 million senior secured revolving credit facility, or the Revolver. As of December 31, 2018, $252.7 million was outstanding under the Term Loan and no loans were outstanding under the Revolver. We also had $16.2 million in loans outstanding in connection with industrial revenue bond financings that we completed relating to our Silver Grove and Palatka plant, or the Industrial Revenue Bonds. We may incur substantial additional debt in the future. The Amended and Restated Credit Agreement, the Industrial Revenue Bonds, and other debt instruments we may enter into in the future, may have important consequences, including the following:

- our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes may be impaired;
- the requirement that we use a significant portion of our cash flows from operations to pay interest on any outstanding indebtedness, which would reduce the funds available to us for operations and other purposes; and
- our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate may be limited.

We expect that we will depend primarily on cash generated by our operations for funds to pay our expenses and any amounts due under our credit facilities and any other indebtedness we may incur. Our ability to make these payments depends on our future performance, which will be affected by financial, business, economic and other factors, many of which we cannot control. Our business may not generate sufficient cash flows from operations in the future and our currently anticipated growth in revenues and cash flows may not be realized, either or both of which could result in our being unable to repay indebtedness or to fund other liquidity needs. If we do not have enough money, we may be required to refinance all or part of our then existing debt, sell assets or borrow more money, in each case on terms that may not be acceptable to us. In addition, the terms of existing or future debt agreements, including our existing credit facility, may restrict us from adopting any of these alternatives. Our ability to recapitalize and incur additional debt in the future could also delay or prevent a change in control of our company, make some transactions more difficult and impose additional financial or other covenants on us. In addition, any significant levels of indebtedness in the future could place us at a competitive disadvantage compared to our competitors that may have proportionately less debt and could make us more vulnerable to economic downturns and adverse developments in our business, financial condition and results of operations. Our indebtedness and any inability to pay our debt obligations as they come due or inability to incur additional debt could adversely affect our business, financial condition and results of operations.

The terms of our indebtedness impose operating and financial restrictions on us.

The Amended and Restated Credit Agreement and the Industrial Revenue Bonds contain a number of significant restrictions and covenants that generally limit our ability to, among other things:

- incur or guarantee additional debt;
- create or incur certain liens;
- make certain loan advances;
- engage in acquisitions, consolidations, mergers, changes of control and sales of certain assets;
- pay dividends and make other distributions;
- make optional payments and modifications of junior debt instruments;
- engage in certain affiliate transactions, sales and leasebacks and pledge transactions;
- make certain restricted subsidiary distributions;

Table of Contents

- engage in certain lines of business or activities; and
- modify certain agreements.

The Amended and Restated Credit Agreement and the Industrial Revenue Bonds limit our ability to engage in these types of transactions even if we believe that a specific transaction would contribute to our future growth or improve our operating results. The Amended and Restated Credit Agreement and the Industrial Revenue Bonds also require OpCo and its restricted subsidiaries to maintain a specific total leverage ratio in certain circumstances. See Note 9 to the Consolidated Financial Statements for more information regarding the terms of the Amended and Restated Credit Agreement and the Industrial Revenue Bonds.

Our ability to comply with these provisions may be affected by events beyond our control. A breach of any of these provisions or the inability to comply with required financial ratios in the Amended and Restated Credit Agreement and the Industrial Revenue Bonds could result in a default, in which case the lenders will have the right to declare all borrowings to be immediately due and payable. If we are unable to repay all borrowings when due, whether at maturity or if declared due and payable following a default, the lenders would have the right to proceed against the collateral granted to secure the indebtedness. If we breach these covenants or fail to comply with the terms of the Amended and Restated Credit Agreement and the Industrial Revenue Bonds, and the lenders accelerate the amounts outstanding thereunder, our business, financial condition and results of operations would be adversely affected.

Risks Related to the Ownership of Our Common Stock

Our future operating results may fluctuate significantly and our current operating results may not be a good indication of our future performance. Fluctuations in our quarterly financial results could affect our stock price in the future.

Our revenues and operating results have historically varied from period to period and we expect that they will continue to do so as a result of a number of factors, many of which are outside of our control, including the cyclicality and seasonality of our industry. If our quarterly financial results fail to meet the expectations of securities analysts and investors, our stock price could be negatively affected. Any volatility in our quarterly financial results may make it more difficult for us to raise capital in the future or pursue acquisitions that involve issuances of our stock. Our operating results for prior periods may not be effective predictors of future performance.

We have no present intention to pay dividends on our common stock.

We have no present intention to pay cash dividends on our common stock. Any determination to pay dividends to holders of our common stock will be at the discretion of our board of directors and will depend upon many factors, including our financial condition, results of operations, projections, liquidity, earnings, legal requirements, restrictions in our debt agreements and other factors that our board of directors deems relevant. Accordingly, you may need to sell your shares of our common stock to realize a return on your investment, and you may not be able to sell your shares at or above the price you paid for them.

If securities or industry analysts do not continue to publish research or reports about our business, publish inaccurate or unfavorable research about our business or change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our common stock is influenced in part by the research and other reports that industry or securities analysts may publish about us or our business. We currently have research coverage by industry or financial analysts, but this coverage may not continue. If analysts do not continue coverage of us, the trading price of our stock would likely be negatively impacted. Even if analyst coverage continues, if one or more of the analysts who cover us downgrade our stock, or if analysts issue other unfavorable commentary or inaccurate research, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Our ability to raise capital in the future may be limited.

Our business and operations may consume resources faster than we anticipate. In the future, we may need to raise additional funds through the issuance of new equity securities, debt or a combination of both. Additional financing may not be available on favorable terms, or at all. If adequate funds are not available on acceptable terms, we may be unable to fund our capital requirements. If we issue new debt securities, the debt holders would have rights senior to common stockholders to make claims on our assets, and the terms of any debt could restrict our operations, including our ability to pay dividends on our common stock. If we issue additional equity securities, existing stockholders will experience dilution, and the new equity securities could have rights senior to those of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or

14

Table of Contents

nature of our future offerings. Thus, our stockholders bear the risk of any future securities offerings by us reducing the market price of our common stock and diluting their interest.

We are a holding company and depend on the cash flow of our subsidiaries.

We are a holding company with no material assets other than the equity interests of our subsidiaries. Our subsidiaries conduct substantially all of our operations and own substantially all of our assets and intellectual property. Consequently, our cash flow and our ability to meet our obligations and pay any future dividends to our stockholders depends upon the cash flow of our subsidiaries and the payment of funds by our subsidiaries directly or indirectly to us in the form of dividends, distributions and other payments. Any inability on the part of our subsidiaries to make payments to us could have a material adverse effect on our business, financial condition and results of operations.

Provisions of our charter documents, Delaware law and other documents could discourage, delay or prevent a merger or acquisition at a premium price.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. For example, our certificate of incorporation and bylaws include provisions that:

- permit us to issue, without stockholder approval, preferred stock in one or more series and, with respect to each series, fix the number of shares constituting the series and the designation of the series, the voting powers, if any, of the shares of the series and the preferences and other special rights, if any, and any qualifications, limitations or restrictions, of the shares of the series;
- prevent stockholders from calling special meetings;
- prevent stockholders from acting by written consent;
- limit the ability of stockholders to amend our certificate of incorporation and bylaws;
- require advance notice for nominations for election to the board of directors and for stockholder proposals;
- do not permit cumulative voting in the election of our directors, which means that the holders of a majority of our common stock may elect all of the directors standing for election; and
- establish a classified board of directors with staggered three-year terms through the date of the 2020 annual meeting

These provisions may discourage, delay or prevent a merger or acquisition of our company, including a transaction in which the acquiror may offer a premium price for our common stock.

We are also subject to Section 203 of the Delaware General Corporation Law, or the DGCL, which, subject to certain exceptions, prohibits us from engaging in any business combination with any interested stockholder, as defined in that section, for a period of three years following the date on which that stockholder became an interested stockholder. In addition, our equity incentive plan permits vesting of stock options and restricted stock, and payments to be made to the employees thereunder in certain circumstances, in connection with a change of control of our company, which could discourage, delay or prevent a merger or acquisition at a premium price. In addition, our existing indebtedness, and other debt instruments we may enter into in the future, may include provisions entitling the lenders to demand immediate repayment of all borrowings upon the occurrence of certain change of control events relating to our company, which also could discourage, delay or prevent a business combination transaction.

Our certificate of incorporation includes a forum selection clause, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.

Our certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for any stockholder (including any beneficial owner) to bring (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed to us or to our stockholders by any of our directors, officers, or employees, (iii) any action asserting a claim arising pursuant to any provision of the DGCL or our certificate of incorporation or bylaws, or (iv) any action asserting a claim governed by the internal affairs doctrine, will be a state court located within the State of Delaware (or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware); in all cases subject to the court's having personal jurisdiction over the indispensable parties named as defendants. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock is deemed to have notice of and consented to the foregoing provisions. This forum selection provision in our

15

Table of Contents

certificate of incorporation may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us. It is also possible that, notwithstanding the forum selection clause included in our certificate of incorporation, a court could rule that such a provision is inapplicable or unenforceable.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own the real property on which each of our wallboard manufacturing facilities and joint compound finishing products facilities are located. The address of our corporate headquarters is currently 12950 Worldgate Drive, Suite 700, Herndon, VA 20170, in approximately 19,500 square feet of leased office space.

Wallboard Manufacturing Facilities

We believe that our wallboard facilities are some of the largest and most modern in North America, resulting in productivity levels among the highest in the industry. Our facilities operate at production speeds that are significantly faster than the industry average. Each of our facilities is able to produce a full range of our wallboard products. In 2018, our utilization rate across all of our wallboard facilities was approximately 83%. Each of our wallboard manufacturing facilities is subject to a mortgage under the Amended and Restated Credit Agreement. Each of our wallboard manufacturing facilities is described in further detail below.

Silver Grove

Our Silver Grove facility is located on the Ohio River in the township of Silver Grove, Kentucky, just outside of Cincinnati, Ohio. The design capacity for Silver Grove is 1.8 bsf (billion square feet) per year, which we believe makes it the largest wallboard facility in North America.

Palatka

Our Palatka facility is located approximately 50 miles southwest of Jacksonville, Florida, near the I-95 corridor. The design capacity of the Palatka facility is 0.9 bsf per year.

Buchanan

The Buchanan facility is located on the Hudson River, approximately 40 miles north of Manhattan and has a capacity of 0.7 bsf per year.

Finishing Products

We operate two joint compound plants as part of our finishing products business. The Chambly plant is located approximately 20 miles outside of Montreal, and the Silver Grove joint compound plant is within our Silver Grove wallboard facility just outside of Cincinnati, Ohio.

We believe that our existing properties are adequate for our current requirements and our operations in the foreseeable future.

Item 3. Legal Proceedings

From time to time we have been, and may in the future become involved in, litigation or other legal proceedings relating to claims arising in the normal course of business. In the opinion of management, there are no pending or threatened legal proceedings which would reasonably be expected to have a material adverse effect on our business or results of operations. We may become involved in material legal proceedings in the future.

See Note 16 to the Consolidated Financial Statements for a description of certain legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the New York Stock Exchange, or NYSE, under the symbol CBPX. As of February 21, 2019, there were 3 holders of record of our common stock.

We have not declared or paid cash dividends on our common stock since the Initial Public Offering and we have no present intention to pay cash dividends on our common stock. Any determination to pay dividends to holders of our common stock will be at the discretion of our board of directors and will depend upon many factors, including our financial condition, results of operations, projections, liquidity, earnings, legal requirements, restrictions in our debt agreements and other factors that our board of directors deems relevant. Our Amended and Restated Credit Agreement and Industrial Revenue Bonds contain, and debt instruments that we enter into in the future may contain, covenants that place limitations on the amount of dividends we may pay. In addition, under Delaware law, our board of directors may declare dividends only to the extent of our surplus, which is defined as total assets at fair market value minus total liabilities, minus statutory capital, or, if there is no surplus, out of our net profits for the then current and immediately preceding year.

See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, for information regarding common stock authorized for issuance under equity compensation plans.

The information below represents the high and low sales prices per share of our common stock for the periods indicated below, as reported on the NYSE:

	Sales Prices Common Stock Voting	
	High	Low
	(per share)	
2018		
Fourth Quarter	$38.42	$24.13
Third Quarter	39.60	31.05
Second Quarter	32.75	25.70
First Quarter	31.00	25.51
2017		
Fourth Quarter	$28.55	$25.00
Third Quarter	26.20	21.00
Second Quarter	25.75	22.88
First Quarter	26.53	21.80

Table of Contents

The graph below compares the cumulative total shareholder return since inception with S&P Midcap 400 Index and the Dow Jones Building Materials & Fixtures Index. The graph assumes that the value of the investment in our common stock was $100 on February 5, 2014 and that all dividends were reinvested.

On August 3, 2016, we announced that the board of directors approved an expansion of our stock repurchase program, which was originally announced on November 4, 2015. The expansion increased the total amount of our common stock we are authorized to repurchase from $50.0 million to $100.0 million, at such times and prices as determined by management as market conditions warrant. The expanded authorization also extended the expiration date from December 31, 2016 to December 31, 2017.

Since the initial authorization, the Company announced expansions and extensions of its stock repurchase program. The most recent authorization on February 21, 2018 expanded the program to a total of $300 million and also extended the expiration date to December 31, 2019. See Note 11 to the Consolidated Financial Statements for additional information on the common stock repurchase activity during the years ended December 31, 2018, 2017 and 2016.

Common Stock Repurchase Activity During the Three Months Ended December 31, 2018

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of the Publicly Announced Plans or Programs	Maximum Dollar Value That May Yet Be Purchased Under the Plans or Programs
October 1 - October 31, 2018	241,384	$ 33.72	241,384	$ 161,113,311
November 1 - November 30, 2018	389,559	28.88	389,559	149,863,223
December 1 - December 31, 2018	698,478	27.03	698,478	130,985,613
Total	1,329,421	$ 28.79	1,329,421	

Table of Contents

Item 6. Selected Financial Data

The selected consolidated financial data presented below should be reviewed in conjunction with the audited consolidated financial statements and related notes and with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Selected Financial Data

	For the Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Results of Operations:					
Net sales	$528,060	$489,163	$461,375	$421,682	$424,502
Cost of goods sold	380,381	361,825	336,317	312,840	330,173
Gross profit	147,679	127,338	125,058	108,842	94,329
Selling and administrative	40,365	37,753	37,918	34,891	33,568
Long Term Incentive Plan funded by Lone Star	—	—	—	29,946	—
Operating income	107,314	89,585	87,140	44,005	60,761
Other expense, net	(678)	(1,196)	(5,963)	(751)	(5,644)
Interest expense, net	(10,269)	(11,788)	(13,590)	(16,432)	(29,069)
Income before losses from equity method investment and provision for income tax	96,367	76,601	67,587	26,822	26,048
Losses from equity method investment	(1,522)	(187)	(736)	(750)	(113)
Income before provision for income taxes	94,845	76,414	66,851	26,072	25,935
Provision for income taxes	(20,601)	(16,566)	(22,827)	(9,336)	(10,044)
Net income	74,244	59,848	44,024	16,736	15,891
Foreign currency translation adjustment	(1,391)	1,142	514	(3,099)	(1,939)
Net unrealized gains/(losses) on derivatives, net of tax	437	(382)	1,418	811	(867)
Other	—	—	—	7	—
Other comprehensive income	$73,290	$60,608	$45,956	$14,455	$13,085
Other financial data:					
Capital expenditures	$30,759	$22,042	$12,147	$10,029	$9,638
Period End Balances:					
Cash and cash equivalents	$102,633	$72,521	$51,536	$14,729	$15,627
Property, plant and equipment, net	288,368	294,003	307,838	326,407	353,652
Total assets	672,381	641,934	634,749	634,968	700,981
Long-term debt	261,886	263,610	264,620	286,543	294,616
Total liabilities	344,634	323,908	325,737	334,202	397,608
Total equity / net Parent investment	327,747	318,026	309,012	300,766	303,373

Table of Contents

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with the Company's audited consolidated financial statements and the related notes thereto for the fiscal years ended December 31, 2018, 2017 and 2016 included in Item 8. Financial Statements and Supplementary Data.

The discussion below and the other sections to which the Company has referred you contain management's comments on the Company's business strategy and outlook, and such discussions contain forward-looking statements. These forward-looking statements reflect the expectations, beliefs, plans and objectives of management about future financial performance and assumptions underlying management's judgment concerning the matters discussed, and accordingly, involve estimates, assumptions, judgments and uncertainties. The Company's actual results could differ materially from those discussed in the forward-looking statements and the discussion below is not necessarily indicative of future results. Factors that could cause or contribute to any differences include, but are not limited to, those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in Item 1A. Risk Factors and below in "Forward-Looking Statements."

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, or R&R, and commercial construction markets.

Our primary reportable segment is wallboard, which accounted for approximately 97.4%, 96.9% and 97.0% of our net sales for the years ended December 31, 2018, 2017 and 2016, respectively. We also operate other business activities, primarily the production of finishing products, which complement our full range of wallboard products. See Note 17 to the Consolidated Financial Statements for additional information on our reporting segments.

Factors Affecting Our Results

Market

For the new residential construction market, housing starts are a good indicator of demand for our gypsum products. Installation of our gypsum products into a single family home typically follows a housing start by 90 to 120 days. The R&R market includes renovation of both residential and nonresidential buildings. Many buyers begin to remodel an existing home within two years of purchase. The generally rising levels of existing home sales and home resale values in recent years have contributed to an increase in demand for our products from the R&R market. The commercial construction market encompasses areas such as office, retail, heath care, hospitality, educational and government projects. Demand for our products from commercial construction typically follows signing of construction contracts by 12 to 18 months.

The rate of growth in the new residential construction market, R&R market, and the new nonresidential construction market remains uncertain and will depend on broader economic circumstances, including employment, household formation, the home ownership rate, existing home price trends, availability of mortgage financing, interest rates, consumer confidence, job growth, availability of skilled labor and discretionary business investment.

Wallboard pricing can be impacted by overall industry capacity in the United States. Currently, there is excess wallboard production capacity industry-wide in the United States which can lead to downward pressure on wallboard prices. We estimate that industry capacity utilization was approximately 73% for the year ended December 31, 2018, compared to 76% and 75% for the years ended December 31, 2017 and 2016, respectively.

Market Outlook

Most forecasts continue to project growth in housing starts. Industry Analysts' forecasts for 2019 housing starts in the United States included in the February 2019 Blue Chip Economic Indicators are 1.21 million to 1.31 million units, based on the average of the bottom ten and top ten forecasts included in the report, respectively. This forecast range represents an increase and decrease of 4% over the preliminary estimate of 2018 housing starts of 1.26 million. We also expect that the R&R and new commercial construction markets will continue to experience moderate growth.

Industry shipments of gypsum wallboard in the United States as reported by the Gypsum Association were an estimated 24.9 billion square feet, 25.3 billion square feet and 24.7 billion square feet for the years ended December 31, 2018, 2017 and 2016, respectively. The 2018 numbers were down 1.7% when compared to 2017, and

2017 numbers were up approximately 2.4% from 2016. We estimate that industry shipments in the United States for all of 2019 will increase in percentage by low single digits from 24.9 billion square feet in 2018.

Table of Contents

Distribution and Manufacturing Costs

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, are the other key input costs. In total, manufacturing cash costs represented 64% of our costs of goods sold for the year ended December 31, 2018, compared to 65% and 63% for years ended December 31, 2017 and 2016, respectively. Depreciation and amortization represented 11% of our costs of goods sold for the year ended December 31, 2018, compared to 12% and 13% of our cost of goods sold for the years ended December, 2017 and 2016, respectively. Distribution costs to deliver products to our customers represented 25% of our costs of goods sold for the year ended December 31, 2018, compared to 23% and 24% for the years ended December 31, 2017 and 2016. Recently we have experienced increases in the costs of freight to deliver products to our customers as a result of capacity issues in the trucking industry. We expect to experience continued inflationary pressures on these costs for the foreseeable future.

Variable manufacturing costs, including inputs such as paper, gypsum, natural gas, and other raw materials, represented 68% of our manufacturing cash costs for the year ended December 31, 2018, compared to 70% and 68% for the years ended December 31, 2017 and 2016, respectively. Fixed production costs excluding depreciation and amortization consisted of labor, maintenance, and other costs that represented 32% of our manufacturing cash costs for the year ended December 31, 2018, compared to 30% and 32% for the years ended December 31, 2017 and 2016. Recently we have experienced increases in the costs of gypsum related to the need to source from additional suppliers at higher delivered costs. We expect to experience continued inflationary pressures on these costs for the foreseeable future.

We currently purchase most of our paperboard liner from Seven Hills, a joint venture between us and WestRock Company. Under the paper supply 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). Seven Hills has the capacity to supply us with approximately 80% of our paper needs at our full capacity utilization and most of our needs at current capacity utilization on market-based pricing terms. We also purchase additional paper on the spot market or under short term contracts at competitive prices. See Note 7 to the Consolidated Financial Statements for additional information regarding our investment in Seven Hills.

Results of Operations

Table M1: Results of Operations

	For the Year Ended December 31,		
	2018	2017	2016
	(dollars in thousands, except mill net)		
Net sales	$528,060	$489,163	$461,375
Cost of goods sold	380,381	361,825	336,317
Gross profit	147,679	127,338	125,058
Selling and administrative	40,365	37,753	37,918
Operating income	107,314	89,585	87,140
Other expense, net	(678)	(1,196)	(5,963)
Interest expense, net	(10,269)	(11,788)	(13,590)
Income before losses from equity method investment and provision for income taxes	96,367	76,601	67,587
Losses from equity method investment	(1,522)	(187)	(736)
Income before provision for income taxes	94,845	76,414	66,851
Provision for income taxes	(20,601)	(16,566)	(22,827)
Net income	$74,244	$59,848	$44,024
Other operating data:			
Capital expenditures and software purchased or developed	$30,759	$22,042	$12,147

Wallboard sales volume (million square feet)	2,736	2,666	2,560
Mill net sales price (1)	$153.83	$146.92	$143.83

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

21

Table of Contents

Net Sales - 2018 vs. 2017. Net sales increased by $38.9 million, up 8.0% from $489.2 million for the year ended December 31, 2017, to $528.1 million for the year ended December 31, 2018. The increase was primarily attributable to a favorable impact of $27.5 million due to a higher average net selling price for gypsum wallboard at constant exchange rates and a $12.5 million favorable impact of higher wallboard volumes. In addition, there was a $0.2 million favorable impact of changes in foreign currency exchange rates. This overall increase was partially offset by a decrease in net sales of non-wallboard products of $1.3 million.

Net Sales - 2017 vs. 2016. Net sales increased by $27.8 million, up 6.0% from $461.4 million for the year ended December 31, 2016, to $489.2 million for the year ended December 31, 2017. The increase was primarily attributable to an $18.4 million favorable impact of higher wallboard volumes driven by higher demand in the United States and a favorable impact of $7.7 million due to an increase in the average net selling price for gypsum wallboard at constant exchange rates. In addition, there were favorable impacts of $1.3 million related to non-wallboard products and $0.4 million related to foreign currency exchange rates.

Cost of Goods Sold - 2018 vs. 2017. Cost of goods sold increased $18.6 million, up 5.1% from $361.8 million for the year ended December 31, 2017, to $380.4 million for the year ended December 31, 2018. Higher per unit freight and input costs increased cost of goods sold by $7.8 million. Labor cost and maintenance costs increased cost of goods sold by $6.1 million. In addition, higher wallboard volumes increased input costs and freight costs by $4.1 million and $2.2 million, respectively. Depreciation and amortization decreased cost of goods sold by $2.1 million. Changes in other components of cost of goods sold resulted in a net increase of $0.5 million.

Cost of Goods Sold - 2017 vs. 2016. Cost of goods sold increased $25.5 million, up 7.6% from $336.3 million for the year ended December 31, 2016, to $361.8 million for the year ended December 31, 2017. The increase was primarily driven by higher per unit input costs which increased cost of goods sold by $13.7 million. Higher wallboard volumes increased input costs and freight costs by $5.6 million and $3.3 million, respectively. In addition, during the period both labor costs and non-wallboard manufacturing costs increased by $2.9 million and $1.3 million, respectively. The overall increase was partially offset by a $0.8 million decrease in maintenance expenses, $0.3 million decrease in depreciation costs and a $0.2 million decrease due to lower per unit freight costs.

Selling and Administrative Expense - 2018 vs. 2017. Selling and administrative expense increased $2.6 million, up 6.9% from $37.8 million for the year ended December 31, 2017, to $40.4 million for the year ended December 31, 2018. The increase was driven by an increase in salary, bonus and stock compensation expenses.

Selling and Administrative Expense - 2017 vs. 2016. Selling and administrative expense decreased $0.1 million, down 0.3% from $37.9 million for the year ended December 31, 2016, to $37.8 million for the year ended December 31, 2017. Associate costs decreased $0.3 million offset by an increase in professional services of $0.2 million.

Operating Income - 2018 vs. 2017. Operating income of $107.3 million for the year ended December 31, 2018 increased by $17.7 million from operating income of $89.6 million for the year ended December 31, 2017. The increase was primarily attributable to higher volumes and an increase in net selling price, which was partially offset by higher freight per unit costs and higher labor and maintenance costs.

Operating Income - 2017 vs. 2016. Operating income of $89.6 million for the year ended December 31, 2017 increased by $2.5 million from operating income of $87.1 million for the year ended December 31, 2016. The increase was primarily attributable to higher volumes and an increase in net selling price, which was partially offset by higher input and labor costs.

Other Expense, Net - 2018 vs. 2017. Other expense, net, was $0.7 million for the year ended December 31, 2018 compared to other expense, net, of $1.2 million for the year ended December 31, 2017. The change mainly reflects the impact of non-recurring costs of $1.2 million related to the debt repricing in the first quarter of 2017 and $0.3 million of fees written off as a result of partial debt extinguishment of the Term Loan in 2018, which were partially offset by the impact of changes in foreign exchange transactions. See Note 9 to the Consolidated Financial Statements for further details on the debt repricing.

Other Expense, Net - 2017 vs. 2016. Other expense, net, was $1.2 million for the year ended December 31, 2017 compared to other expense, net, of $6.0 million for the year ended December 31, 2016. These amounts mainly reflect the non-recurring costs related to the debt refinancing. The impact of debt refinancing was $1.2 million for the year

ended December 31, 2017 compared to $5.8 million in 2016. See Note 9 to the Consolidated Financial Statements for further details on the refinancing.
Interest Expense, Net - 2018 vs. 2017. Interest expense, net, was $10.3 million for the year ended December 31, 2018, a decrease of $1.5 million from $11.8 million for the year ended December 31, 2017. The decrease was primarily driven by a $1.1 million increase in interest income on short term liquid investments, a $0.8 million decrease in interest expense on our Term Loan primarily related to the 2017 repricing, a $0.7 million decrease related to additional capitalized interest on larger

capital projects and $0.2 million decrease related to lower average outstanding loan balance in 2018 compared to 2017. These decreases were partially offset by a $1.3 million increase on the unhedged portion of the term debt as a result of the rise in LIBOR.

See Note 9 and Note 10 to the Consolidated Financial Statements for further details on the repricing and interest rate swap, respectively.

Interest Expense, Net - 2017 vs. 2016. Interest expense, net, was $11.8 million for the year ended December 31, 2017, a decrease of $1.8 million from $13.6 million for the year ended December 31, 2016, reflecting lower average outstanding borrowings during 2017 compared to 2016 and the lower interest rate spread over LIBOR following the debt refinancing in August 2016 and repricing in February and December of 2017. This decrease was partially offset by the rise in LIBOR. See Note 9 to the Consolidated Financial Statements for further details on the refinancing.

Provision for Income Taxes - 2018 vs. 2017. Provision for income taxes increased $4.0 million to $20.6 million for the year ended December 31, 2018, compared to $16.6 million in the prior period. The effect of the decrease in federal tax rate from 35% to 21% partially offset by the loss of the domestic production activities deduction, resulted in a decrease of approximately $8.9 million, while the one-time adjustment to deferred taxes in 2017 resulted in an increase of $9.2 million. The remaining decrease of $0.2 million is attributable to changes in state apportionment and effects of Canadian losses. The $18.4 million increase in pretax income resulted in an approximate increase of $3.9 million.

Provision for Income Taxes - 2017 vs. 2016. Provision for income taxes decreased $6.2 million to $16.6 million for the year ended December 31, 2017, compared to $22.8 million in the prior period. The decrease was mainly driven by the $9.2 million adjustment to deferred taxes as a result of the tax law enacted on December 22, 2017, which required us to remeasure certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future. This tax benefit was partially offset by a higher provision for income taxes driven by higher pretax income.

Liquidity and Capital Resources

Our primary sources of liquidity are cash on hand, cash from operations, and borrowings under our debt financing arrangements. As of December 31, 2018, we had $102.6 million in cash and cash equivalents. We believe that our current cash position, access to the long-term debt capital markets and cash flow generated from operations should be sufficient not only for our operating requirements but also to enable us to complete our capital expenditure programs, fund share repurchases and any required long-term debt payments through the next several fiscal years. See Note 9 to the Consolidated Financial Statements for a more detailed discussion of our debt financing arrangements.

Table M2: Net Change in Cash and Cash Equivalents

	For the Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Net cash provided by operating activities	$130,818	$101,667	$116,267
Net cash used in investing activities	(30,869)	(23,471)	(11,641)
Net cash used in financing activities	(69,226)	(57,833)	(68,044)
Effect of foreign exchange rates on cash and cash equivalents	(611)	622	225
Net change in cash and cash equivalents	$30,112	$20,985	$36,807

Net Cash Provided By Operating Activities

Net cash provided by operating activities for the years ended December 31, 2018, 2017 and 2016 was $130.8 million, $101.7 million and $116.3 million, respectively. The increase of $29.2 million in 2018 compared to 2017 was primarily driven by an increase in operating income, primarily from higher revenues and an improvement in working capital of $9.7 million. The decrease of $14.6 million in 2017 compared to 2016 was primarily driven by a decrease in cash from changes in working capital of $14.9 million, primarily an increase in receivables. The increase in receivables in 2017 as compared to 2016 was consistent with the increase in revenues between periods. Other changes in working capital between 2016 and 2017 were due to timing of receipts and payments.

Table of Contents

Net Cash Used In Investing Activities

Net cash used in investing activities for the year ended December 31, 2018 was $30.9 million, compared to $23.5 million and $11.6 million for the 2017 and 2016, respectively. The increase in investing activities for the year ended December 31, 2018 primarily reflects an aggregate of $30.8 million in capital expenditures and software purchased, compared to $22.0 million and $12.1 million for 2017 and 2016, respectively. The remaining changes in 2018, 2017 and 2016 were driven by distributions and contributions related to our equity investment in Seven Hills.

Net Cash Used In Financing Activities

Net cash used in financing activities for the year ended December 31, 2018 was $69.2 million, compared to $57.8 million and $68.0 million for 2017 and 2016, respectively. The year ended December 31, 2018 primarily reflects an aggregate of $65.7 million deployed to repurchase common stock, compared to $54.6 million and $40.3 million for 2017 and 2016, respectively. See Note 11 to the Consolidated Financial Statements for more detailed discussion of share repurchase activity. We made principal payments on our outstanding debt of $18.9 million, for the year ended December 31, 2018, compared to $2.1 million and $26.4 million in 2017 and 2016, respectively. During the year ended December 31, 2018, we completed a financing of the Industrial Revenue Bonds totaling $28 million due 2025 and received $15.8 million in net proceeds. During the year ended December 31, 2017, we refinanced our amended and restated credit agreement, resulting in a net outflow of $1.2 million. See Note 9 to the Consolidated Financial Statements for a more detailed discussion about the repricing and new debt.

Credit Facilities

As of December 31, 2018, we had total outstanding borrowing under the Term Loan of $252.7 million and $73.6 million available under the Revolver, based on draws and outstanding letters of credit and absence of violations of covenants. We also had $16.2 million in loans outstanding in connection with Industrial Revenue Bond financing. See Note 9 to the Consolidated Financial Statements for information regarding the terms of the Amended and Restated Credit Agreement and Industrial Revenue Bonds.

Contractual Obligations and Other Long-Term Liabilities

Table M3: Future Contractual Obligations By Year As of December 31, 2018

	2019	2020	2021	2022	2023	Thereafter	Total
	(in thousands)						
Operating leases (1)	$1,658	$48	$—	$—	$—	$ —	$1,706
Purchase commitments:							
Purchase obligations (2)	46,228	44,134	26,997	23,898	11,081	48,204	200,542
IT and other professional services (3)	946	386	170	—	—	—	1,502
Other commitments:							
Long-term debt	2,716	5,326	6,196	6,196	245,074	3,350	268,858
Interest on indebtedness (4)	11,537	11,444	11,288	11,164	6,970	—	52,403
Total commitments	$63,085	$61,338	$44,651	$41,258	$263,125	$ 51,554	$525,011

(1) Operating lease payments reflect the minimum payments over the non-cancelable lease terms of the associated lease.

(2) Purchase obligations consist of contracts to purchase natural gas, synthetic gypsum and paper.

(3) Represents commitments for data center, warehouse facilities and other.

(4) See Note 9 - Debt for further details. Interest on indebtedness is calculated based on interest rates in effect at December 31, 2018.

A purchase commitment is an enforceable and legally binding agreement to purchase goods or services that specifies significant terms, including: fixed or minimum quantities to be purchased, minimum or variable price provisions and approximate timing of the transaction. Our primary purchase obligations are for our two principal raw materials, synthetic gypsum and paper. The purchase commitment amounts in the table above are based on the minimum quantities to be purchased at estimated prices to be paid based on current market conditions. Accordingly, the actual amounts due may vary significantly from the estimates included in the table.

Table of Contents

Off-Balance Sheet Arrangements

With the exception of letters of credit of approximately $1.4 million as of December 31, 2018, we have no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Critical Accounting Policies

A summary of our significant and recent accounting policies is included in Note 2 to the consolidated financial statements included in Item 8. Financial Statements and Supplementary Data. The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses. Although management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, actual results may differ to some extent from the estimates on which our financial statements have been prepared at any point in time. We believe that the critical accounting policies listed below involve our more significant judgments, assumptions and estimates and, therefore, could have the greatest potential impact on the financial statements.

Impairment or Disposal of Long-Lived Assets

We evaluate the recoverability of our long-lived assets in accordance with the provisions of Financial Accounting Standards Board Accounting Standards Codification 360 Property, Plant and Equipment, or ASC 360. ASC 360 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. Such evaluations for impairment are significantly impacted by estimates of future prices for its products, capital needs, economic trends in the construction sector and other factors. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Assets to be disposed of by sale are reflected at the lower of their carrying amount or fair value less cost to sell.

Determination as to whether and how much an asset is impaired involves significant management judgment involving highly uncertain matters, including estimating the future success of sales volumes, future selling prices and costs, alternative uses for the assets, and estimated proceeds from disposal of the assets. However, the impairment reviews and calculations are based on estimates and assumptions that take into account our business plans and long-term investment decisions.

We record impairment charges for assets that we permanently close if their fair value is less than their carrying value.

Goodwill and Intangible Assets

Goodwill represents the excess of costs over the fair value of identifiable assets of businesses acquired. We value goodwill and intangible assets in accordance with Financial Accounting Standards Board Accounting Standards Codification 350, Goodwill and Other Intangible Assets, or ASC 350. ASC 350 requires goodwill to be either qualitatively or quantitatively assessed for impairment annually (or more frequently if impairment indicators arise). Intangible assets that have indefinite useful lives are not amortized but are tested at least annually for impairment or whenever events or circumstances indicate an impairment may have occurred. Intangible assets that are deemed to have definite lives are amortized over their useful lives.

As of December 31, 2018 and 2017, we had $119.9 million of goodwill, which resulted from the Acquisition. All goodwill is associated with our wallboard reporting unit. On an annual basis, we measure the fair value of our wallboard reporting unit on a qualitative basis or by using a discounted cash flow approach that estimates the projected future cash flows to be generated by the reporting unit, using a discount rate reflecting the weighted average cost of capital for a potential market participant. We perform our annual goodwill impairment test on the first day of our fiscal fourth quarter. Differences in assumptions used in projecting future cash flows and cost of funds could have a significant impact on the determination of fair value. During our goodwill impairment review, we may assess qualitative factors to determine whether more likely than not the fair value of the reporting unit is less than its carrying amount, including goodwill. The qualitative factors include, but are not limited to, macroeconomic conditions, industry and market considerations and our overall financial performance. If, after assessing the totality of these

qualitative factors, we determine that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then no additional assessment is deemed necessary.
When we use a discounted cash flow approach, projections are based on forecasts developed internally by management for use in managing the business. These projections include significant assumptions such as estimates of future revenues, profits, working capital requirements, operating plans and capital expenditures. Our forecasts are driven by consensus industry

Table of Contents

estimates of key economic indicators that affect our operating results, most notably new residential construction, light commercial construction, and repair and remodel activity. These economic indicators are then used to estimate future production volumes, selling prices and key input costs for our manufactured products. Our forecasts also take into consideration recent sales data and planned timing of capital projects. Differences in assumptions used in projecting future cash flows and cost of funds could have a significant impact on the determination of fair value.

A growth rate is used to calculate the terminal value in the discounted cash flow model and is the expected rate at which earnings or revenue is projected to grow beyond the forecasted period. The future cash flows are discounted at our weighted average cost of capital.

Based on the results of the qualitative assessment of the goodwill impairment test, it is not more likely than not that the fair value of our wallboard reporting unit is less than its carrying amount as of October 1, 2018 and 2017 and, therefore, no goodwill impairment existed. We relied on a qualitative assessment to reach this conclusion. As a result, the quantitative assessment of the goodwill impairment test was not required to be completed.

Table of Contents

Forward-Looking Statements

This Annual Report on Form 10-K contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are included throughout this Annual Report on Form 10-K, 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," "predict," "project," "seek," "should," "target," "will" and similar terms and phrases to identify forward-looking statements in this Annual Report on Form 10-K. 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;
- disruptions in our supply of synthetic gypsum due to regulatory changes or coal-fired power plants ceasing or reducing operations or switching to natural gas;
- changes in the costs and availability of transportation;
- the competitive labor market and resulting employee turnover;
- disruptions to our supply of paperboard liner, including termination of the WestRock contract;
- significant buying power of certain customers;
- potential losses of customers;
- the highly competitive nature of our industry and the substitutability of competitors' products;
- material disruptions at our facilities or the facilities of our suppliers;
- changes in energy, transportation and other input costs;
- changes to environmental and safety laws and regulations requiring modifications to our manufacturing systems;
- changes in, cost of compliance with or the failure or inability to comply with governmental laws and regulations, in particular environmental regulations;
- our involvement in legal and regulatory proceedings;
- our ability to attract and retain key management employees;
- cybersecurity risks;
- disruptions in our information technology systems;
- labor disruptions;
- seasonal nature of our business; 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 SEC filings.

The forward-looking statements contained in this Annual Report on Form 10-K 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 Item 1A. 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 Annual Report on Form 10-K 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.

27

Table of Contents

Item 7A. 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, commodity price risk associated with our input costs and counterparty risk. We use derivative instruments to manage selected commodity price and interest rate 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 December 31, 2018, we had $102.6 million in cash and cash equivalents. The interest expense associated with the Term Loan, Revolver and Industrial Revenue Bonds will vary with market rates.

Our exposure to market risk for changes in interest rates related to our outstanding debt is partially mitigated as the Term Loan has a LIBOR floor of 0.75% and we have interest rates swaps with a combined notional amount of $100.0 million. A rise of interest rate levels would increase our interest expense and a reduction in interest rates to the floor would decrease our interest expense. A hypothetical 100 basis point increase or decrease in interest rates would have a positive or negative effect on earnings in the amount of $1.7 million. We based this sensitivity calculation on the one month LIBOR rate of 2.52% in accordance with the most recent measurement date specified in the Amended and Restated Credit Agreement.

As of December 31, 2018, we had $102.6 million in cash and cash equivalents which includes highly liquid investments with maturities of three months or less at the time of purchase maintained at financial institutions in the United States and Canada. For the year ended December 31, 2018, based on the overall balance of $102.6 million and assuming we are able to invest an average of $50.0 million of that balance in interest-earning investments, a hypothetical 100 basis point increase or decrease in investment interest rates would have a positive or negative effect on earnings in the amount of $0.5 million.

Foreign Currency Risk

Approximately 4.7%, 6.0% and 7.8% of our net sales for the years ended December 31, 2018, 2017 and 2016, respectively, were in Canada. As a result, we are exposed to movements in foreign exchange rates between the U.S. dollar and Canadian dollar. For the year ended December 31, 2018, we estimate that a 1% change in the exchange rate between the U.S. and Canadian currencies would have had an immaterial impact to net sales.

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. As of December 31, 2018, the Company had natural gas swap contracts for a portion of its natural gas usage. The contracts matured or mature between February 28, 2019 and December 31, 2019. Other than the natural gas swap contracts described above, we did not manage commodity price risk with derivative instruments. We may in the future enter into derivative financial instruments from time to time to manage our exposure related to these market risks. See Note 10 to the Consolidated Financial Statements for information regarding our natural gas swaps.

Counterparty Risk

The Company is exposed to credit losses in the event of nonperformance by the counterparties to the Company's derivative instruments. 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 December 31, 2018, the Company had no collateral posted with its counterparties related to the derivatives.

Table of Contents

Item 8. Financial Statements and Supplementary Data

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed by or under the supervision of the Company's Chief Executive Officer and Chief Financial Officer, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

The Company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Continental's assets that could have a material effect on the consolidated financial statements.

Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013). Based on its evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2018.

The Company's independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2018, as stated in their report.

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Continental Building Products, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Continental Building Products, Inc.'s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Continental Building Products, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and our report dated February 22, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Tysons, Virginia

February 22, 2019

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Continental Building Products, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Continental Building Products, Inc. (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 22, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2013.

Tysons, Virginia

February 22, 2019

Table of Contents

Continental Building Products, Inc.
Consolidated Statements of Operations

	For the Year Ended December 31,		
	2018	2017	2016
	(in thousands, except share data and per share amounts)		
Net sales	$528,060	$489,163	$461,375
Cost of goods sold	380,381	361,825	336,317
Gross profit	147,679	127,338	125,058
Selling and administrative	40,365	37,753	37,918
Operating income	107,314	89,585	87,140
Other expense, net	(678)	(1,196)	(5,963)
Interest expense, net	(10,269)	(11,788)	(13,590)
Income before losses from equity method investment and provision for income taxes	96,367	76,601	67,587
Losses from equity method investment	(1,522)	(187)	(736)
Income before provision for income taxes	94,845	76,414	66,851
Provision for income taxes	(20,601)	(16,566)	(22,827)
Net income	$74,244	$59,848	$44,024
Net income per share:			
Basic	$2.02	$1.55	$1.08
Diluted	$2.01	$1.54	$1.08
Weighted average shares outstanding:			
Basic	36,801,231	38,636,152	40,605,464
Diluted	36,978,071	38,774,963	40,662,304

See accompanying notes to consolidated financial statements.

Table of Contents

Continental Building Products, Inc.
Consolidated Statements of Comprehensive Income

	For the Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Net income	$74,244	$59,848	$44,024
Foreign currency translation adjustment	(1,391)	1,142	514
Net gains/(losses) on derivatives, net of taxes	437	(382)	1,418
Other comprehensive (losses)/income	(954)	760	1,932
Comprehensive income	$73,290	$60,608	$45,956

See accompanying notes to consolidated financial statements.

Table of Contents

Continental Building Products, Inc.
Consolidated Balance Sheets

	As of December 31,	
	2018	2017
	(in thousands)	
Assets:		
Cash and cash equivalents	$102,633	$72,521
Trade receivables, net	38,454	38,769
Inventories, net	32,225	24,882
Prepaid and other current assets	19,805	11,267
Total current assets	193,117	147,439
Property, plant and equipment, net	288,368	294,003
Customer relationships and other intangibles, net	62,680	70,807
Goodwill	119,945	119,945
Equity method investment	7,975	9,263
Debt issuance costs	296	477
Total Assets	$672,381	$641,934
Liabilities and Shareholders' Equity:		
Liabilities:		
Accounts payable	$48,060	$30,809
Accrued and other liabilities	12,815	11,940
Debt, current portion	1,669	1,702
Total current liabilities	62,544	44,451
Deferred taxes and other long-term liabilities	20,204	15,847
Debt, non-current portion	261,886	263,610
Total Liabilities	344,634	323,908
Shareholders' Equity:		
Undesignated preferred stock, par value $0.001 per share; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.001 par value per share; 190,000,000 shares authorized; 44,472,214 and 44,321,776 shares issued and 35,401,868 and 37,532,959 shares outstanding as of December 31, 2018 and December 31, 2017, respectively	44	44
Additional paid-in capital	327,515	325,391
Less: Treasury stock	(209,050)	(143,357)
Accumulated other comprehensive loss	(3,391)	(2,649)
Accumulated earnings	212,629	138,597
Total Shareholders' Equity	327,747	318,026
Total Liabilities and Shareholders' Equity	$672,381	$641,934

See accompanying notes to consolidated financial statements.

Table of Contents

Continental Building Products, Inc.
Consolidated Statements of Cash Flows

	For the Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Cash flows from operating activities:			
Net income	$74,244	$59,848	$44,024
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	43,782	46,460	46,646
Amortization of debt issuance costs and debt discount	1,234	1,177	1,947
Losses from equity method investment	1,522	187	736
Amortization of deferred gain on terminated swaps	(1,083)	—	
Debt issuance expense	317	1,170	5,802
Share-based compensation	2,928	2,784	2,288
Deferred taxes	4,735	(3,414)	6,504
Change in assets and liabilities:			
Trade receivables	201	(6,296)	3,342
Inventories	(7,558)	488	1,921
Prepaid expenses and other current assets	(4,977)	(3,735)	895
Accounts payable	14,716	3,987	2,058
Accrued and other current liabilities	961	(830)	360
Other long-term liabilities	(204)	(159)	(256)
Net cash provided by operating activities	130,818	101,667	116,267
Cash flows from investing activities:			
Payments for property, plant and equipment	(28,857)	(21,459)	(11,733)
Payments for intangible assets	(1,902)	(583)	(414)
Proceeds from disposal of property, plant and equipment	125	—	
Capital contributions to equity method investment	(703)	(2,219)	(349)
Distributions from equity method investment	468	790	855
Net cash used in investing activities	(30,869)	(23,471)	(11,641)
Cash flows from financing activities:			
Proceeds from exercise of stock options	145	230	20
Tax withholdings on share-based compensation	(547)	(240)	—
Proceeds from debt refinancing	—	545,198	275,000
Disbursements for debt refinancing	—	(545,198)	(271,988)
Payments of financing costs	(415)	(1,170)	(4,424)
Principal payments for debt	(18,916)	(2,052)	(26,375)
Proceeds from Industrial Revenue Bonds	16,200	—	—
Payments to repurchase common stock	(65,693)	(54,601)	(40,277)
Net cash used in financing activities	(69,226)	(57,833)	(68,044)
Effect of foreign exchange rates on cash and cash equivalents	(611)	622	225
Net change in cash and cash equivalents	30,112	20,985	36,807
Cash, beginning of period	72,521	51,536	14,729
Cash, end of period	$102,633	$72,521	$51,536

See accompanying notes to consolidated financial statements.

Table of Contents

Continental Building Products, Inc.
Consolidated Statements of Changes in Shareholders' Equity

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Earnings	Total Equity
	Shares	Amount					
	(in thousands, except share data)						
Balance as of January 1, 2016	41,750,031	$ 44	$ 319,817	$ (48,479)	$ (5,341)	$ 34,725	$ 300,766
Net income	—	—	—	—	—	44,024	44,024
Other comprehensive income, net of tax	—	—	—	—	1,932	—	1,932
Purchase of treasury shares	(2,104,606)	—	—	(40,277)	—	—	(40,277)
Stock option exercise	1,463	—	20	—	—	—	20
Stock-based compensation	33,954	—	2,288	—	—	—	2,288
Employee stock purchase program	10,873	—	259	—	—	—	259
Balance as of December 31, 2016	39,691,715	44	322,384	(88,756)	(3,409)	78,749	309,012
Net income	—	—	—	—	—	59,848	59,848
Other comprehensive income, net of tax	—	—	—	—	760	—	760
Purchase of treasury shares	(2,289,162)	—	—	(54,601)	—	—	(54,601)
Stock option exercise	16,594	—	230	—	—	—	230
Stock-based compensation	93,470	—	2,544	—	—	—	2,544
Employee stock purchase program	20,342	—	233	—	—	—	233
Balance as of December 31, 2017	37,532,959	44	325,391	(143,357)	(2,649)	138,597	318,026
Net income						74,244	74,244
Other comprehensive income, net of tax	—	—	—	—	(954)	—	(954)
Reclassification of income tax effects from tax reform	—	—	—	—	212	(212)	—
Purchase of treasury shares	(2,281,529)	—	—	(65,693)	—	—	(65,693)
Stock option exercise	13,087	—	210	—	—	—	210
Stock-based compensation	137,351	—	1,914	—	—	—	1,914
Balance as of December 31, 2018	35,401,868	$ 44	$ 327,515	$ (209,050)	$ (3,391)	$ 212,629	$ 327,747

See accompanying notes to consolidated financial statements.

Table of Contents

Continental Building Products, Inc.
Notes to the Consolidated Financial Statements

1. BACKGROUND AND NATURE OF OPERATIONS

Description of Business

Continental Building Products, Inc. (the "Company") is a Delaware corporation. The Company manufactures gypsum wallboard 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.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying consolidated financial statements for the Company 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.

(b) Revenue

Revenue from the sale of gypsum products is recognized when control of the promised products is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products (the transaction price). A performance obligation is a promise in a contract to transfer a distinct product to a customer and is the unit of account under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606. Control transfers to the customer at a point in time. To indicate the transfer of control, the Company must have a present right to payment, legal title must have passed to the customer and the customer must have the significant risks and rewards of ownership. Generally, the Company satisfies its performance obligations within a number of days from the time the contract is executed.

The Company records estimated reductions to revenue for customer programs and incentive offerings, including promotions and other volume-based incentives, in the period in which the sale occurs.

Amounts billed to a customer at the transaction price are included in net sales, and costs incurred for shipping and handling are treated as fulfillment costs and are classified as cost of goods sold in the Consolidated Statements of Operations. See Note 17, Segment Reporting, for disaggregation of revenue by segment.

As of December 31, 2018, accounts receivables were $38.5 million. The Company had no material contract assets, contract liabilities or deferred contract costs recorded on the Consolidated Balance Sheets as of December 31, 2018. The Company does not have any material payment terms as payment is received shortly after the point of sale.

(c) Cash

Cash and cash equivalents include highly liquid investments with maturities of three months or less at the time of purchase maintained at financial institutions in the United States and Canada. At times the amounts may exceed federally insured deposit limits. The Company has not experienced any losses and does not believe it is exposed to any significant credit risk related to demand deposits.

Table 2.1: Certain Cash Transactions and Other Activity

	For the Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Cash paid during the period for:			
Interest paid on term loan, net	$10,888	$10,000	$10,996
Income taxes paid, net	16,279	19,836	19,105
Other activity:			
Amounts in accounts payable for capital expenditures	1,178	621	2,516

Table of Contents

(d) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses. Actual results may differ from these estimates.

(e) Earnings Per Share

Basic earnings per share is computed by dividing net income applicable to common stock by the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income applicable to shares of common stock by the weighted average number of shares of common stock outstanding inclusive of any dilutive potential shares of common stock and dilutive stock options. It is assumed that all dilutive stock options were exercised at the beginning of each period and that the proceeds were used to purchase shares of common stock at the average market price during the period.

(f) Cost of Goods Sold and Selling and Administrative Expenses

Cost of goods sold includes costs of production, depreciation, amortization of acquired intangibles, inbound freight charges for raw materials, outbound freight to customers, purchasing and receiving costs, inspection costs, warehousing at plant facilities, and internal transfer costs. Costs associated with third-party warehouses are included in selling and administrative expenses. Selling and administrative costs also include expenses for sales, marketing, legal, accounting and finance services, human resources, customer support, treasury, other general corporate services and amortization of software development cost.

(g) Foreign Currency Translation

The Company uses the U.S. dollar as its functional currency for operations in the United States and the Canadian dollar for the Company's operations in Canada. The assets and liabilities of the Company's Canadian operations are translated at the exchange rate prevailing at the balance sheet date. Related revenues and expense accounts for the Canadian operations are translated using the average exchange rate during the year.

(h) Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily receivables. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. The allowances for non-collection of receivables are based upon analysis of economic trends in the construction industry, detailed analysis of the expected collectability of accounts receivable that are past due and the expected collectability of overall receivables.

Table 2.2: Significant Customer Net Sales as a Percentage of Total Net Sales

	For the Year Ended December 31,		
	2018	2017	2016
Lowe's	13%	14%	15%
Foundation Building Materials	11%	11%	*
L&W	10%	*	*

*Not considered a significant customer in relevant year for purposes of net sales.

Table 2.3: Significant Customer Accounts Receivable as a Percentage of Total Accounts Receivable

	As of December 31,	
	2018	2017
Lowe's	28%	25%
Foundation Building Materials	8 %	9 %

L&W	7 %	*

*Not considered a significant customer in relevant year for purposes of accounts receivable.

Table of Contents

(i) Receivables

Trade receivables are recorded at net realizable value, which includes allowances for cash discounts and doubtful accounts, and are reflected net of customer rebates. The Company reviews the collectability of trade receivables on an ongoing basis. The Company reserves for trade receivables determined to be uncollectible. This determination is based on the delinquency of the account, the financial condition of the customer and the Company's collection experience.

(j) Inventories

Inventories are valued at the lower of cost and net realizable value. Virtually all of the Company's inventories are valued under the average cost method. Inventories include materials, labor and applicable factory overhead costs. The value of inventory is adjusted for damaged, obsolete, excess and slow-moving inventory. Net realizable value of inventory is estimated based on the impact of market trends, an evaluation of economic conditions and the value of current orders relating to the future sales of this type of inventory.

(k) Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation of property, plant and equipment is computed for financial reporting purposes using the straight-line method over the estimated useful lives of the assets. These lives range from 20 to 25 years for buildings, 5 to 25 years for plant machinery, and 5 to 8 years for mobile equipment. Repair and maintenance costs are expensed as incurred. Substantially all of the Company's depreciation expenses are recorded in "Cost of goods sold" in the Statements of Operations.

The Company capitalizes interest during the construction of major projects. Capitalized interest is added to the cost of the underlying assets and is depreciated over the useful lives of those assets.

(l) Impairment or Disposal of Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets in accordance with the provisions of ASC 360 Property, Plant and Equipment ("ASC 360"). ASC 360 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset.

Such evaluations for impairment are significantly impacted by estimates of future prices for its products, capital needs, economic trends in the construction sector and other factors. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Assets to be disposed of by sale are reflected at the lower of their carrying amount or fair value less cost to sell. The Company assesses impairment of the Company's long-lived assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

(m) Goodwill and Intangible Assets

The goodwill and intangibles reflected in the financial statements relates solely to the Acquisition.

Goodwill represents the excess of costs over the fair value of identifiable assets of businesses acquired. The Company evaluates goodwill and intangible assets in accordance with ASC 350, Goodwill and Other Intangible Assets. ASC 350 requires goodwill to be either qualitatively or quantitatively assessed for impairment annually (or more frequently if impairment indicators arise) for each reporting unit. As of December 31, 2018 and 2017, the Company had one reporting unit, wallboard, which included goodwill. The Company performs its annual impairment testing of goodwill as of October 1st of each year. The Company completed qualitative assessments as of October 1, 2018 and 2017 and determined that it was not more likely than not that the fair value of its reporting unit was less than its carrying amount. To date, no goodwill impairment losses have been recognized.

Intangible assets that are deemed to have definite lives are amortized over their useful lives. The cost of internal-use software purchased or developed internally, is accounted for in accordance with ASC 350-40, Internal-Use Software. The weighted average useful life of capitalized software is 3 years. 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 identified as having definite lives are amortized on a straight-line basis over the estimated useful life of 15 years.

39

Table of Contents

(n) 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.

(o) Environmental Remediation Liabilities

When the Company determines that it is probable that a liability for environmental matters has been incurred, an undiscounted estimate of the required remediation costs is recorded as a liability in the financial statements, without offset of potential insurance recoveries. Costs that extend the life, increase the capacity or improve the safety or efficiency of company-owned assets or are incurred to mitigate or prevent future environmental contamination are capitalized. Other environmental costs are expensed when incurred. The Company did not have any environmental liabilities recorded as of December 31, 2018 and 2017.

(p) Income Taxes

The provision for income taxes has been determined using the asset and liability approach of accounting for income taxes to reflect the expected future tax consequences of events recognized in the financial statements. Deferred income tax assets and liabilities are recognized by applying enacted tax rates to temporary differences that exist as of the balance sheet date which result from differences in the timing of reported taxable income between tax and financial reporting.

The Company reduces the carrying amounts of deferred tax assets by a valuation allowance if, based on the available evidence, it is more likely than not that such assets will not be realized. The need to establish valuation allowances for deferred tax assets is assessed annually. In assessing the requirement for, and amount of, a valuation allowance in accordance with the more likely than not standard, the Company gives appropriate consideration to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability and foreign source income, the duration of statutory carryforward periods, and the Company's experience with operating loss and tax credit carryforward expirations. A history of cumulative losses is a significant piece of negative evidence used in the assessment. If a history of cumulative losses is incurred for a tax jurisdiction, forecasts of future profitability are not used as positive evidence related to the realization of the deferred tax assets in the assessment.

The Company recognizes the tax benefits of an uncertain tax position if those benefits are more likely than not to be sustained based on existing tax law. Additionally, the Company establishes a reserve for tax positions that are more likely than not to be sustained based on existing tax law, but uncertain in the ultimate benefit to be sustained upon examination by the relevant taxing authorities. Unrecognized tax benefits are subsequently recognized at the time the more likely than not recognition threshold is met, the tax matter is effectively settled or the statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired, whichever is earlier.

(q) Share-Based Compensation

The Company accounts for stock-based compensation to employees and directors based on the estimated fair value of the award generally determined on the date of grant. The associated expense, net of estimated forfeitures, is generally recognized

ratably over the requisite service period, which is generally the vesting period of the award. For awards with graded vesting that only contain a service condition, the Company recognizes expense on a straight-line basis over the service period.

(r) Defined Contribution Pension Plans and Other Post-Retirement Benefits

The Company's employees are able to participate in a 401K defined contribution pension plan. The Company contributes funds into this plan depending on each employee's age and years of service, subject to certain limits. The plan allows for employer matching contribution. For the years ended December 31, 2018, the Company recorded an expense of $4.1 million for these contributions, compared to $3.0 million for both 2017 and 2016.

(s) 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 one year. All derivative instruments must be recorded on the balance sheet at fair value.

Currently, the Company is using natural gas swap contracts to manage commodity price increase exposure and interest rate swap contracts to lock a portion of the variability of the interest payments on long-term debt. 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 the changes in the fair value of the derivative is recorded in cost of goods sold for gas hedges and in interest expense for interest rate swaps. Gains and losses on these contracts that are designated as cash flow hedges are reclassified into earnings when the underlying forecasted transaction affect earnings. Cash flows from derivative instruments are included in net cash provided by operating activities in the consolidated statements of cash flows. The Company reassesses the probability of the underlying forecasted transactions occurring on a quarterly basis.

(t) Recent Accounting Pronouncements

Accounting Standards Recently Adopted

In May 2014, the FASB issued ASU No. 2014-9, "Revenue from Contracts with Customers (Topic 606)," 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. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which deferred the effective date of ASU No. 2014-9 for all entities by one year to annual reporting periods beginning after December 15, 2017. The ASU requires retroactive application on either a full or modified basis. The Company adopted the standard on January 1, 2018 using the modified retrospective approach. Based on its evaluation, the Company has concluded it has one revenue stream and the adoption of this new guidance did not have a material impact on its Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments." This ASU reduces existing diversity in the classification of certain cash receipts and cash payments on the statements of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. The adoption of this standard did not have a material impact on the Company's Consolidated Financial Statements.

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory." The new standard requires companies to recognize the income tax effects of intercompany sales or transfers of assets, other than inventory, in the income statement as income tax expense (or benefit) in the period the sales or transfer occurs. The standard requires companies to apply a modified retrospective approach with a cumulative catch-up adjustment to opening retained earnings in the period of adoption. The provisions of this standard are effective for fiscal years beginning after December 15, 2017, and early adoption is permitted. The adoption of this standard did not have a material impact on the Company's Consolidated Financial Statements.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This ASU allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The provisions of this standard are effective for reporting periods beginning after December 15, 2018 and early adoption is permitted. The Company adopted the new standard in the fourth quarter of 2018, which resulted in $0.2 million loss reclassified from accumulated other comprehensive income to retained earnings.

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition,

Table of Contents

the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule was effective on November 5, 2018. The Company adopted the rule in the fourth quarter of 2018 and the impact on its Consolidated Financial Statements was not material.

Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 requires lessees to recognize a lease liability and a right-of-use asset on the balance sheet. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company will adopt the standard on January 1, 2019.

The Company will take advantage of the transition package of practical expedients permitted within ASU 2016-02, which among other things, allows companies to carryforward the historical lease classification. In addition, the Company is electing the comparative period practical expedient, which allows the Company to implement the guidance as of the effective date without having to adjust the comparative financial statements. Instead, under this expedient, companies will recognize the cumulative effect adjustment in equity. The Company will also make an accounting policy election that leases with an initial term of 12 months or less will not be recorded on the balance sheet and will result in the recognition of those lease payments in the Consolidated Statements of Operations on a straight-line basis over the lease term. Based on its initial estimates, the Company expects that adoption of the standard will result in recognition of approximately $1.0 million in right of use assets and $1.7 million in lease liabilities for operating leases on its Consolidated Balance Sheet, with no material impact to its Consolidated Statement of Operations.

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

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities." This ASU expands an entity's ability to hedge non-financial and financial risk components and reduce complexity in fair value hedges of interest rate risk. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The provisions of this standard are effective in 2019 for calendar-year public business entities and in 2020 for all other calendar-year companies. Early adoption of the standard is permitted. The Company is currently evaluating the impact that this guidance may have on its Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurements (Topic 820), Changes to the Disclosure Requirements for Fair Value Measurement." This ASU eliminates certain disclosure requirements for fair value measurements for all entities, requires public entities to disclose certain new information and modifies some disclosure requirements. The provisions of this standard are effective for reporting periods beginning after December 15, 2019 and early adoption is permitted. The Company is currently evaluating the impact that this guidance may have on its Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." This ASU requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Accounting Standards Codification 350-40 to determine which implementation costs to defer and recognize as an asset. The provisions of this standard are effective for reporting periods beginning after December 15, 2019 and early adoption is permitted. The Company is currently evaluating the impact that this guidance may have on its Consolidated Financial Statements.

In November 2018, the FASB issued ASU 2018-18, "Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606." This ASU requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Accounting Standards Codification 350-40 to determine which implementation costs to defer and recognize as an asset. The provisions of this standard are effective for reporting periods beginning after December 15, 2019 and early adoption is permitted. The Company is currently evaluating the impact that this guidance may have on its Consolidated Financial Statements.

Table of Contents

(u) Reclassifications

Certain reclassifications of prior year information were made to conform to the 2018 presentation. These reclassifications had no material impact on the Company's Consolidated Financial Statements.

3. TRADE RECEIVABLES, NET

Table 3.1: Details of Trade Receivables, Net

	As of December 31,	
	2018	2017
	(in thousands)	
Trade receivables, gross	$39,426	$39,577
Allowance for cash discounts and doubtful accounts	(972)	(808)
Trade receivables, net	$38,454	$38,769

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

Table 3.2: Changes in Allowance for Cash Discounts and Doubtful Accounts

	For the Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Balance at beginning of period	$808	$726	$1,988
Provision for/(release of) bad debt expense	203	15	(104)
Write-offs, net of recoveries	—	8	(1,209)
Cash discount additions	4,922	4,783	4,334
Cash discount deductions	(4,961)	(4,724)	(4,283)
Balance at end of period	$972	$808	$726

4. INVENTORIES, NET

Table 4: Details of Inventories, Net

	As of December 31,	
	2018	2017
	(in thousands)	
Finished products	$6,700	$5,893
Raw materials	18,388	11,663
Supplies and other	7,137	7,326
Inventories, net	$32,225	$24,882

Table of Contents

5. PROPERTY, PLANT AND EQUIPMENT, NET

Table 5: Details of Property, Plant and Equipment, Net

	As of December 31,	
	2018	2017
	(in thousands)	
Land	$13,185	$13,187
Buildings	118,076	114,051
Plant machinery	292,219	281,786
Mobile equipment	15,163	10,366
Construction in progress	23,566	20,291
Property, plant and equipment, at cost	462,209	439,681
Accumulated depreciation	(173,841)	(145,678)
Property, plant and equipment, net	$288,368	$294,003

Depreciation expense was $33.9 million, $34.5 million and $33.1 million for the years ended December 31, 2018, 2017 and 2016, respectively.

6. CUSTOMER RELATIONSHIPS AND OTHER INTANGIBLES, NET

Table 6.1: Details of Customer Relationships and Other Intangibles, Net

	As of December 31,					
	2018			2017		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(in thousands)					
Customer relationships	$116,180	$ (65,738)	$50,442	$116,711	$ (57,811)	$58,900
Purchased software	8,225	(5,507)	2,718	6,226	(4,871)	1,355
Trademarks	14,772	(5,252)	9,520	14,839	(4,287)	10,552
Total	$139,177	$ (76,497)	$62,680	$137,776	$ (66,969)	$70,807

Amortization expense was $9.8 million, $11.9 million and $13.5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Table 6.2: Details of Future Amortization Expense of Customer Relationships and Other Intangibles

	As of December 31, 2018
	(in thousands)
2019	$ 9,099
2020	8,530
2021	7,636
2022	6,822
2023	6,097
Thereafter	24,496
Total	$ 62,680

Table of Contents

7. INVESTMENT IN SEVEN HILLS

The Company is a party with an unaffiliated third party to a paperboard liner venture named Seven Hills Paperboard, LLC ("Seven Hills") that, pursuant to a paper supply agreement, provides the Company with a continuous supply of high-quality recycled paperboard liner to meet its ongoing production requirements.

The Company has evaluated the characteristics of its investment and determined that Seven Hills is a variable interest entity, but that it does not have the power to direct the principal activities most impacting the economic performance of Seven Hills, and is thus not the primary beneficiary. As such, the Company accounts for this investment in Seven Hills under the equity method of accounting.

The Company currently has the right to terminate the venture and put its interest to the other investor based on a formula-driven price effective on the anniversary of the commencement date by providing notice two years prior to any such anniversary. Proceeds from such termination would revert to the Company. As of December 31, 2018 and 2017, the estimated redemption value would be $7.5 million and $8.9 million, respectively.

Paperboard liner purchased from Seven Hills was $50.7 million, $55.8 million and $47.0 million for the years ended December 31, 2018, 2017 and 2016, respectively. As of December 31, 2018, the Company had certain purchase commitments for paper totaling $26.6 million through 2021.

8. ACCRUED AND OTHER LIABILITIES

Table 8: Details of Accrued and Other Liabilities

	As of December 31,	
	2018	2017
	(in thousands)	
Employee-related costs	$10,768	$9,258
Property taxes	82	472
Other taxes	351	466
Other	1,614	1,744
Accrued and other liabilities	$12,815	$11,940

9. DEBT

Table 9.1: Details of Debt

	As of December 31,	
	2018	2017
	(in thousands)	
Amended and Restated Credit Agreement (1)	$252,658	$271,573
Industrial revenue bonds (2)	16,200	—
Less: Original issue discount (net of amortization)	(1,285)	(1,681)
Less: Debt issuance costs	(4,018)	(4,580)
Total debt	263,555	265,312
Less: Current portion of long-term debt	(1,669)	(1,702)
Long-term debt	$261,886	$263,610

(1) As of December 31, 2018, the Amended and Restated Credit Agreement, as amended, had a maturity date of August 18, 2023 and an interest rate of LIBOR (with a 0.75% floor) plus 2.00%. As of December 31, 2017, the Amended and Restated Credit Agreement had the same maturity date and an interest rate of LIBOR (with a 0.75% floor) plus 2.25%.

(2) As of December 31, 2018, Industrial revenue bonds had a maturity date of December 1, 2025 and an interest rate of LIBOR plus 1.50%.

On August 18, 2016, the Company, Continental Building Products Operating Company, LLC and Continental Building Products Canada Inc. and the lenders party thereto and Credit Suisse, as Administrative Agent, entered into an Amended and Restated Credit Agreement amending and restating the Company's existing first lien credit agreement (the "Amended and Restated Credit Agreement"). The Amended and Restated Credit Agreement provides for a $275 million senior secured first

45

Table of Contents

lien term loan facility (the "Term Loan") and a $75.0 million senior secured revolving credit facility (the "Revolver"), which mature on August 18, 2023 and August 18, 2021, respectively. Related to this debt refinancing, the Company incurred $4.7 million of discount and debt issuance costs, of which $2.5 million was recorded in Other expense, net on the Consolidated Statements of Operations in 2016, and $2.2 million will be amortized over the term of the Amended and Restated Credit Agreement. Upon completion of this debt refinancing, the Company recognized an additional expense of $3.3 million related to losses resulting from debt extinguishment which is also reported in Other expense, net on the Consolidated Statements of Operations in 2016. The interest rate under the Amended and Restated Credit Agreement was a spread over LIBOR of 2.75% and floor of 0.75%.

On February 21, 2017, the Company repriced its Term Loan under the Amended and Restated Credit Agreement lowering its interest rate by 25 basis points to LIBOR plus 2.50%. Subsequently, on December 6, 2017, the Company further repriced its term loan under the Amended and Restated Credit Agreement lowering its interest rate by an additional 25 basis points to LIBOR plus 2.25% and allowing for a further reduction in the interest rate to LIBOR plus 2.00% based on the attainment of a total leverage ratio of 1.1 or better. All other terms and conditions under the Amended and Restated Credit Agreement remained the same. In connection with the debt repricing, the Company incurred $1.2 million of debt issuance costs, which was recorded in Other expense, net on the Consolidated Statements of Operations in 2017.

The Amended and Restated Credit Agreement is secured by the underlying property and equipment of the Company. Under the terms of the Amended and Restated Credit Agreement, the Company is required to repay the Term Loan in consecutive quarterly installments equal to 0.25% of the original principal amount of the Term Loan, beginning on September 30, 2016, and a final installment on August 18, 2023 in an amount equal to the aggregate principal amount outstanding on such date. During 2018, the Company made $2.7 million of scheduled mandatory principal payments compared to $2.1 million and $1.4 million in 2017 and 2016, respectively. During the year ended December 31, 2018 the Company made a $16.2 million voluntary prepayment of principal, compared to none and $25.0 million in the years ended December 31, 2017 and 2016, respectively. Because the Company attained a total leverage ratio of less than 1.1 to 1 during the fourth quarter of 2018, the interest rate was further reduced pursuant to the terms of the Amended and Restated Credit Agreement to LIBOR plus 2.00% as of December 31, 2018. As of December 31, 2018 and 2017, the annual effective interest rate, including original issue discount and amortization of debt issuance costs, was 5.0% and 4.3%, respectively.

In December 2018, the Company completed a financing of industrial revenue bonds due 2025 with a total commitment of $28 million, of which $16.2 million was outstanding as of December 31, 2018. The bonds were issued by the County of Campbell, Kentucky and Putnam County Development Authority, pursuant to a trust indenture between the issuers and Huntington National Bank, as trustee. Proceeds of the bonds will be loaned by the issuers to the Company under a loan agreement, whereby the Company is obligated to make loan payments to the issuers sufficient to pay all debt service and expenses related to the bonds. The Company's obligations under the loan agreement and related note bear interest at a fluctuating rate based on LIBOR plus 1.50% less an approximate 20 percent reduction in the rate related to the tax-free interest income to the bond holders. The loan agreement contains restrictions and covenants on our operations that are consistent with those contained in the Amended and Restated Credit Agreement mentioned below.

There were no amounts outstanding under the Revolver as of December 31, 2018 or 2017. During the year ended December 31, 2018 and 2017, the Company did not have any draws under the Revolver, compared to $22.0 million which the Company borrowed and repaid in full in 2016 under the applicable revolving credit facility. Interest under the Revolver is floating, based on LIBOR plus 2.25%. In addition, the Company pays a facility fee of 50 basis points per annum on the total capacity under the Revolver. Availability under the Revolver as of December 31, 2018, based on draws and outstanding letters of credit and absence of violations of covenants, was $73.6 million.

Table 9.2: Details of Future Minimum Principal Payments Due	Amount Due

	(in thousands)
2019	$ 2,716
2020	5,326
2021	6,196
2022	6,196
2023	245,074
Thereafter	3,350
Total Payments	$ 268,858

Table of Contents

Under the terms of the Amended and Restated Credit Agreement, the Company is required to comply with certain covenants, including among others, the limitation of indebtedness, limitation on liens, and limitations on certain cash distributions. One single financial covenant governs all of the Company's debt and only applies if the outstanding borrowings of the Revolver plus outstanding letters of credit are greater than $22.5 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, taxes, depreciation and amortization. As the sum of outstanding borrowings under the Revolver and outstanding letters of credit were less than $22.5 million at December 31, 2018, the total leverage ratio of no greater than 5.0 under the financial covenant was not applicable at December 31, 2018. The Company was in compliance with all applicable covenants under the Amended and Restated Credit Agreement as of December 31, 2018.

10. DERIVATIVE INSTRUMENTS

Commodity Derivative Instruments

As of December 31, 2018, the Company had 2.4 million mmBTUs (millions of British Thermal Units) in aggregate notional amount outstanding natural gas swap contracts to manage commodity price exposures. All of these contracts mature by December 31, 2019. The Company elected to designate these derivative instruments as cash flow hedges in accordance with ASC 815-20, "Derivatives – Hedging". No ineffectiveness was recorded on these contracts during the years ended December 31, 2018, 2017 and 2016.

Interest Rate Derivative Instrument

In September 2016, the Company entered into interest rate swap agreements for a combined notional amount of $100.0 million with a term of four years, which hedged the floating LIBOR on a portion of the term loan under the Amended and Restated Credit Agreement to an average fixed rate of 1.323% and LIBOR floor of 0.75%. The Company elected to designate these interest rate swaps as cash flow hedges for accounting purposes.

On March 29, 2018, the Company terminated its interest rate swap agreements that were previously designated as a cash flow hedge and received $3.2 million in cash, the fair value of the swap on the termination date. The unrealized gain at termination remains in accumulated other comprehensive income and will be amortized into interest expense over the life of the original hedged instrument. During year ended December 31, 2018, $0.8 million of unrealized gain, net of tax was amortized into interest expense. On the same date, the Company entered into new interest rate swap agreements for a combined notional amount of $100.0 million, which expire on September 30, 2020 and hedge the floating LIBOR on a portion of the Term Loan to an average fixed rate of 2.46% and LIBOR floor of 0.75%. The Company elected to designate these interest rate swaps as cash flow hedges for accounting purposes. No ineffectiveness was recorded on these contracts during the years ended December 31, 2018, 2017 and 2016.

Table 10.1: Details of Derivatives Fair Value

	As of December 31,	
	2018	2017
	(in thousands)	
Assets		
Interest rate swap	$86	$2,148
Commodity hedges	61	11
Total assets	$147	$2,159
Liabilities		
Interest rate swap	$—	$—
Commodity hedges	105	613
Total liabilities	$105	$613

Table of Contents

Table 10.2: Gains/(losses) on Derivatives

	For the Year Ended December 31,					
	2018	2017	2016	2018	2017	2016
	Gain/(loss) recognized in AOCI on derivatives (effective portion), net of tax			Gain/(loss) reclassified from AOCI into income (effective portion), net of tax		
	(in thousands)					
Interest rate swap	$760	$328	$1,302	$688	$(87)	$(110)
Commodity hedges	695	(455)	532	330	(168)	(306)
Total	$1,455	$(127)	$1,834	$1,018	$(255)	$(416)

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 December 31, 2018, the Company's derivatives were in a $42.0 thousand net asset position and recorded in Other current assets. 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 December 31, 2018, the Company had no collateral posted with its counterparties related to the derivatives.

11. TREASURY STOCK

On November 4, 2015, the Company announced that the Board of Directors approved a new stock repurchase program authorizing the Company to repurchase up to $50 million of its common stock, at such times and prices as determined by management as market conditions warrant, through December 31, 2016. Pursuant to this authorization, the Company has repurchased shares of its common stock in the open market and in private transactions.

Since the initial authorization, the Company announced expansions and extensions of its stock repurchase program. The most recent authorization on February 21, 2018 expanded the program to a total of $300 million and also extended the expiration date to December 31, 2019. As of December 31, 2018, there was approximately $131.0 million of capacity remaining under this repurchase authorization.

All repurchased shares are held in treasury, reducing the number of shares of common stock outstanding and used in the Company's earnings per share calculation.

Table 11: Details of Treasury Stock Activity

	December 31, 2018			December 31, 2017		
	Shares	Amount (1)	Average Share Price (1)	Shares	Amount (1)	Average Share Price (1)
	(in thousands, except share data)					
Beginning Balance	6,788,817	$143,357	$21.12	4,499,655	$88,756	$19.73
Repurchases on open market	2,281,529	65,693	28.79	2,289,162	54,601	23.85
Ending Balance	9,070,346	$209,050	$23.05	6,788,817	$143,357	$21.12

(1) Includes commissions paid for repurchases on open market.

12. SHARE-BASED COMPENSATION

The Company grants stock options, restricted stock awards ("RSAs"), restricted stock units ("RSUs") and performance restricted stock units ("PRSUs") to eligible participants under its 2014 Stock Incentive Plan, which was approved by the Board of Directors and stockholders. The PRSUs vesting is subject to the achievement of certain performance conditions and the number of PRSUs earned could vary from 0% to 240% of the number of PRSUs awarded. The fair value of each RSU and PRSU is equal to the market price of the Company's common stock at the date of the grant. The RSUs and stock options granted to employees vest ratably over four years and one year for members of the board of directors, in each case from the grant date.

Table of Contents

Table 12.1: Stock Options

	For the Year Ended December 31,					
	2018		2017		2016	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Outstanding, beginning of year	55,112	$ 14.00	75,456	$ 14.00	77,369	$ 14.00
Exercised	(13,087)	14.00	(16,594)	14.00	(1,463)	14.00
Cancelled/Forfeited	—	—	(3,750)	14.00	(450)	14.00
Outstanding, end of year	42,025	$ 14.00	55,112	$ 14.00	75,456	$ 14.00
Exercisable at end of year	42,025	$ 14.00	39,688	$ 14.00	37,108	$ 14.00

The weighted average exercise price of the 42,025 options vested as of December 31, 2018 was $14.00. During 2018 and 2017, the total intrinsic value of options exercised was $0.3 million and $0.2 million, respectively, compared to a nominal amount for the options exercised during 2016.

Table 12.2: Restricted Stock Awards, Restricted Stock Units and Performance Based Restricted Stock Units

	Restricted Stock Awards	Restricted Stock Units	Performance Restricted Stock Units	Total	Weighted Average Grant Date Fair Value
Non-vested as of January 1, 2016	37,632	70,172	46,330	154,134	$ 19.44
Granted	—	125,701	62,795	188,496	$ 17.22
Cancelled/Forfeited	(1,068)	(2,444)	—	(3,512)	$ 17.47
Vested and issued	(12,329)	(23,849)	—	(36,178)	$ 18.72
Non-vested as of December 31, 2016	24,235	169,580	109,125	302,940	$ 18.17
Granted	—	100,224	49,207	149,431	$ 23.75
Cancelled/Forfeited	(2,500)	(27,976)	(26,897)	(57,373)	$ 20.15
Vested and issued	(12,118)	(60,259)	(23,623)	(96,000)	$ 18.44
Non-vested as of December 31, 2017	9,617	181,569	107,812	298,998	$ 20.49
Granted	—	86,700	72,709	159,409	$ 24.82
Cancelled/Forfeited	—	(17,366)	—	(17,366)	$ 22.70
Vested and issued	(9,617)	(70,353)	(93,884)	(173,854)	$ 18.71
Non-vested as of December 31, 2018	—	180,550	86,637	267,187	$ 24.18

As of December 31, 2018, 2017 and 2016, the intrinsic value of stock options, RSAs, RSUs and PRSUs outstanding, exercisable, and vested or expected to vest was $7.3 million, $9.2 million and $7.7 million, respectively.

For the years ended December 31, 2018, 2017 and 2016, the Company recognized share-based compensation expenses of $2.9 million, $2.8 million and $2.1 million in expense, respectively. The expenses related to share-based compensation awards that were recorded in selling and administrative expenses. As of December 31, 2018, there was $3.9 million of total unrecognized compensation cost related to non-vested stock options, RSAs, RSUs and PRSUs. This cost is expected to be recognized over a weighted average period of 2.2 years.

Employee Stock Purchase Plan

On February 18, 2015, subject to approval by the Company's stockholders, the Company adopted an Employee Stock Purchase Plan ("ESPP") enabling employees to purchase shares of the Company's common stock at a discount. On May 20, 2015, the Company's stockholders approved the ESPP at the Company's 2015 annual meeting. The ESPP authorizes the issuance of up to 600,000 shares of the Company’s common stock, but actual shares issued will depend on plan participation. Shares issued under the ESPP will reduce, on a share-for-share basis, the number of shares of the Company's common stock previously available for issuance pursuant to the Company's 2014 Stock Incentive Plan.

Employees contribute to the ESPP through payroll deductions over a twelve month offering period and are limited to the lower of 10% of the employee's salary or $10,000 per employee. The purchase price of the shares is equal to the lower of 85 percent of the closing price of the Company's common stock on either the first or last trading day of a given offering period. The first offering period commenced on May 1, 2015 and a second commenced on May 1, 2016. There have been no additional offering periods after May 1, 2016.

Table of Contents

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

Table 13: Details of Changes in Accumulated Other Comprehensive Loss by Category

	Foreign currency translation adjustment	Net unrealized gain on derivatives, net of tax	Total
	(in thousands)		
Balance as of January 1, 2016	$5,292	$ (49)	$(5,341)
Other comprehensive income before reclassifications	514	1,834	2,348
Amounts reclassified from accumulated other comprehensive loss	—	(416)	(416)
Net current period other comprehensive income	514	1,418	1,932
Balance as of December 31, 2016	$(4,778)	$ 1,369	$(3,409)
Other comprehensive income/(loss) before reclassifications	1,142	(127)	1,015
Amounts reclassified from accumulated other comprehensive loss	—	(255)	(255)
Net current period other comprehensive income/(loss)	1,142	(382)	760
Balance as of December 31, 2017	$(3,636)	$ 987	$(2,649)
Other comprehensive (loss)/income before reclassifications	(1,391)	1,455	64
Amounts reclassified from accumulated other comprehensive loss	—	(1,018)	(1,018)
Net current period other comprehensive (loss)/income	(1,391)	437	(954)
Reclassification of income tax effects from tax reform	$—	$ 212	212
Balance as of December 31, 2018	$(5,027)	$ 1,636	$(3,391)

14. INCOME TAXES

The Company is subject to federal income taxes and various state, provincial and local income taxes. The Tax Cuts and Jobs Act was enacted on December 22, 2017, which reduced the US federal corporate tax rate from 35% to 21% and required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously deferred and created new taxes on certain foreign sourced earnings. As of December 31, 2018, the Company completed its accounting for the tax effects of enactment of the Act. In the year ended December 31, 2017, the Company remeasured certain deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future, which was generally 22.7%, resulting in recording a provisional tax savings of $9.2 million. No changes were recorded to this provisional amount prior to the expiration of the measurement period under the relevant guidance in December 2018.

Table 14.1: Components of Income Tax Expense

	For the Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Current income tax expense	$15,866	$19,980	$16,323
Deferred tax expense/(benefit)	4,735	(3,414)	6,504
Income tax expense	$20,601	$16,566	$22,827

Table 14.2: Components of Income before Provision for Income Taxes by Country

	For the Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
United States	$95,573	$75,940	$67,128
Canada	(728)	474	(277)
Income before provision for income taxes	$94,845	$76,414	$66,851

50

Table of Contents

Table 14.3: Reconciliation of Tax Expense at Statutory Tax Rate to Actual Tax Expense

	For the Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Tax expense at statutory rate	$19,915	$26,745	$23,398
Increase/(decrease) due to:			
U.S./Canadian tax rate differential	43	(94)	21
U.S. state taxes net of federal benefit	779	1,339	1,045
Non-deductible (benefit)/expense	(71)	(104)	144
Domestic production activities deduction	—	(1,870)	(1,719)
Tax credits	—	—	(12)
Change in valuation allowance	119	(60)	27
Tax Cuts and Jobs Act of 2017	—	(9,168)	—
Other	(184)	(222)	(77)
Income tax expense	$20,601	$16,566	$22,827
Statutory tax rate	21.00 %	35.00 %	35.00 %
Effective tax rate	21.72 %	21.68 %	34.15 %

Table 14.4: Components of Deferred Tax Assets and Liabilities

	As of December 31,	
	2018	2017
	(in thousands)	
Deferred tax assets:		
Reserves and other liabilities	$928	$916
Tax loss carryforwards	364	313
Acquisition costs and intangibles	548	531
Equity investment	1,018	883
Deferred compensation	542	760
Inventory	605	536
State depreciation	327	201
Other	231	141
Valuation allowance	(707)	(507)
Total deferred tax assets	$3,856	$3,774
Deferred tax liabilities:		
Prepaids	$403	$402
Acquisition costs and intangibles	3,877	2,214
Depreciation, amortization and other	18,543	15,909
Unrealized gains on hedges	464	355
Tax on NY Non-Income Tax Solar Incentive	320	—
Total deferred tax liabilities	23,607	18,880
Net deferred tax liability	$(19,751)	$(15,106)

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 any challenges would be 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.

Table of Contents

As of December 31, 2018 and 2017 the Company did not have any unrecognized tax benefits. The Company does not expect the amount of any unrecognized tax benefits to significantly increase in the next twelve months. The Company recognizes interest related to income tax matters as interest expense and penalties related to income tax matters as other non-interest expense. As of December 31, 2018 and 2017, the Company does not have any amounts accrued for interest or penalties.

15. EARNINGS PER SHARE

The following table shows the weighted average number of shares used in computing earnings per share and the effect on the weighted average number of shares of potentially dilutive securities. Potentially dilutive common stock has no effect on income available to common stockholders. For the years ended December 31, 2018, 2017 and 2016, awards that had an anti-dilutive impact on the Company's dilutive earnings per share computation excluded from the weighted average shares outstanding were nominal.

Table 15: Details of Basic and Dilutive Earnings Per Share

	For the Year Ended December 31,		
	2018	2017	2016
	(dollars in thousands, except for per share amounts)		
Net income	$74,244	$ 59,848	$ 44,024
Weighted average number of shares outstanding - basic	36,801,231	38,636,152	40,605,464
Effect of dilutive securities:			
Restricted stock awards	877	7,827	9,018
Restricted stock units	74,244	61,099	31,200
Performance restricted stock units	75,393	47,122	3,557
Stock options	26,326	22,763	13,065
Total effect of dilutive securities	176,840	138,811	56,840
Weighted average number of shares outstanding - diluted	36,978,071	38,774,963	40,662,304
Basic earnings per share	$2.02	$ 1.55	$ 1.08
Diluted earnings per share	$2.01	$ 1.54	$ 1.08

16. COMMITMENTS AND CONTINGENCIES

Commitments

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. The total expenses under operating leases for the years ended December 31, 2018, 2017 and 2016 were $2.9 million, $3.4 million and $4.1 million, respectively. The Company also has non-capital purchase commitments that primarily relate to gas, gypsum, paper and other raw materials. The total amounts purchased under such commitments were $95.9 million, $82.4 million and $68.1 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Table 16: Details of Future Minimum Lease Payments Due Under Noncancellable Operating Leases and Purchase Commitments

	Future Minimum Lease Payments	Purchase Commitments
	(in thousands)	

2019	$1,658	$ 47,174
2020	48	44,520
2021	—	27,167
2022	—	23,898
2023	—	11,081
Thereafter	—	48,204
Total	$1,706	$ 202,044

Table of Contents

Contingent obligations

Under certain circumstances, the Company provides letters of credit related to its natural gas and other supply purchases. As of December 31, 2018 and December 31, 2017, the Company had outstanding letters of credit of approximately $1.4 million and $1.6 million, respectively.

Legal Matters

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 material 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 December 31, 2018 and December 31, 2017, such liabilities were not expected to have a material adverse effect on the Company's financial condition, results of operations or liquidity. 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, any amounts exceeding the recorded accruals are not expected to have a material adverse effect on the Company's financial condition, results of operations or liquidity.

17. SEGMENT REPORTING

Segment information is presented in accordance with ASC 280, Segment Reporting, which establishes standards for reporting information about operating segments. It also establishes standards for related disclosures about products and geographic areas. The Company's primary reportable segment is wallboard, which represented approximately 97.4%, 96.9% and 97.0% of the Company's revenues for the years ended December 31, 2018, 2017 and 2016, respectively. This segment produces wallboard for the commercial and residential construction sectors. The Company also manufactures 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 two geographic areas consist of the United States and Canada for which it reports net sales, fixed assets and total assets.

The Company evaluates 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 customer generating the revenue. The Company did not provide asset information by segment as its Chief Operating Decision Maker does not use such information for purposes of allocating resources and assessing segment performance.

Table of Contents

Table 17.1: Segment Reporting

	For the Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Net Sales:			
Wallboard	$514,374	$474,189	$447,679
Other	13,686	14,974	13,696
Total net sales	$528,060	$489,163	$461,375
Operating Income:			
Wallboard	$109,266	$90,220	$87,094
Other	(1,952)	(635)	46
Total operating income	$107,314	$89,585	$87,140
Adjustments:			
Interest expense	$(10,269)	$(11,788)	$(13,590)
Losses from equity investment	(1,522)	(187)	(736)
Other expense, net	(678)	(1,196)	(5,963)
Income before provision for income taxes	$94,845	$76,414	$66,851
Depreciation and Amortization:			
Wallboard	$42,599	$45,368	$45,561
Other	1,183	1,092	1,085
Total depreciation and amortization	$43,782	$46,460	$46,646

Table 17.2: Details of Net Sales By Geographic Region

	For the Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
United States	$503,089	$460,032	$425,611
Canada	24,971	29,131	35,764
Net sales	$528,060	$489,163	$461,375

Table 17.3: Details of Assets By Geographic Region

	Fixed Assets		Total Assets	
	As of December 31,		As of December 31,	
	2018	2017	2018	2017
	(in thousands)			
United States	$285,202	$290,324	$655,849	$622,836
Canada	3,166	3,679	16,532	19,098
Total	$288,368	$294,003	$672,381	$641,934

18. FAIR VALUE DISCLOSURES

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, 2018 and December 31, 2017, 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 December 31, 2018 that are recorded at fair value on a recurring basis are the natural gas hedges and interest rate swaps. Generally, the Company obtains its Level 2 pricing inputs from its counterparties. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

54

Table of Contents

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 for which it is practicable to estimate that value.

Table 18.1: Fair Value Hierarchy - 2018

	As of December 31, 2018			
	Level 1	Level 2	Level 3	Balance
	(in thousands)			
Asset				
Interest rate swap	$ —	$ 86	$ —	$ 86
Commodity derivatives	—	61	—	61
Total assets	$ —	$ 147	$ —	$ 147
Liabilities				
Interest rate swap	$ —	$ —	$ —	$ —
Commodity derivatives	—	105	—	105
Total liabilities	$ —	$ 105	$ —	$ 105

Table 18.2: Fair Value Hierarchy - 2017

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Balance
	(in thousands)			
Asset				
Interest rate swap	$ —	$ 2,148	$ —	$ 2,148
Commodity derivatives	—	11	—	11
Total assets	$ —	$ 2,159	$ —	$ 2,159
Liabilities				
Interest rate swap	$ —	$ —	$ —	$ —
Commodity derivatives	—	613	—	613
Total liabilities	$ —	$ 613	$ —	$ 613

Table of Contents

19. QUARTERLY FINANCIAL INFORMATION (Unaudited)

Table 19.1: Quarterly Income Statement and Other Operating Data - 2018

	2018 Quarter Ended			
	December 31	September 30	June 30	March 31
	(in thousands, except earnings per share and operating data)			
Net sales	$140,756	$ 131,234	$139,268	$116,802
Cost of goods sold	101,196	94,306	98,263	86,616
Gross profit	39,560	36,928	41,005	30,186
Selling and administrative	10,539	9,957	10,445	9,424
Operating income	29,021	26,971	30,560	20,762
Other expense, net	(422)	(29)	(87)	(140)
Interest expense, net	(2,306)	(2,549)	(2,694)	(2,720)
Income before losses from equity method investment and provision for income taxes	$26,293	$ 24,393	$27,779	$17,902
Losses from equity method investment	(374)	(393)	(391)	(364)
Income before provision for income taxes	25,919	24,000	27,388	17,538
Provision for income taxes	(5,780)	(5,436)	(5,493)	(3,892)
Net income	$20,139	$ 18,564	$21,895	$13,646
Net income per share (1):				
Basic	$0.56	$ 0.51	$0.59	$0.36
Diluted	$0.55	$ 0.50	$0.59	$0.36
Other operating data:				
Wallboard sales volume (mmsf)	725	674	722	615
Mill net sales price	154.20	155.43	153.88	151.60
Depreciation and amortization	10,816	11,580	10,805	10,581

(1) As a result of rounding and the required method of computing shares in interim periods, the total of the quarterly earnings per share amounts may not equal the earnings per share amount of the year.

Table of Contents

Table 19.2: Quarterly Income Statement and Other Operating Data - 2017

	2017 Quarter Ended			
	December 31	September 30	June 30	March 31
	(in thousands, except earnings per share and operating data)			
Net sales	$131,392	$ 116,526	$120,630	$120,615
Cost of goods sold	94,432	87,952	89,817	89,624
Gross profit	36,960	28,574	30,813	30,991
Selling and administrative	10,389	8,867	9,193	9,304
Operating income	26,571	19,707	21,620	21,687
Other (expense)/income, net	(563)	146	(135)	(644)
Interest expense, net	(2,822)	(2,988)	(3,062)	(2,916)
Income before (losses)/income from equity method investment and benefit from/(provision for) income taxes	$23,186	$ 16,865	$18,423	$18,127
(Losses)/income from equity method investment	(158)	(204)	345	(170)
Income before benefit from/(provision for) income taxes	23,028	16,661	18,768	17,957
Benefit from/(provision for) income taxes	1,208	(5,674)	(6,370)	(5,730)
Net income	$24,236	$ 10,987	$12,398	$12,227
Net income per share (1):				
Basic	$0.64	$ 0.29	$0.32	$0.31
Diluted	$0.64	$ 0.29	$0.32	$0.31
Other operating data:				
Wallboard sales volume (mmsf)	725	644	647	650
Mill net sales price	144.78	144.90	150.32	147.92
Depreciation and amortization	10,643	12,057	12,474	11,286

(1) As a result of rounding and the required method of computing shares in interim periods, the total of the quarterly earnings per share amounts may not equal the earnings per share amount of the year.

Table of Contents

20. SUBSEQUENT EVENTS

On January 24th 2019, the Company's Buchanan, New York plant experienced a significant equipment malfunction, and operations at the facility are temporarily suspended while the equipment is repaired or replaced. The Company expects the plant to resume operations by mid-March 2019. Costs of repair or replacement of the equipment and lost profit related to business interruption are expected to be covered under the terms of applicable insurance policies, subject to deductibles. All equipment insurance proceeds are expected to be fully reinvested to restore the plant operations. The company will incur a write-off of approximately $100 thousand to $300 thousand related to destroyed equipment in the first quarter 2019. Any gain on involuntary conversion of assets through the property insurance and recoveries of lost profit through the business interruption claim will be recognized in the period in which the insurance claim is settled.

Table of Contents

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

None.

Item 9A. Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures. The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 (the "Exchange Act"), including this Annual Report on Form 10-K, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding the required disclosure.

The Company carried out the evaluation of the effectiveness of its disclosure controls and procedures, required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-15, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2018.

Management's Report on Internal Control Over Financial Reporting. See Item 8. "Financial Statements and Supplementary Data."

Attestation Report of Independent Registered Public Accounting Firm. See Item 8. "Financial Statements and Supplementary Data."

Changes in Internal Control Over Financial Reporting. There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the three months ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Item 9B. Other Information

None.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is herein incorporated by reference to the Company's definitive proxy statement relating to the 2019 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2018.

Item 11. Executive Compensation

The information required by this Item is herein incorporated by reference to the Company's definitive proxy statement relating to the 2019 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2018.

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

Information with Respect to Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth as of December 31, 2018, information with respect to (a) number of securities to be issued upon exercise of outstanding options, warrants and rights, (b) the weighted average exercise price of outstanding options, warrants and rights and (c) the number of securities remaining available for future issuance, in each case under the Company's 2014 Stock Incentive Plan and the Company's Employee Stock Purchase Plan, or the ESPP. The ESPP provides for the sale of up to a maximum of 600,000 shares of Company common stock to plan participants, of which 568,785 share were available for future issuance as of December 31, 2018. Shares issued under the ESPP will reduce, on a share-for-share basis, the number of shares of Company common stock available for issuance pursuant to our 2014 Stock Incentive Plan.

	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities in Column (a))
Equity compensation plans approved by security holders	42,025	$ 14.00	863,681
Equity compensation plans not approved by security	—	—	—
Total	42,025	$ 14.00	863,681

All other information required by this Item is herein incorporated by reference to the Company's definitive proxy statement relating to the 2019 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2018.

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

The information required by this Item is herein incorporated by reference to the Company's definitive proxy statement relating to the 2019 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2018.

Item 14. Principal Accounting Fees and Services

The information required by this Item is herein incorporated by reference to the Company's definitive proxy statement relating to the 2019 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2018.

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules

The following documents are filed as part of this Annual Report on Form 10-K, or incorporated herein by reference:

1. Financial Statements. The Company's financial statements are included Item 8. Financial Statements and Supplementary Data.
2. Financial Statement Schedules. All schedules are omitted since they are not applicable, not required, or the information required to be set forth herein is included in the Consolidated Financial Statements.
3. Exhibits. The exhibits listed in the Exhibit Index immediately below are filed as part of this Annual Report on Form 10 K, or are incorporated by reference herein.

Exhibit No.	Description of Exhibit	
2.1+	Asset Purchase Agreement, dated as of June 24, 2013, by and between Lafarge North America Inc. and Lone Star U.S. Acquisitions, LLC.	(b)
2.2	Amendment No. 1 to Asset Purchase Agreement, dated as of August 28, 2013, by and between Lafarge North America Inc., Lone Star U.S. Acquisitions, LLC, Continental Building Products, LLC, Continental Silver Grove, LLC, Continental Palatka, LLC and Continental Buchanan, LLC.	(b)
2.3	Amendment No. 2 to Asset Purchase Agreement, dated as of August 29, 2013, by and between Lafarge North America Inc., Lone Star U.S. Acquisitions, LLC, Continental Building Products, LLC, Continental Silver Grove, LLC, Continental Palatka, LLC and Continental Buchanan, LLC.	(b)
3.1	Amended and Restated Certificate of Incorporation of the Company.	(c)
3.2	Bylaws of the Company.	(b)
4.1	Form of Registration Rights Agreement between Continental Building Products, Inc. and LSF8 Gypsum Holdings, L.P.	(b)
4.2	Form of Certificate of Common Stock.	(c)
10.1^	Synthetic Gypsum Supply Agreement dated as of December 11, 2007 between Synthetic Materials, LLC and Lafarge North America Inc.	(b)
10.2^	Gypsum Contract (Miami Fort Station) dated as of January 17, 2017 between Dynegy Miami Fort LLC and Continental Silver Grove LLC.	(h)
10.3^	Gypsum Contract (Zimmer Station) dated as of January 17, 2017 between Dynegy Zimmer LLC and Continental Silver Grove LLC.	(h)
10.4^	Synthetic Gypsum Supply Agreement dated as of December 11, 2007 between Synthetic Materials, LLC and Lafarge North America Inc.	(b)
10.5^	Gypsum Contract dated as of August 9, 1999 between Seminole Electric Cooperative, Inc. and Lafarge North America Inc.	(b)
10.6^	Paper Supply Agreement dated as of February 18, 2000 between Seven Hills Paperboard, LLC and Lafarge North America Inc. (formerly known as Lafarge Corporation).	(b)

10.7#	Amended and Restated Continental Building Products, Inc. 2014 Stock Incentive Plan.	(i)
10.8#	Form of Grant Notice for 2014 Stock Incentive Plan Restricted Stock Unit Award.	(a)
10.9#	Form of Grant Notice for 2014 Stock Incentive Plan Restricted Stock Award.	(a)

\# Denotes management compensatory plan or arrangement.
* Filed herewith.
^ Certain portions of this exhibit have been redacted and separately filed with the Securities and Exchange Commission pursuant to a request for confidential treatment.
\+ Certain schedules to this agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedules will be furnished supplementally to the SEC upon request.

Table of Contents

Exhibit No.	Description of Exhibit	
10.10#	Form of Grant Notice for 2014 Stock Incentive Plan Nonqualified Stock Options.	(a)
10.11	First Lien Credit Agreement, dated as of August 30, 2013, by and among LSF8 Gypsum Holdings Company, LLC, Continental Building Products LLC, Continental Building Products Canada Inc., the lenders party thereto, 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.	(b)
10.12	Incremental Assumption Agreement and Amendment No. 1, dated as of December 2, 2013, to the First Lien Credit Agreement dated as of August 30, 2013, by and among LSF8 Gypsum Holdings Company, LLC, Continental Building Products LLC, Continental Building Products Canada Inc., the lenders party thereto, 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.	(b)
10.13#	Form of Indemnification Agreement for officers and directors.	(b)
10.14^	First Amendment to Synthetic Gypsum Supply Agreement, dated as of December 11, 2007, by and between Synthetic Materials, LLC and Lafarge North America Inc., effective as of February 16, 2009.	(b)
10.15	Assignment and Assumption Agreement, dated as of May 10, 2010, by and between Synthetic Materials, LLC and Mirant Mid-Atlantic, LLC, assigning the Synthetic Gypsum Supply Agreement, dated as of December 11, 2007, between Synthetic Materials, LLC and Lafarge North America Inc.	(b)
10.16^	Amendment No. 1 to Supply Agreement, dated as of December 11, 2007, by and between Synthetic Materials, LLC and Lafarge North America, Inc., effective as of December 22, 2008.	(b)
10.17^	Amendment One to Gypsum Contract, dated as of August 9, 1999, by and between Seminole Electric Cooperative, Inc. and Lafarge North America, Inc. (formerly known as Lafarge Corporation), effective December 11, 2008.	(b)
10.18#	Form of Grant Notice for 2014 Stock Incentive Plan Restricted Stock Unit Award.	(d)
10.19#	Form of Grant Notice for 2014 Stock Incentive Plan Restricted Stock Award.	(d)
10.20#	Form of Grant Notice for 2014 Stock Incentive Plan Nonqualified Stock Options.	(d)
10.21#	Form of Grant Notice for 2014 Stock Incentive Plan Incentive Stock Options.	(d)
10.22#	Form of Grant Notice for 2014 Stock Incentive Plan Performance-Based Restricted Stock Units.	(d)
10.23#	Continental Building Products, Inc. Employee Stock Purchase Plan.	(e)
10.24#		(i)

	Continental Building Products, Inc. Amended and Restated Executive Severance and Change of Control Plan.	
10.25	Stock Purchase Agreement by and between Continental Building Products, Inc. and LSF8 Gypsum Holdings, L.P. date March 14, 2016.	(f)
10.26	Amended and Restated Credit Agreement dated as of August 18, 2016 among Continental Building Products, Inc., Continental Building Products Operating Company, LLC, Continental Building Products Canada, Inc., the Lender Party thereto and Credit Suisse AG as Administrative Agent.	(g)
10.27	Replacement Facility Amendment dated as of February 21, 2017 among Continental Building Products Operating Company, LLC, the Lender Party thereto and Credit Suisse AG as Administrative Agent.	(h)

# Denotes management compensatory plan or arrangement.

* Filed herewith.

^ Certain portions of this exhibit have been redacted and separately filed with the Securities and Exchange Commission pursuant to a request for confidential treatment.

+ Certain schedules to this agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedules will be furnished supplementally to the SEC upon request.

Table of Contents

Exhibit No.	Description of Exhibit	
10.28	Second Replacement Facility Amendment dated December 6, 2017 among Continental Building Products, Inc., Continental Building Products Operating Company, LLC, Continental Building Products Canada, Inc., the Lender Parties thereto and Credit Suisse AG as Administrative Agent.	(j)
10.29#	Form of Grant Notice for 2014 Stock Incentive Plan Performance-Based Restricted Stock Units.	(i)
10.30#	Form of Grant Notice for 2014 Stock Incentive Plan Restricted Stock Units.	(i)
21.1	List of Subsidiaries of the Company.	*
23.1	Consent of Ernst & Young LLP.	*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	*
31.2	Certification of Chief 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 Calculation Linkbase Document.	*
101.DEF	XBRL Taxonomy Definition Linkbase Document.	*
101.LAB	XBRL Taxonomy Label Linkbase Document.	*

101.PRE	XBRL Taxonomy Presentation Linkbase Document.	*

# Denotes management compensatory plan or arrangement.
* Filed herewith.
^ Certain portions of this exhibit have been redacted and separately filed with the Securities and Exchange Commission pursuant to a request for confidential treatment.
+ Certain schedules to this agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedules will be furnished supplementally to the SEC upon request.

(a) Previously filed on December 24, 2013 as an exhibit to the Company's Registration Statement on Form S-1 (File No. 333-193078) and incorporated herein by reference.
(b) Previously filed on January 10, 2014 as an exhibit to Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-193078) and incorporated herein by reference.
(c) Previously filed on January 31, 2014 as an exhibit to Amendment No. 3 to the Company's Registration Statement on Form S-1 (File No. 333-193078) and incorporated herein by reference.
(d) Previously filed on May 6, 2015 as an exhibit to the Company's Quarterly Report on Form 10-Q and incorporated herein by reference.
(e) Previously filed on August 6, 2015 as an exhibit to the Company's Quarterly Report on Form 10-Q and incorporated herein by reference.
(f) Previously filed on August 22, 2016 as an exhibit to the Company's Current Report on Form 8-K and incorporated herein by reference.
(g) Previously filed on May 5, 2017 as an exhibit to the Company's Quarterly Report on Form 10-Q and incorporated herein by reference.
(h) Previously filed on August 4, 2017 as an exhibit to the Company's Quarterly Report on Form 10-Q and incorporated herein by reference.
(i) Previously filed on December 11, 2017 as an exhibit to the Company's Current Report on Form 8-K and incorporated herein by reference.

Table of Contents

(j) Previously filed on May 4, 2018 as an exhibit to the Company's Quarterly Report on Form 10-Q and incorporated herein by reference.

Table of Contents

Item 16. Form 10-K Summary

Not applicable.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONTINENTAL BUILDING PRODUCTS, INC.

	/s/ James Bachmann	February 22, 2019
By:	James Bachmann President and Chief Executive Officer (Principal Executive Officer)	
	/s/ Dennis Schemm	February 22, 2019
By:	Dennis Schemm Senior Vice President and Chief Financial Officer (Principal Financial Officer)	

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

Name	Title	Date
/s/ James Bachmann James Bachmann	President and Chief Executive Officer (Principal Executive Officer) and Director	February 22, 2019
/s/ Dennis Schemm Dennis Schemm	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 22, 2019
/s/ Dennis Romps Dennis Romps	Senior Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)	February 22, 2019
/s/ Edward Bosowski Edward Bosowski	Chairman of the Board, Director	February 22, 2019
/s/ Michael Keough Michael Keough	Director	February 22, 2019
/s/ Michael Moore Michael O. Moore	Director	February 22, 2019
/s/ Jack Sweeny Jack Sweeny	Director	February 22, 2019
/s/ Ira Strassberg Ira Saul Strassberg	Director	February 22, 2019

/s/ Chantal Veevaete Chantal Veevaete	Director	February 22, 2019