Summit Materials, Inc.
Form 10-Q
August 04, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 1, 2017

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 numbers:

001-36873 (Summit Materials, Inc.)

333-187556 (Summit Materials, LLC)

SUMMIT MATERIALS, INC.

SUMMIT MATERIALS, LLC

(Exact name of registrants as specified in their charters)

Delaware (Summit Materials, Inc.)	47-1984212
Delaware (Summit Materials, LLC)	26-4138486
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1550 Wynkoop Street, 3rd Floor	
Denver, Colorado	80202
(Address of principal executive offices)	(Zip Code)

Registrants' telephone number, including area code: (303) 893-0012

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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.

Summit Materials, Inc.	Yes	No
Summit Materials, LLC	Yes	No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Summit Materials, Inc.	Yes	No
Summit Materials, LLC	Yes	No

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

Summit Materials, Inc.

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

Summit Materials, LLC

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

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

Summit Materials, Inc.	Yes	No
Summit Materials, LLC	Yes	No

As of July 26, 2017, the number of shares of Summit Materials, Inc.'s outstanding Class A and Class B common stock, par value $0.01 per share for each class, was 107,504,679 and 100, respectively.

As of July 26, 2017, 100% of Summit Materials, LLC's outstanding limited liability company interests were held by Summit Materials Intermediate Holdings, LLC, its sole member and an indirect subsidiary of Summit Materials, Inc.

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EXPLANATORY NOTE

This quarterly report on Form 10-Q (this “report”) is a combined quarterly report being filed separately by two registrants: Summit Materials, Inc. and Summit Materials, LLC. Each registrant hereto is filing on its own behalf all of the information contained in this report that relates to such registrant. Each registrant hereto is not filing any information that does not relate to such registrant, and therefore makes no representation as to any such information. We believe that combining the quarterly reports on Form 10-Q of Summit Materials, Inc. and Summit Materials, LLC into this single report eliminates duplicative and potentially confusing disclosure and provides a more streamlined presentation since a substantial amount of the disclosure applies to both registrants.

Unless stated otherwise or the context requires otherwise, references to “Summit Inc.” mean Summit Materials, Inc., a Delaware corporation, and references to “Summit LLC” mean Summit Materials, LLC, a Delaware limited liability company. The references to Summit Inc. and Summit LLC are used in cases where it is important to distinguish between them. We use the terms “we,” “our,” “us” or “the Company” to refer to Summit Inc. and Summit LLC together with their respective subsidiaries, unless otherwise noted or the context otherwise requires.

Summit Inc. was formed on September 23, 2014 to be a holding company. As of July 1, 2017, its sole material asset was a 96.3% economic interest in Summit Materials Holdings L.P. (“Summit Holdings”). Summit Inc. has 100% of the voting rights of Summit Holdings, which is the indirect parent of Summit LLC. Summit LLC is a co-issuer of our outstanding 8 $1/_2$% senior notes due 2022 (“2022 Notes”), our 6 $1/_8$% senior notes due 2023 (“2023 Notes”) and our 5 $1/_8$% senior notes due 2025 (“2025 Notes” and collectively with the 2022 Notes and 2023 Notes, the "Senior Notes"). Summit Inc.’s only revenue for the three and six months ended July 1, 2017 was that generated by Summit LLC and its consolidated subsidiaries. Summit Inc. controls all of the business and affairs of Summit Holdings and, in turn, Summit LLC.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report includes “forward-looking statements” within the meaning of the federal securities laws, which involve risks and uncertainties. Forward-looking statements include all statements that do not relate solely to historical or current facts, and you can identify forward-looking statements because they contain words such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “intends,” “trends,” “plans,” “estimates,” “projects” or “anticipates” or similar expressions that conc strategy, plans, expectations or intentions. All statements made relating to our estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results are forward-looking statements. These forward-looking statements are subject to risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, it is very difficult to predict the effect of known factors, and, of course, it is impossible to anticipate all factors that could affect our actual results. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be realized. Important factors could affect our results and could cause results to differ materially from those expressed in our forward-looking statements, including but not limited to the factors discussed in the section entitled “Risk Factors” in Summit Inc.’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the “Annual Report”), as filed with the Securities and Exchange Commission (the “SEC”), any factors discussed in the section entitled “Risk Factors” of this report and the following:

- our dependence on the construction industry and the strength of the local economies in which we operate;
- the cyclical nature of our business;
- risks related to weather and seasonality;
- risks associated with our capital-intensive business;
- competition within our local markets;

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- our ability to execute on our acquisition strategy, successfully integrate acquisitions with our existing operations and retain key employees of acquired businesses;

- our dependence on securing and permitting aggregate reserves in strategically located areas;

- declines in public infrastructure construction and delays or reductions in governmental funding, including the funding by transportation authorities and other state agencies;

- environmental, health, safety and climate change laws or governmental requirements or policies concerning zoning and land use;

- conditions in the credit markets;

- our ability to accurately estimate the overall risks, requirements or costs when we bid on or negotiate contracts that are ultimately awarded to us;

- material costs and losses as a result of claims that our products do not meet regulatory requirements or contractual specifications;

- cancellation of a significant number of contracts or our disqualification from bidding for new contracts;

- special hazards related to our operations that may cause personal injury or property damage not covered by insurance;

- our substantial current level of indebtedness;

- our dependence on senior management and other key personnel; and

- interruptions in our information technology systems and infrastructure.

All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements.

Any forward-looking statement that we make herein speaks only as of the date of this report. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as required by law.

CERTAIN DEFINITIONS

As used in this report, unless otherwise noted or the context otherwise requires:

- "Finance Corp." refers to Summit Materials Finance Corp., an indirect wholly-owned subsidiary of Summit LLC and the co-issuer of the Senior Notes;

- the “Issuers” refers to Summit LLC and Finance Corp. as co-issuers of the Senior Notes but not to any of their subsidiaries;

- “Harper Contracting” refers collectively to substantially all the assets of Harper Contracting, Inc., Harper Sand and Gravel, Inc., Harper Excavating, Inc., Harper Ready Mix Company, Inc. and Harper Investments, Inc.;

- “Mainland” refers to Mainland Sand & Gravel ULC, which is the surviving entity from the acquisition of Rock Head Holdings Ltd., B.I.M Holdings Ltd., Carlson Ventures Ltd., Mainland Sand and Gravel Ltd. and Jamieson Quarries Ltd.;

- “AMC" refers to American Materials Company;

- “Boxley” refers to Boxley Materials Company;
- “Sierra” refers to Sierra Ready Mix, LLC;
- "Oldcastle Assets" refers to the seven aggregates quarries located in central and northwest Missouri acquired from APAC-Kansas, Inc. and APAC-Missouri, Inc., subsidiaries of Oldcastle, Inc.;
- “Weldon’’ refers to Weldon Real Estate, LLC;
- “Rustin” refers to H.C. Rustin Corporation;
- “RD Johnson” refers to R.D. Johnson Excavating Company, LLC and Asphalt Sales of Lawrence, LLC;
- “Angelle Assets” refers to two cement terminal operations located in Port Allen and LaPlace, LA.;
- “Midland Concrete” refers to Midland Concrete Ltd.;
- “Everist Materials” refers to Everist Materials, LLC;
- “Razorback” refers to Razorback Concrete Company;
- “Sandidge Concrete” refers to Sandidge Manufacturing, Inc.;
- “Carolina Sand” refers to Carolina Sand, LLC;
- “Hanna’s Bend” refers to Hanna’s Bend Aggregate, Ltd.;
- “Winvan Paving” refers to Winvan Paving Ltd.;
- “Glasscock” refers to Glasscock Company, Inc. and Glasscock Logistics Company, LLC;

- “Somerset” refers to Ready Mix Concrete of Somerset, Inc. and RMCS Holdings, Inc.;
- “Great Southern” refers to Great Southern Ready Mix, LLC, Great Southern Stabilized, LLC and Southern Cement Slurry, LLC;
- “Northwest” refers to Northwest Ready Mix, Inc. and Northwest Aggregates, Inc.;
- “LP Units” refers to the Summit Holdings’ outstanding Class A Units;
- “IPO” refers to initial public offering; and
- “EBITDA” refers to net income (loss) before interest expense, income tax expense (benefit), depreciation, depletion and amortization expense.

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Corporate Structure

The following chart summarizes our organizational structure, equity ownership and our principal indebtedness as of July 1, 2017. This chart is provided for illustrative purposes only and does not show all of our legal entities or all obligations of such entities.

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(1) SEC registrant.
(2) The shares of Class B Common Stock are currently held by pre-initial public offering investors, including certain members of management or their family trusts that directly hold LP Units. A holder of Class B Common Stock is entitled, without regard to the number of shares of Class B Common Stock held by such holder, to a number of votes that is equal to the aggregate number of LP Units held by such holder.
(3) Guarantor under the senior secured credit facilities, but not the Senior Notes.
(4) Summit LLC and Finance Corp are the issuers of the Senior Notes and Summit LLC is the borrower under our senior secured credit facilities. Finance Corp. was formed solely for the purpose of serving as co-issuer or guarantor of certain indebtedness, including the Senior Notes. Finance Corp. does not and will not have operations of any kind and does not and will not have revenue or assets other than as may be incidental to its activities as a co-issuer or guarantor of certain indebtedness.

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SUMMIT MATERIALS, INC.

SUMMIT MATERIALS, LLC

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PART I—FINANCIAL INFORMATION

ITEM 1.FINANCIAL STATEMENTS

SUMMIT MATERIALS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

	July 1, 2017 (unaudited)	December 31, 2016 (audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 353,063	$ 143,392
Accounts receivable, net	247,546	162,377
Costs and estimated earnings in excess of billings	29,212	7,450
Inventories	182,886	157,679
Other current assets	12,352	12,800
Total current assets	825,059	483,698
Property, plant and equipment, less accumulated depreciation, depletion and amortization (July 1, 2017 - $554,433 and December 31, 2016 - $484,554)	1,555,816	1,446,452
Goodwill	918,511	782,212
Intangible assets, less accumulated amortization (July 1, 2017 - $6,041 and December 31, 2016 - $7,854)	17,344	17,989
Other assets	48,438	51,115
Total assets	$ 3,365,168	$ 2,781,466
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of debt	$ 6,500	$ 6,500
Current portion of acquisition-related liabilities	17,721	24,162
Accounts payable	116,817	81,565
Accrued expenses	119,260	111,605
Billings in excess of costs and estimated earnings	16,873	15,456
Total current liabilities	277,171	239,288
Long-term debt	1,807,713	1,514,456
Acquisition-related liabilities	38,039	32,664
Other noncurrent liabilities	129,296	135,019
Total liabilities	2,252,219	1,921,427
Commitments and contingencies (see note 11)		
Stockholders' equity:		

Class A common stock, par value $0.01 per share; 1,000,000,000 shares authorized, 107,491,979 and 96,033,222 shares issued and outstanding as of July 1, 2017 and December 31, 2016, respectively	1,076	961
Class B common stock, par value $0.01 per share; 250,000,000 shares authorized, 100 shares issued and outstanding as of July 1, 2017 and December 31, 2016	—	—
Additional paid-in capital	1,079,595	824,304
Accumulated earnings	16,584	19,028
Accumulated other comprehensive income (loss)	2,273	(2,249)
Stockholders' equity	1,099,528	842,044
Noncontrolling interest in consolidated subsidiaries	1,292	1,378
Noncontrolling interest in Summit Holdings	12,129	16,617
Total stockholders' equity	1,112,949	860,039
Total liabilities and stockholders' equity	$ 3,365,168	$ 2,781,466

See notes to unaudited consolidated financial statements.

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SUMMIT MATERIALS, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Operations

(In thousands, except share and per share amounts)

	Three months ended		Six months ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Revenue:				
Product	$ 397,726	$ 341,341	$ 622,743	$ 521,443
Service	80,642	71,295	114,669	99,232
Net revenue	478,368	412,636	737,412	620,675
Delivery and subcontract revenue	45,725	32,638	70,958	52,978
Total revenue	524,093	445,274	808,370	673,653
Cost of revenue (excluding items shown separately below):				
Product	233,592	202,029	400,560	334,425
Service	56,587	50,471	81,958	74,525
Net cost of revenue	290,179	252,500	482,518	408,950
Delivery and subcontract cost	45,725	32,638	70,958	52,978
Total cost of revenue	335,904	285,138	553,476	461,928
General and administrative expenses	58,086	75,490	116,554	120,860
Depreciation, depletion, amortization and accretion	45,039	37,408	84,787	69,768
Transaction costs	2,620	290	3,893	3,606
Operating income	82,444	46,948	49,660	17,491
Interest expense	25,986	25,617	50,955	47,194
Loss on debt financings	—	—	190	—
Tax receivable agreement expense	1,525	—	1,525	—
Other (income) expense, net	(590)	882	(1,247)	548
Income (loss) from operations before taxes	55,523	20,449	(1,763)	(30,251)
Income tax expense (benefit)	3,435	(1,056)	1,257	(9,222)
Net income (loss)	52,088	21,505	(3,020)	(21,029)
Net income (loss) attributable to noncontrolling interest in subsidiaries	12	44	(86)	(35)
Net income (loss) attributable to Summit Holdings	2,076	8,090	(490)	(13,247)
Net income (loss) attributable to Summit Inc.	$ 50,000	$ 13,371	$ (2,444)	$ (7,747)
Income (loss) per share of Class A common stock:				
Basic	$ 0.47	$ 0.21	$ (0.02)	$ (0.14)
Diluted	$ 0.46	$ 0.21	$ (0.02)	$ (0.20)

Weighted average shares of Class A common stock:				
Basic	106,898,512	62,743,149	106,035,087	56,812,906
Diluted	107,908,888	63,893,909	106,035,087	100,954,233

See notes to unaudited consolidated financial statements.

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SUMMIT MATERIALS, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Comprehensive Operations

(In thousands)

	Three months ended		Six months ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Net income (loss)	$ 52,088	$ 21,505	$ (3,020)	$ (21,029)
Other comprehensive income (loss):				
Postretirement liability adjustment	413	—	413	—
Foreign currency translation adjustment	3,418	635	4,124	5,277
(Loss) income on cash flow hedges	(240)	(1,058)	172	(3,292)
Other comprehensive income (loss):	3,591	(423)	4,709	1,985
Comprehensive income (loss)	55,679	21,082	1,689	(19,044)
Less comprehensive income (loss) attributable to the noncontrolling interest in consolidated subsidiaries	12	44	(86)	(35)
Less comprehensive income (loss) attributable to Summit Holdings	1,145	8,051	(303)	(12,076)
Comprehensive income (loss) attributable to Summit Inc.	$ 54,522	$ 12,987	$ 2,078	$ (6,933)

See notes to unaudited consolidated financial statements.

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SUMMIT MATERIALS, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Cash Flows

(In thousands)

	Six months ended July 1, 2017	July 2, 2016
Cash flow from operating activities:		
Net loss	$ (3,020)	$ (21,029)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation, depletion, amortization and accretion	90,781	76,252
Share-based compensation expense	9,424	29,817
Deferred income tax benefit	374	(10,040)
Net gain on asset disposals	(4,052)	(3,717)
Non-cash loss on debt financings	85	—
Other	710	129
Decrease (increase) in operating assets, net of acquisitions:		
Accounts receivable, net	(68,539)	(55,489)
Inventories	(19,272)	(27,948)
Costs and estimated earnings in excess of billings	(21,571)	(24,542)
Other current assets	3,552	(2,646)
Other assets	(1,565)	(367)
Increase (decrease) in operating liabilities, net of acquisitions:		
Accounts payable	28,550	9,682
Accrued expenses	(6,789)	10,343
Billings in excess of costs and estimated earnings	1,252	(3,523)
Other liabilities	1,229	(3,422)
Net cash provided by (used in) operating activities	11,149	(26,500)
Cash flow from investing activities:		
Acquisitions, net of cash acquired	(213,124)	(296,664)
Purchases of property, plant and equipment	(109,088)	(91,669)
Proceeds from the sale of property, plant and equipment	8,411	9,442
Other	137	1,500
Net cash used for investing activities	(313,664)	(377,391)
Cash flow from financing activities:		
Proceeds from equity offerings	237,600	—
Capital issuance costs	(627)	(136)
Proceeds from debt issuances	302,000	321,000
Debt issuance costs	(5,308)	(5,110)
Payments on debt	(9,288)	(63,676)
Payments on acquisition-related liabilities	(17,204)	(25,662)
Distributions from partnership	(79)	(373)
Other	4,904	113

Net cash provided by financing activities	511,998	226,156
Impact of foreign currency on cash	188	498
Net increase (decrease) in cash	209,671	(177,237)
Cash and cash equivalents—beginning of period	143,392	186,405
Cash and cash equivalents—end of period	$ 353,063	$ 9,168

See notes to unaudited consolidated financial statements.

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SUMMIT MATERIALS, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Changes in Stockholders' Equity

(In thousands, except share amounts)

	Summit Materials, Inc.									
	Noncontrolling Interest in Subsidiaries	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Loss	Class A Common Stock Shares	Dollars	Class B Common Stock Shares	Dollars	Additional Paid-in Capital	Noncontrolling Interest in Summit Holdings	Tota Stoc Equi
er 31,	$ 1,378	$ 19,028	$ (2,249)	96,033,222	$ 961	100	$ —	$ 824,304	$ 16,617	$ 86
	(86)	(2,444)	—	—	—	—	—	—	(490)	(3
of Shares	—	—	—	10,000,000	100	—	—	238,367	(1,496)	23
es	—	—	—	1,014,159	10	—	—	2,600	(2,610)	—
ensive	—	—	4,522	—	—	—	—	—	187	4,
ised sation tions	—	—	—	—	—	—	—	9,424	—	9,
nip	—	—	—	—	—	—	—	—	(79)	(7
	—	—	—	444,598	5	—	—	4,900	—	4,
017	$ 1,292	$ 16,584	$ 2,273	107,491,979	$ 1,076	100	$ —	$ 1,079,595	$ 12,129	$ 1,

See notes to unaudited consolidated financial statements.

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SUMMIT MATERIALS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Tables in thousands, except share amounts)

1.SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Summit Materials, Inc. ("Summit Inc." and, together with its subsidiaries, the "Company") is a vertically-integrated construction materials company. The Company is engaged in the production and sale of aggregates, cement, ready-mix concrete, asphalt paving mix and concrete products and owns and operates quarries, sand and gravel pits, two cement plants, cement distribution terminals, ready-mix concrete plants, asphalt plants and landfill sites. It is also engaged in paving and related services. The Company's three operating and reporting segments are the West, East and Cement segments.

Substantially all of the Company's products and services are produced, consumed and performed outdoors, primarily in the spring, summer and fall. Seasonal changes and other weather-related conditions can affect the production and sales volumes of its products and delivery of services. Therefore, the financial results for any interim period are typically not indicative of the results expected for the full year. Furthermore, the Company's sales and earnings are sensitive to national, regional and local economic conditions and to cyclical changes in construction spending, among other factors.

On September 23, 2014, Summit Inc. was formed as a Delaware corporation to be a holding company. Its sole material asset is a controlling equity interest in Summit Materials Holdings L.P. ("Summit Holdings"). Pursuant to a reorganization into a holding company structure (the "Reorganization") consummated in connection with Summit Inc.'s March 2015 initial public offering, Summit Inc. became a holding corporation operating and controlling all of the business and affairs of Summit Holdings and its subsidiaries and, through Summit Holdings, conducts its business.

Equity Offering—On January 10, 2017, Summit Inc. raised $237.6 million, net of underwriting discounts, through the issuance of 10,000,000 shares of Class A common stock at a public offering price of $24.05 per share. Summit Inc. used these proceeds to purchase an equal number of limited partnership interests in Summit Holdings ("LP Units") and caused Summit Holdings to use a portion of the proceeds from the offering to acquire two materials-based companies for a combined purchase price of approximately $110 million in cash, with remaining net proceeds to be used for general corporate purposes, which may include, but is not limited to, funding acquisitions, repaying indebtedness, capital expenditures and funding working capital.

Basis of Presentation—These unaudited consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures typically included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto as of and for the year ended December 31, 2016. The Company continues to follow the accounting policies set forth in those consolidated financial statements.

Management believes that these consolidated interim financial statements include all adjustments, normal and recurring in nature, that are necessary to present fairly the financial position of the Company as of July 1, 2017, the results of operations for the three and six months ended July 1, 2017 and July 2, 2016 and cash flows for the six months ended July 1, 2017 and July 2, 2016.

Principles of Consolidation—The consolidated financial statements include the accounts of Summit Inc. and its majority owned subsidiaries. All intercompany balances and transactions have been eliminated. As a result of the Reorganization, Summit Holdings became a variable interest entity over which Summit Inc. has 100% voting power and control and for which Summit Inc. has the obligation to absorb losses and the right to receive benefits.

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During 2016 and 2017, certain limited partners of Summit Holdings exchanged their LP Units for shares of Class A common stock of Summit Inc. The following table summarizes the changes in our ownership of Summit Holdings:

	Summit Inc. Shares (Class A)	LP Units	Total	Summit Inc. Ownership Percentage	
Balance — December 31, 2016	96,033,222	5,151,297	101,184,519	94.9	%
January 2017 public offering	10,000,000	-	10,000,000		
Exchanges during period	236,095	(236,095)	-		
Other equity transactions	134,423	-	134,423		
Balance — April 1, 2017	106,403,740	4,915,202	111,318,942	95.6	%
Exchanges during period	778,064	(778,064)	-		
Other equity transactions	310,175	-	310,175		
Balance — July 1, 2017	107,491,979	4,137,138	111,629,117	96.3	%
Balance — January 2, 2016	49,745,944	50,275,825	100,021,769	49.7	%
Issuance of Class A shares	1,038	-	1,038		
Stock Dividend - December 28, 2016	1,135,692	-	1,135,692		
Balance — April 2, 2016	50,882,674	50,275,825	101,158,499	50.3	%
Exchanges during period	13,177,754	(13,177,754)	-		
Other equity transactions	6,250	-	6,250		
Balance — July 2, 2016	64,066,678	37,098,071	101,164,749	63.3	%

As a result, Summit Inc. is Summit Holdings' primary beneficiary and thus consolidates Summit Holdings in its consolidated financial statements with a corresponding noncontrolling interest elimination, which was 3.7% and 5.1% as of July 1, 2017 and December 31, 2016, respectively.

Noncontrolling interests in consolidated subsidiaries represent a 20% ownership in Ohio Valley Asphalt, LLC. The Company attributes consolidated stockholders' equity and net income separately to the controlling and noncontrolling interests. The Company accounts for investments in entities for which it has an ownership of 20% to 50% using the equity method of accounting.

Use of Estimates—Preparation of these consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities and reported amounts of revenue and expenses. Such estimates include the valuation of accounts receivable, inventories, valuation of deferred tax assets, goodwill, intangibles and other long-lived assets, pension and other postretirement obligations and asset retirement obligations. Estimates also include revenue earned on contracts and costs to complete contracts. Most of the Company's paving and related services are performed under fixed unit-price contracts with state and local governmental entities. Management regularly evaluates its estimates and assumptions based on historical experience and other factors, including the current economic environment. As future events and their effects cannot be determined with precision, actual results can differ significantly from estimates made. Changes in estimates, including those resulting from continuing changes in the economic environment, are reflected in the Company's consolidated financial statements when the change in estimate occurs.

Business and Credit Concentrations—The Company's operations are conducted primarily across 21 U.S. states and in British Columbia, Canada, with the most significant revenue generated in Texas, Kansas, Utah and Missouri. The Company's accounts receivable consist primarily of amounts due from customers within these areas. Therefore, collection of these accounts is dependent on the economic conditions in the aforementioned states, as well as specific situations affecting individual customers. Credit granted within the Company's trade areas has been granted to many customers, and management does not believe that a significant concentration of credit exists with respect to any individual customer or group of customers. No single customer accounted for more than 10% of the Company's total revenue in the three and six months ended July 1, 2017 and July 2, 2016.

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Earnings per Share—The Company computes basic earnings per share attributable to stockholders by dividing income attributable to Summit Inc. by the weighted-average shares of Class A common stock outstanding. Diluted earnings per share reflects the potential dilution beyond shares for basic earnings per share that could occur if securities or other contracts to issue common stock were exercised, converted into common stock, or resulted in the issuance of common stock that would have shared in the Company's earnings. Since the Class B common stock has no economic value, those shares are not included in the weighted-average common share amount for basic or diluted earnings per share. In addition, as the shares of Class A common stock are issued by Summit Inc., the earnings and equity interests of noncontrolling interests are not included in basic earnings per share.

Tax Receivable Agreement—When the Company purchases LP Units for cash or LP Units are exchanged for shares of Class A common stock, this results in increases in the Company's share of the tax basis of the tangible and intangible assets, which increases the tax depreciation and amortization deductions that otherwise would not have been available to us. These increases in tax basis and tax depreciation and amortization deductions are expected to reduce the amount of cash taxes that we would otherwise be required to pay in the future. On March 11, 2015, we entered into a tax receivable agreement ("TRA") with the pre-IPO owners that requires us to pay them 85% of the amount of cash savings, if any, in U.S. federal, state, and local income tax that we actually realize (or, under certain circumstances such as an early termination of the TRA, we are deemed to realize) as a result of the increases in tax basis in connection with exchanges by the pre-IPO owners described above and certain other tax benefits attributable to payments under the TRA.

On a quarterly basis, we evaluate the realizability of the deferred tax assets resulting from the exchange of LP Units for Class A common stock occurring during the period. Our evaluation considers all sources of taxable income; all evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed for some portion or all of the deferred tax assets. If deferred tax assets are determined to be realizable, we record a TRA liability of 85% of such deferred tax assets. In subsequent periods, we assess the realizability of all of our deferred tax assets, including the deferred tax assets subject to the TRA. Should we determine a deferred tax asset with a valuation allowance is realizable in a subsequent period, the related valuation allowance will be released and a corresponding TRA liability will be recorded. The realizability of deferred tax assets, including those subject to the TRA, is dependent upon the generation of future taxable income during the periods in which those deferred tax assets become deductible and consideration of prudent and feasible tax-planning strategies.

The measurement of the TRA is accounted for as a contingent liability. Therefore, once we determine that a payment to the pre-IPO owners has become probable and can be estimated, the estimate of payment will be accrued.

New Accounting Standards — In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires that the service cost component be reported in the same line item as employer compensation costs and that the other components of periodic pension costs be reported outside of operating income. The ASU also restricts capitalization of costs to the service cost component. The ASU is effective for public companies for annual periods beginning after December 15, 2017. The Company early adopted this ASU as of the beginning of fiscal year 2017, on a retrospective basis; accordingly, the Company reclassified $62,000 and $160,000 from product cost of revenue to other income in the three and six months ended July 2, 2016, respectively, and $154,000 from general and administrative expenses to other income in the three and six months ended July 2, 2016, to conform to the current year presentation.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment, which eliminates the two step goodwill impairment test and replaces it with a single step test. The single step test compares the carrying amount of a reporting unit to its fair value; if the carrying amount is greater than the fair value the difference is the amount of the goodwill impairment. Step zero is left unchanged. Therefore, entities that wish to do a qualitative assessment are still permitted to do so. The ASU is effective for SEC filers for fiscal years beginning after December 15, 2020. However, the Company early adopted this ASU as of the beginning of fiscal year 2017. The adoption of this ASU did not have a material impact on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which requires that the income tax effect of share-based awards be recognized in the income statement and allows

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entities to elect an accounting method to recognize forfeitures as they occur or to estimate forfeitures. The Company early adopted this ASU as of the beginning of fiscal year 2016 and made an election to recognize forfeitures as they occur. The ASU adoption was applied using a modified retrospective method by means of a $1.7 million cumulative-effect adjustment to accumulated earnings (deficit) as of the beginning of the fiscal year.

2.ACQUISITIONS

The Company has completed numerous acquisitions since its formation, which have been financed through a combination of debt and equity funding. The operations of each acquisition have been included in the Company's consolidated results of operations since the respective closing dates of the acquisitions. The Company measures all assets acquired and liabilities assumed at their acquisition-date fair value. The following acquisitions completed in the six months ended July 1, 2017 and in fiscal 2016 were not material individually, or when combined:

West segment:

- On May 1, 2017, we acquired Winvan Paving, Ltd. ("Winvan Paving"), a paving and construction services company based in Vancouver, British Columbia.
- On April 3, 2017, we acquired Hanna's Bend Aggregate, Ltd. ("Hanna's Bend"), an aggregates-based business with one sand and gravel pit servicing the Houston, Texas market.
- On January 30, 2017, the Company acquired Everist Materials, LLC ("Everist Materials"), a vertically integrated aggregates, ready-mix concrete, and paving business based in Silverthorne, Colorado, with two aggregates plants, five ready-mix plants and two asphalt plants.
- On October 3, 2016, the Company acquired Midland Concrete Ltd. ("Midland Concrete"), a ready-mix company with one plant servicing the Midland, Texas market.
- On August 19, 2016, the Company acquired H.C. Rustin Corporation ("Rustin"), a ready-mix company with 12 ready-mix plants servicing the Southern Oklahoma market.
- On April 29, 2016, the Company acquired Sierra Ready Mix, LLC ("Sierra"), a vertically integrated aggregates and ready-mix concrete business with one sand and gravel pit and two ready-mix concrete plants located in Las Vegas, Nevada.

East segment:

- On May 12, 2017, we acquired Glasscock Company, Inc. and Glasscock Logistics Company, LLC (“Glasscock”), a vertically integrated sand, ready-mix, recycle and trucking business based in Sumter, South Carolina.

- On April 3, 2017, we acquired Carolina Sand, LLC (“Carolina Sand”), a sand and trucking business with four sand pits in northeastern South Carolina.

- On March 17, 2017, the Company acquired Sandidge Concrete (“Sandidge”), a ready-mix concrete company with three plants servicing the Columbia, Missouri market.

- On February 24, 2017, the Company acquired Razorback Concrete Company (“Razorback”), an aggregates-based business with ready-mix concrete operations in central and northeastern Arkansas.

- On August 26, 2016, the Company acquired R.D. Johnson Excavating Company, LLC and Asphalt Sales of Lawrence, LLC (“RD Johnson”), an asphalt producer and construction services company based in Lawrence, Kansas.

- On August 8, 2016, the Company acquired the assets of Weldon Real Estate, LLC (“Weldon”) and the membership interests of Honey Creek Disposal Service, LLC. (‘‘Honey Creek’’). Honey Creek is a trash

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collection business, which was sold immediately after acquisition. The Company retained the building assets of Weldon, where its recycling business in Kansas is operated.

- On May 20, 2016, the Company acquired seven aggregates quarries in central and northwest Missouri from APAC-Kansas, Inc. and APAC-Missouri, Inc., subsidiaries of Oldcastle Materials, Inc. (“Oldcastle Assets”).

- On March 18, 2016, the Company acquired Boxley Materials Company (“Boxley”), a vertically integrated company based in Roanoke, Virginia with six quarries, four ready-mix concrete plants and four asphalt plants.

- On February 5, 2016, the Company acquired American Materials Company (“AMC”), an aggregates company with five sand and gravel pits servicing coastal North and South Carolina.

Cement segment

- On August 30, 2016, the Company acquired two river-supplied cement and fly-ash distribution terminals in Southern Louisiana.

The purchase price allocation, primarily the valuation of property, plant and equipment for the 2017 acquisitions, as well as certain of the 2016 acquisitions has not yet been finalized due to the timing of the acquisitions. The following table summarizes aggregated information regarding the fair values of the assets acquired and liabilities assumed as of the respective acquisition dates:

	Six months ended July 1, 2017	Year Ended December 31, 2016
Financial assets (1)	$ 18,042	$ 22,204
Inventories	6,099	17,215
Property, plant and equipment	84,402	180,321
Intangible assets	13	5,531
Other assets	3,477	6,757
Financial liabilities (1)	(10,751)	(20,248)
Other long-term liabilities	(4,157)	(36,074)
Net assets acquired	97,125	175,706
Goodwill	130,582	176,319
Purchase price	227,707	352,025
Acquisition related liabilities	(13,390)	(17,034)
Other	(1,193)	1,967

Net cash paid for acquisitions	$ 213,124	$ 336,958

(1) In the first quarter of 2017, we reclassified $1.2 million of accounts payable overdrafts from financial assets to financial liabilities for the year ended December 31, 2016.

Changes in the carrying amount of goodwill, by reportable segment, from December 31, 2016 to July 1, 2017 are summarized as follows:

	West	East	Cement	Total
Balance, December 31, 2016	$ 334,257	$ 243,417	$ 204,538	$ 782,212
Acquisitions (1)	95,000	39,009	118	134,127
Foreign currency translation adjustments	2,172	—	—	2,172
Balance, July 1, 2017	$ 431,429	$ 282,426	$ 204,656	$ 918,511
Accumulated impairment losses as of July 1, 2017 and December 31, 2016	$ (53,264)	$ (14,938)	$ —	$ (68,202)

(1) Reflects goodwill from 2017 acquisitions and working capital adjustments from prior year acquisitions.

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The Company's intangible assets are primarily composed of goodwill, lease agreements and reserve rights. The assets related to lease agreements reflect the submarket royalty rates paid under agreements, primarily for extracting aggregates. The values were determined as of the respective acquisition dates by a comparison of market-royalty rates. The reserve rights relate to aggregate reserves to which the Company has the rights of ownership, but does not own the reserves. The intangible assets are amortized on a straight-line basis over the lives of the leases. The following table shows intangible assets by type and in total:

	July 1, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Leases	$ 15,902	$ (3,752)	$ 12,150	$ 15,888	$ (3,382)	$ 12,506
Reserve rights	6,234	(1,459)	4,775	8,706	(3,710)	4,996
Trade names	1,000	(708)	292	1,000	(658)	342
Other	249	(122)	127	249	(104)	145
Total intangible assets	$ 23,385	$ (6,041)	$ 17,344	$ 25,843	$ (7,854)	$ 17,989

Amortization expense totaled $0.4 million and $0.7 million for the three and six months ended July 1, 2017, respectively, and $0.6 million and $1.0 million for the three and six months ended July 2, 2016, respectively. The estimated amortization expense for the intangible assets for each of the five years subsequent to July 1, 2017 is as follows:

2017 (six months)	$ 627
2018	1,279
2019	1,260
2020	1,177
2021	1,135
2022	1,122
Thereafter	10,744
Total	$ 17,344

3.ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following as of July 1, 2017 and December 31, 2016:

	July 1, 2017	December 31, 2016
Trade accounts receivable	$ 239,136	$ 152,845
Retention receivables	11,617	12,117
Receivables from related parties	373	721
Accounts receivable	251,126	165,683
Less: Allowance for doubtful accounts	(3,580)	(3,306)
Accounts receivable, net	$ 247,546	$ 162,377

Retention receivables are amounts earned by the Company but held by customers until paving and related service contracts and projects are near completion or fully completed. Amounts are generally billed and collected within one year.

4.INVENTORIES

Inventories consisted of the following as of July 1, 2017 and December 31, 2016:

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	July 1, 2017	December 31, 2016
Aggregate stockpiles	$ 115,365	$ 103,073
Finished goods	42,621	35,071
Work in process	5,815	6,440
Raw materials	19,085	13,095
Total	$ 182,886	$ 157,679

5.ACCRUED EXPENSES

Accrued expenses consisted of the following as of July 1, 2017 and December 31, 2016:

	July 1, 2017	December 31, 2016
Interest	$ 24,311	$ 22,991
Payroll and benefits	25,197	30,546
Capital lease obligations	19,838	11,766
Insurance	13,249	11,966
Non-income taxes	10,226	5,491
Professional fees	2,420	2,459
Other (1)	24,019	26,386
Total	$ 119,260	$ 111,605

(1) Consists primarily of subcontractor and working capital settlement accruals.

6.DEBT

Debt consisted of the following as of July 1, 2017 and December 31, 2016:

	July 1,	December 31,

	2017	2016
Term Loan, due 2022:		
$637.0 million and $640.3 million, net of $2.3 million and $2.6 million discount at July 1, 2017 and December 31, 2016, respectively	$ 634,676	$ 637,658
8½% Senior Notes, due 2022	250,000	250,000
6⅛% Senior Notes, due 2023:		
$650.0 million, net of $1.5 million and $1.6 million discount at July 1, 2017 and December 31, 2016, respectively	648,528	648,407
5⅛% Senior Notes, due 2025	300,000	—
Total	1,833,204	1,536,065
Current portion of long-term debt	6,500	6,500
Long-term debt	$ 1,826,704	$ 1,529,565

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The contractual payments of long-term debt, including current maturities, for the five years subsequent to July 1, 2017, are as follows:

2017 (six months)	$ 3,250
2018	4,875
2019	6,500
2020	8,125
2021	6,500
2022	857,750
Thereafter	950,000
Total	1,837,000
Less: Original issue net discount	(3,796)
Less: Capitalized loan costs	(18,991)
Total debt	$ 1,814,213

Senior Notes—On June 1, 2017, Summit LLC and Summit Materials Finance Corp., an indirect wholly-owned subsidiary of Summit LLC ("Finance Corp." and with Summit LLC, the "Issuers") issued $300.0 million of 5.125% senior notes due June 1, 2025 (the "2025 Notes"). The 2025 Notes were issued at 100.0% of their par value with proceeds of $295.4 million, net of related fees and expenses. Proceeds from the sale of the 2025 Notes are intended to be used for acquisitions and to pay fees and expenses incurred in connection with any such acquisitions and the offering, with any remaining net proceeds to be used for general corporate purposes, which may include repaying indebtedness, capital expenditures and funding working capital. The 2025 Notes were issued under an indenture dated June 1, 2017 (as amended and supplemented, the "2017 Indenture"). The 2017 Indenture contains covenants limiting, among other things, Summit LLC and its restricted subsidiaries' ability to incur additional indebtedness or issue certain preferred shares, pay dividends, redeem stock or make other distributions, make certain investments, sell or transfer certain assets, create liens, consolidate, merge, sell or otherwise dispose of all or substantially all of its assets, enter inter certain transactions with affiliates, and designate subsidiaries as unrestricted subsidiaries. The 2017 Indenture also contains customary events of default. Interest on the 2025 Notes is payable semi-annually on June 1 and December 1 of each year commencing on December 1, 2017.

On March 8, 2016, the Issuers issued $250.0 million of 8.500% senior notes due April 15, 2022 (the "2022 Notes"). The 2022 Notes were issued at 100.0% of their par value with proceeds of $246.3 million, net of related fees and expenses. The proceeds from the sale of the 2022 Notes were used to fund the acquisition of Boxley, replenish cash used for the acquisition of AMC and pay expenses incurred in connection with these acquisitions. The 2022 Notes were issued under an indenture dated March 8, 2016, the terms of which are generally consistent with the 2017 Indenture. Interest on the 2022 Notes is payable semi-annually in arrears on April 15 and October 15 of each year.

In 2015, the Issuers issued $650.0 million of 6.125% senior notes due July 2023 (the "2023 Notes" and collectively with the 2022 Notes and the 2025 Notes, the "Senior Notes"). Of the aggregate $650.0 million of 2023 Notes, $350.0 million were issued at par and $300.0 million were issued at 99.375% of par. The 2023 Notes were issued under an indenture dated July 8, 2015, the terms of which are generally consistent with the 2017 Indenture. Interest on the 2023

Notes is payable semi-annually in arrears on January 15 and July 15 of each year.

As of July 1, 2017 and December 31, 2016, the Company was in compliance with all financial covenants under the applicable indentures.

Senior Secured Credit Facilities— Summit LLC has credit facilities that provide for term loans in an aggregate amount of $650.0 million and revolving credit commitments in an aggregate amount of $235.0 million (the “Senior Secured Credit Facilities”). Under the Senior Secured Credit Facilities, required principal repayments of 0.25% of the original aggregate amount of term debt are due on the last business day of each March, June, September and December. The unpaid principal balance is due in full on the maturity date, which is July 17, 2022.

On January 19, 2017, Summit LLC entered into Amendment No. 1 (“Amendment No. 1”) to the credit agreement governing the Senior Secured Credit Facilities (the “Credit Agreement”), which, among other things, reduced the applicable margin in respect of the $640.3 million outstanding principal amount of term loans thereunder and included a 1.00% prepayment premium in connection with certain further repricing events that occur on or prior to

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the six-month anniversary of the effective date of Amendment No. 1. All other material terms and provisions remain substantially identical to the terms and provisions in place immediately prior to the effectiveness of Amendment No. 1.

The revolving credit facility bears interest per annum equal to, at Summit LLC's option, either (i) a base rate determined by reference to the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate of Bank of America, N.A. and (c) LIBOR plus 1.00%, plus an applicable margin of 2.25% for base rate loans or (ii) a LIBOR rate determined by reference to Reuters prior to the interest period relevant to such borrowing adjusted for certain additional costs plus an applicable margin of 3.25% for LIBOR rate loans.

There were no outstanding borrowings under the revolving credit facility as of July 1, 2017 and December 31, 2016, leaving remaining borrowing capacity of $218.9 million as of July 1, 2017, which is net of $16.1 million of outstanding letters of credit. The outstanding letters of credit are renewed annually and support required bonding on construction projects and the Company's insurance liabilities.

Summit LLC's Consolidated First Lien Net Leverage Ratio, as such term is defined in the Credit Agreement, should be no greater than 4.75:1.0 as of each quarter-end. As of July 1, 2017 and December 31, 2016, Summit LLC was in compliance with all financial covenants.

Summit LLC's wholly-owned domestic subsidiary companies, subject to certain exclusions and exceptions, are named as subsidiary guarantors of the Senior Notes and the Senior Secured Credit Facilities. In addition, Summit LLC has pledged substantially all of its assets as collateral, subject to certain exclusions and exceptions, for the Senior Secured Credit Facilities.

The following table presents the activity for the deferred financing fees for the six months ended July 1, 2017 and July 2, 2016:

		Deferred financing fees
Balance—December 31, 2016	$	18,290
Loan origination fees		5,308
Amortization		(1,883)
Write off of deferred financing fees		(45)
Balance—July 1, 2017	$	21,670
Balance—January 2, 2016	$	15,892

Loan origination fees		5,109
Amortization		(1,590)
Balance—July 2, 2016	$	19,411

Other—On January 15, 2015, the Company's wholly-owned subsidiary in British Columbia, Canada entered into an agreement with HSBC for a (i) $6.0 million Canadian dollar ("CAD") revolving credit commitment to be used for operating activities that bears interest per annum equal to the bank's prime rate plus 0.20%, (ii) $0.5 million CAD revolving credit commitment to be used for capital equipment that bears interest per annum at the bank's prime rate plus 0.90% and (iii) $0.4 million CAD revolving credit commitment to provide guarantees on behalf of that subsidiary. There were no amounts outstanding under this agreement as of July 1, 2017 or December 31, 2016.

7.FAIR VALUE

Fair Value Measurements—Certain acquisitions made by the Company require the payment of contingent amounts of purchase consideration. These payments are contingent on specified operating results being achieved in periods subsequent to the acquisition and will only be made if earn-out thresholds are achieved. Contingent consideration obligations are measured at fair value each reporting period. Any adjustments to fair value are recognized in earnings in the period identified.

The Company has entered into interest rate derivatives on $200.0 million of its term loan borrowings to add stability to interest expense and to manage its exposure to interest rate movements. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) and will be subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The fair value of contingent consideration and derivatives as of July 1, 2017 and December 31, 2016 was:

	July 1, 2017	December 31, 2016
Current portion of acquisition-related liabilities and Accrued expenses:		
Contingent consideration	$ 3,250	$ 9,288
Cash flow hedges	844	942
Acquisition-related liabilities and Other noncurrent liabilities		
Contingent consideration	$ 13,979	$ 2,377
Cash flow hedges	1,368	1,438

The fair value of contingent consideration was based on unobservable, or Level 3, inputs, including projected probability-weighted cash payments and an 11.0% discount rate, which reflects a market discount rate. Changes in fair value may occur as a result of a change in actual or projected cash payments, the probability weightings applied by the Company to projected payments or a change in the discount rate. Significant increases or decreases in any of these inputs in isolation could result in a lower, or higher, fair value measurement. The fair value of the cash flow hedges are based on observable, or Level 2, inputs such as interest rates, bond yields and prices in inactive markets. There were no material valuation adjustments to contingent consideration or derivatives as of July 1, 2017 and July 2, 2016.

Financial Instruments—The Company's financial instruments include debt and certain acquisition-related liabilities (deferred consideration and noncompete obligations). The carrying value and fair value of these financial instruments as of July 1, 2017 and December 31, 2016 was:

	July 1, 2017		December 31, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Level 2				
Long-term debt(1)	$ 1,906,905	$ 1,833,204	$ 1,586,102	$ 1,536,065
Level 3				
Current portion of deferred consideration and noncompete obligations(2)	14,471	14,471	14,874	14,874
Long term portion of deferred consideration and noncompete obligations(3)	24,060	24,060	30,287	30,287

(1) $6.5 million included in current portion of debt as of July 1, 2017 and December 31, 2016.

(2) Included in current portion of acquisition-related liabilities on the consolidated balance sheets.

(3) Included in acquisition-related liabilities on the consolidated balance sheets.

The fair value of debt was determined based on observable, or Level 2, inputs, such as interest rates, bond yields and quoted prices in inactive markets. The fair values of the deferred consideration and noncompete obligations were determined based on unobservable, or Level 3, inputs, including the cash payment terms in the purchase agreements and a discount rate reflecting the Company’s credit risk. The discount rate used is generally consistent with that used when the obligations were initially recorded.

Securities with a maturity of three months or less are considered cash equivalents and the fair value of these assets approximates their carrying value.

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8.ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in each component of accumulated other comprehensive income (loss) consisted of the following:

	Change in retirement plans	Foreign currency translation adjustments	Cash flow hedge adjustments	Accumulated other comprehensive income (loss)
Balance — December 31, 2016	$ 1,450	$ (3,106)	$ (593)	$ (2,249)
Postretirement liability adjustment	397	—	—	397
Foreign currency translation adjustment	—	3,962	—	3,962
Income on cash flow hedges	—	—	163	163
Balance — July 1, 2017	$ 1,847	$ 856	$ (430)	$ 2,273
Balance — January 2, 2016	$ 1,049	$ (3,379)	$ (465)	$ (2,795)
Foreign currency translation adjustment	—	2,592	—	2,592
Loss on cash flow hedges	—	—	(1,778)	(1,778)
Balance — July 2, 2016	$ 1,049	$ (787)	$ (2,243)	$ (1,981)

9.INCOME TAXES

Summit Inc.'s tax provision includes its proportional share of Summit Holdings' tax attributes. Summit Holdings' subsidiaries are primarily limited liability companies, but do include certain entities organized as C corporations and a Canadian subsidiary. The tax attributes related to the limited liability companies are passed on to Summit Holdings and then to its partners, including Summit Inc. The tax attributes associated with the C corporation and Canadian subsidiaries are fully reflected in the Company's accounts.

Our income tax expense was $3.4 million and $1.3 million in the three and six months ended July 1, 2017, respectively. Our effective income tax rate was lower in the second quarter of 2017 primarily due to the benefit associated with the depletion in excess of U.S. GAAP depletion recognized in our C corporations in the three and six months ended July 1, 2017. During the three and six months periods ended July 2, 2016, our income tax benefit was $1.1 million and $9.2 million, respectively. The effective tax rate for Summit Inc. differs from the federal rate primarily due to (1) the change in valuation allowance, (2) tax depletion expense in excess of the expense recorded under U.S. GAAP, (3) the minority interest in the Summit Holdings partnership that is allocated outside of the

Company and (4) various other items such as limitations on meals and entertainment, certain stock compensation and other costs for the three and six months ended July 1, 2017.

As of July 1, 2017 and December 31, 2016, Summit Inc. had a valuation allowance of $514.5 million and $502.8 million, respectively, on substantially all of its net deferred tax assets, including its net operating loss carryforwards.

In assessing the realizability of deferred tax assets, including the deferred tax assets subject to the TRA described below, management determined that it was more likely than not that a portion of the deferred tax assets would not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible, as well as consideration of tax-planning strategies we may seek to utilize of any net operating loss carryforwards scheduled to expire in the near future. Each of these items was considered in our evaluation of the realizability of deferred tax assets as of December 31, 2016 and each subsequent period through July 1, 2017. As of July 1, 2017, the positive and negative evidence that was considered in the evaluation of the valuation allowance that existed as of December 31, 2016 remained relatively consistent. Further, we have not yet moved into a position where there is consistent cumulative income in conjunction with other sources of taxable income that would allow the Company to release the valuation allowance.

As our estimates for income within Summit Inc. increase and become positive on a cumulative basis, we will consider that as significant positive evidence which may lead to a reduction in the valuation allowance against our deferred tax assets. We prepare our estimates of income quarterly, and would consider income in 2017 to be significant positive evidence in connection with our analysis of other sources of taxable income which may lead to releasing some or all of our valuation allowance.

Tax Receivable Agreement—The Company is party to a TRA with the holders of LP Units and certain other pre-initial public offering owners ("Investor Entities") that provides for the payment by Summit Inc. to exchanging holders of LP Units of 85% of the benefits, if any, that Summit Inc. actually realizes (or, under certain circumstances such as an early termination of the TRA, is deemed to realize) as a result of (i) increases in the tax basis of tangible and intangible assets of Summit Holdings and (ii) the utilization of certain net operating losses of the Investor Entities and certain other tax benefits related to entering into the TRA, including tax benefits attributable to payments under the TRA. As of December 31, 2016, we had a partial valuation allowance against all of our net deferred tax assets, including our net operating loss carryforwards.

In the six months ended July 1, 2017, 1,014,159 LP Units were acquired by Summit Inc. in exchange for an equal number of newly-issued shares of Summit Inc.'s Class A common stock. These exchanges resulted in new deferred tax assets of approximately $13.5 million, and an increase in our valuation allowance for those new deferred tax assets. As of July 1, 2017, we performed an analysis of the realizability of all of our deferred tax assets, including those subject to the TRA. We determined that $1.7 million of the valuation allowance could be reduced based on actual income during the six months ended July 1, 2017 and our estimates of income within Summit Inc. for the remainder of the year. Further, as we now believe $1.7 million more of our TRA net operating loss carryforward deferred tax asset is now more likely than not to be realizable, we concluded that 85% of that amount, or $1.5 million, had also become probable of being payable under our TRA, and as such, recorded additional TRA expense and TRA liability.

As discussed above, we will consider positive income on a cumulative basis as significant positive evidence of the future realizability of our deferred tax assets. Our net operating loss carryforward deferred tax assets begin to expire in 2030, and as such, we have not given consideration to any potential tax planning strategies as a source of future taxable income to monetize those net operating loss carryforwards. The Company will continue to monitor facts and circumstances, including our analysis of other sources of taxable income, in the reassessment of the likelihood that the tax benefit will be realized.

Tax Distributions – The holders of Summit Holdings' LP Units, including Summit Inc., incur U.S. federal, state and local income taxes on their share of any taxable income of Summit Holdings. The limited partnership agreement of Summit Holdings provides for pro rata cash distributions ("tax distributions") to the holders of the LP Units in an amount generally calculated to provide each holder of LP Units with sufficient cash to cover its tax liability in respect of the LP Units. In general, these tax distributions are computed based on Summit Holdings' estimated taxable income allocated to each holder of LP Units multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate applicable to an individual or corporate resident in New York, New York (or a corporate resident in certain circumstances). In the six months ended July 1, 2017 and July 2, 2016, $0.1 million and $0.7 million, respectively, of tax distribution payments were made.

C Corporation Subsidiaries — The effective income tax rate for the C corporations differ from the statutory federal rate primarily due to (1) tax depletion expense in excess of the expense recorded under U.S. GAAP, (2) state income taxes and the effect of graduated tax rates and (3) various other items such as limitations on meals and entertainment and other costs. The effective income tax rate for the Company’s Canadian subsidiary is not significantly different from its historical effective tax rate.

As of July 1, 2017 and December 31, 2016, Summit Inc. and its subsidiaries had not recognized any liabilities for uncertain tax positions. The Company records interest and penalties as a component of the income tax provision. No material interest or penalties were recognized in income tax expense during the three and six months ended July 1, 2017 and July 2, 2016.

10. NET EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average common shares outstanding and diluted net earnings (loss) is computed by dividing net earnings (loss), adjusted for changes

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in the earnings allocated to Summit Inc. as a result of the assumed conversion of LP Units, by the weighted-average common shares outstanding assuming dilution.

The following table shows the calculation of basic earnings (loss) per share:

	Three months ended		Six months ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Net income (loss) attributable to Summit Inc.	$ 50,000	$ 13,371	$ (2,444)	$ (7,747)
Weighted average shares of Class A stock outstanding	106,898,512	62,743,149	106,035,087	56,812,906
Basic income (loss) per share	$ 0.47	$ 0.21	$ (0.02)	$ (0.14)
Net income (loss) attributable to Summit Inc.	$ 50,000	$ 13,371	$ (2,444)	$ (7,747)
Add: Noncontrolling interest impact of LP Unit conversion	—	—	—	(12,702)
Diluted net income (loss) attributable to Summit Inc.	50,000	13,371	(2,444)	(20,449)
Weighted average shares of Class A stock outstanding	106,898,512	62,743,149	106,035,087	56,812,906
Add: weighted average of LP Units	—	—	—	44,141,327
Add: stock options	759,649	1,012,467	—	—
Add: warrants	33,877	21,975	—	—
Add: restricted stock units	150,420	94,713	—	—
Add: performance stock units	66,430	21,605	—	—
Weighted average dilutive shares outstanding	107,908,888	63,893,909	106,035,087	100,954,233
Diluted earnings (loss) per share	$ 0.46	$ 0.21	$ (0.02)	$ (0.20)

Excluded from the above calculations were the shares noted below as they were antidilutive: