SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2016

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 001-37382

FENIX PARTS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**46-4421625**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
One Westbrook Corporate Center, Suite 920 Westchester, Illinois	**60154**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant's telephone number, including area code: 708-407-7200

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

Indicate by check mark 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 and the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐

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

At March 24, 2017, the registrant had issued and outstanding an aggregate of 20,141,941 shares of Common Stock.

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 concern our 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 Fenix Parts Inc.’s annual report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission (“SEC”).

FENIX PARTS, INC.

FORM 10-Q

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Fenix Parts, Inc.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 783	$ 2,827
Accounts receivable, net of allowance $431and $460	6,349	6,834
Inventories, net	32,224	38,892
Prepaid expenses and other current assets	803	545
Total current assets	40,159	49,098
Property and equipment	13,865	13,103
Accumulated depreciation and amortization	(3,056)	(1,494)
Property and equipment, net	10,809	11,609
Goodwill	37,438	76,812
Intangible assets, net	33,296	33,786
Indemnification receivables	2,297	5,078
Other non-current assets	3,419	3,455
TOTAL ASSETS	$ 127,418	$ 179,838
LIABILITIES		
Current liabilities:		
Accounts payable	$ 3,112	$ 3,456
Accrued expenses	4,365	2,847
Contingent consideration liabilities - current	7,516	9,345
Current portion of long-term debt	21,401	793
Other current liabilities	2,310	1,728
Total current liabilities	38,704	18,169
Deferred warranty revenue, net of current portion	503	227
Long-term related party obligations, net of current portion	918	2,071
Long-term debt under credit facility, net of current portion	—	19,645
Contingent consideration liabilities, net of current portion	—	6,085
Deferred income tax liabilities	9,639	15,624
Reserve for uncertain tax positions	2,808	5,733
Other non-current liabilities	3,048	2,500
Total non-current liabilities	16,916	51,885
TOTAL LIABILITIES	55,620	70,054
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock, $0.001 par value; 30,000,000 shares authorized; 19,991,907 and 19,926,868 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	20	20
Additional paid-in capital	138,820	136,398
Accumulated other comprehensive loss	(2,915)	(4,247)
Accumulated deficit	(72,527)	(30,787)
Total Fenix Parts, Inc. shareholders' equity before noncontrolling interest	63,398	101,384
Noncontrolling interest	8,400	8,400
Total shareholders' equity	71,798	109,784
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 127,418	$ 179,838

The accompanying notes to the unaudited condensed consolidated financial statements are an integral part of these statements.

Fenix Parts, Inc.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except share data)	2016	2015	2016	2015
Net revenues	$ 32,515	$ 27,275	$ 98,931	$ 38,745
Cost of goods sold	21,348	20,584	59,190	30,592
Gross profit	11,167	6,691	39,741	8,153
Selling, general and administrative expenses	12,962	14,579	37,567	21,272
Outside service and professional fees	1,742	3,575	5,083	6,988
Depreciation and amortization	1,138	1,077	3,500	1,786
Change in fair value of contingent consideration liabilities	(1,411)	(1,022)	(8,393)	(193)
Change in indemnification receivable	266	—	2,782	—
Goodwill impairment	—	—	45,300	—
Operating loss	(3,530)	(11,518)	(46,098)	(21,700)
Interest expense	(437)	(78)	(1,192)	(100)
Other income (expense), net	165	26	408	(1,678)
Loss before income tax benefit	(3,802)	(11,570)	(46,882)	(23,478)
Benefit for income taxes	(2,031)	(5,022)	(5,142)	(10,326)
Net loss	$ (1,771)	$ (6,548)	$ (41,740)	$ (13,152)
Loss per share available to common shareholders:				
Basic and Diluted	$ (0.08)	$ (0.33)	$ (2.00)	$ (1.10)
Weighted average common shares outstanding:				
Basic and Diluted	19,988,809	19,475,046	19,818,231	11,206,390
Dividends paid	$ 0.00	$ 0.00	$ 0.00	$ 0.00

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Net loss	$ (1,771)	$ (6,548)	$ (41,740)	$ (13,152)
Foreign currency translation adjustment	(285)	(2,256)	1,332	(2,961)
Net comprehensive loss	$ (2,056)	$ (8,804)	$ (40,408)	$ (16,113)

The accompanying notes to the unaudited condensed consolidated financial statements are an integral part of these statements.

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Fenix Parts, Inc.
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS’ EQUITY

(In thousands, except share data)	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Noncontrolling interest	Total shareholders’ equity
Balance at December 31, 2015	19,926,868	$ 20	$ 136,398	$ (4,247)	$ (30,787)	$ 8,400	$ 109,784
Leesville retention bonus	—	—	790	—	—	—	790
Share based awards	65,039	—	1,632	—	—	—	1,632
Foreign currency translation adjustment	—	—	—	1,332	—	—	1,332
Net loss	—	—	—	—	(41,740)	—	(41,740)
Balance as of September 30, 2016	19,991,907	$ 20	$ 138,820	$ (2,915)	$ (72,527)	$ 8,400	$ 71,798

The accompanying notes to the unaudited condensed consolidated financial statements are an integral part of these statements.

Fenix Parts, Inc.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
(In thousands)	2016	2015
Cash flows from operating activities		
Net loss	$ (41,740)	$ (13,152)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	4,260	2,156
Share-based compensation expense	2,422	1,496
Non-cash rent expense	689	—
Deferred income taxes	(2,774)	(10,423)
Deferred warranty revenue	725	665
Reversal of reserves for uncertain tax positions	(2,927)	57
Reduction in indemnification receivables	2,782	—
Amortization of inventory fair value mark up	1,402	6,952
Lower value of acquired inventory	(1,777)	—
Retrospective inventory opening balance sheet adjustment	(2,221)	—
Change in fair value of contingent consideration liabilities	(8,393)	(193)
Make whole provision for pre-IPO investors	—	1,827
Goodwill impairment	45,300	—
Change in assets and liabilities		
Accounts receivable	470	(4,241)
Inventories	(1,294)	270
Prepaid expenses and other current assets	(458)	(26)
Accounts payable	(364)	(537)
Accrued expenses	1,501	(510)
Other current liabilities	265	2,965
Net cash used in operating activities	(2,132)	(12,694)
Cash flows from investing activities		
Capital expenditures	(586)	(114)
Purchases of companies, net of cash acquired	(149)	(87,807)
Net cash used in investing activities	(735)	(87,921)
Cash flows from financing activities		
Net proceeds from initial public offering	—	101,279
Net proceeds from other issuances of common stock	—	250
Borrowings on revolving credit line	1,615	10,000
Payments on term loan	(625)	(250)
Debt issuance cost	(102)	(438)
Proceeds from other debt financing	—	213
Net cash provided by financing activities	888	111,054
Effect of foreign exchange fluctuations on cash and cash equivalents	(65)	(41)
Increase (decrease) in cash and cash equivalents	(2,044)	10,398
Cash and cash equivalents, beginning of period	2,827	453
Cash and cash equivalents, end of period	$ 783	$ 10,851
Supplemental cash flow disclosures:		
Cash paid for interest	$ 771	$ 64
Cash paid for income taxes	$ 436	$ —
Noncash transactions:		
Equity issued for purchases of Subsidiaries	$ —	$ 34,320
Accrued future consideration for acquisitions	$ —	$ 8,620

The accompanying notes to the unaudited condensed consolidated financial statements are an integral part of these statements.

Fenix Parts, Inc.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business and Financial Condition

Description of Business
Fenix Parts, Inc. and subsidiaries (the "Company" or "Fenix") are in the business of automotive recycling, which is the recovery and resale of original equipment manufacturer ("OEM") and aftermarket parts, components and systems, such as engines, transmissions, radiators, trunks, lamps and seats (referred to as "products") reclaimed from damaged, totaled or low value vehicles. The Company purchases its vehicles primarily at auto salvage auctions. Upon receipt of vehicles, the Company inventories and then dismantles the vehicles and sells the recycled products. The Company's customers include collision repair shops (body shops), mechanical repair shops, auto dealerships and individual retail customers. The Company also generates a portion of its revenue from the sale as scrap of the unusable parts and materials, from the sale of used cars and motorcycles, and from the sale of extended warranty contracts.

Liquidity and Financial Condition
Since its inception in January 2014, Fenix's primary sources of ongoing liquidity are cash flows from operations, cash provided by bank borrowings, proceeds from private stock sales, and the $101.3 million in net proceeds from its initial public offering ("IPO") of common stock completed in May 2015. The Company has incurred operating losses since its inception and expects to continue to report operating losses for the foreseeable future as it integrates the subsidiaries it has acquired (see Note 3 below) and amortizes asset write-ups and intangibles assets established at acquisition. Fenix may never become profitable if it cannot successfully integrate and grow the acquired operations and reduce the level of outside professional fees that have been incurred during 2015 and 2016. During the year ended December 31, 2015, the Company recorded a net loss of $26.0 million, and cash used in operating activities was $15.8 million. For the three and nine months ended September 30, 2016, the Company recorded a net loss of $1.8 million and $41.7 million, respectively. The nine month period includes an impairment of goodwill of $45.3 million (see Note 10 below), somewhat offset by the favorable impact on costs of goods sold attributable to an adjustment to the value assigned to acquired inventories (see Note 3 below) and reductions in the estimated fair value of contingent consideration liabilities (see Note 5 below). As of September 30, 2016, Fenix had an accumulated deficit of $72.5 million.

Effective December 31, 2015, the Company and its subsidiaries entered into a $35 million amended and restated senior secured credit facility with BMO Harris Bank N.A. and its Canadian affiliate, Bank of Montreal (the "Amended Credit Facility" or "Credit Facility") (see Note 4 below for further details) which replaced the original Credit Facility with them (the "Original Credit Facility"). The Amended Credit Facility contained substantially the same terms as the Original Credit Facility except for adjustments to covenants which are discussed in Note 4, below. Previous borrowings under the Original Credit Facility remained outstanding under the Amended Credit Facility, and the term remained as five years from the date of the Original Credit Facility, expiring on May 19, 2020. The Credit Facility was further amended on June 27, 2016 and August 19, 2016, with retroactive effect to March 31, 2016 and June 30, 2016, respectively, pursuant to which certain financial covenant calculations, which are described in Note 4, below, were further clarified and amended. As of September 30, 2016, after classifying the Credit Facility debt as a current liability as discussed further below, the Company had working capital of $1.5 million, including cash and cash equivalents of $0.8 million. As of September 30, 2016, the Company owed $21.8 million under the Amended Credit Facility (consisting of a term loan with a balance of $9.0 million and a revolving credit facility with a balance of $12.8 million), and had $6.4 million in outstanding standby letters of credit.

The Credit Facility is secured by a first-priority perfected security interest in substantially all of the Company's assets as well as all of the assets and the stock of its domestic subsidiaries, which also guaranty the borrowings, and 66% of the stock of its direct Canadian Subsidiary, Fenix Canada (other than its exchangeable preferred shares). The Credit Facility contains financial covenants with which the Company must comply which are described further in Note 4. Compliance with the financial covenants is measured quarterly and determines the amount of additional available credit, if any, that will be available in the future. The Credit Facility also contains other customary events of default, including the failure to pay any principal, interest or other amount when due, violation of certain of the Company's affirmative covenants or any negative covenants or a breach of representations and warranties and, in certain circumstances, a change in control. Upon the occurrence of an event of default, payment of indebtedness may be accelerated and the lending commitments may be terminated.

As of June 30, 2016, September 30, 2016 and December 31, 2016, the Company was in breach of the Credit Facility's Total Leverage Ratio and Fixed Charge Coverage Ratio requirements and the Borrowing Base requirement for repaying over-advances (which were created by establishing lower acquired inventory values as described in Note 3 that reduced the applicable borrowing base), as well as the requirement for timely delivery of certain quarterly certificates and reports. The financial covenants are defined in Note 4. As a result, all of the Credit Facility debt is reported in the accompanying condensed consolidated balance sheet as a current liability at September 30, 2016 and there can be no further borrowings of any availability under the Credit Facility until such defaults are rectified or waived. On March 27, 2017, the Company and its subsidiaries entered into a Forbearance Agreement to the Credit Facility (the "Forbearance Agreement") with BMO Harris Bank N.A and its Canadian affiliate, Bank of Montreal. Pursuant to the Forbearance Agreement, the banks agreed to forbear from exercising their rights and remedies under the Credit Facility with respect to the above described defaults and any similar defaults during the forbearance period ending May 26, 2017, provided no other defaults occur. The Forbearance Agreement also permits the Company to add the quarterly interest payment otherwise due for the first quarter of 2017 to the principal amount of debt outstanding and defer a $250,000 principal payment due on March 31, 2017 to the end of the forbearance period.

Ability to Continue as a Going Concern
The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates continuity of operations, realization of assets and the satisfaction of liabilities in the normal course of business. As such, the accompanying condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets and their carrying amounts, or the amount and classification of liabilities that may result should the Company be unable to continue as a going concern.

The Company is in breach of certain financial covenants contained in the Credit Facility as described above and in Note 4. The failure to operate within the requirements of these financial covenants as of September 30, 2016 was due primarily to (i) lower asset values as a result of reductions during 2016 to the aggregate estimated fair value of inventory acquired as part of the purchase of Subsidiaries, which have reduced the Company's borrowing base, (ii) limits on certain non-cash adjustments to calculate EBITDA for covenant compliance, and (iii) EBITDA during the third quarter of 2016 that was lower than forecasted because of a decline of approximately $1.7 million in quarterly net revenues (as compared to a Company record level of net revenues for the quarter ended June 30, 2016) and higher cost of goods sold and operating expenses, including significant accounting, legal and other fees, primarily as a result of the transition to a new public accounting firm beginning in July 2016 and the SEC inquiry discussed in Note 11, which have forced the Company to incur significant accounting and legal fees during the second half of 2016.

Management has been and remains highly focused on maximizing cash flows from operations and, to the extent possible under the circumstances, minimizing the cost of outsourced professional fees. Although scrap metal prices, which declined by more than 20% on average from the second to the third quarter of 2016, have increased since September 30, 2016, the Company's expectation is that the current high level of professional fees should decline after the first half of 2017, the Company still may not be able to comply with all the financial covenants contained in its Credit Facility in future periods unless those requirements are waived or amended or unless the Company can obtain new subordinated debt or equity financing. The Board of Directors of the Company has engaged a financial advisor to advise the Board and Company management to assist in pursuing a range of potential strategic and financial transactions that will provide the Company with improved liquidity and maximize shareholder value. The financial advisor will identify and evaluate potential alternatives including debt or equity financing, a strategic investment into the Company or a business combination, and is reporting directly to a special committee of independent directors established to oversee and coordinate these activities. The Board has not set a definitive timetable for completion of this process. There can be no assurance that this process will result in a transaction or other strategic alternative of any kind.

On March 27, 2017, the Company entered into the Forbearance Agreement described above. If the Company is unable to reach further agreement with its lenders to obtain waivers or amendments to the existing Credit Facility, find acceptable alternative financing, obtain equity contributions, or arrange a business combination, after the forbearance period (and during the forbearance period in the event of any new defaults other than those anticipated defaults enumerated in the Forbearance Agreement), the Company's Credit Facility lenders could elect to declare some or all of the amounts outstanding under the facility to be immediately due and payable. If this happens, the Company does not expect to have sufficient liquidity to pay the outstanding Credit Facility debt. In addition, the Company has significant obligations under contingent consideration agreements related to certain acquired companies as described in Note 5, and it will need access to additional credit to be able to satisfy these obligations.

As a result of the above, substantial doubt exists regarding the ability of the Company to continue as a going concern, which contemplates continuity of operations, realization of assets and the satisfaction of liabilities in the normal course of business within one year from the date of this filing.

Note 2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation
These unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("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 GAAP have been condensed or omitted pursuant to such rules and regulations.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Fenix Parts, Inc. and the notes thereto as of and for the year ended December 31, 2015. The Company continues to follow the accounting policies set forth in those consolidated financial statements, including its inventory accounting policy, which is reiterated as follows: Inventories consist entirely of recycled OEM and aftermarket products, including car hulls and other materials that will be sold as scrap and, to a lesser extent, used cars and motorcycles for resale. Inventory costs for recycled OEM parts are established using a retail method of accounting. Parts are dismantled from purchased vehicles and a retail price is assigned to each dismantled part. The total retail price of the inventoried parts is reduced by the estimated balance of parts that will be subsequently sold for scrap or discounted to a reduced expected selling price. These scrap and discount estimates are significant and require application of complex assumptions and judgments that are subject to change from period to period. The cost assigned to the salvaged parts and scrap is determined using the average cost-to-sales percentage at each operating facility and applying that percentage to the facility's inventory at expected selling prices. The average cost-to-sales percentage is derived from each facility's historical sales and actual cost paid for salvage vehicles purchased at auction or procured from other sources. The Company also capitalizes direct labor and overhead costs incurred to dismantle salvaged parts and prepare the parts for sale. With respect to self-service inventories, costs are established by calculating the average sales price per vehicle, including its scrap value and part value, applied to the total vehicles on-hand. Inventory costs for aftermarket parts, used cars and motorcycles for resale are established based upon the price the Company pays for these items. All inventory is recorded at the lower of cost or market value. The market value of the Company's inventory is determined based on the nature of the inventory and anticipated demand. If actual demand differs from the Company's earlier estimates, reductions to inventory carrying value are made in the period such determination is made.

Management believes that these interim consolidated financial statements include all adjustments, normal and recurring in nature, that are necessary to present fairly the consolidated financial position of the Company as of September 30, 2016 and the results of its operations and cash flows for the period ended September 30, 2016. Interim results are not necessarily indicative of annual results. All significant intercompany balances and transactions have been eliminated. The consolidated Company represents a single operating segment.

The unaudited condensed consolidated financial statements included herein reflect only Fenix's operations and financial position before the IPO and concurrent acquisitions of eleven founding companies, which are referred to in these notes as the "Founding Companies," on May 19, 2015. The operations of the Founding Companies and three subsequently acquired companies are reflected in the consolidated statements of operations from their respective dates of acquisitions. The Company sometimes refers to the Founding Companies and subsequently acquired companies in these notes as the "Subsidiaries."

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company uses estimates in accounting for, among other items, inventory valuation using the retail method of accounting and reserves for potentially excess and unsalable inventory, contingent consideration liabilities, uncertain tax positions and certain other assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates require the application of complex assumptions and judgments, often because they involve matters that are inherently uncertain and will likely change in subsequent periods. The impact of any change in estimates is included in earnings in the period in which the estimate is adjusted.

Reclassifications

Reclassifications of prior period amounts have been made to conform to the current period presentation. These reclassifications have no impact on net loss, total assets or shareholders' equity as previously reported.

Correction of Immaterial Errors

The Company previously incorrectly presented the net value of its above and below market long-term leases in its balance sheet. The Company assessed the materiality of this misstatement on prior periods' financial statements in accordance with the SEC's Staff Accounting Bulletin ("SAB") No. 99, Materiality, codified in ASC No. 250, Presentation of Financial Statements, and concluded that the misstatement was not material to any prior annual or interim periods. In the current period, the Company has corrected this immaterial error such that below market leases are recorded in other non-current assets and above market leases are recorded in other non-current liabilities as shown in the table below.

(In thousands)		December 31, 2015
Previous presentation		
Other non-current assets	$	1,218
Current presentation		
Other non-current assets	$	3,388
Other non-current liabilities	$	2,170

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-04, *Simplifying the Test for Goodwill Impairment*, which simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount. The new rules will be effective for the Company in the first quarter of 2020. The Company does not expect the adoption of the new accounting rules to have a material impact on the Company's financial condition, results of operations and cash flows.

In January 2017, the FASB issued ASU 2017-03, *Accounting Changes and Error Corrections (Topic 250)*, this amendment states that registrants should consider additional qualitative disclosures if the impact of an issued but not yet adopted ASU is unknown or cannot be reasonably estimated and to include a description of the effect of the accounting policies that the registrant expects to apply, if determined. Transition guidance included in certain issued but not yet adopted ASUs was also updated to reflect this update. The Company does not expect the adoption of the new accounting rules to have a material impact on the Company's financial condition, results of operations and cash flows.

In January 2017, the FASB issued ASU 2017-01, *Clarifying the Definition of a Business,* which clarifies the definition of "a business" to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard introduces a screen for determining when assets acquired are not a business and clarifies that a business must include, at a minimum, an input and a substantive process that contribute to an output to be considered a business. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company does not expect this new guidance to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments (Topic 230) (a consensus of the Emerging Issues Task Force).* ASU 2016-15 addresses eight specific cash flow issues and applies to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under ASC 230, Statement of Cash Flows. The amendments in ASU 2016-15 are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company has not yet adopted this update and is currently evaluating the impact it may have on its financial condition and results of operations.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables, which will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU also expands disclosure requirements. ASU 2016-13 is effective for the Company beginning the first quarter of 2020 with early adoption permitted. The Company is currently evaluating the impact of adoption of ASU 2016-13 on its consolidated financial statements and related financial statement disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The ASU changes the accounting for certain aspects of share-based payment awards to employees and requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. This pronouncement is effective for fiscal years and interim periods beginning after December 15, 2016, with early adoption permitted. The Company adopted ASU 2016-09 effective April 1, 2016 and all forfeitures have been applied when they occurred.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, *Leases* (FAS 13). The new standard establishes a right-of-use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. While the Company is currently evaluating the effect this standard will have on its consolidated financial statements and timing of adoption, we expect that upon adoption, the Company will recognize ROU assets and lease liabilities and those amounts could be material.

In September 2015, FASB issued ASU No. 2015-16, *Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments,* which simplifies the accounting for adjustments made to provisional amounts recognized in business combinations. The amendments require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments also require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to provisional amounts, calculated as if the accounting had been completed at the acquisition date. The ASU also requires an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The Company adopted ASU 2015-16 effective January 1, 2016, resulting in the recognition of adjustments to goodwill as described in Note 3.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update outlines a single, comprehensive model for accounting for revenue from contracts with customers. In August 2015, the FASB deferred the effective date by one year to January 1, 2018, while providing the option to early adopt the standard on the original effective date of January 1, 2017. The Company plans to adopt this update on January 1, 2018. The guidance can be adopted either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company is currently evaluating the adoption alternatives, which include utilizing a bottom-up approach to analyze the standard's impact on our contract portfolio, comparing historical accounting policies and practices to the new standard to identify potential differences from applying the requirements of the new standard to its contracts. The Company has not yet selected a transition method and is currently evaluating the impact it may have on its consolidated financial statements and related disclosures.

Note 3. Acquisitions

2015 Acquired Companies

On May 19, 2015, Fenix closed on combinations with the eleven Founding Companies and subsequently during 2015 acquired three companies, all of which are engaged in the business of automotive recycling. Of the total purchase consideration of $154.6 million, $110.9 million was paid in cash, $35.3 million represents stock consideration issued in the acquisitions and potentially issuable under contingent consideration agreements, and $8.4 million represents discounted cash payments to be made up to 15 years after the acquisitions. The total purchase consideration includes adjustments identified through May 2016, as part of working capital true-ups and other contractual adjustments to the purchase consideration, which resulted in a net increase in the goodwill previously reported of $0.1 million.

The table below summarizes the approximate fair values of the aggregate assets acquired and liabilities assumed at the respective dates of acquisitions, and incorporates the provisional adjustments in measurement since they were previously reported at December 31, 2015 through September 30, 2016. These estimates and assumptions as they relate to the two companies acquired in October 2015 are subject to additional changes during the purchase price measurement period and could change materially as the Company finalizes the valuations of these assets and liabilities. The measurement period is one year from the date of the acquisition.

(In thousands)		Opening Balance Sheet as Previously Reported	Adjustments For the Three Months Ended March 31, 2016	Adjusted Opening Balance Sheet
Cash and other current assets		$ 8,666	$ —	$ 8,666
Inventories	(i)	47,794	(10,722)	37,072
Property and equipment	(ii)	13,235	—	13,235
Other non-current assets	(iii)	5,271	—	5,271
Intangible assets	(iv)	37,396	1,710	39,106
Current liabilities		(7,572)	—	(7,572)
Reserve for uncertain tax positions		(5,760)	—	(5,760)
Deferred income taxes, net	(v)	(24,168)	3,758	(20,410)
Non-current liabilities		(422)	—	(422)
Total net identifiable assets acquired		74,440	(5,254)	69,186
Goodwill		80,023	5,403	85,426
Total net assets acquired		$ 154,463	$ 149	$ 154,612

During the three months ended March 31, 2016, the Company reduced the aggregate estimated value of the acquired inventories by $10.7 million to reflect the most recent historical information available regarding excess and unsaleable parts acquired as well as sales discounts given to sell certain acquired parts. This inventory adjustment resulted in a $1.7 million increase in intangible assets (customer relationships), a $3.8 million reduction in deferred income taxes and a $5.3 million increase in goodwill. In accordance with ASU No. 2015-16, which is discussed in Note 2 above, the adjustment also resulted in a reduced charge to cost of goods sold during the nine months ended September 30, 2016 of approximately $4.0 million consisting of $2.2 million for the opening inventory mark up to fair value (see (i) below) and approximately $1.8 million, related to the lower value of acquired inventories sold between the respective acquisition dates and December 31, 2015. The $2.2 million adjustment to the opening inventory markup had a related $1.0 million deferred tax liability. The $2.2 million and the $1.0 million were previously recorded through the prior period operations and were adjusted through the operations for the nine months ended September 30, 2016 within the cost of goods sold and the tax benefit line items, respectively.

Included in the fair value allocation reflected in the table above are the various valuations described below which are primarily based on Level 3 inputs:

(i) Inventory was marked up to 90% of its estimated selling price representing the inventory's fair market valuation, with selling costs and related profit margin estimated at all companies to be 10%. This fair value adjustment to inventory, after a reduction of approximately $2.2 million for the opening balance sheet adjustment described above, totaled approximately $7.8 million, of which $1.4 million was amortized as an additional charge recorded in cost of goods sold during the nine months ended September 30, 2016. This fair value mark up adjustment was completely amortized through September 30, 2016 as the acquired inventory was expected to be sold within six to nine months.

(ii) Assumptions for property and equipment valuation, which are based on cost and market approaches, are based primarily on data from industry databases and dealers on current costs of new equipment and information about the useful lives and age of the equipment. The remaining useful life of property and equipment was determined based on historical experience using such assets, and varies from 1 - 6 years depending on the acquired company and nature of the assets. All property and equipment is being depreciated using the straight-line method.

(iii) The Company may recover amounts from the former owners of certain of the acquired companies if the Company is required to make certain income tax or other payments as defined in the relevant acquisition agreements after the acquisition. In the case of the Founding Companies, the Company's right to these tax related indemnifications is generally subject to a threshold of 1% of the purchase price, a cap of 40% of the purchase price paid for each individual acquisition and a survival period of three years from the date of their acquisition. During the three and nine months ended September 30, 2016, the Company reversed $0.3 million and $2.8 million, respectively, of indemnification receivables through a charge in the accompanying consolidated statement of operations, as the statute of limitations expired on the tax-related indemnity as discussed further in Note 9 below.

(iv) The table below summarizes the aggregate gross intangible assets recorded:

(In thousands)	
Trade names	$ 6,122
Customer relationships	31,308
Covenants not to compete	1,676
Total	$ 39,106

Amortization expense for intangible assets was $0.9 million and $0.8 million for the three months ended September 30, 2016 and 2015, respectively, and $2.7 million and $1.2 million for the nine months ended September 30, 2016 and 2015, respectively.

(v) The Company recorded deferred income taxes relating to the difference between financial reporting and tax basis of assets and liabilities acquired in the acquisitions in nontaxable transactions. The Company also eliminated historical deferred income taxes of the companies acquired in taxable transactions.

Pro Forma Results

The following table shows the combined pro forma net revenues and net loss of the Company as if acquisitions of all of its Subsidiaries had occurred on January 1, 2015:

	Three Months Ended September 30,	Nine Months Ended September 30,
(In thousands)	2015	2015
Net revenues	$ 32,211	$ 95,598
Net loss	$ (7,461)	$ (10,500)

Pro forma combined net revenues consisted of:

	Three Months Ended September 30,	Nine Months Ended September 30,
(In thousands)	2015	2015
Recycled OE parts and related products	$ 27,762	$ 82,430
Other ancillary products (scrap)	4,449	13,168
Total	$ 32,211	$ 95,598

Significant adjustments to the historical revenues of the Subsidiaries include the elimination of sales between acquired companies, for which there is a corresponding decrease in pro forma cost of goods sold, and the elimination of revenue from the sale of warranties that are not recognized by Fenix in the post-acquisition periods.

The cost of goods sold impact of the subsequent sale of acquired inventories written-up from historic cost basis to fair value is reflected for pro forma reporting purposes in the same manner as reported in the accompanying condensed consolidated financial statements and is not adjusted back to January 1, 2015, as it does not have a continuing impact on the Company. As a result, pro forma gross profit and net income in the periods immediately following the acquisitions are substantially lower than the pre-acquisition periods.

Significant adjustments to expenses include eliminating the effects of shares transferred from founding investors to later investors, incremental amortization of acquired intangible assets, rent expense associated with leases with the former owners of the acquired companies, compensation related to certain bonuses paid to owners and employees and related income tax effects.

Note 4. Bank Credit Facility

Amended and Restated Credit Facility

Effective December 31, 2015, the Company and its subsidiaries entered into a $35 million amended and restated senior secured credit facility with BMO Harris Bank N.A. and its Canadian affiliate, Bank of Montreal (the "Amended Credit Facility" or "Credit Facility") which replaced the original Credit Facility with them (the "Original Credit Facility"). The Amended Credit Facility contained substantially the same terms as the Original Credit Facility except for adjustments to covenants which are discussed below. Previous borrowings under the Original Credit Facility remained outstanding under the Amended Credit Facility. The Credit Facility was further amended on June 27, 2016 and August 19, 2016, with retroactive effect to March 31, 2016 and June 30, 2016, respectively, pursuant to which certain financial covenant calculations, which are described below, were further clarified and amended.

The Credit Facility consists of $25.0 million as a revolving credit facility, allocated $20.0 million in U.S. Dollar revolving loans, with a $7.5 million sublimit for letters of credit, and $5.0 million in Canadian Dollar revolving loans, with a $2.5 million sublimit for letters of credit. The Company borrowed the remaining $10.0 million as a term loan concurrently with its IPO in May 2015. Proceeds of the credit facility can be used for capital expenditures, working capital, permitted acquisitions, and general corporate purposes. The term of the revolving credit facility and the term loan facility is 5 years from the date of the Original Credit Facility with each expiring on May 19, 2020. The Amended Credit Facility and both subsequent amendments were determined to be modifications under ASC 470-50 of the Original Credit Facility that was entered into at the time of the IPO.

The Credit Facility is secured by a first-priority perfected security interest in substantially all of the Company's assets as well as all of the assets of its U.S. subsidiaries, which also guaranty the borrowings. In addition, the Company pledged all of the stock in its U.S. Subsidiaries as security and 66% of the stock of its direct Canadian Subsidiary, Fenix Canada (other than its exchangeable preferred shares).

The Company's U.S. Dollar borrowings under the Amended Credit Facility bear interest at fluctuating rates, at the Company's election in advance for any applicable interest period, by reference to the "base rate", "Eurodollar rate" or "Canadian Prime Rate" plus the applicable margin within the relevant range of margins provided in the Credit Facility. The base rate is the highest of (i) the rate BMO Harris Bank N.A. announces as its "prime rate," (ii) 0.50% above the rate on overnight federal funds transactions or (iii) the London Interbank Offered Rate (LIBOR) for an interest period of one month plus 1.00%. The applicable margin is determined quarterly based on the Company's Total Leverage Ratio, as described below. The borrowings were subject to interest rates ranging from 3.57% - 4.98% at September 30, 2016.

The Canadian Dollar borrowings under the Amended Credit Facility bear interest at fluctuating rates, at the Company's election in advance for any applicable interest period, by reference to the "Canadian Prime Rate" plus the applicable margin within the relevant range of margins provided in the Amended Credit Facility. The Canadian Prime Rate is the higher of (i) the rate the Bank of Montreal announces as its "reference rate," or (ii) the Canadian Dollar Offered Rate (CDOR) for an interest period equal to the term of any applicable borrowing plus 0.50%. The applicable margin is determined quarterly based on the Company's Total Leverage Ratio, as described below. The maximum and initial margin for interest rates after March 31, 2016 on Canadian borrowings under the Credit Facility is 2.75% on base rate loans.

The Credit Facility contains customary events of default, including the failure to pay any principal, interest or other amount when due, violation of certain of the Company's affirmative covenants or any negative covenants or a breach of representations and warranties and, in certain circumstances, a change of control. Upon the occurrence of an event of default, payment of indebtedness may be accelerated and the lending commitments may be terminated.

The Credit Facility also contains financial covenants with which the Company must comply on a quarterly or annual basis, which have been amended since entering into the Original Credit Facility, including a Total Funded Debt to EBITDA Ratio (or "Total Leverage Ratio", as defined). Total Funded Debt as it relates to the Total Leverage Ratio is defined as all indebtedness (a) for borrowed money, (b) for the purchase price of goods or services, (c) secured by assets of the Company or its Subsidiaries, (d) for any capitalized leases of property, (e) for letters of credit or other extensions of credit, (f) for payments owed regarding equity interests in the Company or its Subsidiaries, (g) for interest rate, currency or commodities hedging arrangements, or (h) for any guarantees of any of the foregoing as of the end of the most recent fiscal quarter. Consistent with the Original Credit Facility, Permitted Acquisitions are subject to bank review and a maximum Total Leverage Ratio, after giving effect to such acquisition. The Company must also comply with a minimum Fixed Charge Coverage Ratio. Fixed charge coverage is defined as the ratio of (a) EBITDA less unfinanced capital expenditures for the four trailing quarterly periods to (b) fixed charges (principal and interest payments, taxes paid and other restricted payments); except that for the first three quarters of 2016, for the purposes of determining this ratio, EBITDA will be calculated based on a multiple of the then current EBITDA, instead of using the EBITDA for the prior four quarters. A similar annualization adjustment will be made for unfinanced capital expenditures for the same period. EBITDA includes after tax earnings with add backs for interest expense, income taxes, depreciation and amortization, share-based compensation expenses, and other additional items as outlined in the Credit Facility. In addition, the Credit Facility covenants include a minimum net worth covenant, which was revised effective March 31, 2016. Net worth is defined as the total shareholders' equity, including capital stock, additional paid in capital, and retained earnings after deducting treasury stock. The Amended Credit Facility includes a mandatory prepayment clause requiring certain cash payments when EBITDA exceeds defined requirements for the most recently completed fiscal year. These prepayments will be applied first to outstanding term loans and then to the revolving credit.

The Company also is subject to a limitation on its indebtedness based on quarterly calculations of a Borrowing Base. The Borrowing Base is determined based upon Eligible Receivables and Eligible Inventory and is calculated separately for the United States and Canadian borrowings. If the total amount of principal outstanding for revolving loans, term loans, letters of credit and other defined obligations is in excess of the Borrowing Base, then the Company is required to repay the difference or be in default of the Credit Facility.

As of September 30, 2016, the Company owed $21.8 million under the Credit Facility as shown in the table below. The Company also had $6.4 million outstanding in standby letters of credit under the Credit Facility related to the contingent consideration agreement with the former owners of the Canadian Founding Companies and the Company's property and casualty insurance program. As of September 30, 2016, for reasons described in Note 1, the Company was in breach of the Credit Facility's Total Leverage Ratio and Fixed Charge Coverage Ratio requirements, as well as the requirement for repaying over-advances (which were created by establishing lower acquired inventory values as described in Note 3 that reduced the applicable borrowing base), as well as the requirement for timely delivery of certain quarterly certificates and reports. The financial covenants are defined above in this Note. Since the Company is in default as of the date that this Third Quarter report on Form 10-Q is being filed, all of the Credit Facility debt is reported in the accompanying condensed consolidated balance sheet as a current liability and there can be no further borrowings of any availability under the Credit Facility until such defaults are rectified or waived.

On March 27, 2017, the Company and its subsidiaries entered into a Forbearance Agreement to the Credit Facility (the "Forbearance Agreement") with BMO Harris Bank N.A. and its Canadian affiliate, Bank of Montreal. Pursuant to the Forbearance Agreement, the banks agreed to forbear from exercising their rights and remedies under the Credit Facility with respect to the above-described defaults and any similar defaults during the forbearance period ending May 26, 2017, provided no other defaults occur. The Forbearance Agreement also permits the Company to add the quarterly interest payment otherwise due for the first quarter of 2017 to the principal amount of debt outstanding and defer a $250,000 principal payment due on March 31, 2017 to the end of the forbearance period.

The Board of Directors of the Company has engaged a financial advisor to advise the Board and Company management and to assist in pursuing a range of potential strategic and financial transactions that will provide the Company with improved liquidity and maximize shareholder value. The financial advisor will identify and evaluate potential alternatives including debt or equity financing, a strategic investment into the Company or a business combination, and is reporting directly to a special committee of independent directors established to oversee and coordinate these activities. The Board has not set a definitive timetable for completion of this process. There can be no assurance that this process will result in a transaction or other strategic alternative of any kind.

If the Company is unable to reach further agreement with its lenders to obtain waivers or amendments to the existing Credit Facility, find acceptable alternative financing, obtain equity contributions, or arrange a business combination, after the forbearance period (and during the forbearance period in the event of any new defaults other than those anticipated defaults enumerated in the Forbearance Agreement), the Company's Credit Facility lenders could elect to declare some or all of the amounts outstanding under the facility to be immediately due and payable. If this happens, the Company does not expect to have sufficient liquidity to pay the outstanding Credit Facility debt.

Maturities of Credit Facility

The following is a summary of the components of the Company's Credit Facility debt and amounts outstanding at September 30, 2016 and December 31, 2015:

(In thousands)	September 30, 2016	December 31, 2015
Obligations:		
Term loan	$ 9,000	$ 9,625
Revolving credit facility	12,815	11,200
Total debt	21,815	20,825
Less: long-term debt issuance costs	—	(299)
Less: short-term debt issuance costs	(414)	(88)
Total debt, net of issuance costs	21,401	20,438
Less: current maturities, net of debt issuance costs	(21,401)	(793)
Long-term debt, net of issuance costs	$ —	$ 19,645

There have been no additional borrowings under the Credit Facility since September 30, 2016.

Scheduled maturities, which the Company continues to follow, are as follows for the periods ending September 30; however, as described above, the Company is in default under the Credit Facility and the lenders could elect to declare some or all of the amounts shown below as immediately due and payable and therefore all the debt is classified as a current liability in the accompanying condensed consolidated balance sheet.

(In thousands)	2017	2018	2019	2020	Total
Revolving credit facility	$ —	$ —	$ —	$ 12,815	$ 12,815
Term loan	1,000	1,000	1,000	6,000	9,000
Debt issuance costs	(113)	(113)	(113)	(75)	(414)
Total	$ 887	$ 887	$ 887	$ 18,740	$ 21,401

Debt Issuance Costs

As noted above, the Company entered into the Amended Credit Facility effective December 31, 2015 and a first amendment effective as of March 31, 2016, that was deemed under ASC 470 to be a modification of the Original Credit Facility. As such, debt issuance costs will continue to be amortized over the remaining term of the Amended Credit Facility. As the termination date of the Amended Credit Facility is the same as the Original Credit Facility, this did not change the continuing impact of previous debt issuance costs.

In connection with the original agreement, the Company incurred $438,000 in original debt issuance costs during 2015 and an additional $50,000 and $102,000 in amendment charges during the three and nine months ended September 30, 2016, which are netted against the term loan balance and are being amortized over the term of the Original Credit Facility. The amortized debt issuance costs are recognized as interest expense in the condensed consolidated statement of operations and amounted to $28,000 and $75,000 for the three and nine months ended September 30, 2016, respectively.

Note 5. Contingent Consideration Liabilities

As part of the consideration for three of the Founding Companies, the Company entered into contingent consideration agreements with certain of the selling shareholders, as described in the paragraphs below. Under the terms of the contingent consideration agreements, additional consideration will be payable to the former owners if specified future events occur or conditions are met, such as meeting profitability or earnings targets. The fair value of the aggregate contingent consideration was initially estimated as $10.2 million and recorded in the consolidated financial statements at the acquisition date based on independent valuations considering the Company's initial projections for the relevant Founding Companies, the respective target levels, the relative weighting of various future scenarios and a discount rate of approximately 5.0%. Management periodically reviews the amount of contingent consideration that is likely to be payable under current operating conditions and has since adjusted the initial liability as deemed necessary, with such subsequent adjustments being recorded through the consolidated statement of operations as an operating charge or credit. In the event that there is a range of possible outcomes, the Company applies a probability approach to determine the estimated obligation to be recorded at the end of an accounting period.

For the combination with Jerry Brown, Ltd. ("Jerry Brown"), the Company is required to pay (a) up to an additional $1.8 million if the business achieved certain revenue targets during the twelve-month period beginning June 2015, and (b) an additional uncapped amount if the business exceeds certain EBITDA levels during 2016. Based on an evaluation of the likelihood of meeting these performance targets, the Company recorded a liability for the acquisition date fair value of the contingent consideration of $2.5 million and increased this liability by $5.1 million during 2015 based on substantial operating improvements and management's budget for Jerry Brown for 2016. Based on results actually achieved during 2016, EBITDA is now estimated to be less than the previously developed budget and, accordingly, the estimated fair value of the contingent liability was reduced by $3.8 million, resulting in a credit to income which is reflected in the condensed consolidated statement of operations for the nine months ended September 30, 2016, of which $1.4 million was recorded during the three months ended September 30, 2016. As of September 30, 2016, the total contingent consideration liability attributable to the Jerry Brown acquisitions was (a) $1.8 million for achieving the revenue target, which management and the former owners of Jerry Brown agree was fully earned and is currently due and payable, and (b) $2.0 million estimated for the EBITDA target which will be determined in 2017. The Company is in negotiations with the former owners of Jerry Brown to schedule payment of currently due amounts and expects to fund these and future determined payments to the former owners of Jerry Brown, to the extent they are ultimately deemed earned, through cash generated from operations or, if necessary and available, through draws on the revolving Credit Facility or through other sources of capital that may be available.

The combination agreements for Eiss Brothers, Inc. ("Eiss Brothers") and End of Life Vehicles Inc., Goldy Metals Incorporated, and Goldy Metals (Ottawa) Incorporated (collectively, "the Canadian Founding Companies") provide for a holdback of additional consideration which will be payable, in part or in whole, only if certain performance targets are achieved. The maximum amount of additional consideration that can be earned by the former owners of Eiss Brothers is $0.2 million in cash plus 11,667 shares of Fenix common stock, of which none, some or all will be released from escrow depending upon the EBITDA of Eiss Brothers during the twelve-month period beginning June 2015. The maximum amount of additional consideration that can be earned and is subject to holdback for the Canadian Founding Companies is $5.9 million in cash, secured by a letter of credit under our Credit

Facility, plus 280,000 Exchangeable Preferred Shares currently held in escrow, of which, none, some or all will be released to the Canadian Founding Companies depending on their combined revenues from specific types of sales for the twelve-month period beginning June 2015. Based on management's evaluation of the likelihood of meeting these performance targets for these two acquisitions, a liability of $7.8 million was recorded at the acquisition date for the fair value of the aggregate contingent consideration, which included the present value of the estimated cash portion and the then-current value of the Fenix common stock and the Exchangeable Preferred Shares held in escrow. While management's estimate of the operating results for Eiss Brothers has not changed since its acquisition, the contingent consideration liability for the Canadian Founding Companies was reduced during the nine months ended September 30, 2016 in accordance with FASB ASC No. 805 "Business Combinations," which requires the Company to estimate contingent consideration at fair value using possible outcomes. As the amount of the contingent consideration is currently in dispute, the Company has recorded the estimated contingent consideration liability for the Canadian Founding Companies as of September 30, 2016 based on the result of its assessment of the possible outcomes. These contingent consideration liabilities are also subject to mark-to-market fluctuations based on changes in the trading price of Fenix common stock and, with respect to the Canadian Founding Companies, currency remeasurement. As a result of all these factors, the estimated fair value of the aggregate contingent liability due to the former owners of Eiss Brothers and the Canadian Founding Companies was reduced by $0.0 million and $4.2 million, and an exchange rate gain of $0.0 million and $0.5 million was recognized in the condensed consolidated statement of operations for the three and nine months ended September 30, 2016, respectively. The Company expects to fund any cash payments to the former owners of the Canadian Founding Companies, to the extent they are ultimately deemed earned, through draws on the bank letter of credit, which is considered Funded Debt under the Total Leverage Ratio required under the Credit Facility.

The period for calculating all contingent consideration liabilities was complete as of September 30, 2016, except for Jerry Brown's uncapped EBITDA contingency. The Company is currently in negotiations with the former owners of the Canadian Founding Companies regarding the calculation of contingent consideration earned, if any, and the parties have begun the process of submitting this calculation to binding arbitration.

Note 6. Common Stock and Preferred Shares

Fenix was formed and initially capitalized in January 2014 by a group of investors, including the Chief Executive and the Chief Financial Officers, who paid nominal cash consideration for an aggregate of 1.8 million shares of Fenix common stock. In March and April 2014, Fenix issued and sold an aggregate of 402,000 shares of common stock for a purchase price of $5.00 per share. During the period of September 2014 through May 2015, Fenix issued and sold an aggregate of 546,927 shares of common stock for an ultimate purchase price of $6.50 per share. Of these shares, 20,000 were issued to certain investors for no cash consideration in order to effectively convert their $7.50 per share investments to $6.50 per share investments. Such issuances resulted in a charge to other income (expense), net in January 2015 of $131,000.

The Company completed its IPO on May 19, 2015. The Company raised approximately $110.4 million in gross proceeds from the IPO by selling 13.8 million shares at $8.00 per share and netted $101.3 million in the IPO after paying the underwriter's discount and other offering costs.

The agreements that relate to the common stock sales in March, April and September 2014 included provisions that obligated the holders of the common stock issued in January 2014 to compensate the investors in the later sales if the IPO price of Fenix common stock was less than $10.00 per share. As the IPO price was $8.00 per share, the initial investors transferred 237,231 of their shares to the later investors equal in value to the aggregate difference in value between the IPO price of $8.00 per share and $10.00 per share, resulting in a charge of $1.7 million to other expense as of the IPO date. The later investors were also granted registration rights.

Effective May 19, 2015, the Company issued 1,050,000 exchangeable preferred shares of Fenix's subsidiary, Fenix Parts Canada, Inc. ("Exchangeable Preferred Shares") as acquisition consideration valued at the public offering price of common stock of $8.00 per share. Because these shares do not entitle the holders to any Fenix Canada dividends or distributions, no earnings or losses of Fenix Canada are attributable to those holders. These shares are exchangeable on a 1-for-1 basis for shares of the Company's common stock. The single share of special voting stock is entitled to vote on any matter submitted to a vote of holders of the Company's common stock a number of votes equal to the number of Exchangeable Preferred Shares of Fenix Parts Canada, Inc. issued to the former shareholders of the Canadian Founding Companies. The share of special voting stock is intended to provide the former shareholders of the Canadian Founding Companies the equivalent voting rights in Fenix common stock they would have received if the combination agreement for the Canadian Founding Companies had required Fenix to issue shares of Fenix common stock instead of Exchangeable Preferred Shares. The share of special voting stock is held in a voting trust for the benefit of the former shareholders of the Canadian Founding Companies, and the trustee of the voting trust will vote the share of special voting stock in accordance with the beneficiaries' directions. Neither the holder of the share of special voting stock nor the beneficiaries of the share of special voting stock is entitled to receive any dividends or other distributions that Fenix may make in respect of shares of the Company’s common stock.

Note 7. Share-Based Compensation

Fenix’s 2014 Incentive Stock Plan (the “Plan”) was adopted by the Board of Directors in November 2014 and went into effect January 6, 2015 after it was approved by the Company’s shareholders. The Plan was amended by the Board of Directors and restated effective July 8, 2015 and again in November 2015, effective December 1, 2015. The Plan permits grants of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards (in the form of equity bonuses), and other awards (which may be based in whole or in part on the value of the Company’s common stock). Directors, salaried employees, and consultants of the Company and its commonly-controlled affiliates are eligible to participate in the Plan, which is administered by the Compensation Committee of the Company’s Board of Directors. The number of shares originally reserved for share-based awards under the Plan equaled 2,750,000 shares. No awards were granted prior to the IPO. As of September 30, 2016, the Company had 312,250 shares available for share-based awards under the Plan. The Plan requires that each restricted stock unit and each share of restricted stock awarded reduce shares available by two shares.

Share-based compensation is included in selling, general and administrative expenses in the consolidated statements of operations. The components of share-based compensation were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Stock options	$ 308	$ 520	$ 1,242	$ 582
Restricted stock grants	88	78	340	78
Leesville bonus shares	—	547	790	832
Other restricted or unregistered share issuances	—	—	50	217
Total share-based compensation	$ 396	$ 1,145	$ 2,422	$ 1,709

Stock Options

Stock options granted to employees under the Plan typically have a 10-year life and vest in equal installments on each of the first four anniversary dates of the grant, although certain awards have been made with a shorter vesting period. The Company calculates stock compensation expense for employee option awards based on the grant date fair value of the award, less actual annual forfeitures, and recognizes expense on a straight-line basis over the service period of the award. Stock options granted to non-executive directors vest on the first anniversary of the award date. Stock compensation expense for these awards to non-executive directors is based on the grant date fair value of the award and is recognized on a straight-line basis over the one-year service period of the award.

The Company uses the Black-Scholes option pricing model to estimate the grant date fair value of employee and director stock options. The principal variable assumptions utilized in valuing options and the methodology for estimating such model inputs include: (1) risk-free interest rate – an estimate based on the yield of zero–coupon treasury securities with a maturity equal to the expected life of the option; (2) expected volatility – an estimate based on the historical volatility of similar companies’ common stock for a period equal to the expected life of the option; (3) expected life of the option – an estimate based on industry historical experience including the effect of employee terminations; and (4) expected dividend yield - an estimate of cash dividends. The Company does not currently intend to pay cash dividends and thus has assumed a 0% dividend yield. In accordance with ASU No. 2016-09, all forfeitures were applied when they occurred. The forfeitures as noted below first occurred in the three months ended September 30, 2016.

Based on the results of the model, the fair value of the stock options granted during the first nine months of 2016 ranged from $1.20 to $1.54 per share using the following assumptions:

Expected dividend yield	—%
Risk-free interest rate	1.1 - 1.85%
Expected volatility	30.0%
Expected life of option	6.3 years

Stock option activity for the nine months ended September 30, 2016 was as follows:

	Number of Options		Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term in Years		Aggregate Intrinsic Value
Outstanding on December 31, 2015	1,596,297	$	9.02			
Granted	482,750		4.04			
Exercised	—		—			
Expired or forfeited	(6,000)		9.60			
Outstanding on September 30, 2016	2,073,047	$	7.86	8.98	$	8,700
Exercisable on September 30, 2016	699,390	$	9.17	8.73	$	—

At September 30, 2016, there was $2.9 million of unrecognized compensation costs related to stock option awards to be recognized over a weighted average period of 3.2 years.

Restricted Stock Units
Restricted stock units (RSUs) granted to employees and directors vest over time based on continued service (typically, for employees, vesting over a four or five year period in equal annual installments). Such time-vested RSUs are valued at fair value based on the closing price of Fenix common stock on the date of grant. Compensation cost is amortized on a straight-line basis over the requisite service period.

A summary of restricted stock unit activity for the nine months ended September 30, 2016 is as follows:

	Number of Awards		Weighted-Average Grant Date Fair Value Per Share
Unvested restricted stock units at December 31, 2015	150,000	$	9.68
Granted	29,332		4.23
Forfeited	—		—
Vested	54,332		7.66
Unvested restricted stock units at September 30, 2016	125,000	$	9.28

At September 30, 2016, there was $1.1 million of unrecognized compensation costs related to restricted stock units to be recognized over a weighted average period of 3.0 years.

The Company’s Director Compensation Policy provides that non-employee directors may elect to receive shares of fully-vested restricted stock in lieu of cash compensation based on the average closing price of the Company’s common stock during the period of service. During the nine months ended September 30, 2016, the Company issued 19,332 fully-vested restricted shares to the directors making such election for the period of service from January 1, 2016 to May 24, 2016 (date of the Annual Meeting) and recorded compensation expense of approximately $0.1 million. During the three months ended September 30, 2016, the Company issued no restricted shares to the directors.

Leesville Bonus Shares
The Company issued 271,112 restricted shares of common stock as part of the closing of the Leesville acquisition for post-combination services of certain Leesville employees. The shares fully vested on May 13, 2016, twelve months after the grant date.

Employee Stock Purchase Plan
At the Company’s Annual Meeting on May 24, 2016, the Company’s shareholders approved the Employee Stock Purchase Plan (“ESP Plan”) effective June 1, 2016. The number of shares authorized for purchase under the ESP Plan is 750,000. The first offering period commenced on July 1, 2016.

Note 8. Loss Per Share

Basic loss per common share is computed by dividing net loss available to common shares by the weighted average common shares outstanding during the period using the two-class method. The Fenix Canada preferred shares do not entitle the holders to any dividends or distributions and therefore, no earnings or losses of Fenix Canada are attributable to those holders. However, these shares are considered participating securities and therefore share in the Company’s net income (loss) of the period since being issued on May 19, 2015. Diluted income (loss) per share includes the impact of outstanding common share equivalents as if those equivalents were exercised or converted into common shares if such assumed exercise or conversion is dilutive.

The calculations of loss per share are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands except share data)	2016	2015	2016	2015
Basic loss per common share:				
Net loss	$ (1,771)	$ (6,548)	$ (41,740)	$ (13,152)
Net loss allocable to Fenix Canada preferred shares	(88)	(168)	(2,100)	(862)
Net loss available to common shares	$ (1,683)	$ (6,380)	$ (39,640)	$ (12,290)
Weighted-average common shares outstanding	19,988,809	19,475,046	19,818,231	11,206,390
Basic loss per common share	$ (0.08)	$ (0.33)	$ (2.00)	$ (1.10)

The Company has 11,667 common shares and 280,000 shares of Fenix Canada exchangeable preferred stock held in escrow relating to contingent consideration agreements relating to certain acquired companies. These shares are not included in basic loss per share or in the shares used to calculate the net loss attributable to Fenix Canada preferred shares and will not be included until the contingencies relating to their issuance have been determined, and some, all or none of these shares have been issued. Outstanding stock options and unvested restricted stock units described in Note 7 above are not included in the computation of diluted loss per share for any periods during which the inclusion of such equity equivalents would be anti-dilutive. The Leesville bonus shares described in Note 7 above are included in the weighted-average common shares outstanding for the 2016 periods.

Note 9. Income Taxes

For interim periods, the Company estimates its effective tax rate for the full year and records an interim provision or benefit, as applicable, at such rate. The Company's effective tax rate (benefit) of 11.0% for the nine months ended September 30, 2016, differs from the U.S. federal statutory rate of 34% due primarily to the goodwill impairment, for which no tax benefit was recorded as described further in Note 10. Other items impacting the effective tax rate include the reversal of $2.9 million in reserves for uncertain tax positions as described below, state income taxes, differences between U.S. and Canadian income tax rates, changes in the indemnification receivable and the contingent consideration liability which are not tax deductible, and the effect of a valuation allowance recorded for Canadian deferred tax assets. The effective tax rate (benefit) for the nine months ended September 30, 2015 was 44.0%.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax regulations. The Company's uncertain tax position reserves at September 30, 2016, including related accrued interest and penalties of approximately $1.0 million, all relate to tax positions assumed as part of the acquisitions in 2015. These tax reserves are reviewed periodically and adjusted in light of changing facts and circumstances, such as progress of tax audits, lapse of applicable statutes of limitations, and changes in tax law. Under certain conditions, payments made by the Company, including interest and penalties, for assumed uncertain tax positions are indemnified by the former owners of the Subsidiaries for a period of three years from the acquisition in the case of the Founding Companies and for the period of the applicable statute of limitations in the case of the later-acquired companies. As of December 31, 2015, the Company had approximately $5.7 million of uncertain tax position reserves. During the nine months ended September 30, 2016, the statute of limitations lapsed without audit for certain tax returns filed by acquired companies for which reserves for uncertain tax positions and indemnification receivables had been established. As a result, the Company reversed $2.9 million of uncertain tax position reserves, which included $1.4 million of accrued interest and penalties, as a credit to the income tax benefit in the condensed consolidated statement of operations. As of September 30, 2016, the remaining uncertain tax position reserves amounted to $2.8 million. Correspondingly, the indemnification receivables were reduced by $2.8 million through a charge to operating expenses, and there is a remaining indemnification receivable of $2.3 million recorded in the condensed consolidated balance sheet as of September 30, 2016. If a reserved uncertain tax position results in an actual liability and the Company is unable to collect on or enforce the related indemnification provision or if the actual liability occurs after the applicable indemnity period has expired, there could be a material charge to the Company's consolidated financial results and reduction of cash resources.

Note 10. Goodwill and Intangible Assets

Goodwill represents the excess of the cost of an acquired business over the net of the amounts assigned to assets acquired and liabilities assumed. Changes in the carrying amount of goodwill were as follows:

(In thousands)		
Balance as of December 31, 2015	$	76,812
Purchase accounting allocation adjustments (see Note 3)		5,403
Exchange rate effects		523
Impairment charge		(45,300)
Balance as of September 30, 2016	$	37,438

Pursuant to the provisions of FASB ASC Topic 350, "Intangibles - Goodwill and Other," goodwill is required to be tested at the reporting unit level for impairment annually or whenever indications of impairment arise. Management has determined the Company operates as one operating segment and one reporting unit, Automotive Recycling, and all the goodwill is considered attributable to that reporting unit for impairment testing. The Company performed its annual goodwill impairment test for 2015 as of October 1, 2015, also updated as of December 31, 2015, and management determined that no impairment of goodwill existed at either date.

During the first quarter of 2016, the Company's stock price declined 32% from $6.79/share at December 31, 2015 to $4.60/share at March 31, 2016, and management performed step 1 of the two-step impairment test and determined that potential impairment of the reporting unit existed at March 31, 2016, since book value at such date no longer exceeded the carrying amount. As such, management applied the second step of the goodwill impairment test and, with consideration of a third party valuation report, calculated an estimated fair value as a hypothetical purchase price for the reporting unit to determine the resulting "implied" goodwill (computed by estimating the fair value of the reporting unit and comparing that estimated fair value to the reporting unit's carrying value). An excess of a reporting unit's recorded goodwill over its "implied" goodwill is reported as an impairment charge.

The Company's reporting unit fair value estimates are established using weightings of the Company's market capitalization and a discounted future cash flow methodology. Management believes that using the two methods to estimate fair value limits the chances of an unrepresentative valuation. Nonetheless, these valuations are subject to significant subjectivity and assumptions as discussed further below.

The Company considers its current market capitalization compared to the sum of the estimated fair values of its business in conjunction with each impairment assessment. As part of this consideration, management recognizes that the Company's market capitalization at March 31, 2016, or at any specific date, may not be an accurate representation of fair value for the following reasons:

- The long-term horizon of the valuation process versus a short-term valuation using current market conditions; and
- Control premiums reflected in the reporting unit fair values but not in the Company's stock price.

In addition to market capitalization analysis the Company re-performed a discounted future cash flow analysis for the purpose of determining the amount of goodwill impairment. Such analysis relies on key assumptions, including, but not limited to, the estimated future cash flows of the reporting unit, weighted average cost of capital ("WACC"), and terminal growth rates of the Company. The determination of fair value is highly sensitive to differences between estimated and actual cash flows and changes in the WACC and related discount rate used to evaluate the fair value of the reporting unit. In evaluating the key variables this time, management (i) reduced the estimated future cash flows based upon actual results achieved during the three months ended March 31, 2016 and revised projections, and (ii) concluded that the Company's WACC and terminal growth rates were 13% and 3%, respectively, as compared to 10% and 3% used in the test at October 1, 2015.

Based on the result of this second step of the goodwill impairment analysis as of March 31, 2016, combining the market capitalization and discounted cash flow methodologies, the Company recorded a $45.3 million non-cash charge to reduce the carrying value of goodwill. The Canadian Founding Companies were acquired in 2015 in an asset purchase, and the tax benefit associated with the portion of this charge related to the Canadian Founding Companies was offset by a valuation allowance because of the uncertainties associated with generating future taxable income in Canada.

While management believes that the estimates and assumptions underlying the valuation methodology are reasonable, different estimates and assumptions could result in substantially different outcomes. The table below presents the decrease in the fair value of the reporting unit given a one percent increase in the discount rate or a one percent decrease in the long-term assumed annual revenue growth rate. A 10% change in the weighting of the discounted cash flow approach and the market approach would not have had a significant effect on the fair value of the reporting unit.

		Decrease in Fair Value of Reporting Unit (in thousands)
Discount Rate - Increase by 1%	$	11,000
Long-term Growth Rate - Decrease by 1%	$	6,000

A goodwill impairment analysis requires significant judgments, estimates and assumptions, and the results of the impairment analysis described above are as of a point in time - March 31, 2016. Future events that could result in further interim assessments of goodwill and a potential further impairment include, but are not limited to, (i) a further decline in the Company's stock price below the valuation used to compute the impairment at March 31, 2016, (ii) significant underperformance relative to historical or projected future operating results and/or reductions in estimated future sales growth rates, (iii) further reduction in scrap prices, (iv) further reduction in the Canadian exchange rate, (v) an increase in the Company's weighted average cost of capital, (vi) significant increases in vehicle procurement costs, (vii) significant changes in the manner of or use of the assets or the strategy for the Company's overall business, (viii) variation in vehicle accident rates or other significant negative industry trends, (ix) changes in state or federal laws, (x) a significant economic downturn, or (xi) changes in other variables that can materially impact the Company's business.

Intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill. The Company's intangible assets, net of accumulated amortization, totaled $35.1 million at March 31, 2016 and $33.3 million at September 30, 2016, and consist of trade names, non-competition agreements and customer relationships. The Company, in conjunction with its third party valuation expert, used various techniques in estimating the initial fair value of acquired intangible assets. These valuations are primarily based on the present value of the estimated net cash flows expected to be derived from the intangible assets, discounted for assumptions such as future customer attrition. Management evaluates the intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Therefore, changes such as higher or earlier-than-expected customer attrition may result in higher future amortization charges or an impairment charge for intangible assets. As part of the goodwill impairment analysis discussed above, the Company also reviewed intangible assets and did not identify any impairment as of March 31, 2016.

After considering qualitative indicators at September 30, 2016 that caused the Company to revisit the possibility of further impairment for goodwill and for intangible assets, the Company performed step 1 of the two-step impairment test and concluded that no further impairment for goodwill and intangible assets was appropriate at September 30, 2016. Expected second and third quarter results and market capitalization were considered as part of the March 31, 2016 analysis, and actual results and other key factors did not deviate from management's expectations in such a way that would call into question the realizability of goodwill and other long lived assets as of September 30, 2016.

Note 11. Commitments and Contingencies

Operating Leases

Rental expense for operating leases was approximately $1.0 million and $2.6 million during the three and nine months ended September 30, 2016, respectively. The Company incurred rent expense of $1.0 million and $1.2 million for the three and nine months ended September 30, 2015, respectively. The Company leases properties from the former owners of the Subsidiaries and other related parties. The Company did not enter into any new leases during the nine months ended September 30, 2016.

Legal, Environmental and Related Contingencies

From time to time, the Company is subject to litigation related to normal business operations. The Company maintains insurance for normal business risks and seeks to vigorously defend itself in litigation. The Company also is subject to a variety of environmental and pollution control laws and regulations incident to the ordinary course of business. Management currently expects that the resolution of any potential contingencies arising from compliance with these laws and regulations will not materially affect the Company's financial position, results of operations or cash flows.

SEC Inquiry

In September 2016, the Company received a subpoena from the Chicago Regional Office of the SEC requiring the production of various documents, which were all provided during December 2016 and January 2017. The SEC inquiry appears to be focused on the Company's change during 2016 in its independent registered public accounting firm, its previously announced business combinations and related goodwill impairment charge, the effectiveness of its internal controls over financial reporting and its inventory valuation methodology. The Company's receipt of a subpoena from the SEC does not mean that it has violated securities laws. Although the Company has incurred substantial legal fees and other costs associated with production of the documents required by the SEC and may incur further costs before this inquiry is concluded, management does not believe that the inquiry will ultimately have a material impact on the Company's financial condition, results of operations or cash flow, but cannot predict the duration or outcome of the inquiry.

Class Action Lawsuit
In January 2017, a class action lawsuit entitled Beezley v. Fenix Parts, Inc. et al, was filed in the United States District Court for the District of New Jersey against the Company, Kent Robertson, its President and Chief Executive Officer, and Scott Pettit, its Chief Financial Officer (the "Defendants"). The lawsuit was filed on behalf of purchasers of the Company's shares from May 14, 2015 through October 12, 2016. The complaint asserts that all defendants violated Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and SEC Rule 10b-5 and that Messrs. Robertson and Pettit violated Section 20(a) of the Exchange Act. The complaint asserts that the defendants made false and/or misleading statements and/or failed to disclose that: (1) the Company had an inadequate inventory valuation methodology; (2) the Company had an inadequate methodology to calculate goodwill impairment; (3) the Company was engaging and/or had engaged in conduct that would result in an SEC investigation; and (4) as a result, the defendants' statements about the Company's business, operations, and prospects, were materially false and misleading and/or lacked a reasonable basis at all relevant times. The plaintiffs seek class certification, an award of unspecified damages, an award of reasonable costs and expenses, including attorneys' fees and expert fees, and other further relief as the Court may deem just and proper. The Company believes that the allegations contained in the complaint are without merit and, in conjunction with its insurance carrier, intends to vigorously defend itself against all claims asserted therein. A reasonable estimate of the amount of any possible loss or range of loss, after applicable insurance coverage, cannot be made at this time and, as such, the Company has not recorded an accrual for any possible loss.

Note 12. Fair Value Measurements

Fair Value Measurements of financial assets and liabilities are defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date (exit price). The Company is required to classify fair value measurements in one of the following categories:

Level 1 - inputs which are defined as quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - inputs which are defined as inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3 - inputs which are defined as unobservable inputs for the assets or liabilities. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

Certain assets and liabilities are required to be recorded at fair value on either a recurring or non-recurring basis. At September 30, 2016, the fair value of contingent consideration, which is a recurring fair value measurement, was valued in the consolidated financial statements using Level 3 inputs. The Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses are carried at cost, which are Level 1 as they approximate fair value due to the short-term maturity of these instruments.

The Company's debt, classified as Level 2, is carried at cost and approximates fair value due to its variable interest rates, which are consistent with the interest rates in the market. The Company may be required, on a non-recurring basis, to adjust the carrying value of the Company's property and equipment, intangible assets, goodwill and contingent consideration. When necessary, these valuations are determined by the Company using Level 3 inputs. These assets are subject to fair value adjustments in certain circumstances, such as when there is evidence that impairment may exist (see Note 5 above for further details related to contingent consideration fair value estimates and related adjustments recorded in the consolidated financial statements).

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Beagell Group (Designated Accounting Co-Predecessor)
UNAUDITED CONDENSED COMBINED STATEMENT OF OPERATIONS

(In thousands)		Period from January 1, 2015 to May 18, 2015
Net revenues	$	11,107
Cost of goods sold		7,395
Gross profit		3,712
Operating expenses		3,184
Income from operations		528
Other income		64
Income before income tax expense		592
Income tax expense		76
Net income	$	516
Net income attributable to noncontrolling interest		279
Net income attributable to Beagell Group	$	237

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Beagell Group
UNAUDITED CONDENSED COMBINED STATEMENT OF CASH FLOWS

(In thousands)	Period from January 1, 2015 to May 18, 2015
Cash flows from operating activities	
Net income	$ 516
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation and amortization expense	277
Provision for uncertain tax positions	86
Gain on disposal of property and equipment	(61)
Change in assets and liabilities	
Accounts receivable	(135)
Inventories	114
Prepaid expenses and other current assets	(104)
Account payable	233
Accrued expenses and other liabilities	(306)
Deferred warranty revenue	(143)
Net cash provided by operating activities	477
Cash flows from investing activities	
Proceeds from disposal of property and equipment	161
Premium payments on life insurance policies	594
Payments made on related party receivables	333
Capital expenditures	(285)
Net cash provided in investing activities	803
Cash flows from financing activities	
Payments of debt	(26)
Shareholder distributions	(1,859)
Net cash used in financing activities	(1,885)
Decrease in cash and cash equivalents	(605)
Cash and cash equivalents, beginning of period	2,770
Cash and cash equivalents, end of period	$ 2,165
Supplemental cash flow disclosures	
Cash paid for income taxes	$ 5

Beagell Group
NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS

Note 1. Nature of Operations

The Beagell Group (the “Company”) includes three commonly-controlled companies: Don’s Automotive Mall, Inc. (“Don’s”), Gary’s U-Pull It, Inc. (“Gary’s”) and Horseheads Automotive Recycling, Inc. (“Horseheads”). The Company’s primary business is auto recycling, which is the recovery and resale of original equipment manufacturer (“OEM”) and aftermarket parts, components and systems, such as engines, transmissions, radiators, trunks, lamps and seats (referred to as “products”) reclaimed from damaged, totaled or low value vehicles. The Company purchases its vehicles primarily at auto salvage auctions. Upon receipt of vehicles, the Company inventories and then either a) dismantles the vehicles and sells the recycled components at its full-service facilities or b) allows retail customers to directly dismantle, recover and purchase recycled parts at its self-service facilities. In addition, the Company purchases recycled OEM and related products from third parties for resale and distribution to its customers. The Company’s customers include collision repair shops (body shops), mechanical repair shops, auto dealerships and individual retail customers. The Company also generates a portion of revenue from the sale of scrap of the unusable parts and materials and from the sale of extended warranties.

Don’s sells recycled OEM products through its two full-service dismantling and distribution facilities located in Binghamton, New York and Pennsburg, Pennsylvania. Gary’s and Horseheads sell recycled OEM products through their self-service facilities in Binghamton and Elmira, New York, respectively. Each of the three commonly-controlled companies is a New York corporation.

On May 19, 2015, all three commonly-controlled companies were purchased by Fenix Parts, Inc. for an approximate purchase price of $34.5 million, subject to working capital and other adjustments. The Lessors (as defined below) were not purchased, but the owners of the Lessors entered into lease agreements with Fenix Parts, Inc. for certain properties on which the Company conducts its automotive recycling business.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation
These unaudited condensed combined financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information, without audit, pursuant to the rules and regulations of United States Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures typically included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited condensed combined financial statements should be read in conjunction with the audited combined financial statements of the Beagell Group and the notes thereto as of and for the year ended December 31, 2014 included in Fenix Parts, Inc.’s prospectus dated May 14, 2015. The Company continues to follow the accounting policies set forth in those combined financial statements. Management believes that these combined interim financial statements include all adjustments, normal and recurring in nature, that are necessary to present fairly the results of its operations and cash flows for the period from January 1, 2015 to May 18, 2015. Interim results are not necessarily indicative of annual results. All significant intercompany balances and transactions have been eliminated.

The combined financial statements include the accounts of D&B Holdings, LLC and BBHC, LLC - the lessors of the premises from which Don’s operates, Beagell Properties, LLC - the lessor of the premises from which Gary’s operates, and Don’s Independent Salvage Company, LLC - the lessor of the premises from which Horseheads operates (collectively, “the Lessors”). Each of the Lessors are substantially owned by the Company’s shareholders. The Company has determined that each of the Lessors are variable interest entities because the holders of the equity investment at risk in these entities do not have the obligation to absorb their expected losses or receive their residual returns. Furthermore, the Company has determined that it is the primary beneficiary of each Lessor because the Company has the power to direct the activities that most significantly impact the Lessors’ economic performance, namely the operation and maintenance of the significant assets of the Lessors. Accordingly, and pursuant to consolidation requirements under GAAP, the Company consolidates the Lessors. All intercompany transactions are eliminated in consolidation. All of the Lessors operating results are attributable to the noncontrolling interests in the Company’s combined statements of operations and all of their shareholders’ equity is reported separately from the Company’s shareholders’ equity in the Company’s combined balance sheet and combined statements of shareholders’ equity.

Use of Estimates
The preparation of the Company’s combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the combined financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition
The Company recognizes revenue from the sale of vehicle replacement products and scrap when they are shipped or picked up by the customers and ownership has transferred, subject to an allowance for estimated returns and discounts that management estimates based upon historical information. Management analyzes historical returns (often pursuant to standard warranties on the sold products) and allowances activity by comparing the items returned to the original invoice amounts and dates. The Company uses this information to project future returns and allowances on products sold. If actual returns and allowances deviate from the Company's historical experience, there could be an impact on its operating results in the period of occurrence.

The Company presents taxes assessed by governmental authorities collected from customers on a net basis. Therefore, the taxes are excluded from revenue on the combined statements of operations and are shown as a current liability on the combined balance sheets until remitted. Revenue also includes amounts billed to customers for shipping and handling.

Revenue from the sale of separately priced extended warranty contracts is reported as deferred revenue and recognized ratably over the term of the contracts. Revenue from such extended warranty contracts was approximately $189,000 for the period from January 1, 2015 to May 18, 2015.

Cost of Goods Sold
Cost of goods sold primarily includes a) amounts paid for the purchase of vehicles, scrap, parts for resale and related products, b) related auction, storage and towing fees, and c) other costs of procurement and dismantling, primarily labor and overhead allocable to dismantling operations.

Operating Expenses
Operating expenses are primarily comprised of a) salaries and benefits of employees that are not related to the procurement and dismantling of vehicles, b) facility costs such as rent, utilities, insurance, repairs and taxes not allocated to dismantling operations, c) selling and marketing costs, d) costs to distribute the Company's products and scrap and e) other general and administrative costs.

Income Taxes
Each of the three commonly-controlled companies has elected to operate under Subchapter S of the Internal Revenue Code. Accordingly, the shareholders report their share of the Company's federal and most state taxable income or loss on their respective individual income tax returns. The Lessors are taxed as partnerships and therefore no provision for federal and state corporate taxes are recorded for the Lessors.

The Company recognizes the benefits of uncertain tax positions taken or expected to be taken in tax returns in the provision for income taxes only for those positions that are more likely than not to be realized. The Company follows a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. The Company considers many factors when evaluating and estimating tax positions and tax benefits, which may require periodic adjustments and which may not accurately forecast actual outcomes. The Company's policy is to include interest and penalties associated with income tax obligations in income tax expense.

Reclassifications
Reclassifications of prior period amounts have been made to conform to the current period presentation. The reclassifications have no impact on net income, cash flows, total assets or shareholders' equity as previously reported.

Note 3. Commitments and Contingencies

Operating Lease

The Company is obligated under a non-cancelable operating lease for corporate office space, warehouse and distribution facilities. The facilities are owned by certain shareholders of the Company. In 2015, the entity holding the leased assets was consolidated, and there was no rental expense recognized for the period from January 1, 2015 to May 18, 2015.

Note 4. Income Taxes

Each of the Company's commonly-controlled entities described in Note 2 have elected to operate under Subchapter S of the Internal Revenue Code. The Company's primary uncertain tax position arises from uncertainties regarding the continued qualifications of one of the entities for that Subchapter S election and the related reserve was approximately $2,017,000 at May 18, 2015. It is reasonably possible that the amount of benefits from this uncertain tax position will significantly increase or decrease in the next twelve months; however, no estimate of the range of the amount of the increase or decrease can be readily made.

In addition to the uncertain tax positions described above, the Company has other uncertain tax positions related to the timing of certain deductions for income tax purposes. The related basis differences caused by this timing of deductions for income tax purposes and the timing of expense recognition for financial reporting purposes are reported by the Company's equity holders. However, interest and penalties are separately recorded for all uncertain tax positions as part of income tax expense and amounted to approximately $24,000 for the period from January 1, 2015 to May 18, 2015. The Company had accumulated interest and penalties of approximately $373,000 as of May 18, 2015, which are included in the reserve for uncertain tax positions on the combined balance sheets.

The Company is generally no longer subject to examination in primary tax jurisdictions for tax years through 2011. The Company is not currently subject to any audits or examinations.

Note 5. Employee Benefit Plans

The Company provides a defined contribution plan covering eligible employees, which includes a matching contribution. Matching Company contributions to this plan was approximately $37,000 for the period January 1, 2015 to May 18, 2015.

Standard (Designated Accounting Co-Predecessor)
UNAUDITED CONDENSED COMBINED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS

(In thousands)	Period from January 1, 2015 to May 18, 2015
Net revenues	$ 8,914
Cost of goods sold	5,996
Gross profit	2,918
Operating expenses	3,385
Loss from operations	(467)
Other income, net	302
Loss before income tax expense	(165)
Income tax provision	79
Net loss	(244)
Net loss attributable to noncontrolling interest	(15)
Net loss attributable to Standard	$ (229)
Net loss	$ (244)
Foreign currency translation adjustments, net of tax	(366)
Net comprehensive income (loss)	(610)
Net comprehensive income (loss) attributable to noncontrolling interest	(17)
Net comprehensive income (loss) attributable to Standard	$ (593)

Standard
UNAUDITED CONDENSED COMBINED STATEMENT OF CASH FLOWS

(In thousands)	Period from January 1, 2015 to May 18, 2015
Cash flows from operating activities	
Net loss	$ (244)
Adjustments to reconcile net loss to net cash used in operating activities	
Depreciation and amortization expense	302
Deferred income tax benefit	(194)
Provision for uncertain tax positions	69
Insurance proceeds	150
Gain on fire	(51)
Loss on disposal of property and equipment	15
Change in assets and liabilities	
Accounts receivable	(216)
Inventories	(12)
Prepaid expenses and other current assets	(432)
Accounts payable	(306)
Accrued expenses and other current liabilities	343
Net cash used in operating activities	(576)
Cash flows from investing activities	
Capital expenditures	(119)
Insurance Proceeds	109
Other	61
Net cash provided by investing activities	51
Effect of foreign exchange fluctuations on cash	559
Net increase in cash and cash equivalents	34
Cash and cash equivalents, beginning of period	1,354
Cash and cash equivalents, end of period	$ 1,388
Supplemental cash flow disclosure	
Cash paid for income taxes	$ 9

Standard
NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS
Note 1. Nature of Operations

Standard (the "Company") includes four commonly-controlled companies: Standard Auto Wreckers, Inc. ("Standard Auto"), End of Life Vehicles Inc. ("End of Life Vehicles"), Goldy Metals (Ottawa) Incorporated ("Goldy Metals Ottawa") and Goldy Metals Incorporated ("Goldy Metals Toronto"). The Company's primary business is auto recycling, which is the recovery and resale of original equipment manufacturer ("OEM") and aftermarket parts, components and systems, such as engines, transmissions, radiators, trunks, lights and seats (referred to as "products") reclaimed from damaged, totaled or low value vehicles. The Company purchases its vehicles primarily at auto salvage auctions. Upon receipt of vehicles, the Company inventories and then a) dismantles the vehicles and sells the recycled components at its full-service facilities or b) allows retail customers to directly dismantle, recover and purchase recycled parts at its self-service facilities. In addition, the Company purchases recycled OEM parts and related products from third parties for resale and distribution to its customers. The Company's customers include collision repair shops (body shops), mechanical repair shops, auto dealerships and individual retail customers. The Company also generates a portion of revenue from the sale as scrap of the unusable parts and materials and from the sale of extended warranty contracts.

Standard Auto is incorporated in New York, and End of Life Vehicles, Goldy Metals Ottawa and Goldy Metals Toronto all operate in Canada and are incorporated in the Province of Ontario. Collectively, the Company has three full-service dismantling and distribution facilities located in Niagara Falls, New York; Scarborough, Ontario; and Ottawa, Ontario. The Ottawa facility runs a self-service operation adjacent to its full-service operations, and Goldy Metals Toronto has a second self-service operation in Scarborough, Ontario. End of Life Vehicles is a website based solution for individuals to arrange for an environmentally responsible disposal of their vehicle.

On May 19, 2015, each of the commonly-controlled companies described above was acquired by Fenix Parts, Inc. ("Fenix") for an approximate purchase price of $46.6 million, subject to working capital and other adjustments. The acquisition did not include the capital stock of Dalana Realty, Inc. ("Dalana Realty"), Standard Auto Wreckers (Port Hope), Inc. ("Port Hope"), or Standard Auto Wreckers (Cornwall) Inc., which was formed by one of the Company shareholders in 2013 to acquire property in Cornwall, Ontario to allow for future expansion. The owner of these entities, who also owned Standard prior to the acquisition by Fenix, entered into lease agreements with Fenix for certain properties on which Fenix conducts its automotive recycling business.

Note 2. Summary of Significant Accounting Policies

Basis of Preparation
These unaudited condensed combined financial statements were prepared in accordance with accounting principles generally accepted in the United States ("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 GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited condensed combined financial statements should be read in conjunction with the audited combined financial statements of Standard and the notes thereto as of and for the year ended December 31, 2014 included in Fenix Parts, Inc.'s prospectus dated May 14, 2015. The Company continues to follow the accounting policies set forth in those combined financial statements. Management believes that these combined interim financial statements include all adjustments, normal and recurring in nature, that are necessary to present fairly the results of its operations and cash flows for the period from January 1, 2015 to May 18, 2015. Interim results are not necessarily indicative of annual results. All significant intercompany balances and transactions have been eliminated.

The combined financial statements include the accounts of Dalana Realty, the lessor of the premises from which Standard Auto operates. Dalana Realty and Standard Auto share common ownership. In April 2014, Port Hope, an Ontario corporation, was formed by one of the Company's shareholders to hold new property to be used as a full-service dismantling and distribution facility in Port Hope, Ontario, to replace the Goldy Metals Toronto's full-service operations in Scarborough which were not restarted after a fire at the facility in March 2014. The combined financial statements also include the accounts of Port Hope.

The Company has determined Dalana Realty and Port Hope are variable interest entities ("VIEs") because the holders of the equity investment at risk do not have the obligation to absorb its expected losses or receive its residual returns. Furthermore, the Company has determined it is the primary beneficiary of the VIEs because the Company has the power to direct the activities that most significantly impact Dalana Realty's and Port Hope's economic performance. The Company consolidates Dalana Realty and Port Hope. All intercompany transactions are eliminated in consolidation, and the VIE's operating results are attributable to the noncontrolling interest in the Company's combined statements of operations and all of its shareholder's equity is reported separately from the Company's shareholders' equity in the Company's combined balance sheets and statements of shareholders' equity.

Use of Estimates
The preparation of the Company's combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
Standard Auto includes cash and investments having an original maturity of three months or less at the time of acquisition in cash and cash equivalents.

Foreign Currency
The assets and liabilities of End of Life Vehicles, Goldy Metals Ottawa, Goldy Metals Toronto and Port Hope, whose functional currency is the Canadian dollar, are translated into US dollars at period-end exchange rates prior to combination. Income and expense items are translated at the average rates of exchange prevailing during the period. The adjustments resulting from translating the Company's financial statements are reflected as a component of accumulated other comprehensive income within shareholders' equity. Foreign currency transaction gains and losses are recognized in net earnings based on differences between foreign exchange rates on the transaction date and the settlement date. Transaction gains $5,600 for the period January 1, 2015 to May 18, 2015, and are included in operating expenses on the consolidated statements of operations.

Revenue Recognition
The Company recognizes revenue from the sale of vehicle replacement products and scrap when they are shipped or picked up by the customers and ownership has transferred, subject to an allowance for estimated returns and discounts that management estimates based upon historical information. Management analyzes historical returns (often pursuant to standard warranties on the sold products) and allowances activity by comparing the items to the original invoice amounts and dates. The Company uses this information to project future returns and allowances on products sold. If actual returns and allowances deviate significantly from the Company's historical experience, there could be an impact on its operating results in the period of occurrence.

The Company presents taxes assessed by governmental authorities collected from customers on a net basis. Therefore, the taxes are excluded from revenue on the combined statements of operations and are shown as current liabilities on the combined balance sheets until remitted. Revenue also includes amounts billed to customers for shipping and handling.

Revenue from the sale of separately priced extended warranty contracts is reported as deferred revenue and recognized ratably over the term of the contracts or over five years for life-time warranties. Revenue from such extended warranty contracts was approximately $98,000 for the period January 1, 2015 to May 18, 2015.

Net revenues were reported by the Company's Canadian entities of approximately $7,336,000 for the period from January 1, 2015 to May 18, 2015.

Cost of Goods Sold
Cost of goods sold primarily includes a) amounts paid for the purchase of vehicles and parts for resale, b) related auction, storage and towing fees, and c) other costs of procurement and dismantling, primarily labor and overhead allocable to dismantling operations.

Operating Expenses
Operating expenses are primarily comprised of a) salaries and benefits of employees that are not related to the procurement and dismantling of vehicles, b) facility costs such as rent, utilities, insurance, repairs and taxes not allocated to dismantling operations, c) selling and marketing costs, d) costs to distribute products and scrap and e) other general and administrative costs.

Income taxes
Income taxes are accounted for under the asset and liability method where deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and the respective tax basis and for tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization include historical cumulative losses, the forecast of future taxable income and available tax planning strategies that could be implemented

to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company's effective tax rate on future earnings.

The Company recognizes the benefits of uncertain tax positions taken or expected to be taken in tax returns in the provision for income taxes only for those positions that are more likely than not to be realized. The Company follows a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately forecast actual outcomes. The Company policy is to include interest and penalties associated with income tax obligations in income tax expense.

Reclassifications
Reclassifications of prior period amounts have been made to conform to the current period presentation. The reclassifications have no impact on net income, cash flows, total assets or shareholders' equity as previously reported.

Note 3. Commitments and Contingencies

Leases
Goldy Metals Toronto pays rent to one of the shareholders under a month to month lease agreement. Lease expense under this operating lease was approximately $24,000 for the period from January 1, 2015 to May 18, 2015.

Note 4. Income Taxes

For the period from January 1, 2015 to May 18, 2015, the effective tax rate was (48.10)%. The effective tax rate differs from the statutory rate due to the impact of foreign tax rates and changes in uncertain tax positions.

The Company's gross reserve for uncertain tax positions related to foreign and domestic matters, including penalties and interest, as of May 18, 2015 was approximately $499,000. The Company believes that it has adequately provided for all uncertain tax positions. The Company is generally no longer subject to examination in the Company's primary tax jurisdiction for tax years through 2011. The Company is not currently subject to any audits or examinations. It is reasonably possible that new issues may be raised by tax authorities and that these issues may require increases in the balance of the reserve for uncertain tax positions.

Note 5. Fire at Toronto Facility

On March 3, 2014, a fire occurred at the Goldy Metals Toronto facility located in Scarborough, Ontario. The fire destroyed the dismantling facility and a substantial portion of the location's inventory. For the periods from January 1, 2015 to May 18, 2015 the Company did not incur any additional charges but received insurance recoveries of approximately $259,000, which was recognized as income when received. If any additional proceeds are received they are expected to be insignificant.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking Statements
The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q. The following discussion includes forward-looking statements that involve certain risks and uncertainties. For additional information regarding forward-looking statements and risk factors, see "Forward-looking statements" and Part II, Item 1A. "Risk Factors."

Critical Accounting Policies and Estimates
Our accounting policies require us to apply methodologies, estimates and judgments that have a significant impact on the results we report in our consolidated financial statements. In our 2015 Annual Report on Form 10-K, we discussed those material policies that we believe are critical and require the use of complex judgment in application. There have been no changes to our critical accounting policies since that time.

We use estimates in accounting for, among other items, inventory valuation and reserves for potentially excess and unsalable inventory, contingent consideration liabilities, uncertain tax positions and certain other assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates require the application of complex assumptions and judgments, often because they involve matters that are inherently uncertain and will likely change in subsequent periods. The impact of any change in estimates is included in earnings in the period in which the estimate is adjusted.

Liquidity and Ability to Continue as a Going Concern
Our unaudited condensed consolidated financial statements have been prepared assuming we continue as a going concern, which contemplates continuity of operations, realization of assets and the satisfaction of liabilities in the normal course of business. As such, the accompanying unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets and their carrying amounts, or the amount and classification of liabilities that may result should we be unable to continue as a going concern.

As of June 30, 2016, September 30, 2016 and December 31, 2016, we were in breach of the Credit Facility's Total Leverage Ratio and Fixed Charge Coverage Ratio requirements and the Borrowing Base requirement for repaying over-advances as well as the requirement for timely delivery of certain quarterly certificates and reports. On March 27, 2017, we entered into a Forbearance Agreement to the Credit Facility (the "Forbearance Agreement") with BMO Harris Bank N.A and its Canadian affiliate, Bank of Montreal. Pursuant to the Forbearance Agreement, the banks agreed to forbear from exercising their rights and remedies under the Credit Facility with respect to the above described defaults and any similar defaults during the forbearance period ending May 26, 2017, provided no other defaults occur.

Our Board of Directors has engaged a financial advisor to advise the Board and management and to assist in pursuing a range of potential strategic and financial transactions that will provide us with improved liquidity and maximize shareholder value. The financial advisor will identify and evaluate potential alternatives including debt or equity financing, a strategic investment into us or a business combination, and is reporting directly to a special committee of independent directors established to oversee and coordinate these activities. The Board has not set a definitive timetable for completion of this process. There can be no assurance that this process will result in a transaction or other strategic alternative of any kind.

If we are unable to reach further agreement with its lenders to obtain waivers or amendments to the existing Credit Facility, find acceptable alternative financing, obtain equity contributions, or arrange a business combination, after the forbearance period (and during the forbearance period in the event of any new defaults other than those anticipated defaults enumerated in the Forbearance Agreement), the Company's Credit Facility lenders could elect to declare some or all of the amounts outstanding under the facility to be immediately due and payable. If this happens, we do not expect to have sufficient liquidity to pay the outstanding Credit Facility debt. In addition, we have significant obligations under contingent consideration agreements related to certain acquired companies, and we will need access to additional credit to be able to satisfy these obligations. These matters, including our ability to continue as a going concern, are more fully discussed below under Liquidity and Capital Resources.

Carrying Values and Impairment of Goodwill
Goodwill represents the excess of the cost of an acquired business over the net of the amounts assigned to assets acquired and liabilities assumed. Pursuant to the provisions of FASB ASC Topic 350, "Intangibles - Goodwill and Other," goodwill is required

to be tested at the reporting unit level for impairment annually or whenever indications of impairment arise. Management has determined we operate as one operating segment and one reporting unit, Automotive Recycling, and all the goodwill is considered attributable to that reporting unit for impairment testing. Pursuant to our policy, we performed the annual goodwill impairment test as of October 1, 2015, updated the test as of December 31, 2015, and determined that no impairment of goodwill existed at either date.

During the first quarter of 2016, our stock price declined 32% from $6.79/share at December 31, 2015 to $4.60/share at March 31, 2016. Management performed step 1 of the two-step impairment test and determined that potential impairment of the reporting unit existed at March 31, 2016, since book value at such date no longer exceeded the carrying amount. As such, management applied the second step of the goodwill impairment test and, with consideration of a third party valuation report and using the methodology and assumptions explained in Note 10 to the condensed consolidated financial statements, calculated a goodwill impairment of $45.3 million that was recorded in the three months ended March 31, 2016 and is reflected in the accompanying consolidated statement of operations for the nine months ended September 30, 2016.

A goodwill impairment analysis requires significant judgments, estimates and assumptions, and the results of our impairment analysis are as of a point in time - March 31, 2016. Future events that could result in further interim assessments of goodwill and a potential further impairment include, but are not limited to, (i) a further decline in our stock price below the valuation used to compute the impairment at March 31, 2016, (ii) significant underperformance relative to historical or projected future operating results and/or reductions in estimated future sales growth rates, (iii) further reduction in scrap prices, (iv) further reduction in the Canadian exchange rate, (v) an increase in our weighted average cost of capital, (vi) significant increases in our vehicle procurement costs, (vii) significant changes in the manner of or use of the assets or the strategy for our overall business, (viii) variation in vehicle accident rates or other significant negative industry trends, (ix) changes in state or federal laws, (x) a significant economic downturn, or (xi) changes in other variables that can materially impact our business.

Intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill. Our intangible assets, net of accumulated amortization, totaled $35.1 million at March 31, 2016 and $33.3 million at September 30, 2016, and consist of trade names, non-competition agreements and customer relationships. Our third party valuation experts use various techniques in estimating the initial fair value of acquired intangible assets. These valuations are primarily based on the present value of the estimated net cash flows expected to be derived from the intangible assets, discounted for assumptions such as future customer attrition. Management evaluates the intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Therefore, changes such as higher or earlier-than-expected customer attrition may result in higher future amortization charges or an impairment charge for intangible assets. As part of the goodwill impairment analysis discussed above, we also reviewed intangible assets and did not identify any impairment as of March 31, 2016.

After considering qualitative indicators at September 30, 2016 that caused us to revisit the possibility of further impairment for goodwill and for intangible assets, we concluded that no further impairment for goodwill and intangible assets was appropriate at September 30, 2016. Expected second and third quarter results and market capitalization were considered as part of our March 31, 2016 analysis, and actual results and other key factors did not deviate from our expectations in such a way that would call into question the realizability of goodwill and other long lived assets as of September 30, 2016.

Recent Accounting Pronouncements

Refer to Note 2 “Recent Accounting Pronouncements” in the notes to the unaudited consolidated financial statements for Fenix Parts, Inc., included in this Form 10-Q.

Fenix Parts, Inc.
(in thousands, except percentages and per share amounts)

Overview

We are in the business of automotive recycling, which is the recovery and resale of OEM and aftermarket parts, components and systems, such as engines, transmissions, radiators, trunks, lamps and seats (referred to as “products”) reclaimed from damaged, totaled or low value vehicles. We purchase vehicles primarily at auto salvage auctions. Upon receipt of vehicles, we inventory and then dismantle the vehicles and sell the recycled products. Our customers include collision repair shops, mechanical repair shops, auto dealerships and individual retail customers. We also generate a portion of our revenue from the sale as scrap of the unusable parts and materials, from the sale of used cars and motorcycles, and from the sale of extended warranty contracts.

We were founded on January 2, 2014 (“inception”) for the purpose of effecting the combinations with the Founding Companies and the IPO. We had no automotive recycling operations before May 2015, during which time we had two employees. From inception to May 19, 2015, we incurred various legal, accounting, auditing and administrative costs in preparation for the IPO, the combinations and for operation as a publicly-traded company upon consummation of these transactions. After May 18, 2015, our results include the operations of the acquired companies.

Consolidated Results of Operations for the Three Months Ended September 30, 2016 and 2015

(in thousands, except percentages)	Three Months Ended September 30, 2016	Percent of Net Revenues	Three Months Ended September 30, 2015	Percent of Net Revenues
Net revenues	$ 32,515	100.0 %	$ 27,275	100.0 %
Cost of goods sold	21,348	65.7 %	20,584	75.5 %
Gross profit	11,167	34.3 %	6,691	24.5 %
Selling, general and administrative expenses	12,962	39.9 %	14,579	53.5 %
Outside service and professional fees	1,742	5.4 %	3,575	13.1 %
Depreciation and amortization	1,138	3.5 %	1,077	3.9 %
Change in fair value of contingent consideration liabilities	(1,411)	(4.3)%	(1,022)	(3.7)%
Change in indemnification receivable	266	0.8 %	—	— %
Operating loss	(3,530)	(10.9)%	(11,518)	(42.2)%
Interest expense	(437)	(1.3)%	(78)	(0.3)%
Other income, net	165	0.5 %	26	0.1 %
Loss before income tax benefit	(3,802)	(11.7)%	(11,570)	(42.4)%
Benefit for income taxes	(2,031)	(6.2)%	(5,022)	(18.4)%
Net loss	$ (1,771)	(5.4)%	$ (6,548)	(24.0)%

The following table shows the combined unaudited pro forma net revenues and net loss for us as if the acquisition of all subsidiaries had occurred on January 1, 2015. These unaudited pro forma amounts presented are not necessarily indicative of either the actual consolidated results had the acquisition occurred as of January 1, 2015 or of future operating results:

	(Unaudited)			
	Three Months Ended September 30,		Difference	
(in thousands, except percentages)	2016 as Reported	2015 Pro Forma	$	%
Net revenues	$ 32,515	$ 32,211	$ 304	0.9 %
Net loss	$ (1,771)	$ (7,461)	$ 5,690	(76.3)%

Pro forma net revenues consisted of:

	(Unaudited)			
	Three Months Ended September 30,		Difference	
(in thousands, except percentages)	2016 as Reported	2015 Pro Forma	$	%
Recycled OE parts and related products	$ 27,694	$ 27,762	$ (68)	(0.2)%
Other ancillary products (scrap)	4,821	4,449	372	8.4 %
Total	$ 32,515	$ 32,211	$ 304	0.9 %

Pro Forma Adjustments (Unaudited)
Significant adjustments to the historical revenues of the Subsidiaries include the elimination of sales between acquired companies, for which there is a corresponding decrease in pro forma cost of goods sold, and the elimination of revenue from the sale of warranties that are not recognized by us in the post-acquisition periods.

Significant adjustments to expenses include eliminating the effect of shares transferred from founding investors to later investors, incremental amortization of acquired intangible assets, rent expense associated with leases with the former owners of the Subsidiaries, compensation related to certain bonuses paid to owners and employees and related income tax effects.

The cost of goods sold impact of the subsequent sale of acquired inventories written-up from historic cost basis to fair value is reflected for pro forma reporting purposes in the same period as reflected in the accompanying condensed consolidated financial statements, and is not adjusted back to January 1, 2015 as it does not have a continuing impact on us. As a result, pro forma gross profit margins in the periods immediately following the acquisitions are substantially lower than the pre-acquisition periods.

Net Revenues
Net revenues for the three months ended September 30, 2016 were $32.5 million. This represents a 19.0% increase over net revenues for the three months ended September 30, 2015 of $27.3 million. This change is a result of only having automotive recycling operations for the Founding Companies for a full quarter in 2015 along with Ocean County, which was acquired half way through August 2015. Butler and Tri-City were acquired in the fourth quarter of 2015. Net revenues of $32.5 million represents a 0.9% increase from unaudited pro forma combined net revenues for the three months ended September 30, 2015 of $32.2 million. Of this increase, $(0.1) million was attributable to sales of OE parts and related products and $0.4 million was attributable to sales of scrap.

Because of the significant increase in the value of the U.S Dollar against the Canadian Dollar during 2015, in the fourth quarter of 2015 and continuing into 2016, we substantially reduced shipments of parts from our U.S. facilities into the Canada markets, resulting in lower revenue at our Canadian facilities as they sought to develop Canadian sources to acquire vehicles and product for recycling. Continued changes in exchange rates could result in ongoing changes to operational and financial performance of the Canadian operations that could adversely affect our future reported results of operations.

Cost of Goods Sold
Our cost of goods sold for the three months ended September 30, 2016 amounted to $21.3 million, or 65.7% of net revenues and a gross profit percentage of 34.3%. This represents a 3.4% increase over cost of goods sold for the three months ended September 30, 2015 of $20.6 million. This change is a result of only having automotive recycling operations for the Founding Companies for a full quarter in 2015 along with Ocean County, which was acquired half way through August 2015. Butler and Tri-City were acquired in the fourth quarter of 2015. Costs of goods sold for the three months ended September 30, 2016 and 2015 includes $0.0 million and $4.3 million, respectively, attributable to post-acquisition amortization of higher inventory values from applying the purchase method of accounting to the acquired inventories of the Subsidiaries. As of September 30, 2016, there was no remaining unamortized fair value inventory adjustment as the acquired inventory was expected to be sold within six to nine months. Depreciation of $0.2 million was included in cost of goods sold during the three months ended September 30, 2016.

As mentioned above, our results of operations are exposed to market risk related to price fluctuation in scrap metal and other metals. Market prices of these metals affect the amount that we pay for our inventory, in addition to the revenue that we generate from sales of these metals. As both our revenue and costs are affected by the price fluctuations, we have a natural hedge against price changes. However, there is typically a lag between the effect on our revenue from metal price fluctuations and the corresponding effect on cost of goods sold. Our cost of goods sold for recycled OEM and related products reflects the historic average cost to acquire such products, including the price to purchase vehicles, auction, storage and towing fees, and expenditures for buying and dismantling vehicles.

Selling, General and Administrative Expenses
Our selling, general and administrative expenses for the three months ended September 30, 2016 amounted to $13.0 million, or 39.9% of net revenues. This represents a (11.0)% decrease over selling, general and administrative expense for the three months ended September 30, 2015 of $14.6 million. Selling, general and administrative expenses consisted of (i) selling and marketing expenses, (ii) general and administrative expenses, and (iii) amortization of $0.4 million and $1.2 million of non-cash share-based compensation during the three months ended September 30, 2016 and 2015, respectively.

Outside Service and Professional Fees
Our outside service and professional fees for the three months ended September 30, 2016 amounted to $1.7 million, or 5.4% of net revenues. This represents a (52.8)% decrease over outside service and professional fees for the three months ended September 30, 2015 of $3.6 million. Outside service and professional fees consisted primarily of auditing, valuation reports and opinions, tax consulting, and legal fees for the three months ended September 30, 2016 and 2015. For the three months ended September 30, 2015, outside service and professional fees included costs related to establishing the accounting valuations for the acquisitions of the Founding Companies and for outside accounting services as we had not yet recruited and staffed an internal accounting department. For the three months ended September 30, 2016, outside service and professional fees included costs related to the transition to a new external audit firm.

Depreciation and amortization expense
Our depreciation and amortization not directly attributable to cost of goods sold for the three months ended September 30, 2016 amounted to $1.1 million, or 3.5% of net revenues. This represents no change over depreciation and amortization expense for the three months ended September 30, 2015 of $1.1 million. Depreciation and amortization consisted primarily of amortization of intangible assets established in connection with acquisitions.

Change in fair value of contingent consideration liabilities
Our estimated fair value of contingent consideration liabilities decreased by $1.4 million for the three months ended September 30, 2016, resulting in income equal to 4.3% of net revenues. This compares to a decrease in the estimated fair value of contingent consideration liabilities and resulting income recorded for the three months ended September 30, 2015 of $1.0 million. The change during the three months ended September 30, 2016 primarily results from the reduction by $1.5 million of the estimated contingent consideration for Jerry Brown, Ltd. (“Jerry Brown”) in September 2016 in accordance with FASB ASC No. 805 “Business Combination,” which requires us to fair value our contingent consideration liabilities using possible outcomes. The change during the three months ended September 30, 2015 resulted because of mark-to-market fluctuations based on changes in the trading price of Fenix common stock and, with respect to the Canadian Founding Companies, currency remeasurement.

Interest expense and other income (expense), net
Our interest expense, primarily related to our Credit Facility, was $0.4 million for the three months ended September 30, 2016. Our interest and other income, net for the three months ended September 30, 2016, amounted to $0.2 million of income. Combined, these items were 0.8% of net revenues.

Benefit for income taxes
We recorded an income tax benefit of $2.0 million during the three months ended September 30, 2016, an effective rate of 53.4% of the pretax loss reported in the period. This represents a 60.0% decrease as compared to the income tax benefit for the three months ended September 30, 2015 of $5.0 million, which was based on a larger pretax loss. The effective rate differs from the U.S. federal statutory rate due to the reversal of $0.3 million of reserves for uncertain tax positions during the third quarter of 2016, and the effects of state and Canadian income taxes and non-deductible income and expense items reported in the statement of operations.

Net loss
Net loss for the three months ended September 30, 2016 and 2015 was $1.8 million and $6.5 million, respectively. This represents a 72.3% decrease which results from the matters described above.

Consolidated Results of Operations for the Nine Months Ended September 30, 2016 and 2015

(in thousands, except percentages)	Nine Months Ended September 30, 2016	Percent of Net Revenues	Nine Months Ended September 30, 2015	Percent of Net Revenues
Net revenues	$ 98,931	100.0 %	$ 38,745	100.0 %
Cost of goods sold	59,190	59.8 %	30,592	79.0 %
Gross profit	39,741	40.2 %	8,153	21.0 %
Selling, general and administrative expenses	37,567	38.0 %	21,272	54.9 %
Outside service and professional fees	5,083	5.1 %	6,988	18.0 %
Depreciation and amortization	3,500	3.5 %	1,786	4.6 %
Change in fair value of contingent consideration liabilities	(8,393)	(8.5)%	(193)	(0.5)%
Change in indemnification receivable	2,782	2.8 %	—	— %
Goodwill impairment	45,300	45.8 %	—	— %
Operating loss	(46,098)	(46.5)%	(21,700)	(56.0)%
Interest expense	(1,192)	(1.2)%	(100)	(0.3)%
Other income (expense), net	408	0.4 %	(1,678)	(4.3)%
Loss before income tax benefit	(46,882)	(47.4)%	(23,478)	(60.6)%
Benefit for income taxes	(5,142)	(5.2)%	(10,326)	(26.7)%
Net loss	$ (41,740)	(42.2)%	$ (13,152)	(33.9)%

The following table shows the combined unaudited pro forma net revenues and net loss for us as if the acquisition of all subsidiaries had occurred on January 1, 2015. These unaudited pro forma amounts presented are not necessarily indicative of either the actual consolidated results had the acquisition occurred as of January 1, 2015 or of future operating results:

	(Unaudited)			
	Nine Months Ended September 30,		Difference	
(in thousands, except percentages)	2016 as Reported	2015 Pro Forma	$	%
Net revenues	$ 98,931	$ 95,598	$ 3,333	3.5%
Net loss	$ (41,740)	$ (10,500)	$ (31,240)	297.5%

Pro forma net revenues consisted of:

	(Unaudited)			
(in thousands, except percentages)	Nine Months Ended September 30,		Difference	
	2016 as Reported	2015 Pro Forma	$	%
Recycled OE parts and related products	$ 84,732	$ 82,430	$ 2,302	2.8%
Other ancillary products (scrap)	14,199	13,168	1,031	7.8%
Total	$ 98,931	$ 95,598	$ 3,333	3.5%

Pro Forma Adjustments (Unaudited)

Significant adjustments to the historical revenues of the Subsidiaries include the elimination of sales between acquired companies, for which there is a corresponding decrease in pro forma cost of goods sold, and the elimination of revenue from the sale of warranties that are not recognized by us in the post-acquisition periods.

Significant adjustments to expenses include eliminating the effect of shares transferred from founding investors to later investors, incremental amortization of acquired intangible assets, rent expense associated with leases with the former owners of the Subsidiaries, compensation related to certain bonuses paid to owners and employees and related income tax effects.

The cost of goods sold impact of the subsequent sale of acquired inventories written-up from historic cost basis to fair value is reflected for pro forma reporting purposes in the same period as reflected in the accompanying condensed consolidated financial statements and is not adjusted back to January 1, 2015 as it does not have a continuing impact on the us. As a result, pro forma gross profit margins in the periods immediately following the acquisitions are substantially lower than the pre-acquisition periods.

Net Revenues
Net revenues for the nine months ended September 30, 2016 were $98.9 million. This represents a 156% increase over net revenues for the nine months ended September 30, 2015 of $38.7 million. This change is a result of Fenix only having automotive recycling operations from May 19, 2015 through September 30, 2015, in the prior year. In addition, Butler and Tri-City were acquired in the fourth quarter of 2015 and are not included in the prior year net revenues. Net revenues of $98.9 million represents a 3.5% increase over unaudited pro forma combined net revenues for the nine months ended September 30, 2015 of $95.6 million. Of this increase, $2.3 million was attributable to sales of OE parts and related products and $1.0 million was attributable to sales of scrap.

We are subject to risks and uncertainties relating to the price of scrap metal, which can fluctuate significantly from period to period. While sales of scrap metal represent a small portion of our overall revenues, significant fluctuations have been experienced in metal prices over the past 21 months which have had an effect on our reported revenues including a decline of approximately 22% in average market prices for scrap auto bodies from the nine months ended September 30, 2015 to the nine months ended September 30, 2016 (as per the American Metal Market Index, 2015 = $162/ton; 2016 = $126/ton), which had an adverse effect on reported revenues during the nine months ended September 30, 2016. Continued weakness in metals prices could continue to adversely affect our revenues and profits. This trend should be viewed in light of the partially offsetting effect of lower metals prices on our cost of acquiring vehicles for recycling.

Because of the significant increase in the value of the U.S Dollar against the Canadian Dollar during 2015, in the fourth quarter of 2015 and continuing into 2016, we substantially reduced shipments of parts from our U.S. facilities into the Canada markets resulting in lower revenue at our Canadian facilities as they sought to develop Canadian sources to acquire vehicles and product for recycling. Continued changes in exchange rates could result in ongoing changes to operational and financial performance of the Canadian operations that could adversely affect our future reported results of operations.

Cost of Goods Sold
Our cost of goods sold for the nine months ended September 30, 2016 amounted to $59.2 million, or 59.8% of net revenues and a gross profit percentage of 40.2%. This represents a 93.5% increase over cost of goods sold for the nine months ended September 30, 2015 of $30.6 million. This change is a result of Fenix only having automotive recycling operations from May 19, 2015 through September 30, 2015, in the prior year. In addition, Butler and Tri-City were acquired in the fourth quarter of 2015 and are not included in the prior year net revenues and cost of goods sold. However, included in the cost of goods sold for the nine months ended September 30, 2016 is a benefit of $2.2 million from retrospective adjustments to reduce the value of acquired inventories in the business combinations and $1.8 million in lower value of acquired inventory for periods prior to December 31, 2015. These credits to cost of goods sold, recorded as of March 31, 2016, were partially offset by the impact of post-acquisition amortization of the higher inventory values that resulted from applying the purchase method of accounting of $1.4 million in the nine months ended September 30, 2016 as compared to $7.0 million in the nine months ended September 30, 2015. As of September 30, 2016, there was no remaining unamortized fair value inventory adjustment as the acquired inventory was expected to be sold within six to nine months. Depreciation of $0.8 million was included in cost of goods sold during the nine months ended September 30, 2016.

As mentioned above, our results of operations are exposed to market risk related to price fluctuations in scrap metal and other metals. Market prices of these metals affect the amount that we pay for our inventory, in addition to the revenue that we generate from sales of these metals. As both our revenue and costs are affected by the price fluctuations, we have a natural hedge against price changes. However, there is typically a lag between the effect on our revenue from metal price fluctuations and the corresponding effect on cost of goods sold. Our cost of goods sold for recycled OEM and related products reflects the historic average cost to acquire such products, including the price to purchase vehicles, auction, storage and towing fees, and expenditures for buying and dismantling vehicles.

Selling, General and Administrative Expenses
Our selling, general and administrative expenses for the nine months ended September 30, 2016 amounted to $37.6 million, or 38.0% of net revenues. This represents a 76.5% increase over selling, general and administrative expense for the nine months ended September 30, 2015 of $21.3 million. This change is a result of Fenix only having automotive recycling operations from May 19, 2015 through September 30, 2015, in the prior year. Selling, general and administrative consisted of (i) selling and marketing expenses, (ii) general and administrative expenses, and (iii) amortization of $2.4 million and $1.5 million of non-cash share-based compensation during the nine months ended September 30, 2016 and 2015, respectively.

Outside Service and Professional Fees
Our outside service and professional fees for the nine months ended September 30, 2016 amounted to $5.1 million, or 5.1% of net revenues. This represents a 27.1% decrease from outside service and professional fees for the nine months ended September 30,

2015 of $7.0 million. Outside service and professional fees consisted primarily of auditing, valuation reports and opinions, tax consulting, and legal fees for the nine months ended September 30, 2016, also included significant fees incurred in conjunction with our transition to a new audit firm. For the nine months ended September 30, 2015, outside service and professional fees included costs related to finalizing the audits and establishing the accounting valuations for the acquisitions of the Founding Companies and for outside accounting services as we had not yet recruited and staffed an internal accounting department.

Depreciation and amortization expense
Our depreciation and amortization not directly attributable to cost of goods sold for the nine months ended September 30, 2016 amounted to $3.5 million, or 3.5% of net revenues. This represents a 94.4% increase over depreciation and amortization for the nine months ended September 30, 2015 of $1.8 million. This change is a result of only having automotive recycling operations from May 19, 2015 through September 30, 2015 in the prior year. Depreciation and amortization consisted primarily of amortization of intangible assets established in connection with acquisitions.

Change in fair value of contingent consideration liabilities
Our estimated fair value of contingent consideration liabilities decreased by $8.4 million for the nine months ended September 30, 2016, resulting in income equal to 8.5% of net revenues. This compares to a decrease in estimated fair value of contingent consideration liabilities and resulting income recorded during the nine months ended September 30, 2015 of $0.2 million. The change during 2016 primarily results because the estimated contingent consideration liability for the Canadian Founding Companies was reduced by $4.2 million during the nine months ended September 30, 2016 in accordance with FASB ASC No. 805 “Business Combinations,” which requires that we estimate contingent consideration at fair value using probable outcomes. As the amount of the contingent consideration is currently in dispute, we recorded the estimated contingent consideration liability for the Canadian Founding Companies as of September 30, 2016 based on the result of our assessment of the possible outcomes. During the nine months ended September 30, 2016, we also reduced the estimated contingent consideration liability by $3.8 million because of differences between actual and budgeted performance at Jerry Brown. In addition, since some of the contingent consideration is payable in shares of stock, movements in our stock price during the respective periods and currency remeasurement decreased the contingent consideration liabilities during the nine months ended September 30, 2016 and 2015.

Change in indemnification receivable
Our fair value of the indemnification receivable decreased by $2.8 million for the nine months ended September 30, 2016, resulting in an expense equal to 2.8% of net revenues. The expense was attributable to the reduction in the receivable from former owners related to the indemnification for uncertain tax positions, recorded as a benefit under income taxes.

Goodwill Impairment
Based on the result of the first step of the goodwill impairment analysis, we determined that the fair value of our reporting unit was less than its carrying value as of March 31, 2016 and, as such, we applied the second step of the goodwill impairment test. Based on the result of this second step of the goodwill impairment analysis, we recorded a $45.3 million non-cash pretax charge to reduce the carrying value of goodwill in March 2016.

Interest expense and other income (expense), net
Our interest expense, primarily related to our Credit Facility, was $ 1.2 million for the nine months ended September 30, 2016. Our other income for the nine months ended September 30, 2016 was $0.4 million. Other income (expense), net for the nine months ended September 30, 2015 was $1.7 million of expense, primarily attributable to a $1.8 million charge for the make whole provision for pre-IPO investors.

Benefit for income taxes
We recorded an income tax benefit of $5.1 million during the nine months ended September 30, 2016, an effective rate of 11.0% of the pretax loss reported in the period. This represents a 50.5% decrease as compared to the income tax benefit for the nine months ended September 30, 2015 of $10.3 million. The benefit recorded during the nine months ended September 30, 2016 includes a $2.9 million reversal of uncertain tax positions. In addition, no tax benefit was recorded for the goodwill impairment in 2016 as the tax benefit associated with the portion of this charge related to the Canadian Founding Companies was offset by a valuation allowance because of the uncertainties associated with generating future taxable income in Canada. In addition to the items discussed above, the effective rate in the nine months ended September 30, 2016 and 2015 differs from the U.S. federal statutory rate due to the effects of the state and Canadian income taxes and non-deductible income and expense items reported in the statement of operations.

Net loss
Net loss for the nine months ended September 30, 2016 and 2015 was $41.7 million and $13.2 million, respectively. This represents a 215.9% decrease which results from the matters described above.

Predecessor Companies
For the period ended June 30, 2015, Beagell Group and Standard were fully consolidated and included in the condensed consolidated financial statements. For the period from January 1, 2015 to May 18, 2015, Beagell Group had net revenues of $11.1 million and net income of $0.5 million, and Standard had net revenues of $8.9 million and net loss of $0.2 million.

Liquidity and Capital Resources
As discussed more fully in Note 4 to the accompanying unaudited condensed consolidated financial statements, effective December 31, 2015, we entered into a $35 million amended and restated senior secured credit facility with BMO Harris Bank N.A. and its Canadian affiliate, Bank of Montreal (the "Credit Facility"), which replaced the original Credit Facility with them (the "Original Credit Facility"). The Amended Credit Facility contained substantially the same terms as the Original Credit Facility except for adjustments to covenants which are discussed below. Previous borrowings under the Original Credit Facility remained outstanding under the Amended Credit Facility. The Credit Facility was further amended on June 27, 2016 and August 19, 2016, with retroactive effect to March 31, 2016 and June 30, 2016, respectively, pursuant to which certain financial covenant calculations, which are described below, were further clarified and amended. The Credit Facility consists of $25.0 million that is available as a revolving credit facility, allocated $20.0 million in U.S. Dollar revolving loans, with a $7.5 million sublimit for letters of credit, and $5.0 million in Canadian revolving loans, with a $2.5 million sublimit for letters of credit. The remaining $10.0 million was drawn as a term loan as part of the IPO in May 2015.

The Credit Facility is secured by a first-priority perfected security interest in substantially all of our assets and the stock of our domestic subsidiaries, which also guaranty the borrowings, and 66% of the stock of our direct Canadian Subsidiary, Fenix Canada (other than its exchangeable preferred shares). The Credit Facility contains customary events of default, including the failure to pay any principal, interest or other amount when due, violation of certain of our affirmative covenants or any negative covenants or a breach of representations and warranties and, in certain circumstances, a change of control. Upon the occurrence of an event of default, payment of indebtedness may be accelerated and the lending commitments may be terminated.

The Credit Facility also contains financial covenants with which we must comply on a quarterly or annual basis, which have been amended since entering into the Original Credit Facility, including a Total Funded Debt to EBITDA Ratio (or "Total Leverage Ratio", as defined). Total Funded Debt as it relates to the Total Leverage Ratio is defined as all indebtedness (a) for borrowed money, (b) for the purchase price of goods or services, (c) secured by assets of the Company or its Subsidiaries, (d) for any capitalized leases of property, (e) for letters of credit or other extensions of credit, (f) for payments owed regarding equity interests in the Company or its Subsidiaries, (g) for interest rate, currency or commodities hedging arrangements, or (h) for any guarantees of any of the foregoing as of the end of the most recent fiscal quarter. Consistent with the Original Credit Facility, Permitted Acquisitions are subject to bank review and a maximum Total Leverage Ratio, after giving effect to such acquisition. We must also comply with a minimum Fixed Charge Coverage Ratio. Fixed charge coverage is defined as the ratio of (a) EBITDA less unfinanced capital expenditures for the four trailing quarterly periods, dividends, repurchases and other restricted payments, cash taxes, and cash interest to (b) fixed charges (principal and interest payments, taxes paid and other restricted payments); except that for the first three quarters of 2016, for the purposes of determining this ratio, EBITDA will be calculated based on a multiple of the then current EBITDA, instead of using the EBITDA for the prior four quarters. A similar annualization adjustment will be made for unfinanced capital expenditures for the same period. EBITDA includes after tax earnings with add backs for interest expense, income taxes, depreciation and amortization, share-based compensation expenses, and other additional items as outlined in the Credit Facility. In addition, the Credit Facility covenants include a minimum net worth covenant, which was revised effective March 31, 2016. Net worth is defined as the total shareholders' equity, including capital stock, additional paid in capital, and retained earnings after deducting treasury stock. The amended Credit Facility includes a mandatory prepayment clause requiring certain cash payments when EBITDA exceeds defined requirements for the most recently completed fiscal year. These prepayments will be applied first to outstanding term loans and then to the revolving credit.

The Company is subject to a limitation on its indebtedness based on a quarterly calculation of a Borrowing Base. The Borrowing Base is determined based upon a ratio of Eligible Receivables and Eligible Inventory and its calculated separately for the United States and Canadian borrowings. If the amount of principal outstanding for Revolving Loans, Term Loans, Swing Loans and Letter of Credit Obligations combined is in excess of the redetermined quarterly amount, then the Company will have to repay the difference or be in default of the Credit Facility. As of September 30, 2016, the Company was in default of this Borrowing Base requirement.

As of September 30, 2016, the Company had working capital of $1.5 million, including cash and cash equivalents of $0.8 million. As of September 30, 2016, the Company owed $21.8 million under the Amended Credit Facility (consisting of a term loan with a balance of $9.0 million and a revolving credit facility with a balance of $12.8 million), and had $6.4 million in outstanding standby letters of credit. As of September 30, 2016, for reasons described in Note 1 of the Notes to Unaudited Condensed Consolidated Financial Statements we were in breach of the Credit Facility's Total Leverage Ratio and Fixed Charge Coverage Ratio requirements and the Borrowing Base requirement for repaying over-advances, as well as the requirement for timely delivery of certain quarterly certificates and reports for the second, third and fourth quarters of 2016. Since we are in default as of the date that this Third Quarter report on Form 10-Q is being filed, all of the Credit Facility debt is reported in the accompanying condensed consolidated balance sheet as a current liability and there can be no further borrowings of any availability under the Credit Facility until such defaults are rectified or waived.

On March 27, 2017, we entered into a Forbearance Agreement to the Credit Facility (the "Forbearance Agreement") with BMO Harris Bank N.A. and its Canadian affiliate, Bank of Montreal. Pursuant to the Forbearance Agreement, the banks agreed to forbear from exercising their rights and remedies under the Credit Facility with respect to the above-described defaults and any similar defaults during the forbearance period ending May 26, 2017, provided no other defaults occur. The Forbearance Agreement also permits the Company to add the quarterly interest payment otherwise due for the first quarter of 2017 to the principal amount of debt outstanding and defer a $250,000 principal payment due on March 31, 2017 to the end of the forbearance period.

The Board of Directors of the Company has engaged a financial advisor to advise the Board and Company management and to assist in pursuing a range of potential strategic and financial transactions that will provide the Company with improved liquidity and maximize shareholder value. The financial advisor will identify and evaluate potential alternatives including debt or equity financing, a strategic investment into the Company or a business combination, and is reporting directly to a special committee of independent directors established to oversee and coordinate these activities. The Board has not set a definitive timetable for completion of this process. There can be no assurance that this process will result in a transaction or other strategic alternative of any kind.

If the Company is unable to reach further agreement with its lenders to obtain waivers or amendments to the existing Credit Facility, find acceptable alternative financing, obtain equity contributions, or arrange a business combination, after the forbearance period (and during the forbearance period in the event of any new defaults other than those anticipated defaults enumerated in the Forbearance Agreement), the Company’s Credit Facility lenders could elect to declare some or all of the amounts outstanding under the facility to be immediately due and payable. If this happens, the Company does not expect to have sufficient liquidity to pay the outstanding Credit Facility debt.

As a result of the above, substantial doubt exists regarding the ability of the Company to continue as a going concern, which contemplates continuity of operations, realization of assets and the satisfaction of liabilities in the normal course of business within one year from the date of this filing.

Prior to the IPO in May 2015, which provided approximately $101.3 million in net proceeds, our source of funding was sales of common stock to a small group of investors that provided $0.3 million in the nine months ended September 30, 2015.

Net cash used in operating activities totaled $2.1 million and $12.7 million for nine months ended September 30, 2016 and 2015, respectively.

Net cash used in investing activities totaled $0.7 million and $87.9 million for the nine months ended September 30, 2016 and 2015, respectively. Investing activities in the nine months ended September 30, 2016 included $0.6 million of capital expenditures, whereas investing activities in the nine months ended September 30, 2015 included the cash portion of the purchase price for the Founding Companies and Ocean County.

Net cash provided by financing activities totaled $0.9 million for the nine months ended September 30, 2016, representing additional borrowings net of repayments under the Credit Facility, and $111.1 million for the nine months ended September 30, 2015, primarily representing the net proceeds from the IPO and the term loan borrowing in connection with the IPO.

At present, our primary source of ongoing liquidity is cash flows from our operations. Payroll and the procurement of inventory are our largest operating uses of funds. We normally pay for vehicles acquired at salvage auctions and under some direct procurement arrangements at the time that possession is taken of the vehicles. We are unable to access any available credit under the Credit Facility unless and until we are able to reach agreement with our lenders to favorably resolve the current events of default.

Over the next 12 months, in addition to any working capital needs, a modest amount of necessary capital expenditures, and debt service on the term loan as discussed above, we are also likely to have a need for cash to satisfy certain contingent consideration liabilities, as described more fully in Note 5 to the accompanying unaudited condensed consolidated financial statements. As part of the consideration for three of the Founding Companies, we entered into contingent consideration agreements with certain of the selling shareholders under which additional consideration will be payable to the former owners in cash and stock if specified future events occur or conditions are met, such as meeting profitability or earnings targets. We have recorded a liability of $7.5 million for the estimated fair value of these contractual commitments in the accompanying condensed consolidated balance sheet as of September 30, 2016, which, if earned, would all be payable over the next 12 months. Approximately $0.6 million of this potential liability is payable in stock (valued at the closing price of our common stock on September 30, 2016) and $2.9 million of the recorded liability is secured by a letter of credit totaling $5.9 million under our Credit Facility. The remainder would be payable in cash, of which $0.2 million is currently held in an escrow account as described below.

For the combination with Jerry Brown, we are required to pay (a) up to an additional $1.8 million if the business achieved certain revenue targets during the twelve-month period beginning June 2015, and (b) an additional uncapped amount if the business exceeds certain EBITDA levels during 2016. Based on an evaluation of the likelihood of meeting these performance targets, we recorded a liability for the acquisition date fair value of the contingent consideration of $2.5 million and increased this liability by $5.1 million during 2015 based on substantial operating improvements and management's budget for Jerry Brown for 2016. Based on results actually achieved during the nine months ended September 30, 2016, EBITDA is now estimated to be less than the previously developed budget and, accordingly, the estimated fair value of the contingent liability was reduced by $3.8 million, resulting in a credit to income which is reflected in the condensed consolidated statement of operations for the nine months ended September 30, 2016, of which $1.5 million was recorded during the three months ended September 30, 2016. As of September 30, 2016, the total contingent consideration liability attributable to the Jerry Brown acquisition was (a) $1.8 million for achieving the revenue target, which management and the former owners of Jerry Brown agree was fully earned and is currently due and payable, and (b) $2.0 million estimated for the EBITDA target which will be determined in 2017. We are in negotiations with the former owners of Jerry Brown to schedule payment of currently due amounts, and we expect to fund these and future determined payments to the former owners of Jerry Brown, to the extent they are ultimately deemed earned, through cash generated from operations or, if necessary and available, through draws on the revolving Credit Facility or through other sources of capital that may be available.

The combination agreements for Eiss Brothers and the Canadian Founding Companies provide for a holdback of additional consideration which will be payable, in part or in whole, only if certain performance targets are achieved. The maximum amount of additional consideration that can be earned by the former owners of Eiss Brothers is $0.2 million in cash plus 11,667 shares of our common stock, of which none, some or all will be released from escrow depending upon the EBITDA of Eiss Brothers during the twelve-month period beginning June 2015. The maximum amount of additional consideration that can be earned and is subject to holdback for the Canadian Founding Companies is $5.9 million in cash, secured by a letter of credit under our Credit Facility, plus 280,000 Exchangeable Preferred Shares currently held in escrow, of which, none, some or all will be released to the Canadian Founding Companies depending on their combined revenues from specific types of sales for the twelve-month period beginning June 2015. Based on management's evaluation of the likelihood of meeting these performance targets for these two acquisitions, a liability of $7.8 million was recorded at the acquisition date for the fair value of the aggregate contingent consideration, which included the present value of the estimated cash portion and the then-current value of the Fenix common stock and the Exchangeable Preferred Shares held in escrow. While management's estimate of the operating results for Eiss Brothers has not changed since its acquisition, the contingent consideration for the Canadian Founding Companies was reduced in accordance with FASB ASC No. 805 "Business Combinations," which requires that we estimate contingent consideration at fair value using probable outcomes. As the amount of the contingent consideration is currently in dispute, we recorded the estimated contingent consideration liability for the Canadian Founding Companies as of September 30, 2016 based on the result of the assessment of the possible outcomes. These contingent consideration liabilities are also subject to mark-to-market fluctuations based on changes in the trading price of our common stock and, with respect to the Canadian Founding Companies, currency remeasurement. As a result of all these factors, the estimated fair value of the aggregate contingent consideration liability due to the former owners of Eiss Brothers and the Canadian Founding Companies was reduced by $0.0 million and $4.2 million, and an exchange rate gain of $0.0 million and $0.5 million was recognized in the condensed consolidated statement of operations for the three and nine months ended September 30, 2016, respectively. We expect to fund any cash payments to the former owners of the Canadian Founding Companies, to the extent they are ultimately deemed earned, through draws on the bank letter of credit, which is considered Funded Debt under the Total Leverage Ratio required under our Credit Facility.

As of September 30, 2016, the periods for calculating all contingent consideration liabilities due under the combination agreements with Jerry Brown, Eiss Brothers and the Canadian Founding Companies are complete, except for Jerry Brown's uncapped EBITDA contingency. We are currently in negotiations with the former owners of the Canadian Founding Companies regarding the calculation of contingent consideration earned, if any, and the parties have begun the process of submitting this calculation to binding arbitration.

Contractual Obligations and Commercial Commitments

There have been no material changes to the contractual table as discussed in our 2015 Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

At September 30, 2016 and December 31, 2015, we had no off-balance sheet financing or other arrangements with unconsolidated entities or financial partnerships (such as entities often referred to as structured finance or special purpose entities) established for purposes of facilitating off-balance sheet financing or other debt arrangements or for other contractually narrow or limited purposes.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our results of operations are exposed to market risk related to price fluctuations in scrap metal and other metals. Market prices of these metals affect the amount that we pay for our inventory as well as the revenue that we generate from sales of these metals. As both our revenue and costs are affected by the price fluctuations, we have a natural hedge against the changes. However, there is typically a lag between the effect on our revenue from metal price fluctuations and inventory cost changes. Therefore, we can experience positive or negative gross margin effects in periods of rising or falling metal prices, particularly when such prices move rapidly. If market prices were to fall at a greater rate than our vehicle acquisition costs, we could experience a decline in our gross margins. We have not entered into any risk mitigation strategies, as any short term exposure would reverse in the long-term.

Our earnings are affected by changes in interest rates due to the fact that interest on our Credit Facility is calculated based upon a fluctuating base rate plus an applicable margin. The base rates for U.S. Dollar and Canadian Dollar borrowings are described in Note 4 to the accompanying unaudited condensed consolidated financial statements. The applicable margin is based on our “Total Leverage Ratio,” as defined in the Credit Facility, and increases as the leverage increases, also as more fully described in Note 4 to the accompanying unaudited condensed consolidated financial statements. At September 30, 2016, none of our variable interest rate debt under our Credit Facility is hedged. Using a sensitivity analysis, a 100 basis point movement in interest rates would change interest expense by $0.2 million over the next twelve months.

Our operations in Canada are also exposed to changes in the relationship between the U.S. dollar and the Canadian dollar. As both our revenue and costs are affected by the price fluctuations, we have a natural hedge against the changes. Canadian dollar fluctuations may also impact the financial results we report in U.S. dollars. Our operations in Canada represented approximately 14% of our total net revenue during the nine months ended September 30, 2016. At this relative distribution of net revenues, a 10% increase or decrease in the strength of the U.S. dollar against the Canadian dollar would result in a 1.4% change in our consolidated net revenues.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management establishes and maintains disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms. This information is intended to be accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

We have evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016, the end of the period covered by this report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were not effective because of material weaknesses in our internal control over financial reporting. These material weaknesses were attributable to (A) our lack of (i) accounting personnel with an appropriate level of accounting knowledge, experience, and training commensurate with our complex accounting issues and financial reporting requirements, (ii) procedures to prepare, document and review areas of significant judgments and accounting estimates, including purchase accounting, contingent consideration, potential goodwill impairment and inventory valuation, (iii) timely and systematic review by management of account reconciliations and other analyses to appropriately document and support the recording of financial information, and (iv) thorough review of significant contracts for key accounting ramifications, as well as (B) undue reliance on the findings and conclusions of third-party specialists without an appropriate level of internal review, and (C) inadequate Information Technology General Controls, including limited segregation of duties and access rights controls over information systems at Subsidiaries without compensating corporate procedures and controls. The material weaknesses described above also reflect an overall material weakness in our control environment. Certain of these weaknesses were previously described in our annual report on Form 10-K for the year ended December 31, 2015 filed on April 14, 2016.

We acquired the Founding Companies on May 19, 2015 concurrently with the closing of the initial public offering of our common stock and subsequently during 2015 acquired three additional businesses. Since becoming a publicly-traded company, we have initiated and are continuing to recruit and hire additional accounting and financial personnel, establish policies and procedures for timely and accurate financial reporting, upgrade our internal accounting information systems, and make various other efforts to remediate these weaknesses in our internal control. Management understands and appreciates the need to rapidly establish an effective system of internal controls over financial reporting. Recent efforts in this regard include hiring a corporate controller and director of information technology, implementing steps to establish a company-wide system of uniform account classifications and commencing a plan to migrate all operations to common information systems. However, implementing effective processes and systems for financial reporting is a significant task and an integral part of our integration plan for acquired businesses. The integration is still in progress and is likely to require substantial resources at significant cost over an extended period of time to complete.

Changes in Internal Control over Financial Reporting
There were no changes in our internal control over financial reporting during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except as described in "Evaluation of Disclosure Controls and Procedures" above with respect to the ongoing implementation of steps to remediate weaknesses.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are subject to litigation related to normal business operations. We maintain insurance for normal business risks and seek to vigorously defend ourselves in litigation.

SEC Inquiry
In September 2016, we received a subpoena from the Chicago Regional Office of the SEC requiring the production of various documents, which were all provided during December 2016 and January 2017. The SEC inquiry appears to be focused on the change during 2016 in our independent registered public accounting firm, our previously announced business combinations and related goodwill impairment charge, the effectiveness of our internal controls over financial reporting and our inventory valuation methodology. Our receipt of a subpoena from the SEC does not mean that we have violated securities laws. Although we have incurred substantial legal fees and other costs associated with production of the documents required by the SEC and may incur further costs before this inquiry is concluded, management does not believe that the inquiry will ultimately have a material impact on our financial condition, results of operations or cash flow, but cannot predict the duration or outcome of the inquiry.

Class Action Lawsuit
In January 2017, a class action lawsuit entitled Beezley v. Fenix Parts, Inc. et al, was filed in the United States District Court for the District of New Jersey against Fenix Parts, Inc., Kent Robertson, its President and Chief Executive Officer, and Scott Pettit, its Chief Financial Officer (the "Defendants"). The lawsuit was filed on behalf of purchasers of our shares from May 14, 2015 through October 12, 2016. The complaint asserts that all defendants violated Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and SEC Rule 10b-5 and that Messrs. Robertson and Pettit violated Section 20(a) of the Exchange Act. The complaint asserts that we made false and/or misleading statements and/or failed to disclose that: (1) we had an inadequate inventory valuation methodology; (2) had an inadequate methodology to calculate goodwill impairment; (3) were engaging and/or had engaged in conduct that would result in an SEC investigation; and (4) as a result, our statements about our business, operations, and prospects, were materially false and misleading and/or lacked a reasonable basis at all relevant times. The plaintiffs seek class certification, an award of unspecified damages, an award of reasonable costs and expenses, including attorneys' fees and expert fees, and other further relief as the Court may deem just and proper. We believe that the allegations contained in the complaint are without merit and, in conjunction with our insurance carrier, intend to vigorously defend against all claims asserted therein. A reasonable estimate of the amount of any possible loss or range of loss, after applicable insurance coverage, cannot be made at this time and, as such, we have not recorded an accrual for any possible loss.

ITEM 1A. RISK FACTORS

With the exception of the items noted below which have arisen in 2016 and 2017, there have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

We and certain of our officers have been named as defendants in a securities class action lawsuit that could divert management's time and attention from our business and have a negative effect on our results of operations.

In January 2017, a class action lawsuit entitled Beezley v. Fenix Parts, Inc. et al, was filed in the United States District Court for the District of New Jersey against us, Kent Robertson, our President and Chief Executive Officer, and Scott Pettit, our Chief Financial Officer. The lawsuit was filed on behalf of purchasers of our shares from May 14, 2015 through October 12, 2016. The complaint alleges violations of the federal securities laws. For additional information with regard to allegations in the complaint, see Note 11 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. The plaintiffs seek class certification, an award of unspecified damages, an award of reasonable costs and expenses, including attorneys' fees and expert fees, and other further relief as the Court may deem just and proper.

We believe that the allegations contained in the compliant are without merit and, in conjunction with our insurance carrier, intend to vigorously defend against the allegations in this complaint. Nonetheless, the lawsuit may result in costly and protracted litigation, which may require a significant commitment of our resources and time. The ultimate outcome of any litigation is uncertain and the outcome of this matter, whether favorable or unfavorable, could have a negative impact on our financial condition or results of operations due to defense costs, diversion of management resources and other factors.

We may incur additional costs in connection with an SEC inquiry, and an unfavorable outcome could damage our business and reputation and result in claims or additional proceedings against us.

In September 2016, we received a subpoena from the Chicago Regional Office of the Securities and Exchange Commission (the “SEC”) requiring the production of various documents, which were all provided during December 2016 and January 2017. The SEC inquiry appears to be focused on our recent change in our independent registered public accounting firm, our previously announced business combinations and related goodwill impairment charge, the effectiveness of our internal controls over financial reporting and our inventory valuation methodology. We have incurred substantial legal fees and other costs associated with production of the documents required by the SEC and may incur further costs before this inquiry is concluded. We cannot predict the duration or outcome of the inquiry, and an unfavorable outcome could damage our business and reputation and result in claims or additional proceedings against us.

As a result of our failure to file Forms 10-Q for the quarters ended June 30 and September 30, 2016 by the deadline of February 13, 2017, Nasdaq has determined that our stock is subject to delisting. If the hearing to be held on March 30, 2017 before the NASDAQ Hearings Panel is not ultimately successful, our stock will be delisted. If it is delisted, our stock price and the liquidity of our common stock would be impacted.

As previously disclosed, on November 22, 2016, we received a delinquency letter from NASDAQ with regard to our non-compliance with NASDAQ Listing Rule 5250(c)(1) for failure to timely file our Quarterly Report on Form 10-Q for the period ended on September 30, 2016, which supplemented the delinquency letter with respect to our Quarterly Report on Form 10-Q for the period ended June 30, 2016. We were granted an exception to allow us to regain compliance with all delinquent filings until February 13, 2017. We did not file either our Quarterly Report for the period ended June 30, 2016 or the Quarterly Report for the period ended September 30, 2016 by NASDAQ’s deadline. As expected, we received a NASDAQ staff determination letter on February 14, 2017 indicating that we did not meet the terms of the exception and that our stock would be delisted unless we timely requested a hearing before the NASDAQ Hearings Panel. The NASDAQ Hearings Panel granted our request for a hearing and for an extended stay of delisting, pending the hearing and issuance of a final Panel decision and we have now filed the above-described quarterly reports. If the hearing to be held on March 30, 2017 is not ultimately successful, we would be delisted by NASDAQ. Furthermore, even if we are successful in avoiding delisting in connection with the current delinquencies, NASDAQ may be less willing to grant us additional exceptions to listing rules in the event of future delinquencies, thus putting us at greater risk of a future delisting. A delisting from the NASDAQ Stock Market would result in negative publicity and have a material adverse effect on the trading volume of our stock and, likely, our stock price. A limited public market for our common shares may limit your ability to sell your shares and negatively impact our ability to raise capital in the future.

As of June 30, 2016, September 30, 2016 and December 31, 2016, we were in breach of the Credit Facility’s Total Leverage Ratio and Fixed Charge Coverage Ratio requirements, the Borrowing Base requirement to repay over-advances and the requirement for timely delivery of certain quarterly certificates and reports.

We have obtained a Forbearance Agreement from our Credit Facility lenders underwhich they agreed to forbear from exercising their rights and remedies with respect to the above described defaults and any similar defaults during the forbearance period ending May 26, 2017, provided no other defaults occur. If we are unable to find alternative capital structures or are unable to otherwise cure these breaches during the forbearance period, our lenders under the Credit Facility may thereafter accelerate the obligations thereunder, and we will not be able to repay the obligations that become immediately due. For additional information, please see the discussion in Notes 1 and 4 to the condensed consolidated financial statements included herein.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

As of June 30, 2016, September 30, 2016 and December 31, 2016, the Company was in breach of the Credit Facility's Total Leverage Ratio and Fixed Charge Coverage Ratio requirements and the Borrowing Base requirement for repaying over-advances (which were created by establishing lower acquired inventory values as described in Note 3 to the condensed consolidated financial statements that reduced the applicable borrowing base), as well as the requirement for timely delivery of certain quarterly certificates and reports. On March 27, 2017, the Company and its subsidiaries entered into a Forbearance Agreement to the Credit Facility (the "Forbearance Agreement") with BMO Harris Bank N.A and its Canadian affiliate, Bank of Montreal. Pursuant to the Forbearance Agreement, the banks agreed to forbear from exercising their rights and remedies under the Credit Facility with respect to the above described defaults and any similar defaults during the forbearance period ending May 26, 2017, provided no other defaults occur.

The Board of Directors of the Company has engaged a financial advisor to advise the Board and Company management and to assist in pursuing a range of potential strategic and financial transactions that will provide the Company with improved liquidity and maximize shareholder value. The financial advisor will identify and evaluate potential alternatives including debt or equity financing, a strategic investment into the Company or a business combination, and is reporting directly to a special committee of independent directors established to oversee and coordinate these activities. The Board has not set a definitive timetable for completion of this process. There can be no assurance that this process will result in a transaction or other strategic alternative of any kind.

If the Company is unable to reach further agreement with its lenders to obtain waivers or amendments to the existing Credit Facility, find acceptable alternative financing, obtain equity contributions, or arrange a business combination, after the forbearance period (and during the forbearance period in the event of any new defaults other than those anticipated defaults enumerated in the Forbearance Agreement), the Company's Credit Facility lenders could elect to declare some or all of the amounts outstanding under the facility to be immediately due and payable. If this happens, the Company does not expect to have sufficient liquidity to pay the outstanding Credit Facility debt.

See Item 1. Notes To Unaudited Condensed Consolidated Financial Statements - Note 1 for further discussion.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

As of June 30, 2016, September 30, 2016 and December 31, 2016, the Company was in breach of the Credit Facility's Total Leverage Ratio and Fixed Charge Coverage Ratio requirements and the Borrowing Base requirement for repaying over-advances, as well as the requirement for timely delivery of certain quarterly certificates and reports. On March 27, 2017, the Company and its subsidiaries entered into a Forbearance Agreement to the Credit Facility (the "Forbearance Agreement") with their lenders, BMO Harris Bank N.A and its Canadian affiliate, Bank of Montreal. Pursuant to the Forbearance Agreement, the banks agreed to forbear from exercising their rights and remedies under the Credit Facility with respect to the above described defaults and any similar defaults during the forbearance period ending May 26, 2017, provided no other defaults occur. Other material provisions in the Forbearance Agreement include: (a) waiver of default rate interest (which is 200 basis points above the standard interest rate) if the loans outstanding under the Credit Facility are repaid by August 31, 2017, (b) imposition of a forbearance fee of $500,000 payable to the banks by August 31, 2017, but with a $150,000 discount if paid by July 31, 2017, (c) a requirement to comply with a mutually agreed upon thirteen week budget, (d) deferral of principal payments due on March 31, 2017 until the end of the forbearance period and the capitalization of interest accruing during such period, (e) a new minimum liquidity financial covenant during the forbearance period and (f) retaining a Chief Administrative Officer and Qualified Investment Banker satisfactory to the banks during the forbearance period.

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ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
10.1	Second Amendment to Amended and Restated Multicurrency Credit Agreement and Waiver (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on August 24, 2016).
10.2	Forbearance Agreement among Fenix Parts, Inc., Fenix Parts Canada, Inc., and their subsidiaries, BMO Harris Bank N.A. and Bank of Montreal
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* This certification is deemed not “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

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SIGNATURES

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

Fenix Parts, Inc.

Dated: March 28, 2017

By: /s/ Kent Robertson
Kent Robertson
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Scott Pettit
Scott Pettit
Chief Financial Officer
(Principal Financial Officer)

FORBEARANCE AGREEMENT

This FORBEARANCE AGREEMENT (this "Agreement") is entered into as of March 27, 2017 by and among Fenix Parts, Inc., a Delaware corporation (the "U.S. Borrower"), Fenix Parts Canada, Inc., a Canadian corporation (the "Canadian Borrower" and, together with the U.S. Borrower, the "Borrowers" and individually a "Borrower"), the direct and indirect Subsidiaries of U.S. Borrower party to this Agreement, as U.S. Guarantors, the direct and indirect Subsidiaries of Canadian Borrower party to this Agreement, as Canadian Guarantors, the Lenders party hereto and BMO Harris Bank N.A., as Administrative Agent.

R E C I T A L S:

WHEREAS, Borrowers, Guarantors, Lenders and Administrative Agent are parties to that certain Amended and Restated Multicurrency Credit Agreement, effective as of December 31, 2015 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement");

WHEREAS, as of the date hereof, the Existing Defaults (as defined below) have occurred and are continuing and the Anticipated Defaults (as defined below) will occur;

WHEREAS, Borrowers have requested that, subject to the terms and conditions of this Agreement, Administrative Agent and Lenders forbear from exercising their rights as a result of the Specified Defaults (as defined below); and

WHEREAS, Administrative Agent and Lenders are willing to agree to forbear from exercising certain of their rights and remedies solely during the Forbearance Period (as defined below) and on the terms and conditions specified herein.

NOW, THEREFORE, in consideration of the foregoing, and the respective agreements, warranties and covenants contained herein, the parties hereto agree as follows:

SECTION 1. DEFINITIONS

1.1. **Interpretation.** All capitalized terms used herein (including the recitals hereto) will have the respective meanings ascribed thereto in the Credit Agreement unless otherwise defined herein. The foregoing recitals, together with all exhibits attached hereto, are incorporated by this reference and made a part of this Agreement. Unless otherwise provided herein, all section and exhibit references herein are to the corresponding sections and exhibits of this Agreement.

1.2. **Additional Definitions.** As used herein, the following terms will have the respective meanings given to them below:

(a) "Actual Liquidity" means as of 5:00 pm (Central Time) on any date of determination, the unrestricted cash and cash equivalents of the Loan Parties consisting of collected funds on deposit in all deposit accounts maintained in the United States and Canada and subject to a tri-party deposit account control agreement in favor of Administrative Agent less the amount of all checks that have been distributed by the Loan Parties but not yet cashed.

(b) "Anticipated Defaults" means, collectively, the Events of Default identified on Exhibit A hereto as the "Anticipated Defaults".

(c) "Budget" means the cash-flow budget attached hereto as Exhibit B, as such budget may be amended with the written consent of Administrative Agent.

(d) "Existing Defaults" means, collectively, the Events of Default identified on Exhibit A hereto as the "Existing Defaults".

(e) "Forbearance Period" means the period commencing on the date hereof and ending on the date which is the earliest of (i) at the election of Administrative Agent, the occurrence or existence of any Event of Default, other than the Specified Defaults; (ii) May 26, 2017; or (iii) the occurrence of any Termination Event.

(f) "Specified Defaults" means, collectively, the Existing Defaults and the Anticipated Defaults.

(g) "Termination Event" means (i) the initiation of any action by any Borrower, any Guarantor or any Releasing Party (as defined herein) to invalidate or limit the enforceability of any of the acknowledgments set forth in Section 2, the release set forth in Section 8.6 or the covenant not to sue set forth in Section 8.7 or (ii) the occurrence of an Event of Default under Sections 8.1(j) or (k) of the Credit Agreement.

SECTION 2. ACKNOWLEDGMENTS

2.1. **Acknowledgment of Obligations.** Each Borrower hereby acknowledges, confirms and agrees that as of the open of business on March 27, 2017, (a) Borrowers are indebted to Lenders in respect of the U.S. Revolving Loans in the principal amount of $11,815,000.00, (b) Borrowers are indebted to Lenders in respect of the Canadian Revolving Loans in the principal amount of $915,279.95, (c) Borrowers are indebted to Lenders in respect of the Term Loan in the aggregate principal amount of $8,750,000.00, and (d) Borrowers are indebted to Lenders in respect of the L/C Obligations in the principal amount of $7,025,000.00. Each Borrower hereby acknowledges, confirms and agrees that all such Loans, together with interest accrued and accruing thereon, and all fees, costs, expenses and other charges now or hereafter payable by any Borrower to Lenders under the terms of the Credit Agreement and the other Loan Documents, are unconditionally owing by Borrowers to Lenders, without offset, defense or counterclaim of any kind, nature or description whatsoever. Each Borrower acknowledges that, as a result of the Specified Defaults, and in accordance with Section 2.10 of the Credit Agreement, Borrowers are, at the election of Administrative Agent, obligated to pay interest with respect to Loans and Reimbursement Obligations, from and after June 30, 2016, at a per annum rate of 2.0% in excess of the otherwise applicable interest rate ("Default Rate Interest") and that, subject to Section 3.2(c) below, such Default Rate Interest is payable on demand of Administrative Agent; provided, however, if the Obligations are indefeasibly paid in full, in cash, and the Commitments are terminated, on or before August 31, 2017, Administrative Agent and Lenders agree that they shall not demand, and shall be deemed to have waived, payment of such Default Rate Interest with respect to the Specified Defaults.

2.2. **Acknowledgment of Security Interests.** Each Loan Party hereby acknowledges, confirms and agrees that Administrative Agent has, and will continue to have, valid, enforceable and perfected first-priority continuing liens upon and security interests in the Collateral heretofore granted to Administrative Agent, for the benefit of Administrative Agent and Lenders, pursuant to the Credit Agreement and the Loan Documents or otherwise granted to or held by Administrative Agent, for the benefit of Administrative Agent and Lenders.

2.3. **Binding Effect of Documents.** Each Loan Party hereby acknowledges, confirms and agrees that: (a) this Agreement constitutes a Loan Document, (b) each of the Credit Agreement and the other Loan Documents to which it is a party has been duly executed and delivered to Administrative Agent by such Loan Party, and each is and will remain in full force and effect as of the date hereof except as modified pursuant hereto, (c) the agreements and obligations of such Loan Party contained in such documents and in this Agreement constitute the legal, valid and binding Obligations of such Loan Party, enforceable against it in accordance with their respective terms, and such Loan Party has no valid defense to the enforcement of such Obligations, (d) Administrative Agent and Lenders are and will be entitled to the rights, remedies and benefits provided for under the Credit Agreement and the other Loan Documents and applicable law and (e) each Loan Party shall comply with all limitations, restrictions or prohibitions that would otherwise be effective or applicable under the Credit Agreement or any of the other Loan Documents during the continuance of any Event of Default, and except to the extent expressly provided otherwise in this Agreement, any right or action of any Borrower set forth in the Credit Agreement or the other Loan Documents that is conditioned on the absence of any Event of Default may not be exercised or taken as a result of the Existing Defaults.

SECTION 3. FORBEARANCE IN RESPECT OF SPECIFIED DEFAULTS

3.1. **Acknowledgment of Default.** Each Loan Party hereby acknowledges and agrees that the Existing Defaults have occurred and are continuing, each of which constitutes an Event of Default and entitles Administrative Agent and Lenders to exercise their rights and remedies under the Credit Agreement and the other Loan Documents, applicable law or otherwise. Each Loan Party represents and warrants that as of the date hereof, no Events of Default exist other than the Existing Defaults. Each Loan Party hereby acknowledges and agrees that Administrative Agent and Lenders have the exercisable right to declare the Obligations to be immediately due and payable under the terms of the Credit Agreement and the other Loan Documents. Each Loan Party acknowledges that Lenders are no longer obligated to make any disbursements of the Revolving Loan.

3.2. **Forbearance.**

(a) In reliance upon the representations, warranties and covenants of Loan Parties contained in this Agreement, and subject to the terms and conditions of this Agreement and any documents or instruments executed in connection herewith, Administrative Agent and Lenders agree to forbear during the Forbearance Period from exercising their rights and remedies under the Credit Agreement and the other Loan Documents or applicable law in respect of the Specified Defaults. For the avoidance of doubt, during the Forbearance Period, any additional disbursements of the Revolving Loan will be made by Lenders in their sole and absolute discretion.

(b) Upon the expiration or termination of the Forbearance Period, the agreement of Administrative Agent and Lenders to forbear will automatically and without further action terminate and be of no force and effect, it being expressly agreed that the effect of such termination will be to permit Administrative Agent and Lenders to exercise immediately all rights and remedies under the Credit Agreement and the other Loan Documents and applicable law, including, but not limited to, (i) ceasing to make any further Loans or issuing any further Letters of Credit and (ii) accelerating all of the Obligations under the Credit Agreement and the other Loan Documents, in all events, without any further notice to any Loan Party, passage of time or forbearance of any kind.

(c) Subject to satisfaction of the conditions to effectiveness set forth in Section 7 of this Agreement, Administrative Agent and Lenders agree to not make the election with respect to Default Rate Interest set forth in Section 2.10 of the Credit Agreement or demand payment of Default Rate Interest during the Forbearance Period.

3.3. **No Waivers; Reservation of Rights.**

(a) Administrative Agent and Lenders have not waived, are not by this Agreement waiving, and have no intention of waiving, any Events of Default which may be continuing on the date hereof or any Events of Default which may occur after the date hereof (whether the same or similar to the Specified Defaults or otherwise), and Administrative Agent and Lenders have not agreed to forbear with respect to any of their rights or remedies concerning any Events of Default (other than, during the Forbearance Period, the Specified Defaults to the extent expressly set forth herein) occurring at any time.

(b) Subject to Section 3.2 above (solely with respect to the Specified Defaults), Administrative Agent and Lenders reserve the right, in their discretion, to exercise any or all of their rights and remedies under the Credit Agreement and the other Loan Documents as a result of any other Events of Default occurring at any time. Administrative Agent and Lenders have not waived any of such rights or remedies, and nothing in this Agreement, and no delay on their part in exercising any such rights or remedies, may or will be construed as a waiver of any such rights or remedies.

3.4. **Additional Events of Default.** The parties hereto acknowledge, confirm and agree that any misrepresentation by any Loan Party, or any failure of any Loan Party to comply with the covenants, conditions and agreements contained in this Agreement, the Credit Agreement or any other Loan Document or in any other agreement, document or instrument at any time executed or delivered by any Loan Party with, to or in favor of Administrative Agent or any Lenders will constitute an immediate Event of Default under this Agreement, the Credit Agreement and the other Loan Documents (subject to any applicable grace periods). In the event that any Person, other than Administrative Agent or Lenders, at any time exercises for any reason (including, without limitation, by reason of any Specified Defaults, any other present or future Event of Default, or otherwise) any of its rights or remedies against any Loan Party or any obligor providing credit support for any Borrower's obligations to such other Person, or against any Loan Party's or such obligor's properties or assets, in each case, in a manner that would have a material adverse impact on the Loan Parties operations or ability to perform their obligations under the Loan Documents (including this Agreement), or with respect to an amount in excess of $1,000,000.00, such event will constitute an immediate Event of Default hereunder and an Event of Default under the Credit Agreement and the other Loan Documents (without any notice or grace or cure period).

3.5. **Forbearance Fee.** In consideration for the agreements of Administrative Agent and Lenders in this Agreement, the Loan Parties agree to pay Administrative Agent, for the benefit of Lenders, a forbearance fee in the amount, and on the terms, set forth in that certain fee letter dated as of the date hereof and delivered by U.S. Borrower to Administrative Agent (the "Fee Letter").

SECTION 4. INTEREST PERIOD

4.1. **Eurodollar Loans.** During the Forbearance Period, notwithstanding anything to the contrary contained in the Credit Agreement, no Loans shall be advanced, continued or converted as Eurodollar Loans.

SECTION 5. COVENANTS

5.1. **Reporting.** On the Wednesday of each week, by no later than 5:00 p.m. (Central Time), or such other time and day of the week as Borrowers and Administrative Agent may agree, Loan Parties shall provide Administrative Agent (in form and detail satisfactory to Administrative Agent and certified by the chief financial officer of Borrowers) with: (a) a calculation of Actual Liquidity as of the end of the last Business Day of the prior week, and (b) a variance report that details Loan Parties' actual receipts and expenditures through the end of the immediately preceding week, on a line-item by line-item basis, against the Budget for the preceding week, on a cumulative basis for the preceding four-weeks, and on a cumulative basis for the period commencing March 20, 2017 and ending on the last Business Day of the immediately preceding week.

5.2. **Additional Reporting.** From time to time as and when requested by Administrative Agent, Loan Parties shall deliver to Administrative Agent reports, statements, detail and information concerning the Collateral and Loan Parties' operations, business affairs and financial condition, in addition to such items as may be required under the Credit Agreement and the other Loan Documents.

5.3. **Proceeds of Collateral and Revolving Loans** . The proceeds of Collateral, and proceeds of Revolving Loans (if any) made during the Forbearance Period, will be used by Loan Parties solely in accordance with the Budget, to pay the expenses set forth in the Budget as and when such expenses are due and payable, subject to the variances set forth in Section 5.4 below.

5.4. **Compliance with Budget**. Loan Parties will not permit aggregate expenditures (other than with respect to "Extraordinary Professional Fees" as identified in the Budget), measured on a cumulative basis, to exceed the percentages set forth below during the periods set forth below:

(i) 110% of the amounts set forth the Budget for the one- and two-week periods ending March 31, 2017 and April 7, 2017;

(ii) 107.5% of the amounts set forth in the Budget for the three-week period ending April 14, 2017; and

(iii) 105% of the amounts set forth in the Budget for the four-week period ending April 21, 2017 and at the end of each four-week period thereafter;

provided, that, for the purposes of determining Loan Parties' compliance with this Section, payments made by Loan Parties in compliance with Section 8.2 of this Agreement and amounts remitted pursuant to Section 5.6 of this Agreement shall be disregarded to the extent such payments exceed the amounts set forth in the Budget.

5.5. **Minimum Liquidity.** Loan Parties will not permit the Actual Liquidity less the additional Revolving Loans advanced during the Forbearance Period and outstanding at such time plus any amounts remitted to Administrative Agent during the Forbearance Period pursuant to Section 5.6 to be (a) less than $150,000.00 for the period from March 31, 2017 to April 14, 2017, or (b) less than $500,000.00 for the period from April 15, 2017 and thereafter during the Forbearance Period; provided, that, for the purposes of determining Loan Parties' compliance with this Section, payments made by Loan Parties in compliance with Section 8.2 of this Agreement and not included in the Budget shall be disregarded for purposes of determining Actual Liquidity.

5.6. **Remittance of Excess Cash Balances.** If and to the extent Actual Liquidity is, on the last day of any week during the Forbearance Period, in excess of $1,250,000.00, the amount by which Actual Liquidity is in excess of $1,250,000.00 will be remitted to Administrative Agent for application first, to the payment of the Revolving Loans and cash collateralization of Letters of Credit issued from and after the date of this Agreement and prior to the end of the Forbearance Period and second, in accordance with Section 8.5 of the Credit Agreement.

5.7. **Interest Payments**. Notwithstanding the definition of "Interest Payment Date" as set forth in the Credit Agreement and Section 2.4 of the Credit Agreement, during the Forbearance Period, Loan Parties agree that (x) the Interest Payment Date for each Eurodollar Loan will be the last day of each Interest Period with respect to such Eurodollar Loan and on the maturity date, and (y)(i) all interest accrued on the Eurodollar Loans otherwise payable on the Interest Payment Dates occurring during the Forbearance Period will be paid in kind and added to the outstanding principal balance of such Eurodollar Loans on such date, (ii) all interest accrued on the Base Rate Loans otherwise payable on March 31, 2017 will be paid in kind and added to the outstanding principal balance of such Base Rate Loans on such date and (iii) all interest accrued on the Canadian Prime Rate Loans otherwise payable on March 31, 2017 will be paid in kind and added to the outstanding principal balance of such Canadian Prime Rate Loans on such date. Amounts which have been added to the outstanding principal balance of the Loans pursuant to the foregoing subclause (y) shall thereafter bear interest in accordance with Section 2.4 and otherwise be treated as part of the outstanding principal balance of the Loans for all purposes under the Credit Agreement and the other Loan Documents.

5.8. **March Term Loan Payment**. Notwithstanding the provisions of Section 2.8(a) of the Credit Agreement, the scheduled principal payment of $250,000 on the Term Loans otherwise payable on March 31, 2017 will instead be due and payable on the date that the Forbearance Period terminates or expires.

5.9. **[Weekly Borrowing Base Certificates**. Notwithstanding the provisions of Section 6.5 of the Credit Agreement, during the Forbearance Period, the Loan Parties will deliver an updated certificate in the form of Borrowing Base Certificate required pursuant to Section 6.5 of the Credit Agreement (each, a "Weekly Borrowing Base Certificate"), no later than March 29, 2017 and on Wednesday of each week thereafter. Each Weekly Borrowing Base Certificate will include an estimate of Receivables as of Friday of the immediately preceding week and an estimate relating to Inventory (x) as of the last day of the second immediately preceding calendar month, if such Weekly Borrowing Base Certificate is delivered (or required to be delivered) during the period commencing on the 1st and ending on 19th of any calendar month or (y) as of the last day of the immediately preceding calendar month, if such Weekly Borrowing Base Certificate is delivered (or required to be delivered) during the period commencing on the 20th and ending on the last day of any calendar month.

5.10. **Monthly Cash Flow Forecast.** On March 31, 2017 and on the last Business Day of each subsequent month, by no later than 5:00 p.m. (Chicago) or such other day and time as Borrowers and Administrative Agent may agree, Borrowers will deliver to Administrative Agent a rolling thirteen (13) week cash flow forecast on a consolidated basis for Borrowers and the other Loan Parties, in form and detail reasonably satisfactory to Administrative Agent and accompanied by (i) a variance report comparing the actual results for the prior month to the forecasted results for such month as set forth in the immediately preceding cash flow forecast and (ii) a certification on behalf of Borrowers' chief financial officer and the CAO (as defined below) stating that (A) nothing has come to the chief financial officer's or the CAO's attention that would lead the chief financial officer or the CAO to believe that the information in the variance report is incorrect or misleading in any material respect and (B) that the applicable thirteen (13) week cash flow forecast is based on information and assumptions that Borrowers believe to be reasonable.

5.11. **Chief Administrative Officer.** During the Forbearance Period, Loan Parties will continue to retain a chief administrative officer satisfactory to Administrative Agent on terms and conditions satisfactory to Administrative Agent, including, without limitation, with respect to the scope of work and authority (the "CAO"); it being understood that the current CAO retained by the Loan Parties is satisfactory to Administrative Agent and that the terms and conditions pursuant to which the current CAO has been retained are satisfactory to Administrative Agent; it being further understood that if the current CAO terminates or suspends his engagement or is terminated or suspended for cause, Loan Parties shall have five (5) Business Days to replace such CAO. Loan Parties hereby authorize the CAO to meet with Administrative Agent, Lenders and their respective advisors (in person and telephonically) and provide to Administrative Agent such non-privileged information and reports with respect to Loan Parties and their financial condition, businesses, assets, liabilities and prospects, as Administrative Agent may request from time to time. Loan

Parties will cause CAO to be available to Administrative Agent upon request. Loan Parties will provide Administrative Agent with a copy of any engagement letter or any amendment or modification thereto with any CAO before entering into such agreement. Loan Parties will cooperate with all reasonable requests of CAO concerning the work and authority for which the CAO was hired.

5.12. **Investment Banker.** During the Forbearance Period, Loan Parties will continue to retain an investment banker satisfactory to Administrative Agent on terms and conditions satisfactory to Administrative Agent (the "Investment Banker") for the purpose of considering, investigating and commencing steps to consummate strategic alternatives, including, without limitation, a sale of the business of Loan Parties as a going concern or in one or more transactions, other asset sales, equity sales, refinancing transactions, capital investment transactions, and other potential strategic transactions and alternatives in an amount sufficient to repay or refinance the Obligations (a "Qualified Investment Banker Engagement"); it being understood that the current Investment Banker retained by the Loan Parties is satisfactory to Administrative Agent and that the terms and conditions pursuant to which the current Investment Banker has been retained are satisfactory to Administrative Agent; it being further understood that if the current Investment Banker terminates or suspends his engagement or is terminated or suspended for cause, Loan Parties shall have ten (10) Business Days to replace such Investment Banker. Loan Parties will cooperate with all reasonable requests of Investment Banker concerning the process for which it was hired. Loan Parties hereby authorize the Investment Banker to meet with Administrative Agent, Lenders and their respective advisors (in person and telephonically) and provide to Administrative Agent such non-privileged information and reports, as Administrative Agent may request from time to time. Loan Parties will cause Investment Banker to be available to Administrative Agent upon request. Loan Parties will provide Administrative Agent with a copy of any engagement letter or any amendment or modification thereto with Investment Banker before entering into such agreement. Without limiting the generality of the foregoing, during the Forbearance Period, Loan Parties shall (i) within two (2) Business Days of the Investment Banker's or any Loan Party's receipt, provide to Administrative Agent copies, redacted as may be necessary to comply with confidentiality restrictions contained therein, of all indications of interest or similar correspondence (collectively, "Offers") from prospective purchasers or investors for the acquisition of all or substantially all of the assets, businesses, or equity of Loan Parties or the refinancing of the Obligations and (ii) cause the Investment Banker to participate on weekly (or more often as may be reasonably requested) conference calls with Administrative Agent to provide updates with regard to the Investment Banker's efforts to sell substantially all of the assets, businesses, or equity of Loan Parties and refinance the Obligations. Loan Parties will use commercially reasonable efforts to obtain the consent of any prospective purchasers or investors to share all Offers with Administrative Agent in unredacted form, subject to execution by Administrative Agent of a customary confidentiality agreement.

5.13. **Milestones.** Loan Parties will comply with the milestones (the "Milestones") set forth in the Fee Letter. Any failure by Loan Parties to comply with the Milestones will constitute an Event of Default under this Agreement, the Credit Agreement and the other Loan Documents.

5.14. **Deposit Accounts**. Loan Parties represent and warrant that Exhibit C attached hereto contains a complete and accurate list of all Excluded Deposit Accounts as of the date of this Agreement. In accordance with Section 6.12(d) of the Credit Agreement, Loan Parties agree that they will not open any new deposit accounts, other than deposit accounts maintained (a) with Administrative Agent or (b) at other banks reasonably acceptable to Administrative Agent and subject to deposit account control agreements.

5.15. **Overadvance**. Loan Parties will not permit the aggregate principal amount of U.S. Revolving Loans, Swing Loans and U.S. L/C Obligations to exceed the U.S. Borrowing Base by more than (i) $1,200,000, for the period from the date hereof through April 30, 2017, and (ii) $1,100,000, for the period from May 1, 2017 through May 26, 2017. Loan Parties will not permit the aggregate principal amount of Canadian Revolving Loans and Canadian L/C Obligations to exceed the Canadian Borrowing Base at any time.

SECTION 6. REPRESENTATIONS AND WARRANTIES

Each Loan Party hereby represents, warrants and covenants as follows:

6.1. **Representations in the Credit Agreement and the Other Loan Documents.** Each of the representations and warranties made by or on behalf of each Loan Party to Administrative Agent or any Lender in the Credit Agreement or any of the other Loan Documents was true and correct when made, and is, except for the Specified Defaults, true and correct on and as of the date of this Agreement with the same full force and effect as if each of such representations and warranties had been made by each Loan Party on the date hereof and in this Agreement.

6.2. **Binding Effect of Documents.** This Agreement has been duly authorized, executed and delivered to Administrative Agent and Lenders by each Loan Party, is enforceable in accordance with its terms and is in full force and effect.

6.3. **No Conflict.** The execution, delivery and performance of this Agreement by each Loan Party will not violate any requirement of law or contractual obligation of any Loan Party and will not result in, or require, the creation or imposition of any Lien on any of their respective properties or revenues.

SECTION 7. CONDITIONS TO EFFECTIVENESS OF CERTAIN PROVISIONS OF THIS AGREEMENT

The effectiveness of the terms and provisions of this Agreement (other than the terms and provisions of Sections 2 and 7, which will be effectively immediately upon the execution of this Agreement) is subject to the following conditions precedent:

(a) Administrative Agent's receipt of this Agreement, duly authorized, executed and delivered by each Loan Party;

(b) Administrative Agent's receipt of Borrowing Base Certificates and related reports for the fiscal quarters ending June 30, 2016, September 30, 2016, and draft Borrowing Base Certificates and related reports for the fiscal quarter ending December 31, 2016 and as of February 28, 2017;

(c) Administrative Agent's receipt of an initial Weekly Borrowing Base Certificate as of March 24, 2017 that includes include a calculation of the Receivables as of Friday of the immediately preceding week and a calculation of the Inventory as of January 31, 2017;

(d) Administrative Agent's receipt of the consolidated and consolidating balance sheet of Borrowers and their Subsidiaries as of the last day of the fiscal quarter ended September 30, 2016, the consolidated and consolidating statements of income, retained earnings, and cash flows of Borrowers and their Subsidiaries for the fiscal quarter ended September 30, 2016 and the period commencing January 1, 2016 and ending September 30, 2016, and a written certificate signed by a Financial Officer of U.S. Borrower to the effect that to the best of such officer's knowledge and belief no Default or Event of Default (other than the Specified Defaults) have occurred during the periods covered by the financial statements for the period ending September 30, 2016 and setting forth the calculations in respect of the financial covenants set forth in Section 7.11 of the Credit Agreement, in each case in draft form;

(e) Administrative Agent's receipt of an executed engagement agreement with the CAO, in form and substance satisfactory to Administrative Agent; and

(f) Administrative Agent's receipt of an executed engagement agreement with Stifel, Nicholaus & Company, Incorporated, in form and substance satisfactory to Administrative Agent.

SECTION 8. MISCELLANEOUS

8.1. **Continuing Effect of Credit Agreement.** Except as modified pursuant hereto, no other changes or modifications to the Credit Agreement or any other Loan Document are intended or implied by this Agreement and in all other respects the Credit Agreement and the other Loan Documents hereby are ratified and reaffirmed by all parties hereto as of the date hereof. To the extent of any conflict between the terms of this Agreement, the Credit Agreement and the other Loan Documents, the terms of this Agreement will govern and control. The Credit Agreement and this Agreement will be read and construed as one agreement.

8.2. **Costs and Expenses.** In addition to, and without in any way limiting, the obligations of Borrowers set forth in Section 11.4 of the Credit Agreement, each Borrower absolutely and unconditionally agrees to pay to Administrative Agent, on demand by Administrative Agent at any time, whether or not all or any of the transactions contemplated by this Agreement are consummated: all reasonable fees, costs and expenses incurred by Administrative Agent and any of its directors, officers, employees or agents (including, without limitation, reasonable fees, costs and expenses incurred of any counsel to Administrative Agent), regardless of whether Administrative Agent or any such other Person is a prevailing party, in connection with (a) the preparation, negotiation, execution, delivery or enforcement of this Agreement, the Credit Agreement, the other Loan Documents and any agreements, documents or instruments contemplated hereby and thereby, and (b) any investigation, litigation or proceeding related to this Agreement, the Credit Agreement, or any other Loan Document or any act, omission, event or circumstance in any matter related to any of the foregoing.

8.3. **Further Assurances.** At Borrowers' expense, the parties hereto will execute and deliver such additional documents and take such further action as may be reasonably requested by Administrative Agent in order to effectuate the provisions and purposes of this Agreement.

8.4. **Successors and Assigns; No Third-Party Beneficiaries.** This Agreement will be binding upon and inure to the benefit of each of the parties hereto and their respective successors and assigns. No Person other than the parties hereto and, in the case of Sections 8.6 and 8.7 hereof, the Releasees, shall have any rights hereunder or be entitled to rely on this Agreement and all third-party beneficiary rights (other than the rights of the Releasees under Sections 8.6 and 8.7 hereof) are hereby expressly disclaimed.

8.5. **Survival of Representations, Warranties and Covenants.** All representations, warranties, covenants and releases of each Loan Party made in this Agreement or any other document furnished in connection with this Agreement will survive the execution and delivery of this Agreement and the Forbearance Period, and no investigation by Administrative Agent or any Lender, or any closing, will affect the representations and warranties or the right of Administrative Agent and Lenders to rely upon them.

8.6. **Release.**

(a) In consideration of the agreements of Administrative Agent and Lenders contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each Borrower and each Guarantor, on behalf of itself and its successors and assigns, and its present and former members, managers, shareholders, affiliates, subsidiaries, divisions, predecessors, directors, officers, attorneys, employees, agents, legal representatives and other representatives (each Borrower, each Guarantor and all such other Persons being hereinafter referred to collectively as the "Releasing Parties" and individually as a " Releasing Party"), hereby absolutely, unconditionally and irrevocably releases, remises and forever discharges Administrative Agent, each Lender, and each of their respective successors and assigns, and their respective present and former shareholders, members, managers, affiliates, subsidiaries, divisions, predecessors, directors, officers, attorneys, employees, agents, legal representatives and other representatives (Administrative Agent, Lenders and all such other Persons being hereinafter referred to collectively as the "Releasees" and individually as a " Releasee"), of and from any and all demands, actions, causes of action, suits, damages and any and all other claims, counterclaims, defenses, rights of set-off, demands and liabilities whatsoever (individually, a "Claim" and collectively, " Claims") of every kind and nature, known or unknown, suspected or unsuspected, at law or in equity, which any Releasing Party or any of its successors, assigns, or other legal representatives may now or hereafter own, hold, have or claim to have against the Releasees or any of them for, upon, or by reason of any circumstance, action, cause or thing whatsoever which arises at any time on or prior to the date of this Agreement, for or on account of, or in relation to, or in any way in connection with this Agreement, the Credit Agreement, any of the other Loan Documents or any of the transactions hereunder or thereunder. Releasing Parties hereby represent to the Releasees that they have not assigned or transferred any interest in any Claims against any Releasee prior to the date hereof.

(b) Each Borrower and each Guarantor understands, acknowledges and agrees that the release set forth above may be pleaded as a full and complete defense to any Claim and may be used as a basis for an injunction against any action, suit or other proceeding which may be instituted, prosecuted or attempted in breach of the provisions of such release.

(c) Each Borrower and each Guarantor agrees that no fact, event, circumstance, evidence or transaction which could now be asserted or which may hereafter be discovered will affect in any manner the final, absolute and unconditional nature of the release set forth above.

8.7. **Covenant Not to Sue.** Each Releasing Party hereby absolutely, unconditionally and irrevocably covenants and agrees with and in favor of each Releasee that it will not sue (at law, in equity, in any regulatory proceeding or otherwise) any Releasee on the basis of any Claim released, remised and discharged by any Releasing Party pursuant to Section 8.6 above. If any Releasing Party violates the foregoing covenant, each Loan Party, for itself and its successors and assigns, and its present and former members, managers, shareholders, affiliates, subsidiaries, divisions, predecessors, directors, officers, attorneys, employees, agents, legal representatives and other representatives, agrees to pay, in addition to such other damages as any Releasee may sustain as a result of such violation, all attorneys' fees and costs incurred by any Releasee as a result of such violation.

8.8. **Severability.** Any provision of this Agreement held by a court of competent jurisdiction to be invalid or unenforceable will not impair or invalidate the remainder of this Agreement.

8.9. **Reviewed by Attorneys.** Each Loan Party represents and warrants to Administrative Agent and Lenders that it (a) understands fully the terms of this Agreement and the consequences of the execution and delivery of this Agreement, (b) has been afforded an opportunity to discuss this Agreement with, and have this Agreement reviewed by, such attorneys and other persons as such Loan Party may wish, and (c) has entered into this Agreement and executed and delivered all documents in connection herewith of its own free will and accord and without threat, duress or other coercion of any kind by any Person. The parties hereto acknowledge and agree that neither this Agreement nor the other documents executed pursuant hereto will be construed more favorably in favor of one than the other based upon which party drafted the same, it being acknowledged that all parties hereto contributed substantially to the negotiation and preparation of this Agreement and the other documents executed pursuant hereto or in connection herewith.

8.10. **Disgorgement**. If Administrative Agent or any Lender is, for any reason, compelled by a court or other tribunal of competent jurisdiction to surrender or disgorge any payment, interest or other consideration described hereunder to any person because the same is determined to be void or voidable as a preference, fraudulent conveyance, impermissible set-off or for any other reason, such indebtedness or part thereof intended to be satisfied by virtue of such payment, interest or other consideration will be revived and continue as if such payment, interest or other consideration had not been received by Administrative Agent or such Lender, and Loan Parties will be liable to, and will indemnify, defend and hold Administrative Agent or such Lender harmless for, the amount of such payment or interest surrendered or disgorged. The provisions of this Section will survive repayment of the Obligations or any termination of the Credit Agreement or any other Loan Document.

8.11. **Tolling of Statute of Limitations.** Each and every statute of limitations or other applicable law, rule or regulation governing the time by which Administrative Agent must commence legal proceedings or otherwise take any action against any Borrower or any Guarantor with respect to any Specified Default or breach or default that exists on or prior to the expiration or termination of the Forbearance Period and arises under or in respect of the Credit Agreement or any other Loan Document shall be tolled during the Forbearance Period. Each Borrower and each Guarantor agrees, to the fullest extent permitted by law, not to include such period of time as a defense (whether equitable or legal) to any legal proceeding or other action by Administrative Agent in the exercise of its rights or remedies referred to in the immediately preceding sentence.

8.12. **Relationship**. Each Loan Party agrees that the relationship between Administrative Agent and Borrowers and between each Lender and Borrowers is that of creditor and debtor and not that of partners or joint venturers. This Agreement does not constitute a partnership agreement, or any other association between Administrative Agent and any Loan Party or between any Lender and any Loan Party. Each Loan Party acknowledges that Administrative Agent and each Lender has acted at all times only as a creditor to Borrowers within the normal and usual scope of the activities normally undertaken by a creditor and in no event has Administrative Agent or any Lender attempted to exercise any control over any Loan Party or its business or affairs. Each Loan Party further acknowledges that Administrative Agent and each Lender has not taken or failed to take any action under or in connection with its respective rights under the Credit Agreement or any of the other Loan Documents that in any way or to any extent has interfered with or adversely affected such Loan Parties' ownership of Collateral.

8.13. **Governing Law: Consent to Jurisdiction and Venue.** EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THE CREDIT AGREEMENT AND ANY OF THE OTHER LOAN DOCUMENTS, THIS AGREEMENT, THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND THEREUNDER WILL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF ILLINOIS, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES. EACH BORROWER HEREBY CONSENTS AND AGREES THAT THE STATE OR FEDERAL COURTS LOCATED IN COOK COUNTY, ILLINOIS WILL HAVE EXCLUSIVE JURISDICTION TO HEAR AND DETERMINE ANY CLAIMS OR DISPUTES BETWEEN ANY LOAN PARTY AND ADMINISTRATIVE AGENT OR ANY LENDER PERTAINING TO THIS AGREEMENT OR THE CREDIT AGREEMENT OR THE OTHER LOAN DOCUMENTS OR TO ANY MATTER ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE CREDIT AGREEMENT OR ANY OF THE LOAN DOCUMENTS; <u>AND</u> <u>FURTHER</u> <u>PROVIDED</u>, THAT NOTHING IN THIS AGREEMENT WILL BE DEEMED OR OPERATE TO PRECLUDE AGENT FROM BRINGING SUIT OR TAKING OTHER LEGAL ACTION IN ANY OTHER JURISDICTION TO COLLECT THE OBLIGATIONS, TO REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS, OR TO

ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF ADMINISTRATIVE AGENT. EACH LOAN PARTY EXPRESSLY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR SUIT COMMENCED IN ANY SUCH COURT, AND EACH LOAN PARTY HEREBY WAIVES ANY OBJECTION WHICH IT MAY HAVE BASED UPON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR FORUM NON CONVENIENS AND HEREBY CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY SUCH COURT. EACH LOAN PARTY HEREBY WAIVES PERSONAL SERVICE OF ANY AND ALL PROCESS ISSUED IN ANY SUCH ACTION OR SUIT AND AGREES THAT SERVICE OF SUCH PROCESS MAY BE MADE BY REGISTERED OR CERTIFIED MAIL ADDRESSED TO SUCH LOAN PARTY AT THE ADDRESS SET FORTH IN THE CREDIT AGREEMENT AND THAT SERVICE SO MADE WILL BE DEEMED COMPLETED UPON THE EARLIER OF SUCH BORROWER'S ACTUAL RECEIPT THEREOF OR THREE (3) DAYS AFTER THE SAME HAS BEEN POSTED.

8.14. **Waivers.**

(a) **Mutual Waiver of Jury Trial.** THE PARTIES HERETO WAIVE ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE, WHETHER ARISING IN CONTRACT, TORT, OR OTHERWISE BETWEEN ADMINISTRATIVE AGENT OR ANY LENDER AND ANY LOAN PARTY ARISING OUT OF, CONNECTED WITH, RELATED OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN THEM IN CONNECTION WITH THIS AGREEMENT OR THE CREDIT AGREEMENT OR THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS RELATED THERETO.

(b) **Waivers by Borrowers and Guarantors.** Borrowers and Guarantors hereby waive any rights any Borrower or any Guarantor may have upon payment in full of the Obligations to require Administrative Agent to terminate its security interest in the Collateral, other collateral or in any other property of any Borrower or any Guarantor until termination of the Credit Agreement in accordance with its terms and the execution by each Borrower and each Guarantor of an agreement indemnifying Administrative Agent from any loss or damage Administrative Agent may incur as the result of dishonored checks or other items of payment received by Administrative Agent from any Loan Party or any account debtor and applied to the obligations and releasing and indemnifying, in the same manner as described in Section 8.6 of this Agreement, the Releasees from all claims arising on or before the date of such termination. Borrowers and Guarantors each acknowledge that the foregoing waiver is a material inducement to Administrative Agent in entering this Agreement and that Administrative Agent is relying upon the foregoing waiver in its future dealings with Borrowers and Guarantors.

8.15. **Counterparts.** This Agreement may be executed and delivered via facsimile or email (in .pdf format) transmission with the same force and effect as if an original were executed and may be executed in any number of counterparts, but all of such counterparts shall together constitute but one and the same agreement.

[*signatures on following page*]

IN WITNESS WHEREOF, this Agreement is executed and delivered as of the day and year first above written.

FENIX PARTS, INC., as U.S. Borrower

By /s/ Kent Robertson
Name Kent Robertson
Title President and CEO

FENIX PARTS CANADA, INC., as Canadian Borrower

By /s/ Kent Robertson
Name Kent Robertson
Title President and CEO

DON'S AUTOMOTIVE MALL, INC., as a Guarantor

By /s/ Kent Robertson
Name Kent Robertson
Title President and CEO

EISS BROTHER, INC., as a Guarantor

By /s/ Kent Robertson
Name Kent Robertson
Title President and CEO

GARY'S U-PULL IT, INC., as a Guarantor

By /s/ Kent Robertson
Name Kent Robertson
Title President and CEO

GREEN OAK INVESTMENTS LLC, as a Guarantor

By /s/ Kent Robertson
Name Kent Robertson
Title President and CEO

HORSEHEADS AUTOMOTIVE RECYCLING, INC., as a Guarantor

By /s/ Kent Robertson
Name Kent Robertson
Title President and CEO

LEESVILLE AUTO-WRECKERS,

INC., as a Guarantor

By /s/ Kent Robertson
Name Kent Robertson
Title President and CEO

STANDARD AUTO WRECKERS INC.,
as a Guarantor

By /s/ Kent Robertson
Name Kent Robertson
Title President and CEO

JERRY BROWN, LTD., as a Guarantor

By /s/ Kent Robertson
Name Kent Robertson
Title President and CEO

OCEAN COUNTY AUTO
WRECKERS, INC., as a Guarantor

By /s/ Kent Robertson
Name Kent Robertson
Title President and CEO

BUTLER AUTO SALES AND PARTS,
INC., as a Guarantor

By /s/ Kent Robertson
Name Kent Robertson
Title President and CEO

TRI-CITY AUTO SALVAGE, INC., as
a Guarantor

By /s/ Kent Robertson
Name Kent Robertson
Title President and CEO

2434861 ONTARIO INC., as a
Guarantor

By /s/ Kent Robertson
Name Kent Robertson
Title President and CEO

BMO HARRIS BANK N.A., as
Administrative Agent and as a Lender

By /s/ Bridget Garavalia
Name Bridget Garavalia
Title Director

BANK OF MONTREAL, as a Lender

By /s/ Helen Alvarez-Hernandez
Name Helen Alvarez-Hernandez
Title Director

EXHIBIT A

to

FORBEARANCE AGREEMENT

Specified Defaults

Existing Defaults

1. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Loan Parties' failure to timely deliver a Borrowing Base Certificate and related reports for the fiscal quarter ending June 30, 2016, as required by Section 6.5(a) of the Credit Agreement;

2. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Loan Parties' failure to timely deliver a Borrowing Base Certificate and related reports for the fiscal quarter ending September 30, 2016, as required by Section 6.5(a) of the Credit Agreement;

3. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Loan Parties' failure to timely deliver a Borrowing Base Certificate and related reports for the fiscal quarter ending December 31, 2016, as required by Section 6.5(a) of the Credit Agreement;

4. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Loan Parties' failure to timely deliver a copy of the consolidated and consolidating balance sheet of Borrowers and their Subsidiaries as of the last day of the fiscal quarter ending June 30, 2016 and the consolidated and consolidating statements of income, retained earnings, and cash flows of Borrowers and their Subsidiaries for the fiscal quarter and for the fiscal year to date period then ended, as required by Section 6.5(b) of the Credit Agreement;

5. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Loan Parties' failure to timely deliver a copy of the consolidated and consolidating balance sheet of Borrowers and their Subsidiaries as of the last day of the fiscal quarter ending September 30, 2016 and the consolidated and consolidating statements of income, retained earnings, and cash flows of Borrowers and their Subsidiaries for the fiscal quarter and for the fiscal year to date period then ended, as required by Section 6.5(b) of the Credit Agreement;

6. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Loan Parties' failure to timely deliver a copy of the consolidated and consolidating balance sheet of Borrowers and their Subsidiaries as of the last day of the fiscal quarter ending December 31, 2016 and the consolidated and consolidating statements of income, retained earnings, and cash flows of Borrowers and their Subsidiaries for the fiscal quarter and for the fiscal year to date period then ended, as required by Section 6.5(b) of the Credit Agreement;

7. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Loan Parties' failure to timely deliver a written certificate signed by a Financial Officer of U.S. Borrower to the effect that to the best of such officer's knowledge and belief no Default or Event of Default has occurred during the period covered by the financial statements for the period ending June 30, 2016 and setting forth the calculations supporting such statements in respect of Section 7.11 of the Credit Agreement, as required by Section 6.5(j) of the Credit Agreement;

8. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Loan Parties' failure to timely deliver a written certificate signed by a Financial Officer of U.S. Borrower to the effect that to the best of such officer's knowledge and belief no Default or Event of Default has occurred during the period covered by the financial statements for the period ending September 30, 2016 and setting forth the calculations supporting such statements in respect of Section 7.11 of the Credit Agreement, as required by Section 6.5(j) of the Credit Agreement;

9. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Loan Parties' failure to timely deliver a written certificate signed by a Financial Officer of U.S. Borrower to the effect that to the best of such officer's knowledge and belief no Default or Event of Default has occurred during the period covered by the financial statements for the period ending December 31, 2016 and setting forth the calculations supporting such statements in respect of Section 7.11 of the Credit Agreement, as required by Section 6.5(j) of the Credit Agreement;

10. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Borrowers' failure to maintain a Total Leverage Ratio of less than or equal to 4.50 to 1.00 for the fiscal quarter ended June 30, 2016, as required by Section 7.11(b) of the Credit Agreement;

11. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Borrowers' failure to maintain a Total Leverage Ratio of less than or equal to 4.50 to 1.00 for the fiscal quarter ended September 30, 2016, as required by Section 7.11(b) of the Credit Agreement;

12. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Borrowers' failure to maintain a Total Leverage Ratio of less than or equal to 4.50 to 1.00 for the fiscal quarter ended December 31, 2016, as required by Section 7.11(b) of the Credit Agreement;

13. An Event of Default under Section 8.1(a) of the Credit Agreement as a result of U.S. Borrower's failure to repay the Obligations in the amount by which the unpaid principal balance of the U.S. Revolving Loans, Swing Loans and U.S. L/C Obligations outstanding as of June 30, 2016 exceeded the U.S. Borrowing Base as then determined and computed, as required by Section 2.9(b)(iv) of the Credit Agreement;

14. An Event of Default under Section 8.1(a) of the Credit Agreement as a result of U.S. Borrower's failure to repay the Obligations in the amount by which the unpaid principal balance of the U.S. Revolving Loans, Swing Loans and U.S. L/C Obligations outstanding as of September 30, 2016 exceeded the U.S. Borrowing Base as then determined and computed, as required by Section 2.9(b)(iv) of the Credit Agreement;

15. An Event of Default under Section 8.1(a) of the Credit Agreement as a result of U.S. Borrower's failure to repay the Obligations in the amount by which the unpaid principal balance of the U.S. Revolving Loans, Swing Loans and U.S. L/C Obligations outstanding as of December 31, 2016 exceeded the U.S. Borrowing Base as then determined and computed, as required by Section 2.9(b)(iv) of the Credit Agreement;

16. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Borrowers' failure to maintain a Fixed Charge Coverage Ratio of not less than or equal to 1.20 to 1.00 for the fiscal quarter ended June 30, 2016, as required by Section 7.11(c) of the Credit Agreement;

17. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Borrowers' failure to maintain a Fixed Charge Coverage Ratio of not less than or equal to 1.20 to 1.00 for the fiscal quarter ended September 30, 2016, as required by Section 7.11(c) of the Credit Agreement; and

18. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Borrowers' failure to maintain a Fixed Charge Coverage Ratio of not less than or equal to 1.20 to 1.00 for the fiscal quarter ended December 31, 2016, as required by Section 7.11(c) of the Credit Agreement.

Anticipated Defaults

1. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Loan Parties' failure to timely deliver a Borrowing Base Certificate and related reports for the fiscal quarter ending December 31, 2016, as required by Section 6.5(a) of the Credit Agreement;

2. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Loan Parties' failure to timely deliver a written certificate signed by a Financial Officer of U.S. Borrower to the effect that to the best of such officer's knowledge and belief no Specified Default has occurred during the period covered by the financial statements for the period ending March 31, 2017 and setting forth the calculations supporting such statements in respect of Section 7.11 of the Credit Agreement, as required by Section 6.5(j) of the Credit Agreement;

3. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Borrowers' failure to maintain a Total Leverage Ratio of less than or equal to 4.50 to 1.00 for the fiscal quarter ended March 31, 2017, as required by Section 7.11(b) of the Credit Agreement;

4. An Event of Default under Section 8.1(a) of the Credit Agreement as a result of U.S. Borrower's failure to repay the Obligations in the amount by which the unpaid principal balance of the U.S. Revolving Loans, Swing Loans and U.S. L/C Obligations outstanding as of March 31, 2017 exceeded the U.S. Borrowing Base as then determined and computed, as required by Section 2.9(b)(iv) of the Credit Agreement; and

5. An Event of Default under Section 8.1(b) of the Credit Agreement as a result of Borrowers' failure to maintain a Fixed Charge Coverage Ratio of not less than or equal to 1.20 to 1.00 for the fiscal quarter ended March 31, 2017, as required by Section 7.11(c) of the Credit Agreement.

EXHIBIT B

to

FORBEARANCE AGREEMENT

BUDGET

[Omitted]

EXHIBIT C

to

FORBEARANCE AGREEMENT

EXCLUDED DEPOSIT ACCOUNTS

[Omitted]

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULES 13a-14(a) AND 15a-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

I, Kent Robertson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016 of Fenix Parts, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2017

/s/ Kent Robertson

Kent Robertson
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULES 13a-14(a) AND 15a-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

I, Scott Pettit, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016 of Fenix Parts, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2017

/s/ Scott Pettit

Scott Pettit
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Fenix Parts, Inc. (the "Company"), for the quarter ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, Kent Robertson, Principal Executive Officer of the Company, and Scott Pettit, Principal Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ Kent Robertson
Kent Robertson
President and Chief Executive Officer
(Principal Executive Officer)

Dated March 28, 2017

By: /s/ Scott Pettit
Scott Pettit
Chief Financial Officer
(Principal Financial Officer)

Dated March 28, 2017