

EAGLE MATERIALS INC
Form 10-Q
January 31, 2018

United States

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

December 31, 2017

Commission File Number 1-12984

Eagle Materials Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

75-2520779

(I.R.S. Employer Identification No.)

3811 Turtle Creek Blvd., Suite 1100, Dallas, Texas 75219

(Address of principal executive offices)

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(214) 432-2000

(Registrant's telephone number, including area code)

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 during the preceding 12 months (or for such shorter period that 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, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

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

Yes No

As of January 29, 2018, the number of outstanding shares of common stock was:

Class	Outstanding Shares
Common Stock, \$.01 Par Value	48,668,850

Eagle Materials Inc. and Subsidiaries

Form 10-Q

December 31, 2017

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Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Earnings

(dollars in thousands, except share data)

(unaudited)

	For the Three Months		For the Nine Months	
	Ended December 31,		Ended December 31,	
	2017	2016	2017	2016
Revenues	\$359,371	\$302,395	\$1,101,807	\$932,557
Cost of Goods Sold	264,805	215,015	824,428	682,012
Gross Profit	94,566	87,380	277,379	250,545
Equity in Earnings of Unconsolidated Joint Venture	11,372	11,244	33,203	31,371
Corporate General and Administrative Expense	(9,883)	(9,166)	(29,383)	(27,831)
Legal Settlement	(39,098)	—	(39,098)	—
Other Non-Operating Income	1,084	429	2,728	2,008
Interest Expense, Net	(6,653)	(6,198)	(21,592)	(15,755)
Earnings Before Income Taxes	51,388	83,689	223,237	240,338
Income Tax Expense	49,992	(27,302)	(3,613)	(78,370)
Net Earnings	\$101,380	\$56,387	\$219,624	\$161,968
EARNINGS PER SHARE:				
Basic	\$2.10	\$1.18	\$4.56	\$3.38
Diluted	\$2.08	\$1.17	\$4.52	\$3.35
AVERAGE SHARES OUTSTANDING:				
Basic	48,221,093	47,881,662	48,132,276	47,901,369
Diluted	48,757,762	48,297,748	48,641,430	48,340,326
CASH DIVIDENDS PER SHARE:	\$0.10	\$0.10	\$0.30	\$0.30

See notes to unaudited consolidated financial statements.

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Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Comprehensive Earnings

(unaudited – dollars in thousands)

	For the Three Months		For the Nine Months	
	Ended December 31,		Ended December 31,	
	2017	2016	2017	2016
Net Earnings	\$101,380	\$56,387	\$219,624	\$161,968
Change in Funded Status of Defined Benefit Plans:				
Amortization of Net Actuarial Loss	314	500	942	1,500
Tax Expense	(117)	(188)	(351)	(564)
Comprehensive Earnings	\$101,577	\$56,699	\$220,215	\$162,904

See notes to unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries

Consolidated Balance Sheets

(dollars in thousands)

	December 31, 2017 (unaudited)	March 31, 2017
ASSETS		
Current Assets -		
Cash and Cash Equivalents	\$21,676	\$6,561
Accounts and Notes Receivable	143,662	136,313
Inventories	239,628	252,846
Prepaid and Other Assets	20,378	4,904
Total Current Assets	425,344	400,624
Property, Plant and Equipment -	2,547,430	2,439,438
Less: Accumulated Depreciation	(972,706)	(892,601)
Property, Plant and Equipment, net	1,574,724	1,546,837
Notes Receivable	296	815
Investment in Joint Venture	55,337	48,620
Goodwill and Intangible Assets, net	240,145	235,505
Other Assets	12,197	14,723
	\$2,308,043	\$2,247,124
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities -		
Accounts Payable	\$73,203	\$92,193
Accrued Liabilities	101,432	55,379
Income Tax Payable	—	733
Current Portion of Long-term Debt	—	81,214
Total Current Liabilities	174,635	229,519
Long-term Debt	565,755	605,253
Other Long-term Liabilities	35,112	42,878
Deferred Income Taxes	116,352	166,024
Total Liabilities	891,854	1,043,674
Stockholders' Equity -		
Preferred Stock, Par Value \$0.01; Authorized 5,000,000 Shares; None Issued	—	—
Common Stock, Par Value \$0.01; Authorized 100,000,000 Shares; Issued and		
Outstanding 48,664,650 and 48,453,268 Shares, respectively	487	485
Capital in Excess of Par Value	156,834	149,014
Accumulated Other Comprehensive Losses	(6,805)	(7,396)
Retained Earnings	1,265,673	1,061,347
Total Stockholders' Equity	1,416,189	1,203,450
	\$2,308,043	\$2,247,124

See notes to the unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(unaudited – dollars in thousands)

	For the Nine Months Ended	
	December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Earnings	\$219,624	\$161,968
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities -		
Depreciation, Depletion and Amortization	87,903	67,894
Inventory Adjustment to Net Realizable Value	—	8,492
Deferred Income Tax Provision	(50,023)	2,751
Stock Compensation Expense	10,890	9,067
Excess Tax Benefits from Share Based Payment Arrangements	—	(8,546)
Equity in Earnings of Unconsolidated Joint Venture	(33,203)	(31,371)
Distributions from Joint Venture	26,500	33,250
Changes in Operating Assets and Liabilities:		
Accounts and Notes Receivable	(4,718)	6,613
Inventories	13,417	12,320
Accounts Payable and Accrued Liabilities	17,372	6,633
Other Assets	(11,889)	413
Income Taxes Payable	(733)	19,384
Net Cash Provided by Operating Activities	275,140	288,868
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, Plant and Equipment Additions	(83,698)	(34,043)
Acquisition Spending	(36,761)	—
Net Cash Used in Investing Activities	(120,459)	(34,043)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in Credit Facility	(40,000)	(382,000)
Repayment of Senior Notes	(81,214)	(8,000)
Issuance of Long-term Debt	—	350,000
Payment of Debt Issuance Costs	—	(6,637)
Dividends Paid to Stockholders	(14,571)	(14,500)
Shares Redeemed to Settle Employee Taxes on Stock Compensation	(2,607)	(3,084)
Purchase and Retirement of Common Stock	(24,903)	(60,013)
Proceeds from Stock Option Exercises	23,729	20,137
Excess Tax Benefits from Share Based Payment Arrangements	—	8,546
Net Cash Used in Financing Activities	(139,566)	(95,551)
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,115	159,274
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,561	5,391

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$21,676	\$164,665
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See notes to the unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

December 31, 2017

(A) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements as of and for the three and nine month periods ended December 31, 2017 include the accounts of Eagle Materials Inc. (“Eagle” or “Parent”) and its majority-owned subsidiaries (collectively, the “Company”, “us” or “we”) and have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on May 24, 2017.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading. In our opinion, all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the information in the following unaudited consolidated financial statements of the Company have been included. The results of operations for interim periods are not necessarily indicative of the results for the full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”), issued Accounting Standards Update (“ASU”) 2016-09, “Improvements to Employee Share-Based Payment Accounting,” which provides for simplification of certain aspects of employee share-based payment accounting, including income taxes, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted ASU 2016-09 on April 1, 2017. The new standard provides for changes to accounting for stock compensation including 1) excess tax benefits and tax deficiencies related to share based payment awards will be recognized as income tax benefit or expense in the reporting period in which they occur; 2) excess tax benefits will be classified as an operating activity in the statement of cash flow; 3) the option to elect to estimate forfeitures or account for them when they occur; and 4) an increase in the tax withholding requirements threshold to qualify for equity classification. The primary impact of adoption was the recognition of excess tax benefits for our stock awards in the provision for income taxes rather than additional paid-in capital. As provided by the new standard, the Company changed its method of accounting for forfeitures, and will now recognize forfeitures as they occur, which resulted in an approximately \$0.7 million reduction to retained earnings. Additional amendments to the accounting for income taxes and minimum statutory withholding tax requirements had no impact to retained earnings.

Adoption of the new standard resulted in the recognition of excess tax benefits in our provision for income taxes rather than paid-in capital of \$2.5 million for the nine months ended December 31, 2017. The presentation of excess tax benefits on stock-based compensation was adopted prospectively within the unaudited Condensed Consolidated

Statements of Cash Flows. The presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact on any of the periods presented on the unaudited Condensed Consolidated Statements of Cash Flows as the Company has historically presented them as a financing activity.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)," and requires entities to

recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard will be effective for us in the first quarter of fiscal 2019. We will adopt the new standard using the modified retrospective approach, which requires the standard be applied only to the most current period presented, with the cumulative effect of initially applying the standard recognized at the date of initial application. We performed an evaluation of all segments and do not expect the adoption of this standard to materially impact our consolidated financial statements, but we are still evaluating the impact on our financial statement disclosures.

In March 2017, the FASB issued ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”, which revises the accounting for periodic pension and postretirement expense. This ASU requires net periodic benefit cost, with the exception of service cost, to be presented retrospectively as nonoperating expense. Service cost will remain a component of cost of goods sold and represent the only cost of pension and postretirement expense eligible for capitalization. We will adopt the standard on April 1, 2018 using the retrospective method for presentation of service cost and other components in the income statement. We will prospectively adopt the requirement to limit the capitalization of benefit cost to the service cost component. The impact of adopting this standard will be a reduction to cost of goods sold and an increase in other expense. Had we adopted this standard on April 1, 2017, our gross profit for the nine months ended December 31, 2017 would have increased by approximately \$0.3 million, and other income would have decreased by \$0.3 million.

In February 2016, the FASB issued ASU 2016-02, “Leases”, which supersedes existing lease guidance to require lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases and to disclose additional quantitative and qualitative information about leasing arrangements. The standard will be effective for us in the first quarter of fiscal 2020, and we will adopt using the modified retrospective approach. We are currently assessing the impact of the ASU on our consolidated financial statements and disclosures, as well as our internal lease accounting processes.

(B) ACQUISITION

Fairborn Acquisition

On February 10, 2017, we completed the acquisition (the “Fairborn Acquisition”) of certain assets of CEMEX Construction Materials Atlantic, LLC (the “Seller”). The assets acquired by the Company in the Fairborn Acquisition include a cement plant located in Fairborn, Ohio, a cement distribution terminal located in Columbus, Ohio, and certain other related assets.

Purchase Price: The purchase price (the “Fairborn Purchase Price”) of the Fairborn Acquisition was approximately \$400.5 million. We funded the payment of the Fairborn Purchase Price at closing and expenses incurred in connection with the Fairborn Acquisition through a combination of cash on hand and borrowings under our bank credit facility.

Recording of assets acquired and liabilities assumed: The transaction has been accounted for using the acquisition method of accounting which requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The Company engaged a third-party to perform a valuation to support the Company’s preliminary estimate of the fair value of certain assets acquired in the Fairborn Acquisition.

During the quarter ended December 31, 2017, we completed our mine plan, enabling us to finalize the asset retirement obligation at the date of purchase. Based on the updated mine plan, the asset retirement obligation and corresponding asset was revised to approximately \$2.8 million from \$4.0 million.

The preparation of the valuation of the assets acquired and liabilities assumed in the Fairborn Acquisition requires the use of significant assumptions and estimates. Critical estimates include, but are not limited to, replacement value and condition of property and equipment, future expected cash flows, including projected revenues and expenses, and applicable discount rates for intangible and other assets. These estimates are based on assumptions that we believe to be reasonable. However, actual results may differ from these estimates.

The following table summarizes the allocation of the Fairborn Purchase Price to assets acquired and liabilities assumed as of the acquisition date:

	As of
	February
Purchase price allocation at acquisition date (in thousands)	10, 2017
Inventories	\$ 11,106
Property and Equipment	314,897
Intangible Assets	10,000
Other Assets	2,820
Asset Retirement Obligation	(2,820)
Total Net Assets	336,003
Goodwill	64,485
Total Purchase Price	\$400,488

Goodwill represents the excess purchase price over the fair values of assets acquired and liabilities assumed. The goodwill was generated by the availability of co-product sales and the opportunity associated with the expansion of our cement business to the eastern region of the United States. All of the goodwill generated by the transaction will be deductible for income tax purposes.

Intangible Assets: The following table is a summary of the fair value estimates of the identifiable intangible assets (in thousands) and their weighted-average useful lives:

	Weighted	Estimated
	Average	Fair
	Life	Value
Customer Relationships	15	9,000
Permits	40	1,000
Total Intangible Assets		\$ 10,000

Actual and pro forma impact of the Fairborn Acquisition: The following table presents the net sales and operating earnings related to the Fairborn Acquisition that have been included in our consolidated statement of earnings for the three and nine months ended December 31, 2017:

For the	For the
Three	Nine
Months	Months

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	Ended December 31, 2017	Ended December 31, 2017
	(dollars in thousands)	
Revenues	\$21,699	\$ 69,120
Operating Earnings	\$6,547	\$ 20,380

Operating earnings shown above for the nine months ended December 31, 2017 have been impacted by approximately \$11.2 million and \$0.6 million related to depreciation and amortization and the recording of acquired inventory at fair value, respectively.

The unaudited pro forma results presented below include the effects of the Fairborn Acquisition as if it had been consummated as of April 1, 2016. The pro forma results include the amortization associated with an estimate for acquired intangible assets and interest expense associated with debt used to fund the Fairborn Acquisition and depreciation from the fair value adjustments for property and equipment. To better reflect the combined operating results, material nonrecurring charges directly related to the Fairborn Acquisition of approximately \$5.5 million have been excluded from pro forma net income for fiscal 2017.

	For the Three Months	For the Nine Months
	Ended December 31, 2016	Ended December 31, 2016
	(dollars in thousands)	
Revenues	\$321,378	\$ 998,910
Net Income	\$58,294	\$ 169,631
Earnings per share – basic	\$1.22	\$ 3.54
Earnings per share - diluted	\$1.21	\$ 3.51

The pro forma results do not include any anticipated synergies or other expected benefits of the Fairborn Acquisition. Accordingly, the unaudited pro forma results are not necessarily indicative of either future results of operations or results that might have been achieved had the Fairborn Acquisition been consummated as of April 1, 2016.

Wildcat Acquisition

On July 27, 2017, we acquired all of the outstanding equity interests in Wildcat Minerals LLC (the “Wildcat Acquisition”). Wildcat Minerals LLC operates transload facilities serving the oil and gas industry in several oil and gas basins across the United States. The purchase price (the “Purchase Price”) of the Wildcat Acquisition was approximately \$36.8 million, subject to adjustments for working capital and other customary post-closing adjustments. The Purchase Price was allocated as follows: approximately \$3.1 million to current assets, \$28.3 million to property and equipment, \$1.4 million to intangible and other assets, \$2.8 million to current liabilities and \$6.8 million to goodwill. The Purchase Price and expenses incurred in connection with the Wildcat Acquisition were funded through operating cash flow and borrowings under our bank credit facility. Assets related to the Wildcat Acquisition will be included in the Corporate and Other segment in our segment reporting.

(C) CASH FLOW INFORMATION—SUPPLEMENTAL

Cash payments made for interest were \$19.8 million and \$10.7 million for the nine months ended December 31, 2017 and 2016, respectively. Net payments made for federal and state income taxes during the nine months ended December 31, 2017 and 2016, were \$68.8 million and \$55.6 million, respectively.

(D) ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable have been shown net of the allowance for doubtful accounts of \$11.1 million and \$10.7 million at December 31, 2017 and March 31, 2017, respectively. We perform ongoing credit evaluations of our customers' financial condition and generally require no collateral from our customers. The allowance for non-collection of receivables is based upon analysis of economic trends in the construction industry, detailed analysis of the expected collectability of accounts receivable that are past due and the expected collectability of overall receivables. We have no significant credit risk concentration among our diversified customer base.

We had notes receivable totaling approximately \$2.6 million at December 31, 2017, of which approximately \$2.3 million has been classified as current and presented with accounts receivable on the balance sheet. We lend funds to certain companies in the ordinary course of business, and the notes bear interest, on average, at LIBOR plus 3.5%. Remaining unpaid amounts, plus accrued interest, mature in fiscal 2018 and 2021. The notes are collateralized by certain assets of the borrowers, namely property and equipment, and are generally payable

monthly. We monitor the credit risk of each borrower by focusing on the timeliness of payments, review of credit history and credit metrics and interaction with the borrowers.

(E) STOCKHOLDERS' EQUITY

A summary of changes in stockholders' equity follows:

	For the Nine Months
	Ended December 31, 2017 (dollars in thousands)
Common Stock –	
Balance at Beginning of Period	\$ 485
Issuance of Restricted Stock	1
Purchase and Retirement of Common Stock	(1)
Stock Option Exercises	2
Balance at End of Period	487
Capital in Excess of Par Value –	
Balance at Beginning of Period	149,014
Stock Compensation Expense	10,890
Cumulative Impact of the Adoption of ASU 2016-09	713
Shares Redeemed to Settle Employee Taxes	(2,607)
Stock Option Exercises	23,726
Purchase and Retirement of Common Stock	(24,902)
Balance at End of Period	156,834
Retained Earnings –	
Balance at Beginning of Period	1,061,347
Dividends Declared to Stockholders	(14,585)
Cumulative Impact of the Adoption of ASU 2016-09	(713)
Net Earnings	219,624
Balance at End of Period	1,265,673
Accumulated Other Comprehensive Loss -	
Balance at Beginning of Period	(7,396)
Change in Funded Status of Pension Plan,	
net of tax	591
Balance at End of Period	(6,805)
Total Stockholders' Equity	\$ 1,416,189

During the nine months ended December 31, 2017, we repurchased 272,772 shares at an average price of \$91.31. As of December 31, 2017, we have authorization to purchase an additional 4,544,428 shares.

(F) INVENTORIES

Inventories are stated at the lower of average cost (including applicable material, labor, depreciation, and plant overhead) or market, and consist of the following:

	As of December 31,	March 31,
	2017	2017
	(dollars in thousands)	(dollars in thousands)
Raw Materials and Material-in-Progress	\$ 107,340	\$ 122,736
Finished Cement	24,313	24,428
Gypsum Wallboard	8,305	7,951
Paperboard	7,467	8,635
Frac Sand	2,345	2,907
Aggregates	7,268	7,686
Repair Parts and Supplies	76,741	73,732
Fuel and Coal	5,849	4,771
	\$ 239,628	\$ 252,846

(G) ACCRUED EXPENSES

Accrued expenses consist of the following:

	As of December 31,	March 31,
	2017	2017
	(dollars in thousands)	(dollars in thousands)
Payroll and Incentive Compensation	\$ 26,001	\$ 22,850
Benefits	14,204	11,503
Interest	7,196	5,992
Property Taxes	3,817	4,759
Power and Fuel	1,800	1,536
Sales and Use Tax	486	2,459
Legal Settlement	39,098	—
Other Legal	2,770	944
Acquisition Related Expenses	—	350

Other	6,060	4,986
	\$101,432	\$55,379

(H) Share-BASED EMPLOYEE COMPENSATION

On August 7, 2013, our stockholders approved the Eagle Materials Inc. Amended and Restated Incentive Plan (the “Plan”), which increased the shares we are authorized to issue as awards by 3,000,000 (1,500,000 of which may be stock awards). Under the terms of the Plan, we can issue equity awards, including stock options, restricted stock units (“RSUs”), restricted stock and stock appreciation rights to employees of the Company and members of the Board of Directors. Awards that were already outstanding prior to the approval of the Plan on August 7, 2013 remain outstanding. The Compensation Committee of our Board of Directors specifies the terms for grants of equity awards under the Plan.

Long-Term Compensation Plans -

Options. In May 2017, the Compensation Committee approved the granting of an aggregate of 58,055 performance vesting stock options pursuant to the Plan to certain officers and key employees that will be earned if certain performance conditions are satisfied (the “Fiscal 2018 Employee Performance Stock Option Grant”). The performance criterion for the Fiscal 2018 Employee Performance Stock Option Grant is based upon the

achievement of certain levels of return on equity (as defined in the option agreements), ranging from 11.0% to 18.0%, for the fiscal year ending March 31, 2018. All stock options will be earned if the return on equity is 18.0% or greater, and the percentage of shares earned will be reduced proportionately to approximately 66.7% if the return on equity is 11.0%. If the Company does not achieve a return on equity of at least 11.0%, all stock options granted will be forfeited. Following any such reduction, restrictions on the earned stock options will lapse ratably over four years, with the first fourth lapsing promptly following the determination date, and the remaining restrictions lapsing on March 31, 2019 through 2021. The stock options have a term of ten years from the date of grant. The Compensation Committee also approved the granting of 48,379 time vesting stock options to the same officers and key employees, which vest ratably over four years (the "Fiscal 2018 Employee Time Vesting Stock Option Grant"). In August 2017, we granted 6,052 options to members of the Board of Directors (the "Fiscal 2018 Board of Directors Stock Option Grant"). Options granted under the Fiscal 2018 Board of Directors Stock Option Grant vest immediately and can be exercised from the date of grant until their expiration on the tenth anniversary of the date of the grant. The Fiscal 2018 Employee Performance Stock Option Grant, Fiscal 2018 Employee Time Vesting Stock Option Grant and Fiscal 2018 Board of Directors Stock Option Grant were valued at the grant date using the Black-Scholes option pricing model.

The weighted-average assumptions used in the Black-Scholes model to value the option awards in fiscal 2018 are as follows:

	Fiscal 2018
Dividend Yield	1.3%
Expected Volatility	36.3%
Risk Free Interest Rate	2.1%
Expected Life	6.0 years

Stock option expense for all outstanding stock option awards totaled approximately \$1.1 million and \$3.3 million for the three and nine months ended December 31, 2017, respectively and approximately \$1.2 million and \$4.2 million for the three and nine months ended December 31, 2016, respectively. At December 31, 2017, there was approximately \$7.8 million of unrecognized compensation cost related to outstanding stock options, which is expected to be recognized over a weighted-average period of 2.6 years.

The following table represents stock option activity for the nine months ended December 31, 2017:

	Number of Shares	Weighted- Average Exercise Price
Outstanding Options at Beginning of Period	1,323,379	\$ 66.07
Granted	119,986	\$ 100.20
Exercised	(441,691)	\$ 59.97

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Cancelled	(16,742)	\$ 78.05
Outstanding Options at End of Period	984,932	\$ 72.76
Options Exercisable at End of Period	597,945	\$ 65.18
Weighted-Average Fair Value of Options Granted during		
the Period	\$33.37	

The following table summarizes information about stock options outstanding at December 31, 2017:

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Weighted -		Weighted - Average Exercise Price	Weighted - Average Exercise Price	
	Number of Shares	Contractual Life		Number of Shares	Average Exercise Price
\$23.17 – \$ 29.84	65,912	3.60	\$ 23.27	65,912	\$ 23.47
\$33.43 – \$ 37.34	99,582	4.46	\$ 33.94	99,582	\$ 33.94
\$53.22 – \$ 77.67	308,924	7.24	\$ 71.06	158,166	\$ 69.19
\$79.73 – \$ 106.00	510,514	7.60	\$ 87.76	274,285	\$ 84.27
	984,932	6.90	\$ 72.76	597,945	\$ 65.18

At December 31, 2017, the aggregate intrinsic value for outstanding and exercisable options was approximately \$39.9 million and \$28.8 million, respectively. The total intrinsic value of options exercised during the nine months ended December 31, 2017 was approximately \$18.5 million.

Restricted Stock. In May 2017, the Compensation Committee approved the granting of an aggregate of 52,646 shares of performance vesting restricted stock to certain officers and key employees that will be earned if certain performance conditions are satisfied (the “Fiscal 2018 Employee Restricted Stock Performance Award”). The performance criterion for the Fiscal 2018 Employee Restricted Stock Performance Award is based upon the achievement of certain levels of return on equity (as defined in the award agreement), ranging from 11.0% to 18.0%, for the fiscal year ending March 31, 2018. All restricted shares will be earned if the return on equity is 18.0% or greater, and the percentage of shares earned will be reduced proportionately to approximately 66.7% if the return on equity is 11.0%. If the Company does not achieve a return on equity of at least 11.0%, all awards will be forfeited. Following any such reduction, restrictions on the earned shares will lapse ratably over four years, with the first fourth lapsing promptly following the determination date, and the remaining restrictions lapsing on March 31, 2019 through 2021. The Compensation Committee also approved the granting of 43,874 shares of time vesting restricted stock to the same officers and key employees, which vest ratably over four years (the “Fiscal 2018 Employee Restricted Stock Time Vesting Award”). In August 2017, we awarded 11,444 shares of restricted stock to members of the Board of Directors (the “Board of Directors Fiscal 2018 Restricted Stock Award”), which vest six months after the grant date. The Fiscal 2018 Employee Restricted Stock Performance Award and the Fiscal 2018 Employee Restricted Stock Time Vesting Award were valued at the closing price of the stock on the date of grant, and are being expensed over a four year period. The Board of Director Fiscal 2018 Restricted Stock Awards were valued at the closing price of the stock on the date of grant, and are being expensed over a six month period.

Expense related to restricted shares was approximately \$2.6 million and \$7.5 million for the three and nine months ended December 31, 2017, respectively and approximately \$1.8 million and \$5.0 million for the three and nine months ended December 31, 2016, respectively. At December 31, 2017, there was approximately \$19.4 million of unearned compensation from restricted stock, which will be recognized over a weighted-average period of 2.3 years.

The number of shares available for future grants of stock options, restricted stock units, stock appreciation rights and restricted stock under the Plan was 4,165,706 at December 31, 2017.

(I) COMPUTATION OF EARNINGS PER SHARE

The calculation of basic and diluted common shares outstanding is as follows:

	For the Three Months		For the Nine Months	
	Ended December 31,		Ended December 31,	
	2017	2016	2017	2016
Weighted-Average Shares of Common Stock				
Outstanding	48,221,093	47,881,662	48,132,276	47,901,369
Common Equivalent Shares:				
Assumed Exercise of Outstanding Dilutive Options	887,506	764,631	1,069,152	889,411
Less: Shares Repurchased from Assumed Proceeds				
of Assumed Exercised Options	(606,549)	(523,194)	(778,985)	(612,885)
Restricted Shares	255,712	174,649	218,987	162,431
Weighted-Average Common and Common Equivalent				
Shares Outstanding	48,757,762	48,297,748	48,641,430	48,340,326
Shares Excluded Due to Anti-dilution Effects	121,179	700,734	91,089	679,849

(J) PENSION AND EMPLOYEE BENEFIT PLANS

We sponsor several defined benefit pension plans and defined contribution plans which together cover substantially all our employees. Benefits paid under the defined benefit plans covering certain hourly employees are based on years of service and the employee's qualifying compensation over the last few years of employment.

The following table shows the components of net periodic cost for our plans:

	For the Three Months Ended		For the Nine Months ended	
	December 31,		December 31,	
	2017	2016	2017	2016
	(dollars in thousands)		(dollars in thousands)	
Service Cost – Benefits Earned During the Period	\$ 153	\$ 222	\$ 557	\$ 665
Interest Cost of Benefit Obligations	357	399	1,110	1,196
Expected Return on Plan Assets	(578)	(416)	(1,558)	(1,247)
Recognized Net Actuarial Loss	46	425	519	1,276
Amortization of Prior-Service Cost	60	75	210	224
Net Periodic Pension Cost	\$ 38	\$ 705	\$ 838	\$ 2,114

We contributed approximately \$8.5 million to our pension plans during December 2017, which is expected to substantially decrease our unfunded pension liability at March 31, 2018.

(K) INCOME TAXES

On December 22, 2017, the United States (“U.S.”) enacted significant changes to U.S. tax law following the passage and signing of H.R.1, “An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018”). Under the new law, beginning January 1, 2018, the U.S. corporate income tax rate is reduced from 35% to 21%, accordingly, our effective tax rate for fiscal 2018 is based on a blended statutory rate of 31.5%.

The effect on our net deferred tax liability for the change in tax rates is required to be recognized in the period the tax rate change was enacted. We estimated the impact of the reduction in the U.S. corporate income tax rate, as well as other aspects of the new law, which resulted in a one-time, non-cash decrease to income tax expense of approximately \$61.0 million for the nine months ended December 31, 2017.

The Company will continue to assess the expected impacts of the new tax law, and will include any changes to the preliminary impacts noted above, in the Company’s Annual Report on Form 10-K for the year ended March 31, 2018.

Income taxes for the interim period presented have been included in the accompanying financial statements on the basis of an estimated annual effective tax rate. In addition to the amount of tax resulting from applying the estimated annual effective tax rate to pre-tax income, we will, when appropriate, include certain items treated as discrete events to arrive at an estimated overall tax amount. The tax rate for the nine months ended December 31, 2017 was approximately 2%, which was lower than the tax rate of 33% for the nine months ended December 31, 2016. The decline in the rate was primarily due to the discrete benefit related to the change in corporate tax rates, as described above, which reduced deferred tax liabilities by approximately \$61.0 million and the impact of the adoption of ASU 2016-09, which reduced income tax expense by approximately \$2.5 million.

(L) LONG-TERM DEBT

Long-term debt consists of the following:

	As of December 31,	March 31,
	2017	2017
	(dollars in thousands)	
Credit Facility	\$ 185,000	\$ 225,000
4.500% Senior Unsecured Notes Due 2026	350,000	350,000
Private Placement Senior Unsecured Notes	36,500	117,714
Total Debt	571,500	692,714
Less: Current Portion of Long-term Debt	—	(81,214)
Less: Debt Origination Costs	(5,745)	(6,247)
Total Long-term Debt	\$ 565,755	\$ 605,253

Credit Facility –

We have a \$500.0 million revolving credit facility (the “Credit Facility”), including a swingline loan sublimit of \$25.0 million, which terminates on August 2, 2021. Borrowings under the Credit Facility are guaranteed by substantially all of the Company’s subsidiaries. At the option of the Company, outstanding principal amounts on the Credit Facility bear interest at a variable rate equal to (i) The London Interbank Offered Rate (“LIBOR”) for the selected period, plus an applicable rate (ranging from 100 to 225 basis points), which is to be established quarterly based upon the Company’s ratio of consolidated EBITDA, defined as earnings before interest, taxes, depreciation and amortization, to the Company’s consolidated indebtedness (the “Leverage Ratio”), or (ii) an alternative base rate which is the higher of (a) the prime rate or (b) the federal funds rate plus $\frac{1}{2}\%$ per annum plus an applicable rate (ranging from 0 to 125 basis points). Interest payments are payable, in the case of loans bearing interest at a rate based on the federal funds rate, quarterly, or in the case of loans bearing interest at a rate based on LIBOR, at the end of the applicable interest period. The Company is also required to pay a commitment fee on unused available borrowings under the Credit Facility ranging from 10 to 35 basis points depending upon the Leverage Ratio. The Credit Facility contains customary covenants that restrict our ability to incur additional debt, encumber our assets, sell assets, make or enter into certain investments, loans or guaranties and enter into sale and leaseback arrangements. The Credit Facility also requires us to maintain a consolidated indebtedness ratio (calculated as consolidated indebtedness to consolidated earnings before

interest, taxes, depreciation, amortization, certain transaction-related deductions and other non-cash deductions) of 3.5:1.0 or less and an interest coverage ratio (consolidated earnings before interest, taxes, depreciation, amortization, certain transaction-related deductions and other non-cash deductions to consolidated interest expense) of at least 2.5:1.0. We had \$185.0 million of borrowings outstanding at December 31, 2017. Based on our Leverage Ratio, we had \$305.6 million of available borrowings, net of the outstanding letters of credit, at December 31, 2017.

The Credit Facility has a \$40.0 million letter of credit facility. Under the letter of credit facility, the Company pays a fee at a per annum rate equal to the applicable margin for Eurodollar loans in effect from time to time plus a one-time letter of credit fee in an amount equal to 0.125% of the initial stated amount. At December 31, 2017, we had \$9.4 million of letters of credit outstanding.

4.500% Senior Unsecured Notes Due 2026 –

On August 2, 2016, the Company issued \$350.0 million aggregate principal amount of 4.500% senior notes ("Senior Unsecured Notes") due August 2026. Interest on the Senior Unsecured Notes is payable semiannually on February 1 and August 1 of each year until all of the outstanding notes are paid. The Senior Unsecured Notes rank equal to existing and future senior indebtedness, including the Credit Facility and the Private Placement Senior Unsecured Notes. Prior to August 1, 2019, we may redeem up to 40% of the original aggregate principal amount of the Senior Unsecured Notes with the proceeds of certain equity offerings at a redemption price of 104.5% of the principal amount of the notes. On or after August 1, 2019 and prior to August 1, 2021, we may redeem some or all of the Senior Unsecured Notes at a price equal to 100% of the principal amount, plus a "make-whole" premium. Beginning on August 1, 2021, we may redeem some or all of the Senior Unsecured Notes at the redemption prices set forth below (expressed as a percentage of the principal amount being redeemed):

	Percentage	
2021	102.25	%
2022	101.50	%
2023	100.75	%
2024 and thereafter	100.00	%

The Senior Unsecured Notes contain covenants that limit our ability and/or our guarantor subsidiaries' ability to create or permit to exist certain liens; enter into sale and leaseback transactions; and consolidate, merge, or transfer all or substantially all of our assets. The Company's Senior Unsecured Notes are fully and unconditionally and jointly and severally guaranteed by each of our subsidiaries that is a guarantor under the Credit Facility and Private Placement Senior Unsecured Notes. See Footnote (Q) to the Unaudited Consolidated Financial Statements for more information on the guarantors of the Senior Public Notes.

Private Placement Senior Unsecured Notes -

We entered into a Note Purchase Agreement on November 15, 2005 in connection with our sale of \$200.0 million of senior, unsecured notes, designated as Series 2005A Senior Notes (the "Series 2005A Senior Unsecured Notes") in a private placement transaction. The Series 2005A Senior Unsecured Notes, which were guaranteed by substantially all of our subsidiaries, were sold at par and issued in three tranches. During November 2017, all remaining notes were repaid in full and cancelled.

We also entered into an additional Note Purchase Agreement on October 2, 2007 (the "2007 Note Purchase Agreement") in connection with our sale of \$200.0 million of senior unsecured notes, designated as Series 2007A Senior Notes (the "Series 2007A Senior Unsecured Notes") in a private placement transaction. The Series 2007A Senior Unsecured Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in four tranches. At December 31, 2017, the amount outstanding for the remaining tranche is as follows:

	Principal	Maturity Date	Interest Rate
Tranche D	\$36.5 million	October 2, 2019	6.48%

Interest for each tranche of Notes is payable semi-annually April 2 and October 2 of each year until all principal is paid for the respective tranche. During October 2017, the \$24.0 million outstanding under Tranche C of the Series 2007A Senior Unsecured Notes matured, and the related notes were repaid and cancelled at that time.

Our obligations under the 2007 Note Purchase Agreement are equal in right of payment with all other senior, unsecured indebtedness of the Company, including our indebtedness under the Credit Facility and Senior Unsecured Notes. The 2007 Note Purchase Agreement contains customary restrictive covenants, including, but not limited to, covenants that place limits on our ability to encumber our assets, to incur additional debt, to sell assets, or to merge or consolidate with third parties.

The 2007 Note Purchase Agreement requires us to maintain a Consolidated Debt to Consolidated EBITDA (calculated as consolidated indebtedness to consolidated earnings before interest, taxes, depreciation, depletion, amortization, certain transaction related deductions and other non-cash charges) ratio of 3.50 to 1.00 or less, and to maintain an interest coverage ratio (Consolidated EBITDA to Consolidated Interest Expense (calculated as consolidated EBITDA, as defined above, to consolidated interest expense)) of at least 2.50:1.00. In addition, the 2007 Note Purchase Agreement requires the Company to ensure that at all times either (i) Consolidated Total Assets equal at least 80% of the consolidated total assets of the Company and its Subsidiaries, determined in accordance with GAAP, or (ii) consolidated total revenues of the Company and its Restricted Subsidiaries for the period of four consecutive fiscal quarters most recently ended equals at least 80% of the consolidated total revenues of the Company and its Subsidiaries during such period. We were in compliance with all financial ratios and tests at December 31, 2017.

Pursuant to a Subsidiary Guaranty Agreement, substantially all of our subsidiaries have guaranteed the punctual payment of all principal, interest, and Make-Whole Amounts (as defined in the 2007 Note Purchase Agreement) on the Series 2007A Senior Unsecured Notes and the other payment and performance obligations of the Company contained in the 2007 Note Purchase Agreement. We are permitted, at our option and without penalty, to prepay from time to time at least 10% of the original aggregate principal amount of the Series 2007A Senior Unsecured Notes at 100% of the principal amount to be prepaid, together with interest accrued on such amount to be prepaid to the date of payment, plus a Make-Whole Amount. The Make-Whole Amount is computed by discounting the remaining scheduled payments of interest and principal of the Series 2007A Senior Unsecured Notes being prepaid at a discount rate equal to the sum of 50 basis points and the yield to maturity of U.S. treasury securities having a maturity equal to the remaining average life of the Series 2007A Senior Unsecured Notes being prepaid.

We lease one of our cement plants from the city of Sugar Creek, Missouri. The city of Sugar Creek issued industrial revenue bonds to partly finance improvements to the cement plant. The lease payments due to the city of Sugar Creek under the cement plant lease, which was entered into upon the sale of the industrial revenue bonds, are equal in amount to the payments required to be made by the city of Sugar Creek to the holders of the industrial revenue bonds. Because we are the holder of all of the outstanding industrial revenue bonds, no debt is reflected on our financial statements in connection with our lease of the cement plant. At the conclusion of the lease in fiscal 2021, we have the option to purchase the cement plant for a nominal amount.

(M) SEGMENT INFORMATION

Operating segments are defined as components of an enterprise that engage in business activities that earn revenues, incur expenses and prepare separate financial information that is evaluated regularly by our chief operating decision maker in order to allocate resources and assess performance.

We operate in five business segments: Cement, Gypsum Wallboard, Recycled Paperboard, Oil and Gas Proppants and Concrete and Aggregates. These operations are conducted in the U.S. and include the mining of limestone and the manufacture, production, distribution and sale of Portland cement and slag (basic construction materials which are the essential binding ingredient in concrete), the mining of gypsum and the manufacture and sale of gypsum wallboard, the manufacture and sale of recycled paperboard to the gypsum wallboard industry and other paperboard converters, the sale of readymix concrete and the mining and sale of aggregates (crushed stone, sand and gravel) and sand used in hydraulic fracturing ("frac sand"). The products that we manufacture, distribute and sell are basic materials used with broad application as construction products, building materials, and basic materials used for oil and natural gas extraction. Our construction products are used in residential, industrial, commercial and infrastructure construction and include cement, slag, concrete and aggregates. Our building materials are sold into similar markets and include gypsum wallboard. Our basic materials used for oil and natural gas extraction include frac sand and oil well cement.

We operate seven cement plants, one slag grinding facility, seventeen cement distribution terminals, five gypsum wallboard plants, a gypsum wallboard distribution center, a recycled paperboard mill, seventeen readymix concrete batch plant locations, four aggregates processing plant locations, two frac sand processing facilities, including the mine idled in Utica, Illinois, three frac sand drying facilities, including the facility idled in Corpus Christi, Texas, six frac sand trans-load locations and eleven frac sand distribution centers. The principal markets for our cement products are Texas, northern Illinois (including Chicago), the central plains, the Rocky Mountains, northern Nevada, Ohio and northern California. Gypsum wallboard and recycled paperboard are distributed throughout the continental U.S, with the exception of the northeast. Concrete and aggregates are sold to local readymix producers and paving contractors in the Austin, Texas area, north of Sacramento, California and the greater Kansas City, Missouri area, while frac sand is currently sold and distributed into shale deposit zones across the United States. Other segment operations that are not material to our business are included in Other.

We conduct one of our seven cement plant operations, Texas Lehigh Cement Company LP in Buda, Texas, through a Joint Venture. For segment reporting purposes only, we proportionately consolidate our 50% share of the Joint Venture's revenues and operating earnings, which is consistent with the way management reports the segments within the Company for making operating decisions and assessing performance.

We account for intersegment sales at market prices. The following table sets forth certain financial information relating to our operations by segment:

	For the Three Months Ended December 31, 2017 2016		For the Nine Months Ended December 31, 2017 2016	
	(dollars in thousands)		(dollars in thousands)	
Revenues -				
Cement	\$ 161,601	\$ 138,047	\$ 536,186	\$ 449,650
Gypsum Wallboard	133,348	121,504	383,229	357,689
Paperboard	48,389	41,254	138,161	128,528
Oil and Gas Proppants	21,947	7,124	62,879	18,851
Concrete and Aggregates	38,742	40,843	126,092	114,734
Other	4,445	—	4,445	—
Sub-total	408,472	348,772	1,250,992	1,069,452
Less: Intersegment Revenues	(23,575)	(20,468)	(69,489)	(59,123)
Net Revenues, including Joint Venture	384,897	328,304	1,181,503	1,010,329
Less: Joint Venture	(25,526)	(25,909)	(79,696)	(77,772)
Net Revenues	\$ 359,371	\$ 302,395	\$ 1,101,807	\$ 932,557

	For the Three Months Ended December 31, 2017 2016		For the Nine Months Ended December 31, 2017 2016	
	(dollars in thousands)		(dollars in thousands)	
Intersegment Revenues -				
Cement	\$ 4,160	\$ 4,336	\$ 13,743	\$ 12,407
Paperboard	19,127	15,887	54,643	45,845
Concrete and Aggregates	288	245	1,103	871
	\$ 23,575	\$ 20,468	\$ 69,489	\$ 59,123

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Cement Sales Volume (in thousands of tons) -

Wholly –owned Operations	1,123	967	3,734	3,200
Joint Venture	216	231	686	691
	1,339	1,198	4,420	3,891

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	For the Three Months Ended December 31, 2017 2016 (dollars in thousands)		For the Nine Months Ended December 31, 2017 2016 (dollars in thousands)	
Operating Earnings -				
Cement	\$ 52,523	\$ 45,307	\$ 154,456	\$ 127,623
Gypsum Wallboard	39,841	41,075	123,237	122,109
Paperboard	10,903	9,380	22,358	30,827
Oil and Gas Proppants	(1,007)	(1,726)	(4,787)	(11,728)
Concrete and Aggregates	3,414	4,588	15,054	13,085
Other	264	—	264	—
Sub-total	105,938	98,624	310,582	281,916
Corporate General and Administrative	(9,883)	(9,166)	(29,383)	(27,831)
Legal Settlement	(39,098)	—	(39,098)	—
Other Non-Operating Income	1,084	429	2,728	2,008
Earnings Before Interest and Income Taxes	58,041	89,887	244,829	256,093
Interest Expense, net	(6,653)	(6,198)	(21,592)	(15,755)
Earnings Before Income Taxes	\$ 51,388	\$ 83,689	\$ 223,237	\$ 240,338
Cement Operating Earnings -				
Wholly-owned Operations	\$ 41,151	\$ 34,063	\$ 121,253	\$ 96,252
Joint Venture	11,372	11,244	33,203	31,371
	\$ 52,523	\$ 45,307	\$ 154,456	\$ 127,623
Capital Expenditures -				
Cement	\$ 11,012	\$ 8,558	\$ 31,744	\$ 18,812
Gypsum Wallboard	4,616	1,756	15,477	5,181
Paperboard	1,490	634	2,913	2,338
Oil and Gas Proppants	13,896	1,469	28,256	1,534
Concrete and Aggregates	2,446	3,045	4,976	5,595
Corporate and Other	147	350	332	583
	\$ 33,607	\$ 15,812	\$ 83,698	\$ 34,043
Depreciation, Depletion and Amortization -				
Cement	\$ 13,117	\$ 8,763	\$ 38,258	\$ 26,158
Gypsum Wallboard	4,599	4,636	13,514	14,166
Paperboard	2,204	2,105	6,513	6,311
Oil and Gas Proppants	5,820	4,987	21,944	14,432
Concrete and Aggregates	2,007	1,805	5,851	5,474
Corporate and Other	903	349	1,823	1,353
	\$ 28,650	\$ 22,645	\$ 87,903	\$ 67,894

	As of December 31, 2017 (dollars in thousands)	March 31, 2017
Identifiable Assets -		
Cement	\$1,233,099	\$1,234,617
Gypsum Wallboard	376,731	379,414

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Paperboard	120,603	124,356
Oil and Gas Proppants	385,719	376,306
Concrete and Aggregates	103,631	110,413
Corporate and Other	88,260	22,018
	\$2,308,043	\$2,247,124

Segment operating earnings, including the proportionately consolidated 50% interest in the revenues and expenses of the Joint Venture, represent revenues, less direct operating expenses, segment depreciation, and segment selling, general and administrative expenses. Corporate assets consist primarily of cash and cash equivalents, general office assets, miscellaneous other assets, unrecognized tax benefits and assets acquired in the Wildcat Acquisition. The segment breakdown of goodwill is as follows:

	As of December 31,	March 31,
	2017	2017
	(dollars in thousands)	
Cement	\$74,214	\$74,214
Gypsum Wallboard	116,618	116,618
Paperboard	7,538	7,538
Corporate and Other	6,841	—
	\$205,211	\$198,370

Summarized financial information for the Joint Venture that is not consolidated is set out below (this summarized financial information includes the total amount for the Joint Venture and not our 50% interest in those amounts):

	For the Three Months		For the Nine Months	
	Ended December 31,		Ended December 31,	
	2017	2016	2017	2016
	(dollars in thousands)		(dollars in thousands)	
Revenues	\$ 51,311	\$ 53,018	\$163,128	\$158,351
Gross Margin	\$ 23,421	\$ 23,887	\$69,672	\$66,812
Earnings Before Income Taxes	\$ 22,745	\$ 22,488	\$66,407	\$62,742

	As of December 31,	March 31,
	2017	2017
	(dollars in thousands)	
Current Assets	\$67,380	\$ 73,767
Non-Current Assets	\$66,836	\$ 42,337
Current Liabilities	\$27,501	\$ 22,293

(N) INTEREST EXPENSE

The following components are included in interest expense, net:

	For the Three Months		For the Nine Months	
	Ended December 31,		Ended December 31,	
	2017	2016	2017	2016
	(dollars in thousands)		(dollars in thousands)	
Interest (Income)	\$ (4)	\$ (19)	\$ (10)	\$ (23)
Interest Expense	6,363	5,982	20,692	15,078
Other Expenses	294	235	910	700
Interest Expense, net	\$ 6,653	\$ 6,198	\$ 21,592	\$ 15,755

Interest income includes interest on investments of excess cash. Components of interest expense include interest associated with the Private Placement Senior Unsecured Notes, the Credit Facility, the Senior Unsecured Notes and commitment fees based on the unused portion of the Credit Facility. Other expenses include amortization of debt issuance costs, and credit facility costs.

(O) COMMITMENTS AND CONTINGENCIES

We have certain deductible limits under our workers' compensation and liability insurance policies for which reserves are established based on the undiscounted estimated costs of known and anticipated claims. We have entered into standby letter of credit agreements relating to workers' compensation and auto and general liability self-insurance. At December 31, 2017, we had contingent liabilities under these outstanding letters of credit of approximately \$9.4 million.

In the ordinary course of business, we execute contracts involving indemnifications that are standard in the industry and indemnifications specific to a transaction such as sale of a business. These indemnifications may include claims relating to any of the following: environmental and tax matters; intellectual property rights; governmental regulations and employment-related matters; customer, supplier, and other commercial contractual relationships; construction contracts and financial matters. While the maximum amount to which the Company may be exposed under such agreements cannot be estimated, it is the opinion of management that these indemnifications are not expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows. We currently have no outstanding guarantees.

We are currently contingently liable for performance under \$25.6 million in performance bonds required by certain states and municipalities, and their related agencies. The bonds are principally for certain reclamation obligations and mining permits. We have indemnified the underwriting insurance company against any exposure under the performance bonds. In our past experience, no material claims have been made against these financial instruments.

Domestic Wallboard Antitrust Litigation

Since late December 2012, several purported class action lawsuits were filed in various United States District Courts, including the Eastern District of Pennsylvania, Western District of North Carolina and the Northern District of Illinois, against the Company's subsidiary, American Gypsum Company LLC ("American Gypsum"), alleging that the defendant wallboard manufacturers conspired to fix the price for drywall sold in the United States in violation of federal antitrust laws and, in some cases related provisions of state law. The complaints alleged that the defendant wallboard manufacturers conspired to increase prices through the announcement and implementation of coordinated price increases, output restrictions, and other restraints of trade, including the elimination of individual "job quote" pricing. In addition to American Gypsum, the defendants in these lawsuits included CertainTeed Corp. ("CertainTeed"), USG Corporation and United States Gypsum (together "USG"), New NGC, Inc. ("New NGC"), Lafarge North America ("Lafarge"), Temple Inland Inc. ("TIN") and PABCO Building Products LLC ("PABCO"). On April 8, 2013, the Judicial Panel on Multidistrict Litigation ("JPML") transferred and consolidated all related cases to the Eastern District of Pennsylvania for coordinated pretrial proceedings.

On June 24, 2013, the direct and indirect purchaser plaintiffs filed consolidated amended class action complaints. The direct purchasers' complaint added the Company as a defendant. The plaintiffs in the consolidated class action complaints assert claims on behalf of purported classes of direct purchasers or end users of wallboard from January 1, 2012 to the present for unspecified monetary damages (including treble damages) and in some cases injunctive relief. On July 29, 2013, the Company and American Gypsum answered the complaints, denying all allegations that they conspired to increase the price of drywall and asserting affirmative defenses to the plaintiffs' claims.

In 2014, USG and TIN entered into agreements with counsel representing the direct and indirect purchaser classes pursuant to which they agreed to settle all claims against them. Under the terms of its settlement agreement, USG agreed to pay \$48.0 million to resolve the direct and indirect purchaser class actions. In its settlement agreement, TIN

agreed to pay \$7.0 million to resolve the direct and indirect purchaser class actions. On August 20, 2015, the court entered orders finally approving USG and TIN's settlements with the direct and indirect purchaser plaintiffs. Following completion of the initial discovery, the Company and remaining co-

defendants moved for summary judgment. On February 18, 2016, the court denied the Company's motion for summary judgment and granted judgment in favor of CertainTeed. On June 16, 2016, Lafarge entered into an agreement with counsel for the direct purchaser class under which it agreed to settle all claims against it for \$23.0 million. The court entered an order finally approving this settlement on December 7, 2016. On July 28, 2016, Lafarge entered into an agreement with counsel representing the indirect purchaser class under which it agreed to settle all claims against it for \$5.2 million, which was approved by the court on February 28, 2017. On July 14, 2016, the Company's motion for permission to appeal the summary judgment decision to the U.S. Court of Appeals for the Third Circuit was denied.

Direct purchaser plaintiffs and indirect purchaser plaintiffs filed their motions for class certification on August 3, 2016 and October 12, 2016, respectively. On August 23, 2017, the court granted the direct purchaser plaintiffs' motion for class certification and certified a class consisting of all persons or entities that purchased paper-backed gypsum wallboard in the United States from January 1, 2012 through January 31, 2013 directly from American Gypsum, the Company, Lafarge, New NGC, PABCO, USG, and/or L&W Supply Corporation (which was a subsidiary of USG Corporation during the class period). On September 6, 2017, American Gypsum, the Company, New NGC, and PABCO filed a petition with the U.S. Court of Appeals for the Third Circuit seeking interlocutory appeal of the district court's decision granting the direct purchaser plaintiffs' motion for class certification under Federal Rule of Civil Procedure 23(f). The Third Circuit denied the Defendant's petition on October 27, 2017. On August 24, 2017, the court denied the indirect purchaser plaintiffs' motion for class certification. On September 7, 2017, the indirect purchaser plaintiffs filed a petition with the Third Circuit appealing the district court's denial of their motion for class certification. The Third Circuit denied the indirect purchaser plaintiff's petition on October 12, 2017.

On December 29, 2017 American Gypsum and the Company, as well as New NGC, Inc. ("New NGC"), and PABCO Building Products, LLC ("PABCO"), which are not affiliated with the Company, entered into a settlement agreement (the "Direct Purchaser Settlement Agreement") with counsel representing the direct purchaser class to settle all claims made against the Company, American, New NGC and PABCO in the direct purchaser class action. The Direct Purchaser Settlement Agreement, in which the Company and American deny all wrongdoing, also includes releases by the participating class members of the Company and American as well as their subsidiaries, affiliates, and other related parties, for the time period from January 1, 2012 through the date of execution of the Direct Purchaser Settlement Agreement. The Direct Purchaser Settlement Agreement grants the Company, American, New NGC, and PABCO the right to terminate the Direct Purchaser Settlement Agreement in the event an agreed upon percentage of potential class members opt-out of the Direct Purchaser Settlement Agreement. Additionally, the Direct Purchaser Settlement Agreement is conditioned on final approval of the District Court. On January 5, 2018 American Gypsum, New NGC, and PABCO entered into a settlement agreement (the "Indirect Purchaser Settlement Agreement") with counsel representing the indirect purchaser class to settle all claims against American Gypsum, New NGC and PABCO in the indirect purchaser class action. The Indirect Purchaser Settlement Agreement is conditioned on final approval of the District Court. Under the Direct and Indirect Purchaser Settlement Agreements, the Company and American agreed to pay a total of approximately \$39.1 million in cash to settle the claims against them. At December 31, 2017 we accrued the total amount of these two settlements and these amounts are expected to be paid in the next twelve months.

On March 17, 2015, a group of homebuilders filed a complaint against the defendants, including American Gypsum, based upon the same conduct alleged in the consolidated class action complaints. On March 24, 2015, the JPML transferred this action to the multidistrict litigation already pending in the Eastern District of Pennsylvania. Following the transfer, the homebuilder plaintiffs filed two amended complaints, on December 14, 2015 and March 25, 2016. As a result of settlements reached with TIN and Lafarge, the homebuilder plaintiffs voluntarily dismissed their claims against TIN and Lafarge on June 6 and June 24, 2016, respectively. On January 31, 2017, the plaintiffs voluntarily dismissed their claims against CertainTeed. Discovery in this lawsuit is ongoing. At this stage, we are unable to estimate the amount of any reasonably possible loss or range of reasonably possible losses for this claim.

In June 2015, American Gypsum and an employee received grand jury subpoenas from the United States District Court for the Western District of North Carolina seeking information regarding an investigation of the gypsum drywall industry by the Antitrust Division of the Department of Justice. We believe the investigation, although a separate proceeding, is related to the same subject matter at issue in the litigation described above and we intend to fully cooperate with government officials. Given its preliminary nature, we are currently unable to determine the ultimate outcome of such investigation.

(P) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of our long-term debt has been estimated based upon our current incremental borrowing rates for similar types of borrowing arrangements. The fair value of our Senior Unsecured Notes and Private Placement Senior Unsecured Notes at December 31, 2017 is as follows:

	Fair Value (dollars in thousands)
Series 2007A	
Tranche D	38,126
4.5% Senior Unsecured Notes Due 2026	365,190

The estimated fair values were based on quoted prices of similar debt instruments with similar terms that are publicly traded (level 2 input). The carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable and accrued liabilities approximate their fair values at December 31, 2017 due to the short-term maturities of these assets and liabilities. The fair value of our Credit Facility also approximates its carrying value at December 31, 2017.

(Q) FINANCIAL STATEMENTS FOR GUARANTORS OF THE 4.500% SENIOR UNSECURED NOTES

On August 2, 2016, the Company completed a public offering of its Senior Unsecured Notes. The Senior Unsecured Notes are senior unsecured obligations of the Company and were offered under the Company's existing shelf registration statement filed with the Securities and Exchange Commission.

The Senior Unsecured Notes are guaranteed by all of the Company's wholly-owned subsidiaries, and all guarantees are full and unconditional and are joint and several. The following unaudited condensed consolidating financial statements present separately the earnings and comprehensive earnings, financial position and cash flows of the parent issuer (Eagle Materials Inc.) and the guarantors (all wholly-owned subsidiaries of Eagle Materials Inc.) on a combined basis with eliminating entries (dollars in thousands).

Condensed Consolidating Statement of Earnings and Comprehensive Earnings

Guarantor

For the Three Months Ended December 31, 2017	Parent	Subsidiaries	Eliminations	Consolidated
Revenues	\$—	\$ 359,371	\$—	\$ 359,371
Cost of Goods Sold	—	264,805	—	264,805
Gross Profit	—	94,566	—	94,566
Equity in Earnings of Unconsolidated Joint Venture	11,372	11,372	(11,372)	11,372
Equity in Earnings of Subsidiaries	138,597	—	(138,597)	—
Corporate General and Administrative Expenses	(9,035)	(848)	—	(9,883)
Legal Settlement	(39,098)	—	—	(39,098)
Other Non-Operating Income	262	822	—	1,084
Interest Expense, net	(17,005)	10,352	—	(6,653)
Earnings before Income Taxes	85,093	116,264	(149,969)	51,388
Income Tax Expense	16,287	33,705	—	49,992
Net Earnings	\$101,380	\$ 149,969	\$ (149,969)	\$ 101,380
Net Earnings	\$101,380	\$ 149,969	\$ (149,969)	\$ 101,380
Net Actuarial Change in Benefit Plans, net of tax	197	197	(197)	197
Comprehensive Earnings	\$101,577	\$ 150,166	\$ (150,166)	\$ 101,577

Condensed Consolidating Statement of Earnings and Comprehensive Earnings

Guarantor

For the Three Months Ended December 31, 2016	Parent	Subsidiaries	Eliminations	Consolidated
Revenues	\$—	\$ 302,395	\$—	\$ 302,395
Cost of Goods Sold	—	215,015	—	215,015
Gross Profit	—	87,380	—	87,380
Equity in Earnings of Unconsolidated Joint Venture	11,244	11,244	(11,244)	11,244
Equity in Earnings of Subsidiaries	60,294	—	(60,294)	—
Corporate General and Administrative Expenses	(7,942)	(1,224)	—	(9,166)
Other Non-Operating Income (Loss)	(264)	693	—	429
Interest Expense, net	(14,413)	8,215	—	(6,198)
Earnings before Income Taxes	48,919	106,308	(71,538)	83,689
Income Tax Expense	7,468	(34,770)	—	(27,302)
Net Earnings	\$56,387	\$ 71,538	\$ (71,538)	\$ 56,387
Net Earnings	\$56,387	\$ 71,538	\$ (71,538)	\$ 56,387
Net Actuarial Change in Benefit Plans, net of tax	312	312	(312)	312
Comprehensive Earnings	\$56,699	\$ 71,850	\$ (71,850)	\$ 56,699

Condensed Consolidating Statement of Earnings and Comprehensive Earnings

	Guarantor			
For the Nine Months Ended December 31, 2017	Parent	Subsidiaries	Eliminations	Consolidated
Revenues	\$—	\$ 1,101,807	\$ —	\$ 1,101,807
Cost of Goods Sold	—	824,428	—	824,428
Gross Profit	—	277,379	—	277,379
Equity in Earnings of Unconsolidated Joint Venture	33,203	33,203	(33,203)	33,203
Equity in Earnings of Subsidiaries	261,389	—	(261,389)	—
Corporate General and Administrative Expenses	(26,861)	(2,522)	—	(29,383)
Legal Settlement	(39,098)	—	—	(39,098)
Other Non-Operating Income (Loss)	(84)	2,812	—	2,728
Interest Expense, net	(43,800)	22,208	—	(21,592)
Earnings before Income Taxes	184,749	333,080	(294,592)	223,237
Income Tax Expense	34,875	(38,488)	—	(3,613)
Net Earnings	\$ 219,624	\$ 294,592	\$ (294,592)	\$ 219,624
Net Earnings	\$ 219,624	\$ 294,592	\$ (294,592)	\$ 219,624
Net Actuarial Change in Benefit Plans, net of tax	591	591	(591)	591
Comprehensive Earnings	\$ 220,215	\$ 295,183	\$ (295,183)	\$ 220,215

Condensed Consolidating Statement of Earnings and Comprehensive Earnings

	Guarantor			
For the Nine Months Ended December 31, 2016	Parent	Subsidiaries	Eliminations	Consolidated
Revenues	\$—	\$ 932,557	\$ —	\$ 932,557
Cost of Goods Sold	—	682,012	—	682,012
Gross Profit	—	250,545	—	250,545
Equity in Earnings of Unconsolidated Joint Venture	31,371	31,371	(31,371)	31,371
Equity in Earnings of Subsidiaries	171,466	—	(171,466)	—
Corporate General and Administrative Expenses	(23,670)	(4,161)	—	(27,831)
Other Non-Operating Income (Loss)	(478)	2,486	—	2,008
Interest Expense, net	(36,778)	21,023	—	(15,755)
Earnings before Income Taxes	141,911	301,264	(202,837)	240,338
Income Tax Expense	20,057	(98,427)	—	(78,370)
Net Earnings	\$ 161,968	\$ 202,837	\$ (202,837)	\$ 161,968
Net Earnings	\$ 161,968	\$ 202,837	\$ (202,837)	\$ 161,968
Net Actuarial Change in Benefit Plans, net of tax	936	936	(936)	936
Comprehensive Earnings	\$ 162,904	\$ 203,773	\$ (203,773)	\$ 162,904

Condensed Consolidating Balance Sheet

Guarantor

At December 31, 2017	Parent	Subsidiaries	Eliminations	Consolidated
ASSETS				
Current Assets -				
Cash and Cash Equivalents	\$ 18,078	\$ 3,598	\$—	\$ 21,676
Accounts and Notes Receivable	394	143,268	—	143,662
Inventories	—	239,628	—	239,628
Prepaid and Other Current Assets	15,208	5,170	—	20,378
Total Current Assets	33,680	391,664	—	425,344
Property, Plant and Equipment -	3,148	2,544,282	—	2,547,430
Less: Accumulated Depreciation	(1,029)	(971,677)	—	(972,706)
Property, Plant and Equipment, net	2,119	1,572,605	—	1,574,724
Notes Receivable	—	296	—	296
Investment in Joint Venture	65	55,272	—	55,337
Investments in Subsidiaries and Receivables from Affiliates	5,544,333	3,527,647	(9,071,980)	—
Goodwill and Intangible Assets, net	—	240,145	—	240,145
Other Assets	5,482	6,715	—	12,197
	\$5,585,679	\$ 5,794,344	\$ (9,071,980)	\$ 2,308,043
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities-				
Accounts Payable	\$5,813	\$ 67,390	\$—	\$ 73,203
Accrued Liabilities	62,485	38,947	—	101,432
Total Current Liabilities	68,298	106,337	—	174,635
Long-term Debt	565,755	—	—	565,755
Other Long-term Liabilities	140	34,972	—	35,112
Payables to Affiliates	3,527,647	2,948,767	(6,476,414)	—
Deferred Income Taxes	7,650	108,702	—	116,352
Total Liabilities	4,169,490	3,198,778	(6,476,414)	891,854
Total Stockholders' Equity	1,416,189	2,595,566	(2,595,566)	1,416,189
	\$5,585,679	\$ 5,794,344	\$ (9,071,980)	\$ 2,308,043

Condensed Consolidating Balance Sheet

Guarantor

At March 31, 2017	Parent	Subsidiaries	Eliminations	Consolidated
ASSETS				
Current Assets -				
Cash and Cash Equivalents	\$5,184	\$1,377	\$—	\$6,561
Accounts and Notes Receivable	422	135,891	—	136,313
Inventories	—	252,846	—	252,846
Income Tax Receivable	33,196	—	(33,196)	—
Prepaid and Other Current Assets	484	4,420	—	4,904
Total Current Assets	39,286	394,534	(33,196)	400,624
Property, Plant and Equipment -	2,914	2,436,524	—	2,439,438
Less: Accumulated Depreciation	(937)	(891,664)	—	(892,601)
Property, Plant and Equipment, net	1,977	1,544,860	—	1,546,837
Notes Receivable	—	815	—	815
Investment in Joint Venture	51	48,569	—	48,620
Investments in Subsidiaries and Receivables from				
Affiliates	5,126,289	3,252,309	(8,378,598)	—
Goodwill and Intangible Assets, net	—	235,505	—	235,505
Other Assets	5,687	9,036	—	14,723
	\$5,173,290	\$5,485,628	\$(8,411,794)	\$2,247,124
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities-				
Accounts Payable	\$6,687	\$85,506	\$—	\$92,193
Accrued Liabilities	21,043	34,336	—	55,379
Income Tax Payable	733	33,196	(33,196)	733
Current Portion of Long-term Debt	81,214	—	—	81,214
Total Current Liabilities	109,677	153,038	(33,196)	229,519
Long-term Debt	605,253	—	—	605,253
Other Long-term Liabilities	189	42,689	—	42,878
Payables to Affiliates	3,252,309	2,825,710	(6,078,019)	—
Deferred Income Taxes	2,412	163,612	—	166,024
Total Liabilities	3,969,840	3,185,049	(6,111,215)	1,043,674
Total Stockholders' Equity	1,203,450	2,300,579	(2,300,579)	1,203,450
	\$5,173,290	\$5,485,628	\$(8,411,794)	\$2,247,124

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Condensed Consolidating Statement of Cash Flows	Guarantor			
Nine Months ended December 31, 2017	Parent	Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Cash Provided by Operating Activities	\$981	\$ 274,159	\$ —	\$ 275,140
CASH FLOWS FROM INVESTING ACTIVITIES				
Property, Plant and Equipment Additions	(142)	(83,556)	—	(83,698)
Acquisition Spending	—	(36,761)	—	(36,761)
Net Cash Used in Investing Activities	(142)	(120,317)	—	(120,459)
CASH FLOWS FROM FINANCING ACTIVITIES				
Decrease in Credit Facility	(40,000)	—	—	(40,000)
Repayment of Senior Notes	(81,214)	—	—	(81,214)
Dividends Paid to Stockholders	(14,571)	—	—	(14,571)
Purchase and Retirement of Common Stock	(24,903)	—	—	(24,903)
Proceeds from Stock Option Exercises	23,729	—	—	23,729
Shares Redeemed to Settle Employee Taxes on				
Stock Compensation	(2,607)	—	—	(2,607)
Intra-entity Activity, net	151,621	(151,621)	—	—
Net Cash Provided by (Used in) Financing Activities	12,055	(151,621)	—	(139,566)
NET INCREASE IN CASH AND CASH				
EQUIVALENTS	12,894	2,221	—	15,115
CASH AND CASH EQUIVALENTS AT				
BEGINNING OF PERIOD	5,184	1,377	—	6,561
CASH AND CASH EQUIVALENTS AT END OF				
PERIOD	\$18,078	\$ 3,598	\$ —	\$ 21,676

Condensed Consolidating Statement of Cash Flows	Guarantor			
Nine Months ended December 31, 2016	Parent	Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Cash Provided by (Used in) Operating Activities	\$(53,877)	\$ 342,745	\$ —	\$ 288,868
CASH FLOWS FROM INVESTING ACTIVITIES				
Property, Plant and Equipment Additions	(271)	(33,772)	—	(34,043)
Net Cash Used in Investing Activities	(271)	(33,772)	—	(34,043)
CASH FLOWS FROM FINANCING ACTIVITIES				
Decrease in Credit Facility	(382,000)	—	—	(382,000)
Repayment of Senior Notes	(8,000)	—	—	(8,000)
Issuance of Long-term Debt	350,000	—	—	350,000
Payment of Debt Issuance Costs	(6,637)	—	—	(6,637)
Dividends Paid to Stockholders	(14,500)	—	—	(14,500)
Shares Redeemed to Settle Employee Taxes on				
Stock Compensation	(3,084)	—	—	(3,084)
Purchase and Retirement of Common Stock	(60,013)	—	—	(60,013)

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Proceed from Stock Option Exercises	20,137	—	—	20,137
Excess Tax Benefits from Share Based Payment				
Arrangements	8,546	—	—	8,546
Intra-entity Activity, net	308,984	(308,984)	—	—
Net Cash Provided by (Used in) Financing Activities	213,433	(308,984)	—	(95,551)
NET INCREASE (DECREASE) IN CASH AND				
CASH EQUIVALENTS	159,285	(11)	—	159,274
CASH AND CASH EQUIVALENTS AT				
BEGINNING OF PERIOD	3,507	1,884	—	5,391
CASH AND CASH EQUIVALENTS AT END OF				
PERIOD	\$ 162,792	\$ 1,873	\$ —	\$ 164,665

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

EXECUTIVE SUMMARY

Eagle Materials Inc. is a diversified producer of basic building materials and construction products used in residential, industrial, commercial and infrastructure construction. Information presented for the three and nine months ended December 31, 2017 and 2016, respectively, reflects the Company's business segments, consisting of Cement, Gypsum Wallboard, Recycled Paperboard, Oil and Gas Proppants and Concrete and Aggregates. These operations are conducted in the U.S. and include the mining of limestone and the manufacture, production, distribution and sale of Portland cement (a basic construction material which is the essential binding ingredient in concrete) and specialty oil well cement; the grinding of slag; the mining of gypsum and the manufacture and sale of gypsum wallboard; the manufacture and sale of recycled paperboard to the gypsum wallboard industry and other paperboard converters; the sale of readymix concrete, the mining and sale of aggregates (crushed stone, sand and gravel), the mining and sale of sand used in hydraulic fracturing ("frac sand") and the distribution of frac sand into shale basins across the United States. The products that we manufacture, distribute and sell are basic materials with broad application as construction products, building materials and basic materials used for oil and natural gas extraction. Our construction products are used in residential, industrial, commercial and infrastructure construction and include cement, concrete and aggregates. Our building materials are sold into similar markets and include gypsum wallboard. Our basic materials used for oil and gas extraction include frac sand and oil well cement. Certain information for each of Concrete and Aggregates is broken out separately in the segment discussions.

We operate in cyclical commodity businesses that are affected by changes in market conditions and the overall construction environment. Our operations, depending on the business segment, range from local to national businesses. We have operations in a diverse set of geographic markets, which subject us to the economic conditions in those geographic markets as well as economic conditions in the national market. General economic downturns or localized downturns in the regions where we have operations may have a material adverse effect on our business, financial condition and results of operations.

On February 10, 2017, the Company completed the acquisition of the following assets (the "Fairborn Acquisition") of CEMEX Construction Materials Atlantic LLC ("the Seller"), (i) a cement plant located in Fairborn, Ohio (ii) a cement distribution terminal located in Columbus, Ohio, and (iii) certain other properties and assets used by the Seller in connection with the foregoing (collectively, the "Fairborn Business"). The purchase price (the "Fairborn Purchase Price") in the Fairborn Acquisition was approximately \$400.5 million. In addition, the Company assumed certain liabilities and obligations of the Seller relating to the Fairborn Business, including contractual obligations, reclamation obligations and various other liabilities and obligations arising out of or relating to the Fairborn Business. The Company funded the payment of the Fairborn Purchase Price and expenses incurred in connection with the Fairborn Acquisition through a combination of cash on hand and borrowings under the Company's existing bank credit facility.

On July 27, 2017, we acquired all of the outstanding equity interests in Wildcat Minerals LLC (the "Wildcat Acquisition"). Wildcat Minerals LLC operates transload facilities serving the oil and gas industry in several oil and gas basins across the United States. The purchase price (the "Purchase Price") of the Wildcat Acquisition was approximately \$36.8 million, subject to adjustments for working capital and other customary post-closing adjustments. The Purchase Price and expenses incurred in connection with the Wildcat Acquisition were funded through operating cash flow and borrowings under our bank credit facility.

We conduct one of our cement operations through a joint venture, Texas Lehigh Cement Company LP, which is located in Buda, Texas (the "Joint Venture"). We own a 50% interest in the Joint Venture and account for our interest under the equity method of accounting. We proportionately consolidate our 50% share of the Joint Venture's revenues and operating earnings in the presentation of our cement segment, which is the way management organizes the

segments within the Company for making operating decisions and assessing performance.

GENERAL CONDITIONS AND OUTLOOK

Fundamental construction products demand trends continue to be promising. We expect to continue to benefit from an expanding U.S. economic cycle, as it relates to our businesses. In addition, increased infrastructure spending would positively impact both our cement and concrete and aggregates businesses.

Our cement sales network stretches across the central U.S., both east to west and north to south. While we anticipate construction grade cement consumption to continue to increase during calendar 2018, each region will increase at a different pace. Cement, concrete and aggregates markets are affected by infrastructure spending, residential home building and industrial construction activity. We expect volume and pricing improvements to vary in each of our cement markets.

Wallboard demand is heavily influenced by new residential housing construction as well as repair and remodeling. Most forecasts point to a continued pick-up in demand in both of these areas for calendar 2018. Industry shipments of gypsum wallboard were approximately 25.3 billion square feet in calendar 2017 and we are expecting shipments to increase for calendar 2018. We recommissioned our Bernalillo plant during the second quarter of fiscal 2018, and anticipate running this plant as necessary to meet customer demand.

We expect our recycled paperboard sales volumes to remain consistent as we are close to our current production capacity. Recycled fiber prices have receded from historical highs experienced during the second quarter of fiscal 2018, but the cost of recycled fiber may remain greater in fiscal 2018 than fiscal 2017. We currently have sales contracts that have a mechanism to adjust sales prices for increases in the cost of fiber and energy, but these price increases are only allowed at specified times, so increases in the cost of fiber may have an effect on our operating earnings in the interval before the sales price of finished paper adjusts.

Demand for frac sand has recently been improving. The improved demand is due to several factors, notably increased horizontal drilling and increased sand intensity per well. We expect these trends to continue throughout calendar 2018, which should result in increased demand for frac sand. We are in the process of building out our Utica, Illinois facility. This build out will include the addition of a dry plant and development of our distribution system. We estimate that this build out will cost approximately \$70.0 million and will be completed in the summer of 2018.

RESULTS OF OPERATIONS

Consolidated Results

	For the Three Months Ended				For the Nine Months Ended			
	December 31, 2017 (In thousands except per share)	2016	Change		December 31, 2017 (In thousands except per share)	2016	Change	
Revenues	\$ 359,371	\$ 302,395	19	%	\$ 1,101,807	\$ 932,557	18%	
Cost of Goods Sold	(264,805)	(215,015)	23	%	(824,428)	(682,012)	21%	
Gross Profit	94,566	87,380	8	%	277,379	250,545	11%	
Equity in Earnings of Unconsolidated Joint Venture	11,372	11,244	1	%	33,203	31,371	6%	
	(9,883)	(9,166)	8	%	(29,383)	(27,831)	6%	

Corporate General and Administrative
Expense

Legal Settlement	(39,098)	—	—		(39,098)	—	—
Other Non-Operating Income	1,084	429	153	%	2,728	2,008	36%
Interest Expense, net	(6,653)	(6,198)	7	%	(21,592)	(15,755)	37%
Earnings Before Income Taxes	51,388	83,689	(39)	%	223,237	240,338	(7)%
Income Tax Benefit (Expense)	49,992	(27,302)	(283)	%	(3,613)	(78,370)	(95)%
Net Earnings	\$ 101,380	\$ 56,387	80	%	\$ 219,624	\$ 161,968	36%
Diluted Earnings per Share	\$ 2.08	\$ 1.17	78	%	\$ 4.52	\$ 3.35	35%

Revenues. Revenues were \$359.4 million and \$302.4 million for the three months ended December 31, 2017 and 2016, respectively. Revenues from the Fairborn and Wildcat Acquisitions positively impacted revenues by approximately \$26.1 million. Excluding revenues from the Fairborn and Wildcat Acquisition, revenues from our legacy businesses increased in all of our segments except concrete and aggregates. The increases were due primarily to improved average net sales prices in all segments except gypsum wallboard, which declined 1%, and increased sales volumes in all segments except concrete and aggregates, which declined approximately 13% and 9%, respectively. The increase in average net sales prices and sales volumes positively impacted net revenue by approximately \$8.2 million and \$22.7 million, respectively.

Revenues were \$1,101.8 million and \$932.6 million for the nine months ended December 31, 2017 and 2016, respectively. Revenues from the Fairborn and Wildcat Acquisitions positively impacted revenues by approximately \$73.5 million. Excluding revenues from the Fairborn and Wildcat Acquisitions, revenues from our legacy businesses increased in all of our segments. The increases were due primarily to improved average net sales prices in all segments except gypsum wallboard, which was flat, and increased sales volumes in all segments except recycled paperboard and aggregates, which declined approximately 2% and 4%, respectively. The increase in average net sales prices and sales volumes positively impacted net revenue by approximately \$32.6 million and \$63.1 million, respectively.

Cost of Goods Sold. Cost of goods sold was \$264.8 million and \$215.0 million during the three months ended December 31, 2017 and 2016, respectively. Approximately \$19.3 million of the increase in cost of goods sold related to the Fairborn and Wildcat Acquisitions. The remaining increase in cost of goods sold was related to increased sales volumes and operating costs, which increased cost of goods sold by approximately \$16.8 million and \$13.7 million, respectively. The increase in operating costs is related to our cement, gypsum wallboard and recycled paperboard segments and are discussed further on pages 33-36.

Cost of goods sold was \$824.4 million and \$682.0 million during the nine months ended December 31, 2017 and 2016, respectively. Approximately \$52.9 million of the increase in cost of goods sold related to the Fairborn Acquisition. The remaining increase in cost of goods sold was related to increased sales volumes and operating costs, which increased cost of goods sold by approximately \$50.8 million and \$38.7 million, respectively. The increase in operating costs primarily related to our cement and recycled paperboard segments and are discussed further on pages 33-36.

Gross Profit. Gross profit was \$94.6 million and \$87.4 million during the three months ended December 31, 2017 and 2016, respectively. Approximately \$6.8 million of the increase in gross profit is attributable to the Fairborn and Wildcat Acquisitions, while the remaining increase is primarily related to increased average net sales prices and sales volumes, as noted above. The gross margin declined to 26% from 29%, due primarily to increased operating costs, partially offset by the increase in average net sales prices.

Gross profit was \$277.4 million and \$250.5 million during the nine months ended December 31, 2017 and 2016, respectively. Approximately \$20.6 million of the increase in gross profit is attributable to the Fairborn and Wildcat Acquisitions, while the remaining increase is primarily related to increased average net sales prices and sales volumes, as noted above. The gross margin declined to 25% from 27%, due primarily to increased operating costs, partially offset by the increase in average net sales prices.

Equity in Earnings of Joint Venture. Equity in earnings of our unconsolidated joint venture increased \$0.1 million, or 1%, for the three months ended December 31, 2017. The increase is primarily due to 3% increase in average net sales

prices, partially offset by decreased sales volumes and increased operating costs. The impact of the increase in average net sales prices was approximately \$1.2 million, partially offset by decreased sales volumes and increased operating costs of approximately \$0.7 million and \$0.4 million, respectively. The increase in operating costs was primarily due to maintenance and purchased raw materials, which increased by approximately \$0.3 million and \$0.1 million, respectively.

Equity in earnings of our unconsolidated joint venture increased \$1.8 million, or 6%, for the nine months ended December 31, 2017. The increase is primarily due to a 3% increase in average net sales prices, partially offset by decreased sales volumes and increased operating costs. The impact of the increase average net sales prices was approximately \$2.5 million, partially offset by decreased sales volumes and increased operating costs of approximately \$0.2 million and \$0.4 million, respectively. The increase in operating costs was primarily due to energy and purchased raw materials, which both increased by approximately \$0.4 million, partially offset by decreased maintenance costs of approximately \$0.5 million. Sales volumes were adversely impacted during the fiscal second quarter by wet weather and hurricane flooding along the Texas Gulf coast.

Corporate General and Administrative. Corporate general and administrative expenses increased 8% for the three months ended December 31, 2017. The increase in corporate general and administrative expenses is due primarily to increases of approximately \$1.1 and \$0.2 million in incentive compensation and legal, respectively, partially offset by a decrease in acquisition and business development costs of approximately \$0.5 million.

Corporate general and administrative expenses increased 6% for the nine months ended December 31, 2017. The increase in corporate general and administrative expenses is due primarily to increases of approximately \$1.9 million in incentive compensation costs, partially offset by acquisition and business development costs of approximately \$0.3 million.

Legal Settlement. The legal settlement is related to the settlement of the domestic wallboard anti-trust class action cases. During December 2017 and January 2018, we entered into the Direct Purchaser and Indirect Purchaser Settlement Agreements, respectively, under which we agreed to pay a total of approximately \$39.1 million to settle all outstanding claims under these class action cases. At December 31, 2017 we accrued the total amount of the two settlements and these amounts are expected to be paid in the next twelve months.

Other Non-Operating Income. Other income consists of a variety of items that are non-segment operating in nature and includes non-inventoried aggregates income, gypsum wallboard distribution center income, asset sales and other miscellaneous income and cost items.

Interest Expense, Net. Interest expense, net, increased approximately \$0.5 million during the three months ended December 31, 2017. The increase in interest expense, net is due primarily to increased borrowings under our Credit Facility, which increased interest expense by approximately \$1.2 million, partially offset by lower interest on our Private Placement Senior Unsecured Notes, which declined by approximately \$0.8 million. The decrease in interest related to the Private Placement Senior Unsecured Notes is due to the maturing of approximately \$81.2 million during the fiscal third quarter. The increase in the Credit Facility is due primarily to the funding of the Fairborn and Wildcat Acquisitions, and the payment of the maturing Private Placement Senior Unsecured Notes.

Interest expense, net, increased approximately \$5.8 million during the nine months ended December 31, 2017. The increase in interest expense, net is due primarily to our issuance of \$350.0 million of 4.5% senior notes during August 2016, which increased interest expense by approximately \$5.2 million. The remaining increase is due to an increase of approximately \$1.5 million in interest from our Credit Facility, partially offset by a decrease of approximately \$1.0 million in interest from our Private Placement Senior Unsecured Notes. The decrease in interest related to the Private Placement Senior Unsecured Notes is due to notes maturing, while the increase in the Credit Facility is due primarily to the funding of the Fairborn and Wildcat Acquisitions, and the payment of the maturing Private Placement Senior Unsecured Notes.

Earnings Before Income Taxes. Earnings before income taxes were \$51.4 million and \$83.7 million during the three months ended December 31, 2017 and 2016, respectively. The decrease was primarily due to a legal settlement of approximately \$39.1 million, partially offset by increased gross profit of approximately \$7.2 million.

Earnings before income taxes were \$223.2 million and \$240.3 million during the nine months ended December 31, 2017 and 2016, respectively. The decrease was primarily due to a legal settlement of approximately \$39.1 million and increased corporate general and administrative and interest expenses of approximately \$1.6 million and \$5.8 million, respectively, partially offset by increased gross profit and equity in earnings of joint venture of approximately \$26.9 million and \$1.8 million, respectively.

Income Taxes. Income tax expense was \$3.6 million and \$78.4 million for the nine months ended December 31, 2017 and 2016, respectively. The tax rate for fiscal 2018 was approximately 2%, which is less than the 33% tax rate for fiscal 2017. The reduction in the rate was primarily due to the discrete income tax benefit related to the change in corporate tax rates which reduced deferred tax liabilities by approximately \$61.0 million and \$2.5 million realized during fiscal 2018 related to share-based compensation. See Footnote (K) to the Unaudited Consolidated Financial Statements for more information on the change in corporate tax rates.

Net Earnings and Diluted Earnings per Share. Net earnings for the quarter ended December 31, 2017 of approximately \$101.4 million increased 80%. Diluted earnings per share for the three months ended December 31, 2017 were \$2.08, compared to diluted earnings per share of \$1.17 for the three months ended December 31, 2016.

Net earnings for the nine months ended December 31, 2017 of approximately \$219.6 million increased 36%. Diluted earnings per share for the nine months ended December 31, 2017 were \$4.52, compared to diluted earnings per share of \$3.35 for the nine months ended December 31, 2016.

The following table highlights certain operating information related to our five business segments:

	For the Three Months				For the Nine Months		
	Ended December 31, 2017 (In thousands except per unit)	2016	Percentage Change		Ended December 31, 2017 (In thousands except per unit)	2016	Percentage Change
Revenues ⁽¹⁾							
Cement ⁽²⁾	\$ 161,601	\$ 138,047	17	%	\$ 536,186	\$ 449,650	19%
Gypsum Wallboard	133,348	121,504	10	%	383,229	357,689	7%
Recycled Paperboard	48,389	41,254	17	%	138,161	128,528	7%
Oil and Gas Proppants	21,947	7,124	208	%	62,879	18,851	234%
Concrete and Aggregates	38,742	40,843	(5	%)	126,092	114,734	10%
Other	4,445	—	—		4,445	—	—
Gross Revenues	408,472	348,772	17	%	1,250,992	1,069,452	17%
Less: Intersegment Revenues	(23,575)	(20,468)	15	%	(69,489)	(59,123)	18%
Less: Joint Venture Revenues	(25,526)	(25,909)	(1	%)	(79,696)	(77,772)	2%
	\$ 359,371	\$ 302,395	19	%	\$ 1,101,807	\$ 932,557	18%
Sales Volume							
Cement (M Tons) ⁽²⁾	1,339	1,198	12	%	4,420	3,891	14%
Gypsum Wallboard (MMSF)	709	646	10	%	2,014	1,883	7%
Recycled Paperboard (M Tons)	81	76	7	%	239	245	(2%)
Concrete (M Yards)	303	348	(13	%)	993	950	5%
Aggregates (M Tons)	820	906	(9	%)	2,764	2,877	(4%)
Frac Sand (M Tons)	379	115	230	%	1,083	299	262%
Average Net Sales Prices ⁽³⁾							
Cement ⁽²⁾	\$ 106.83	\$ 100.88	6	%	\$ 106.91	\$ 100.45	6%
Gypsum Wallboard	151.13	153.34	(1	%)	154.52	155.06	(0)%
Recycled Paperboard	581.95	524.75	11	%	564.46	508.00	11%
Concrete	100.71	94.38	7	%	100.06	94.08	6%
Aggregates	9.68	8.52	14	%	9.37	8.49	10%
Operating Earnings							
Cement ⁽²⁾	\$ 52,523	\$ 45,307	16	%	\$ 154,456	\$ 127,623	21%
Gypsum Wallboard	39,841	41,075	(3	%)	123,237	122,109	1%
Recycled Paperboard	10,903	9,380	16	%	22,358	30,827	(27%)
Oil and Gas Proppants	(1,007)	(1,726)	42	%	(4,787)	(11,728)	59%
Concrete and Aggregates	3,414	4,588	(26	%)	15,054	13,085	15%
Other	264	—	—		264	—	—
Net Operating Earnings	\$ 105,938	\$ 98,624	7	%	\$ 310,582	\$ 281,916	10%

(1)Gross revenue, before freight and delivery costs.

(2)Includes proportionate share of our Joint Venture.

(3)Net of freight and delivery costs.

Cement Operations. Cement revenues increased 17% to \$161.6 million for the three months ended December 31, 2017. Approximately \$21.7 million of the increase in revenues was related to the Fairborn Acquisition. The remaining increase is due to increased average net sales prices, which positively impacted revenues by approximately \$5.4 million, partially offset by decreased sales volumes, which adversely impacted revenues by approximately \$3.5

million.

Cement operating earnings increased 16% to \$52.5 million for the three months ended December 31, 2017. Approximately \$6.5 million of the increase in operating earnings was related to the Fairborn Acquisition. The remaining increase in operating earnings was due primarily to increased average net sales prices, which positively impacted operating earnings by approximately \$5.4 million, partially offset by lower sales volumes and increased operating costs of approximately \$1.3 million and \$3.4 million, respectively. The increase in operating costs is

due primarily to increased energy and purchased raw materials costs of approximately \$1.6 million and \$0.9 million, respectively. The operating margin was relatively flat at approximately 33% during the three months ended December 31, 2017.

Cement revenues increased 19% to \$536.2 million for the nine months ended December 31, 2017. Approximately \$69.1 million of the increase in revenues was related to the Fairborn Acquisition. The remaining increase in revenue is primarily due to increased average net sales prices, which positively impacted revenues by approximately \$15.4 million, partially offset by a decline in sales volumes which adversely impacted revenues by \$1.2 million, respectively.

Cement operating earnings increased 21% to \$154.5 million for the nine months ended December 31, 2017. Approximately \$20.4 million of the increase in operating earnings was related to the Fairborn Acquisition. The remaining increase in operating earnings was due primarily to increased average net sales prices, which positively impacted operating earnings by approximately \$17.9 million, partially offset by decreased sales volumes and increased operating costs which adversely impacted operating earnings by approximately \$0.6 million and \$10.9 million, respectively. Approximately \$3.5 million of the increase in operating cost was due to an outage at our Nevada Cement plant in connection with the installation of certain pollution control equipment. During the installation, kiln 1 was down for most of the first six months of fiscal 2018, while kiln 2 was down during the fiscal second quarter. The remaining increase is due to increased purchased cement and energy costs of approximately \$5.7 million and \$1.5 million, respectively. The operating margin increased to 29% from 28% during the nine months ended December 31, 2017, primarily due to increased sales average net sales prices, partially offset by increased operating costs.

Gypsum Wallboard Operations. Sales revenues increased 10% to \$133.3 million for the three months ended December 31, 2017, primarily due to a 10% increase in sales volumes, partially offset by a 1% decrease in average net sales prices. The increase in sales volumes positively impacted revenue by approximately \$11.9 million, partially offset by a \$0.1 million decrease in sales revenue due to lower average net sales prices. The increased sales volumes are primarily due to increased construction activity in fiscal 2018. Our market share was essentially unchanged during the last year.

Operating earnings decreased to \$39.8 million for the three months ended December 31, 2017, primarily due to the increase in operating costs, which adversely impacted operating earnings by approximately \$5.2 million. The increase in operating costs is primarily related to freight, paper and maintenance costs, which adversely impacted operating earnings by approximately \$1.8 million, \$1.9 million and \$0.8 million, respectively. The increase in operating costs was the primary reason our operating margin for the fiscal quarter declined to 30%, compared to 34% in the prior year. Fixed costs are not a significant part of the overall cost of wallboard; therefore, changes in utilization have a relatively minor impact on our operating cost per unit.

Sales revenues increased 7% to \$383.2 million for the nine months ended December 31, 2017. The increase was primarily due to a 7% increase in sales volumes, as average net sales prices were relatively flat. The increase in sales volumes positively impacted revenues by approximately \$25.5 million. The increased sales volumes are primarily due to increased construction activity in fiscal 2018. Our market share was essentially unchanged during the last year.

Operating earnings increased to \$123.2 million for the nine months ended December 31, 2017, primarily due to the increase in our sales volumes, which positively impacted operating earnings by approximately \$9.5 million, partially offset by increased operating costs, which adversely impacted operating earnings by approximately \$8.0 million. The increase in operating costs was primarily due to costs incurred in the start-up of our Bernalillo facility, freight, paper and energy expenses, which adversely impacted operating earnings by approximately \$2.5 million, \$1.8 million, \$4.9 million and \$1.7 million. The increase in operating costs was the primary reason our operating margin for the fiscal quarter declined to 32%, compared to 34% in the prior year. Fixed costs are not a significant part of the overall cost of

wallboard; therefore, changes in utilization have a relatively minor impact on our operating cost per unit.

Recycled Paperboard Operations. Revenues increased 17% to \$48.4 million during the three months ended December 31, 2017. The increase in revenues is due primarily to the 11% increase in average net sales prices and 7% increase in sales volume. The increase in average net sales prices and sales volumes positively impacted revenues by approximately \$4.6 million and \$2.5 million, respectively.

Operating earnings increased 16% to \$10.9 million for the third quarter of fiscal 2018. The increase in operating earnings is primarily due to increased average net sales prices and sales volumes, which positively impacted operating earnings by approximately \$4.6 million and \$0.6 million, respectively, partially offset by increased operating costs, which adversely impacted operating earnings by approximately \$3.7 million. The increase in operating costs is primarily related to higher input costs, which adversely impacted operating earnings by approximately \$3.5 million. Our operating margin for the quarter remained consistent at 23%.

Revenues increased 7% to \$138.2 million during the nine months ended December 31, 2017. The increase in revenues is due primarily to the 11% increase in average net sales prices, partially offset by a 2% reduction in sales volume. The increase in average net sales prices positively impacted revenues by approximately \$12.8 million, partially offset by a \$3.1 million decrease in sales revenues due to lower sales volumes. The decrease in sales volumes is primarily due to a change in timing of third-party purchases.

Operating earnings decreased 27% to \$22.4 million for the nine months ended December 31, 2017. The decrease in operating earnings is primarily due to decreased sales volumes and increased operating costs, which adversely impacted operating earnings by approximately \$0.8 million and \$20.5 million, respectively, partially offset by increased average net sales price, which positively impacted operating earnings by approximately \$12.8 million. The increase in operating costs is primarily related to higher input costs, which adversely impacted operating earnings by approximately \$18.8 million. The increase in operating costs was the primary reason operating margin decreased during fiscal 2018 to 16% from 24%.

Oil and Gas Proppants. Revenues for our oil and gas proppants segment increased 208% to approximately \$21.9 million during the three months ended December 31, 2017. The increase in sales revenue was primarily due to an increase in sales volumes, which positively impacted revenues by approximately \$16.4 million, partially offset by decreased gross sales prices that adversely impacted revenues by approximately \$1.5 million. The decrease in gross sales prices was offset by decreased freight expenses, which resulted in an increase in average net sales prices for the quarter.

Operating loss for the three months ended December 31, 2017 decreased 42% to approximately \$1.0 million. Operating loss in the three months ended December 31, 2016 was positively impacted by a \$4.1 million gain on settlement associated with one of our long-term customer contracts. Excluding this gain, operating loss declined in the current quarter by approximately \$4.8 million. The reduction in operating loss was primarily due to increased sales volumes and lower operating costs, which positively impacted earnings by \$2.1 million and \$4.2 million, respectively, partially offset by lower average gross sales prices, which adversely impacted earnings by approximately \$1.5 million. The increase in sales volume is due to increased demand for frac sand, and the decrease in operating costs is due primarily to lower freight expense, which positively impacted operating earnings by approximately \$3.5 million.

Revenues for our oil and gas proppants segment increased 234% to approximately \$62.9 million during the nine months ended December 31, 2017. The increase in sales revenue was due to an increase in sales volumes and average net sales prices, which positively impacted revenues by approximately \$43.8 million and \$0.3 million, respectively.

Operating loss for the nine months ended December 31, 2017 decreased 59% to approximately \$4.8 million. Operating loss in the nine months ended December 31, 2016 was positively impacted by a \$12.9 million gain on

settlements associated with our long-term customer contracts and a \$2.0 million gain on the forfeiture of a customer prepayment. These gains were offset by a \$1.3 million write-off of a customer contract and an \$8.5 million write-down of finished and raw sand inventories at our Corpus Christi location. Excluding the net gain

related to these transactions, operating loss for the current nine months declined by approximately \$12.1 million. The reduction in operating loss was primarily due to increased sales volume and average net sales prices and lower operating costs, which positively impacted earnings by \$0.8 million, \$0.3 million and \$11.0 million, respectively. The increase in sales volume is due to increased demand for frac sand and the decrease in operating costs is due primarily to lower freight expense, which positively impacted operating earnings by approximately \$10.1 million.

Concrete and Aggregates Operations. Concrete and aggregates revenues decreased 5% to \$38.7 million for the three months ended December 31, 2017. The primary reason for the decrease in revenue was the 13% and 9% decrease in sales volumes for concrete and aggregates, respectively, which adversely impacted revenues by approximately \$4.9 million, partially offset by the 7% and 14% increase in average net sales prices for concrete and aggregates, respectively, which positively impacted revenues by approximately \$2.8 million. Wet weather in our Austin region were negatively impacted sales volumes during the quarter.

Operating earnings decreased 26% to approximately \$3.4 million for the three months ended December 31, 2017. Operating earnings were adversely impacted by decreased sales volumes and increased operating costs, which negatively impacted operating earnings by approximately \$0.6 million and \$3.5 million, respectively, partially offset by an increase in average net sales prices of approximately \$2.8 million. The increase in operating costs was primarily due to increased purchased materials, delivery and fixed costs, which adversely impacted operating earnings by approximately \$0.2 million, \$1.0 million and \$1.5 million, respectively.

Concrete and aggregates revenues increased 10% to \$126.1 million for the nine months ended December 31, 2017. The primary reason for the increase in revenue was the 6% and 10% increase in average net sales prices for concrete and aggregates, respectively, which positively impacted revenues by approximately \$8.0 million. Sales revenue was also positively impacted by the 5% increase in concrete sales volumes, partially offset by a 4% decline in aggregates sales volumes, of approximately \$3.0 million.

Operating earnings increased 15% to approximately \$15.1 million for the nine months ended December 31, 2017. Operating earnings were positively impacted by increased average net sales prices and sales volumes, which positively impacted operating earnings by approximately \$8.0 million and \$0.2 million, respectively, partially offset by an increase in operating costs of approximately \$6.3 million. The increase in operating costs was primarily due to increased purchased materials, delivery and maintenance costs, which adversely impacted operating earnings by approximately \$1.7 million, \$2.0 million and \$1.5 million, respectively.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to adopt accounting policies and make significant judgments and estimates to develop amounts reflected and disclosed in the financial statements. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a thorough process to review the application of our accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare our financial statements. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information.

Information regarding our “Critical Accounting Policies and Estimates” can be found in our Annual Report. The five critical accounting policies that we believe either require the use of the most judgment, or the selection or application of alternative accounting policies, and are material to our financial statements, are those relating to long-lived assets, goodwill, environmental liabilities, accounts receivable and income taxes. Management has discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of our Board of Directors and with our independent registered public accounting firm. In addition, Note (A) to the financial

statements in our Annual Report contains a summary of our significant accounting policies.

Recent Accounting Pronouncements

Refer to Footnote (A) in the Notes to Unaudited Consolidated Financial Statements of the Form 10-Q for information regarding recently issued accounting pronouncements that may affect our financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow.

The following table provides a summary of our cash flows:

	For the Nine Months	
	Ended December 31,	
	2017	2016
	(dollars in thousands)	
Net Cash Provided by Operating Activities	\$275,140	\$288,868
Investing Activities:		
Capital Expenditures	(83,698)	(34,043)
Acquisition Spending	(36,761)	—
Net Cash Used in Investing Activities	(120,459)	(34,043)
Financing Activities:		
Decrease in Credit Facility	(40,000)	(382,000)
Repayment of Senior Notes	(81,214)	(8,000)
Issuance of Long-term Debt	—	350,000
Payment of Debt Issuance Costs	—	(6,637)
Dividends Paid	(14,571)	(14,500)
Shares Repurchased to Settle Employee Taxes on		
Stock Compensation	(2,607)	(3,084)
Purchase and Retirement of Common Stock	(24,903)	(60,013)
Proceeds from Stock Option Exercises	23,729	20,137
Excess Tax Benefits from Share Based Payment		
Arrangements	—	8,546
Net Cash Used in Financing Activities	(139,566)	(95,551)
Net Increase in Cash	\$15,115	\$159,274

Cash flows from operating activities decreased to \$275.1 million during nine months ended December 31, 2017, compared to \$288.9 million during the similar period in 2016. This decrease was primarily attributable to lower dividends from our Joint Venture, a decrease in cash from changes in working capital and a decrease in adjustments from noncash activity, which adversely impacted cash flows by approximately \$6.8 million, \$31.9 million and \$32.8 million, respectively, partially offset by an increase in net income, which positively impacted cash flows by approximately \$57.6 million. The decrease in cash flows from changes in working capital are primarily due to changes in accounts and notes receivable, other assets and income taxes payable, which decreased cash flows by approximately \$11.3 million, \$12.3 million and \$20.1 million, respectively, partially offset by increased cashflows from changes in

accounts payable and accrued liabilities and inventories of approximately \$10.7 million and \$1.1 million.

Working capital increased to \$250.7 million at December 31, 2017, compared to \$171.1 million at March 31, 2017, primarily due to the increased cash, accounts receivable and prepaid and other assets, and decreased accounts payable and current portion of long-term debt of approximately \$15.1 million, \$7.4 million, \$15.5 million, \$19.0 million and \$81.2 million, respectively, partially offset by increased accrued liabilities and decreased inventory of approximately \$46.0 million and \$13.2 million, respectively. The increase in accounts and notes receivable is due primarily to increased revenues during the quarter. The decrease in inventory is due to increased revenues and the installation of certain pollution control equipment at our Nevada Cement facility during the first two quarters of fiscal 2018. The increase in prepaid assets is due to the changes in tax rates which resulted in an overpayment of quarterly taxes of approximately \$14.5 million during the first nine months of fiscal

2018. The increase in accrued liabilities is due primarily to the \$39.1 million settlement of the domestic wallboard anti-trust case.

The increase in accounts and notes receivable at December 31, 2017, is primarily due to the increase in sales revenue during the three months ended December 31, 2017 as compared to the three months ended March 31, 2017. As a percentage of quarterly sales generated in the quarter then ended, accounts receivable was approximately 40% at December 31, 2017 and 49% at March 31, 2017. Management measures the change in accounts receivable by monitoring the days sales outstanding on a monthly basis to determine if any deterioration has occurred in the collectability of the accounts receivable. No significant deterioration in the collectability of our accounts receivable in our construction products and building materials businesses was identified at December 31, 2017. Notes receivable are monitored on an individual basis, and no significant deterioration in the collectability of notes receivable was identified at December 31, 2017.

Our inventory balance at December 31, 2017 declined approximately \$13.2 million from our inventory balance at March 31, 2017. Within our inventory, raw materials and materials-in-progress decreased approximately \$15.4 million, partially offset by an increase in repair parts and supplies of \$3.0 million. The decline in raw materials and materials-in-progress is due primarily to the decline in clinker production at our Nevada Cement facility, in which both kilns were down for extended periods during the first two quarters of fiscal 2018 in connection with the installation of certain pollution control equipment. The largest individual balance in our inventory is our repair parts. These parts are necessary given the size and complexity of our manufacturing plants, as well as the age of certain of our plants, which creates the need to stock a high level of repair parts inventory. We believe all of these repair parts are necessary and we perform semi-annual analyses to identify obsolete parts. We have less than one year's sales of all product inventories, and our inventories have a low risk of obsolescence due to our products being basic construction materials.

Net cash used in investing activities during the nine months ended December 31, 2017 was approximately \$120.5 million, compared to net cash used in investing activities of approximately \$34.1 million during the similar period in 2016, an increase of \$86.4 million. The increase in cash used in investing activities is primarily due to the Wildcat Acquisition and capital expenditures in our oil and gas proppants, cement and gypsum wallboard segments, which increased cash used in investing activities by approximately \$34.1 million, \$26.8 million, \$12.9 million and \$10.3 million, respectively. The increase in capital expenditures in the oil and gas proppants segment was related to the start-up of the build out of our Utica, Illinois facility, which will include the addition of a dry plant and distribution system. The total cost of the buildout is estimated at approximately \$70.0 million, and is expected to be completed in the summer of 2018. The increase in capital expenditures in our gypsum wallboard segment is primarily due to the recommissioning of our Bernalillo, New Mexico wallboard manufacturing facility, which began production in September 2017. We anticipate spending between \$30.0 million and \$35.0 million on sustaining capital expenditures for all of our businesses during fiscal 2018.

Net cash used in financing activities was approximately \$139.6 million during the nine months ended December 31, 2017, compared to net cash used in financing activities of approximately \$95.6 million during the similar period in 2016. This \$44.0 million increase in net cash used in financing activities is primarily due to the \$74.6 million increase in the repayment of long-term debt, partially offset by a \$35.1 million reduction in the repurchase and retirement of common stock and increased proceeds from exercise of options of approximately \$3.7 million. Our debt-to-capitalization ratio and net-debt-to-capitalization ratio was 28.5% and 27.8%, respectively, at December 31, 2017, compared to 36.3% and 36.1%, respectively, at March 31, 2017.

Debt Financing Activities.

Credit Facility

We have a \$500.0 million revolving credit facility (the “Credit Facility”), including a swingline loan sublimit of \$25.0 million, which terminates on August 2, 2021. Borrowings under the Credit Facility are guaranteed by substantially all of the Company’s subsidiaries. At the option of the Company, outstanding principal amounts on the Credit Facility bear interest at a variable rate equal to (i) The London Interbank Offered

Rate (“LIBOR”) for the selected period, plus an applicable rate (ranging from 100 to 225 basis points), which is to be established quarterly based upon the Company’s ratio of consolidated EBITDA, defined as earnings before interest, taxes, depreciation and amortization, to the Company’s consolidated indebtedness (the “Leverage Ratio”), or (ii) an alternative base rate which is the higher of (a) the prime rate or (b) the federal funds rate plus $\frac{1}{2}\%$ per annum plus an applicable rate (ranging from 0 to 125 basis points). Interest payments are payable, in the case of loans bearing interest at a rate based on the federal funds rate, quarterly, or in the case of loans bearing interest at a rate based on LIBOR, at the end of the applicable interest period. The Company is also required to pay a commitment fee on unused available borrowings under the Credit Facility ranging from 10 to 35 basis points depending upon the Leverage Ratio. The Credit Facility contains customary covenants that restrict our ability to incur additional debt, encumber our assets, sell assets, make or enter into certain investments, loans or guaranties and enter into sale and leaseback arrangements. The Credit Facility also requires us to maintain a consolidated indebtedness ratio (calculated as consolidated indebtedness to consolidated earnings before interest, taxes, depreciation, amortization, certain transaction-related deductions and other non-cash deductions) of 3.5:1.0 or less and an interest coverage ratio (consolidated earnings before interest, taxes, depreciation, amortization, certain transaction-related deductions and other non-cash deductions to consolidated interest expense) of at least 2.5:1.0. We had \$185.0 million of borrowings outstanding at December 31, 2017. Based on our Leverage Ratio, we had \$305.6 million of available borrowings, net of the outstanding letters of credit, at December 31, 2017.

The Credit Facility has a \$40.0 million letter of credit facility. Under the letter of credit facility, the Company pays a fee at a per annum rate equal to the applicable margin for Eurodollar loans in effect from time to time plus a one-time letter of credit fee in an amount equal to 0.125% of the initial stated amount. At December 31, 2017, we had \$9.4 million of letters of credit outstanding.

4.500% Senior Unsecured Notes Due 2026 –

On August 2, 2016, the Company issued \$350.0 million aggregate principal amount of 4.500% senior notes (“Senior Unsecured Notes”) due August 2026. Interest on the Senior Unsecured Notes is payable semiannually on February 1 and August 1 of each year until all of the outstanding notes are paid. The Senior Unsecured Notes rank equal to existing and future senior indebtedness, including the Credit Facility and the Private Placement Senior Unsecured Notes. Prior to August 1, 2019, we may redeem up to 40% of the original aggregate principal amount of the Senior Unsecured Notes with the proceeds of certain equity offerings at a redemption price of 104.5% of the principal amount of the notes. On or after August 1, 2019, and prior to August 1, 2021, we may redeem some or all of the Senior Unsecured Notes at a price equal to 100% of the principal amount, plus a “make-whole” premium. Beginning on August 1, 2021, we may redeem some or all of the Senior Unsecured Notes at the redemption prices set forth below (expressed as a percentage of the principal amount being redeemed):

	Percentage	
2021	102.25	%
2022	101.50	%
2023	100.75	%
2024 and thereafter	100.00	%

The Senior Unsecured Notes contain covenants that limit our ability and/or our guarantor subsidiaries' ability to create or permit to exist certain liens; enter into sale and leaseback transactions; and consolidate, merge, or transfer all or substantially all of our assets. The Company’s Senior Unsecured Notes are fully and unconditionally and jointly and severally guaranteed by each of our subsidiaries that is a guarantor under the Credit Facility and Private Placement

Senior Unsecured Notes. See Footnote (Q) to the Unaudited Consolidated Financial Statements for more information on the guarantors of the Senior Public Notes.

Private Placement Senior Unsecured Notes –

We entered into a Note Purchase Agreement on November 15, 2005 in connection with our sale of \$200.0 million of senior unsecured notes, designated as Series 2005A Senior Notes (the “Series 2005A Senior Unsecured

Notes”) in a private placement transaction. The Series 2005A Senior Unsecured Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in three tranches. During November 2017, all remaining notes were repaid in full and cancelled.

We also entered into an additional Note Purchase Agreement on October 2, 2007 (the “2007 Note Purchase Agreement”) in connection with our sale of \$200.0 million of senior unsecured notes, designated as Series 2007A Senior Notes (the “Series 2007A Senior Unsecured Notes” and together with the Series 2005A Senior Unsecured Notes, the “Private Placement Senior Unsecured Notes”) in a private placement transaction. The Series 2007A Senior Unsecured Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in four tranches on October 2, 2007. At December 31, 2017, the amounts outstanding for each of the remaining tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche D	\$36.5 million	October 2, 2019	6.48%

Interest for each tranche of Series 2007A Senior Unsecured Notes is payable semi-annually on April 2 and October 2 of each year until all principal is paid for the respective tranche. During October 2017, the \$24.0 million outstanding under Tranche C of the Series 2007A Senior Unsecured Notes matured, and the related notes were repaid and cancelled at that time.

Our obligations under the 2007 Note Purchase Agreement are equal in right of payment with all other senior, unsecured indebtedness of the Company, including our indebtedness under the Credit Facility and Senior Unsecured Notes. The 2007 Note Purchase Agreement contains customary restrictive covenants, including, but not limited to, covenants that place limits on our ability to encumber our assets, to incur additional debt, to sell assets, or to merge or consolidate with third parties.

The 2007 Note Purchase Agreement requires us to maintain a Consolidated Debt to Consolidated EBITDA (calculated as consolidated indebtedness to consolidated earnings before interest, taxes, depreciation, depletion, amortization, certain transaction related deductions and other non-cash charges) ratio of 3.50 to 1.00 or less, and to maintain an interest coverage ratio (Consolidated EBITDA to Consolidated Interest Expense (calculated as consolidated EBITDA, as defined above, to consolidated interest expense)) of at least 2.50:1.00. In addition, the 2007 Note Purchase Agreement requires the Company to ensure that at all times either (i) Consolidated Total Assets equal at least 80% of the consolidated total assets of the Company and its Subsidiaries, determined in accordance with GAAP, or (ii) consolidated total revenues of the Company and its Restricted Subsidiaries for the period of four consecutive fiscal quarters most recently ended equals at least 80% of the consolidated total revenues of the Company and its Subsidiaries during such period. We were in compliance with all financial ratios and tests at December 31, 2017.

Pursuant to a Subsidiary Guaranty Agreement, substantially all of our subsidiaries have guaranteed the punctual payment of all principal, interest, and Make-Whole Amounts (as defined in the 2007 Note Purchase Agreement) on the Series 2007A Senior Unsecured Notes and the other payment and performance obligations of the Company contained in the 2007 Note Purchase Agreement. We are permitted, at our option and without penalty, to prepay from time to time at least 10% of the original aggregate principal amount of the Series 2007A Senior Unsecured Notes at 100% of the principal amount to be prepaid, together with interest accrued on such amount to be prepaid to the date of payment, plus a Make-Whole Amount. The Make-Whole Amount is computed by discounting the remaining scheduled payments of interest and principal of the Series 2007A Senior Unsecured Notes being prepaid at a discount rate equal to the sum of 50 basis points and the yield to maturity of U.S. treasury securities having a maturity equal to the remaining average life of the Series 2007A Senior Unsecured Notes being prepaid.

We lease one of our cement plants from the city of Sugar Creek, Missouri. The city of Sugar Creek issued industrial revenue bonds to partly finance improvements to the cement plant. The lease payments due to the city of Sugar Creek under the cement plant lease, which was entered into upon the sale of the industrial revenue

bonds, are equal in amount to the payments required to be made by the city of Sugar Creek to the holders of the industrial revenue bonds. Because we are the holder of all of the outstanding industrial revenue bonds, no debt is reflected on our financial statements in connection with our lease of the cement plant. At the conclusion of the lease in fiscal 2021, we have the option to purchase the cement plant for a nominal amount.

Other than the Credit Facility, we have no other source of committed external financing in place. In the event the Credit Facility should be terminated; no assurance can be given as to our ability to secure a new source of financing. Consequently, if any balance were outstanding on the Credit Facility at the time of termination, and an alternative source of financing could not be secured; it would have a material adverse impact on us. None of our debt is rated by the rating agencies.

We do not have any off-balance sheet debt, except for approximately \$40.0 million of operating leases, which have an average remaining term of approximately fifteen years. Also, we have no outstanding debt guarantees. We have available under the Credit Facility a \$40.0 million Letter of Credit Facility. At December 31, 2017, we had \$9.4 million of letters of credit outstanding that renew annually. We are contingently liable for performance under \$25.6 million in performance bonds relating primarily to our mining operations.

We believe that our cash flow from operations and available borrowings under our Credit Facility should be sufficient to meet our currently anticipated operating needs, capital expenditures and dividend and debt service requirements for at least the next twelve months. However, our future liquidity and capital requirements may vary depending on a number of factors, including market conditions in the construction industry, our ability to maintain compliance with covenants in our Credit Facility, the level of competition and general and economic factors beyond our control. These and other developments could reduce our cash flow or require that we seek additional sources of funding. We cannot predict what effect these factors will have on our future liquidity.

As market conditions warrant, the Company may from time to time seek to purchase or repay its outstanding debt securities or loans, including the Private Placement Senior Unsecured Notes, Senior Unsecured Notes and borrowings under the Credit Facility, in privately negotiated or open market transactions, by tender offer or otherwise. Subject to any applicable limitations contained in the agreements governing our indebtedness, any purchases made by us may be funded by the use of cash on our balance sheet or the incurrence of new debt. The amounts involved in any such purchase transactions, individually or in the aggregate, may be material. Any such purchases of the notes offered hereby may be with respect to a substantial amount of such notes, with an attendant reduction in the trading liquidity of such notes.

Dividends.

Dividends paid were \$14.6 million and \$14.5 million for the nine months ended December 31, 2017 and 2016, respectively. Each quarterly dividend payment is subject to review and approval by our Board of Directors, who will continue to evaluate our dividend payment amount on a quarterly basis.

Share Repurchases.

	Common Stock	
	Shares	Average Price
	Purchased	Paid Per Share
April 1 through April 30, 2017	—	\$ —
May 1 through May 31, 2017	—	\$ —
June 1 through June 30, 2017	20,000	\$ 94.03
Quarter 1 Totals	20,000	\$ 94.03
July 1 through July 31, 2017	90,000	\$ 92.75
August 1 through August 31, 2017	157,572	\$ 90.13
September 1 through September 30, 2017	5,200	\$ 91.92
Quarter 2 Totals	252,772	
October 1 through October 31, 2017	—	\$ —
November 1 through November 30, 2017	—	\$ —
December 1 through December 31 2017	—	\$ —
Year-to-Date Totals	272,772	\$ 91.31

On August 10, 2015, the Board of Directors authorized the Company to repurchase up to an additional 6,782,700 shares, for a total outstanding authorization of 7,500,000 shares. During the nine months ended December 31, 2017, we repurchased 272,772 shares at an average price of \$91.31. As of December 31, 2017, we have authorization to purchase an additional 4,544,428 shares.

Share repurchases may be made from time-to-time in the open market or in privately negotiated transactions. The timing and amount of any repurchases of shares will be determined by management, based on its evaluation of market and economic conditions and other factors. In some cases, repurchases may be made pursuant to plans, programs or directions established from time to time by the Company's management, including plans intended to comply with the safe-harbor provided by Rule 10b5-1.

During the nine months ended December 31, 2017, 26,921 shares of stock were withheld from employees upon the vesting of Restricted Shares that were granted under the Plan. These shares were withheld by us to satisfy the employees' statutory tax withholding requirements, which is required once the Restricted Shares or Restricted Shares Units are vested.

Capital Expenditures.

The following table compares capital expenditures:

	For the Nine Months	
	Ended December 31, 2017	
Acquisition	2017	2016

		(dollars in thousands)	
Land and Quarries	\$ 2,750	\$5,147	\$2,973
Plants	6,456	60,538	17,477
Buildings, Machinery and Equipment	18,986	18,013	13,593
Total Capital Expenditures	\$ 28,192	\$83,698	\$34,043

We anticipate maintenance capital expenditures will be approximately \$30.0 to \$35.0 million for fiscal 2018. Historically, we have financed such expenditures with cash from operations and borrowings under our revolving credit facility. We have begun the build out of our Utica, Illinois facility. This build out will include the addition of a dry plant and distribution system. We estimate that this build out will cost approximately \$70.0 million and will be completed in the summer of 2018.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks related to fluctuations in interest rates on our Credit Facility. From time-to-time we have utilized derivative instruments, including interest rate swaps, in conjunction with our overall strategy to manage the debt outstanding that is subject to changes in interest rates. We have a \$500.0 million Credit Facility available at December 31, 2017, under which borrowings bear interest at a variable rate. A hypothetical 100 basis point increase in interest rates on the \$185.0 million of borrowings outstanding at December 31, 2017 would increase interest expense by approximately \$1.9 million on an annual basis. At present, we do not utilize derivative financial instruments.

We are subject to commodity risk with respect to price changes principally in coal, coke, natural gas and power. We attempt to limit our exposure to changes in commodity prices by entering into contracts or increasing our use of alternative fuels.

Item 4. Controls and Procedures

We have established a system of disclosure controls and procedures that are designed to ensure that information relating to the Company, which is required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 (“Exchange Act”), is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, in a timely fashion. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) was performed as of the end of the period covered by this quarterly report. This evaluation was performed under the supervision and with the participation of management, including our CEO and CFO. Based upon that evaluation, our CEO and CFO have concluded that these disclosure controls and procedures were effective.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Domestic Wallboard Antitrust Litigation

Since late December 2012, several purported class action lawsuits were filed in various United States District Courts, including the Eastern District of Pennsylvania, Western District of North Carolina and the Northern District of Illinois, against the Company’s subsidiary, American Gypsum Company LLC (“American Gypsum”), alleging that the defendant wallboard manufacturers conspired to fix the price for drywall sold in the United States in violation of federal antitrust laws and, in some cases related provisions of state law. The complaints alleged that the defendant wallboard manufacturers conspired to increase prices through the announcement and implementation of coordinated price increases, output restrictions, and other restraints of trade, including the elimination of individual “job quote” pricing. In addition to American Gypsum, the defendants in these lawsuits include CertainTeed Corp. (“CertainTeed”), USG Corporation and United States Gypsum (together “USG”), New NGC, Inc. (“New NGC”), Lafarge North America (“Lafarge”), Temple Inland Inc. (“TIN”) and PABCO Building Products LLC (“PABCO”). On April 8, 2013, the Judicial Panel on Multidistrict Litigation (“JPML”) transferred and consolidated all related cases to the Eastern District of Pennsylvania for coordinated pretrial proceedings.

On June 24, 2013, the direct and indirect purchaser plaintiffs filed consolidated amended class action complaints. The direct purchasers’ complaint added the Company as a defendant. The plaintiffs in the consolidated class action complaints assert claims on behalf of purported classes of direct or indirect purchasers of wallboard from January 1,

2012 to the present for unspecified monetary damages (including treble damages) and in some cases injunctive relief. On July 29, 2013, the Company and American Gypsum answered the complaints, denying all allegations that they conspired to increase the price of drywall and asserting affirmative defenses to the plaintiffs' claims.

In 2014, USG and TIN entered into agreements with counsel representing the direct and indirect purchaser classes pursuant to which they agreed to settle all claims against them. Under the terms of its settlement agreement, USG agreed to pay \$48.0 million to resolve the direct and indirect purchaser class actions. In its settlement agreement, TIN agreed to pay \$7.0 million to resolve the direct and indirect purchaser class actions. On August 20, 2015, the court entered orders finally approving USG and TIN's settlements with the direct and indirect purchaser plaintiffs. Following completion of the initial discovery, the Company and remaining co-defendants moved for summary judgment. On February 18, 2016, the court denied the Company's motion for summary judgment, and granted summary judgment in favor of CertainTeed. On June 16, 2016, Lafarge entered into an agreement with counsel for the direct purchaser class under which it agreed to settle all claims against it for \$23.0 million. The court entered an order finally approving this settlement on December 7, 2016. On July 28, 2016, Lafarge entered into an agreement with counsel representing the indirect purchaser class under which it agreed to settle all claims against it for \$5.2 million, which was approved by the court on February 28, 2017. On July 14, 2016, the Company's motion for permission to appeal the summary judgment decision to the U.S. Court of Appeals for the Third Circuit was denied.

Direct purchaser plaintiffs and indirect purchaser plaintiffs filed their motions for class certification on August 3, 2016 and October 12, 2016, respectively. On August 23, 2017, the court granted the direct purchaser plaintiffs' motion for class certification and certified a class consisting of all persons or entities that purchased paper-backed gypsum wallboard in the United States from January 1, 2012 through January 31, 2013 directly from American Gypsum, the Company, Lafarge, New NGC, PABCO, USG, and/or L&W Supply Corporation (which was a subsidiary of USG Corporation during the class period). On September 6, 2017, American Gypsum, the Company, New NGC, and PABCO filed a petition with the U.S. Court of Appeals for the Third Circuit seeking interlocutory appeal of the district court's decision granting the direct purchaser plaintiffs' motion for class certification under Federal Rule of Civil Procedure 23(f). The Third Circuit denied the Defendant's petition on October 27, 2017. On August 24, 2017, the court denied the indirect purchaser plaintiffs' motion for class certification. On September 7, 2017, the indirect purchaser plaintiffs filed a petition with the Third Circuit appealing the district court's denial of their motion for class certification. The Third Circuit denied the indirect purchaser plaintiffs' petition on October 12, 2017.

On December 29, 2017 American Gypsum and the Company, as well as New NGC, Inc. ("New NGC"), and PABCO Building Products, LLC ("PABCO"), which are not affiliated with the Company, entered into a settlement agreement (the "Direct Purchaser Settlement Agreement") with counsel representing the direct purchaser class to settle all claims made against the Company, American, New NGC and PABCO in the direct purchaser class action. The Direct Purchaser Settlement Agreement, in which the Company and American deny all wrongdoing, also includes releases by the participating class members of the Company and American as well as their subsidiaries, affiliates, and other related parties, for the time period from January 1, 2012 through the date of execution of the Direct Purchaser Settlement Agreement. The Direct Purchaser Settlement Agreement grants the Company, American, New NGC, and PABCO the right to terminate the Direct Purchaser Settlement Agreement in the event an agreed upon percentage of potential class members opt-out of the Direct Purchaser Settlement Agreement. Additionally, the Direct Purchaser Settlement Agreement is conditioned on final approval of the District Court. On January 5, 2018 American Gypsum, New NGC, and PABCO entered into a settlement agreement (the "Indirect Purchaser Settlement Agreement") with counsel representing the indirect purchaser class to settle all claims against American Gypsum, New NGC and PABCO in the indirect purchaser class action. The Indirect Purchaser Settlement Agreement is conditioned on final approval of the District Court. Under the Direct and Indirect Purchaser Settlement Agreements, the Company and American agreed to pay a total of approximately \$39.1 million in cash to settle the claims against them. At December 31, 2017 we accrued the total amount of the two settlements and these amounts are expected to be paid in the next twelve months.

On March 17, 2015, a group of homebuilders filed a complaint against the defendants, including American Gypsum, based upon the same conduct alleged in the consolidated class action complaints. On March 24, 2015, the JPML transferred this action to the multidistrict litigation already pending in the Eastern District of Pennsylvania. Following

the transfer, the homebuilder plaintiffs filed two amended complaints, on December 14, 2015 and March 25, 2016. As a result of settlements reached with TIN and Lafarge, the homebuilder plaintiffs

voluntarily dismissed their claims against TIN and Lafarge on June 6 and June 24, 2016, respectively. On January 31, 2017, the plaintiffs voluntarily dismissed their claims against CertainTeed. Discovery in this lawsuit is ongoing.

In June 2015, American Gypsum and an employee received grand jury subpoenas from the United States District Court for the Western District of North Carolina seeking information regarding an investigation of the gypsum drywall industry by the Antitrust Division of the Department of Justice. We believe the investigation, although a separate proceeding, is related to the same subject matter at issue in the litigation described above and we intend to fully cooperate with government officials. We are currently unable to determine the ultimate outcome of such investigation.

Item 1A. Risk Factors

We are affected by the level of demand in the construction industry.

Demand for our construction products and building materials is directly related to the level of activity in the construction industry, which includes residential, commercial and infrastructure construction. While the most recent downturn in residential and commercial construction, which began in calendar 2007, materially impacted our business, certain economic fundamentals began improving in calendar 2012, and have continued to improve through calendar 2017; however, the rate and sustainability of such improvement remains uncertain. Infrastructure spending continues to be adversely impacted by a number of factors, including the budget constraints currently being experienced by federal, state and local governments. Any decrease in the amount of government funds available for such projects or any decrease in construction activity in general (including any weakness in residential construction or commercial construction) could have a material adverse effect on our business, financial condition and results of operations.

Our business is seasonal in nature, and this causes our quarterly results to vary significantly.

A majority of our business is seasonal with peak revenues and profits occurring primarily in the months of April through November when the weather in our markets is more suitable for construction activity. Quarterly results have varied significantly in the past and are likely to vary significantly in the future. Such variations could have a negative impact on the price of our common stock.

We are subject to the risk of unfavorable weather conditions, particularly during peak construction periods, as well as other unexpected operational difficulties.

Unfavorable weather conditions, such as snow, cold weather, hurricanes, tropical storms and heavy or sustained rainfall, can reduce construction activity and adversely affect demand for construction products. Such weather conditions can also increase our costs, reduce our production or impede our ability to transport our products in an efficient and cost-effective manner. Similarly, operational difficulties, such as business interruption due to required maintenance, capital improvement projects or loss of power, can increase our costs and reduce our production. In particular, the occurrence of unfavorable weather conditions and other unexpected operational difficulties during peak construction periods could adversely affect operating income and cash flow and could have a disproportionate impact on our results of operations for the full year.

We and our customers participate in cyclical industries and regional markets, which are subject to industry downturns.

A majority of our revenues are from customers who are in industries and businesses that are cyclical in nature and subject to changes in general economic conditions. For example, many of our customers operate in the construction industry, which is affected by a variety of factors, such as general economic conditions, changes in interest rates,

demographic and population shifts, levels of infrastructure spending and other factors beyond our control. In addition, since our operations are in a variety of geographic markets, our businesses are subject to differing economic conditions in each such geographic market. Economic downturns in the industries to which we sell our products or localized downturns in the regions where we have operations generally have an adverse effect

on demand for our products and adversely affect the collectability of our receivables. In general, any downturns in these industries or regions could have a material adverse effect on our business, financial condition and results of operations.

Many of our products are commodities, which are subject to significant changes in supply and demand and price fluctuations.

Many of the products sold by us are commodities and competition among manufacturers is based largely on price. Prices are often subject to material changes in response to relatively minor fluctuations in supply and demand, general economic conditions and other market conditions beyond our control. Increases in the production capacity of industry participants for products such as gypsum wallboard or cement or increases in cement imports tend to create an oversupply of such products leading to an imbalance between supply and demand, which can have a negative impact on product prices. Currently, there continues to be significant excess nameplate capacity in the gypsum wallboard industry in the United States. There can be no assurance that prices for products sold by us will not decline in the future or that such declines will not have a material adverse effect on our business, financial condition and results of operations.

Our Cement business is capital intensive, resulting in significant fixed and semi-fixed costs. Therefore, our earnings are sensitive to changes in volume.

Due to the high levels of fixed capital required to produce cement, our profitability is susceptible to significant changes in volume. Although we believe that our current cash balance, along with our projected internal cash flows and our available financing resources, will provide sufficient cash to support our currently anticipated operating and capital needs, if we are unable to generate sufficient cash to purchase and maintain the property and machinery necessary to operate our cement business, we may be required to reduce or delay planned capital expenditures or incur additional debt. In addition, given the level of fixed and semi-fixed costs within our cement business and at our cement production facilities, decreases in volumes could have an adverse effect on our financial condition, results of operations and liquidity.

Our Oil and Gas Proppants business and financial performance depends on the level of activity in the oil and natural gas industries.

Our operations that produce frac sand are materially dependent on the levels of activity in natural gas and oil exploration, development and production. More specifically, the demand for the frac sand we produce is closely related to the number of natural gas and oil wells completed in geological formations where sand-based proppants are used in fracture treatments. These activity levels are affected by both short- and long-term trends in natural gas and oil prices. In recent years, natural gas and oil prices and, therefore, the level of exploration, development and production activity, have experienced significant fluctuations. Worldwide economic, political and military events, including war, terrorist activity, events in the Middle East and initiatives by the Organization of the Petroleum Exporting Countries, have contributed, and are likely to continue to contribute, to price volatility. Additionally, warmer than normal winters in North America and other weather patterns may adversely impact the short-term demand for natural gas and, therefore, demand for our products. Reduction in demand for natural gas to generate electricity could also adversely impact the demand for frac sand. A prolonged reduction in natural gas and oil prices would generally depress the level of natural gas and oil exploration, development, production and well completion activity and result in a corresponding decline in the demand for the frac sand we produce. In addition, any future decreases in the rate at which oil and natural gas reserves are discovered or developed, whether due to increased governmental regulation, limitations on exploration and drilling activity or other factors, could have material adverse effect on our oil and gas proppants business, even in a stronger natural gas and oil price environment.

Any material nonpayment or nonperformance by any of our key customers could have a material adverse effect on our business and results of operations.

Any material nonpayment or nonperformance by any of our key customers could have a material adverse effect on our revenue and cash flows, in particular with respect to our Oil and Gas Proppants business. Our

contracts with our customers provide for different potential remedies to us in the event a customer fails to purchase the minimum contracted amount of product in a given period. If we were to pursue legal remedies in the event a customer failed to purchase the minimum contracted amount of product under a fixed-volume contract or failed to satisfy the take-or-pay commitment under a take-or-pay contract, we may receive significantly less in a judgment or settlement of any claimed breach than we would have received had the customer fully performed under the contract. In the event of any customer's breach, we may also choose to renegotiate any disputed contract on less favorable terms (including with respect to price and volumes) to us to preserve the relationship with that customer. Accordingly, any material nonpayment or performance by our customers could have a material adverse effect on our revenue and cash flows.

Volatility and disruption of financial markets could affect access to credit.

Difficult economic conditions can cause a contraction in the availability, and increase the cost, of credit in the marketplace. A number of our customers or suppliers have been and may continue to be adversely affected by unsettled conditions in capital and credit markets, which in some cases have made it more difficult or costly for them to finance their business operations. These unsettled conditions have the potential to reduce the sources of liquidity for the Company and our customers.

Our and our customers' operations are subject to extensive governmental regulation, including environmental laws, which can be costly and burdensome.

Our operations and those of our customers are subject to and affected by federal, state and local laws and regulations with respect to such matters as land usage, street and highway usage, noise level and health and safety and environmental matters. In many instances, various certificates, permits or licenses are required in order for us or our customers to conduct business or carry out construction and related operations. Although we believe that we are in compliance in all material respects with applicable regulatory requirements, there can be no assurance that we will not incur material costs or liabilities in connection with regulatory requirements or that demand for our products will not be adversely affected by regulatory issues affecting our customers. In addition, future developments, such as the discovery of new facts or conditions, the enactment or adoption of new or stricter laws or regulations or stricter interpretations of existing laws or regulations, may impose new liabilities on us, require additional investment by us or prevent us from opening, expanding or modifying plants or facilities, any of which could have a material adverse effect on our financial condition or results of operations.

For example, greenhouse gasses ("GHGs") currently are regulated as pollutants under the CAA and subject to reporting and permitting requirements. Future consequences of GHG permitting requirements and potential emission reduction measures for our operations may be significant because (1) the cement manufacturing process requires the combustion of large amounts of fuel, (2) in our cement manufacturing process, the production of carbon dioxide is a byproduct of the calcination process, whereby carbon dioxide is removed from calcium carbonate to produce calcium oxide, and (3) our gypsum wallboard manufacturing process combusts a significant amount of fossil fuel, especially natural gas. In addition, the EPA has proposed to regulate GHG emissions from existing fossil fuel-fired power plants as a result of the EPA's promulgation of new source performance standards for the same sources. In the future, the EPA is expected to propose new source performance standards for cement manufacturing, which similarly will trigger a requirement for the EPA to promulgate regulations relating to existing cement manufacturing facilities. The timing of such regulation is uncertain.

On September 9, 2010, the EPA finalized National Emissions Standards for Hazardous Air Pollutants, or NESHAP, for Portland cement plants ("PC NESHAP"). The PC NESHAP requires a significant reduction in emissions of certain hazardous air pollutants from Portland cement kilns. The PC NESHAP sets limits on mercury emissions from existing Portland cement kilns and increases the stringency of emission limits for new kilns. The PC NESHAP also sets emission limits for total hydrocarbons, particulate matter (as a surrogate for metal pollutants) and acid gases from

cement kilns of all sizes. The PC NESHAP was scheduled to take full effect in September 2013; however, as a result of a decision by the U.S. Court of Appeals for the District of Columbia Circuit in *Portland Cement Ass'n. v. EPA*, 665 F.3d 177 (D.C. Cir.) arising from industry challenges to the PC NESHAP, the EPA proposed a settlement agreement with industry petitioners in May 2012. In February 2013, the

EPA published the final revised rule to the PC NESHAP which extended the compliance date until September 9, 2015 for existing cement kilns and made certain changes to the rules governing particulate matter monitoring methods and emissions limits, among other revisions. The 2013 revised rule was challenged in the U.S. Court of Appeals for the D.C. Circuit and on April 18, 2014, the court vacated the affirmative defense provision. The court upheld the EPA's particulate matter emission standards and extended compliance date. On November 19, 2014, the EPA proposed a rule removing the affirmative defense provision and making minor technical corrections to the regulations.

On March 21, 2011, the EPA proposed revised Standards of Performance for New Sources and Emissions Guidelines for Existing Sources for Commercial/Industrial Solid Waste Incinerators (the "CISWI Rule") per Section 129 of the CAA, which created emission standards for 4 subcategories of industrial facilities, one of which is "Waste Burning Kilns." The EPA simultaneously stayed the CISWI Rule for further reconsideration. Effective as of February 13, 2013, the EPA finalized revisions to the CISWI Rule. For those cement kilns that utilize non-hazardous secondary materials ("NHSM") as defined in a rule first finalized on March 21, 2011 (and slightly revised effective on February 13, 2013), the CISWI Rule will require significant reductions in emissions of certain pollutants from applicable cement kilns. The CISWI Rule sets forth emission standards for mercury, carbon monoxide, acid gases, nitrogen oxides, sulfur dioxide, certain metals (lead and cadmium), particulate matter and more stringent standards than PC NESHAP for dioxin/furans. The CISWI Rule as currently promulgated may materially increase capital costs and costs for production but only for those facilities that will be using applicable solid wastes as fuel. The compliance date for this rule is February 7, 2018 (either 3 years after State CISWI plan approval, or 5 years from the date of the final CISWI Rule, whichever is sooner). It is anticipated that the CISWI Rule may materially increase capital costs and costs of production for the Company and the industry as a whole.

On April 17, 2015, the EPA published its final rule addressing the storage, reuse and disposal of coal combustion products, which include fly ash and flue gas desulfurization gypsum ("synthetic gypsum"). We use synthetic gypsum in wallboard manufactured at our Georgetown, South Carolina plant. The rule, which applies only to electric utilities and independent power producers, establishes standards for the management of coal combustion residuals (CCRs) under Subtitle D of the Resource Conservation and Recovery Act, or RCRA, which is the Subtitle that regulates non-hazardous wastes. The rule imposes requirements addressing CCR surface impoundments and landfills, including location restrictions, design and operating specifications, groundwater monitoring requirements, corrective action requirements, recordkeeping and reporting obligations, and closure requirements. Beneficial encapsulated uses of CCRs, including synthetic gypsum, are exempt from regulation. The rule became effective on October 14, 2015, with many of the requirements phased in months or years after the effective date. Given the EPA's decision to continue to allow CCR to be used in synthetic gypsum and to regulate CCR under the non-hazardous waste sections of RCRA, we do not expect the rule to materially affect our business, financial condition and results of operations.

On October 1, 2015, the EPA lowered the primary and secondary ozone standards from the current 8-hour standard of 75 parts per billion ("ppb") to 70 ppb. The EPA also strengthened the secondary ozone standard to improve protection for trees, plants and ecosystems. Like the primary standard, an area will meet the secondary standard if the fourth-highest maximum daily 8-hour ozone concentration per year, averaged over three years, is equal to or less than 70 ppb. The EPA based the secondary standard on the "W126 metric," an index designed to show the cumulative impact of ozone on plants and trees seasonally. The EPA has issued an implementation memo describing how it will determine whether the ozone levels in areas across the country, typically on a county level, are above the new standards. Areas above the new standards will be designated as "nonattainment;" areas at or below the new standards will be designated "attainment." In states with major emitting sources located in or near designated nonattainment areas, States will impose new and costly regulatory requirements. For areas that are determined to be in non-attainment, states will be required to develop plans to bring the areas into attainment by as early as 2020. At this time, it is not possible to determine whether any area in which we operate will be designated nonattainment. However, if that occurs, we may be required to meet new control requirements requiring significant capital expenditures for compliance.

Our cement plants located in Kansas City, Missouri and Tulsa, Oklahoma are subject to certain obligations under a consent decree with the United States requiring the establishment of facility-specific emissions limitations for certain air pollutants. Limitations that significantly restrict emissions levels beyond current operating levels may require additional investments by us or place limitations on operations, any of which could have a material adverse effect on our financial condition or results of operations.

Our cement plant in Tulsa, Oklahoma is subject to NESHAP for hazardous waste combustors (the “HWC MACT”), which imposes emission limitations and operating limits on cement kilns that are fueled by hazardous wastes. Compliance with the HWC MACT could impose additional liabilities on us or require additional investment by us, which could have a material adverse effect on our financial condition or results of operations. In addition, new developments, such as new laws or regulations, may impose new liabilities on us, require additional investment by us or prevent us from operating or expanding plants or facilities, any of which could have a material adverse effect on our financial condition or results of operations. For example, while the HWC MACT has not been updated since 2008, 73 Fed. Reg. 64068 (Oct. 28, 2008), future revisions to the HWC MACT regulations would apply to both of the cement kilns used at the cement plant in Tulsa, Oklahoma. Such revision could require new control requirements and significant capital expenditure for compliance. In 2013, the EPA adopted the final CISWI Rule (as discussed above) that likely will apply to the cement kiln used by the cement plant in Sugar Creek, Missouri and the two cement kilns at Nevada Cement Company, and may impose new control requirements requiring significant capital expenditures for compliance. Existing CISWI units will need to comply with the CISWI Rule when it becomes effective, which is expected to occur in early 2018.

We may incur significant costs in connection with pending and future litigation.

We are, or may become, party to various lawsuits, claims, investigations and proceedings, including but not limited to personal injury, environmental, antitrust (including the wallboard antitrust class actions, the homebuilder suit and the DOJ investigation), tax, asbestos, property entitlements and land use, intellectual property, commercial, contract, product liability, health and safety, and employment matters. The outcome of pending or future lawsuits, claims, investigations or proceedings is often difficult to predict and could be adverse and material in amount. Development in these proceedings can lead to changes in management’s estimates of liabilities associated with these proceedings including the judge’s rulings or judgments, settlements or changes in applicable law. A future adverse ruling, settlement or unfavorable development could result in charges that could have a material adverse effect on our results of operations and cash flows in a particular period. In addition, the defense of these lawsuits, claims, investigations and proceedings may divert our management’s attention and we may incur significant costs in defending these matters. See Part II Item 1. Legal Proceedings of this report.

Our results of operations are subject to significant changes in the cost and availability of fuel, energy and other raw materials.

Major cost components in each of our businesses are the costs of fuel, energy and raw materials. Significant increases in the costs of fuel, energy or raw materials or substantial decreases in their availability could materially and adversely affect our sales and operating profits. Prices for fuel, energy or raw materials used in connection with our businesses could change significantly in a short period of time for reasons outside our control. Prices for fuel and electrical power, which are significant components of the costs associated with our gypsum wallboard and cement businesses, have fluctuated significantly in recent years and may increase in the future. In the event of large or rapid increases in prices, we may not be able to pass the increases through to our customers in full, which would reduce our operating margin.

Changes in the cost or availability of raw materials supplied by third parties may adversely affect our operating and financial performance.

We generally maintain our own reserves of limestone, gypsum, aggregates and other materials that we use to manufacture our products. However, we obtain certain raw materials used to manufacture our products, such as synthetic gypsum and slag granules, from third parties who produce such materials as by-products of industrial processes. While we try to secure our needed supply of such materials through long-term contracts, those contracts may not be sufficient to meet our needs or we may be unable to renew or replace existing contracts

when they expire or are terminated in the future. Should our existing suppliers cease operations or reduce or eliminate production of these by-products, our costs to procure these materials may increase significantly or we may be obliged to procure alternatives to replace these materials, which may not be available on commercially reasonable terms or at all. Any such development may adversely affect our operations and financial condition.

We may become subject to significant clean-up, remediation and other liabilities under applicable environmental laws.

Our operations are subject to state, federal and local environmental laws and regulations, which impose liability for cleanup or remediation of environmental pollution and hazardous waste arising from past acts. These laws and regulations also require pollution control and prevention, site restoration and operating permits and/or approvals to conduct certain of our operations or expand or modify our facilities. Certain of our operations may from time-to-time involve the use of substances that are classified as toxic or hazardous substances within the meaning of these laws and regulations. Additionally, any future laws or regulations addressing GHG emissions would likely have a negative impact on our business or results of operations, whether through the imposition of raw material or production limitations, fuel-use or carbon taxes emission limitations or reductions or otherwise. We are unable to estimate accurately the impact on our business or results of operations of any such law or regulation at this time. Risk of environmental liability (including the incurrence of fines, penalties or other sanctions or litigation liability) is inherent in the operation of our businesses. As a result, it is possible that environmental liabilities and compliance with environmental regulations could have a material adverse effect on our operations in the future.

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

Some of the raw materials used in our manufacturing processes, such as coal or coke, are transported to our facilities by truck or rail. In addition, transportation logistics play an important part in allowing us to supply products to our customers, whether by truck, rail or barge. For example, we deliver gypsum wallboard to many areas of the United States and the transportation costs associated with the delivery of our wallboard products represent a significant portion of the variable cost of our gypsum wallboard segment. Significant increases in the cost of fuel or energy can result in material increases in the cost of transportation, which could materially and adversely affect our operating profits. In addition, reductions in the availability of certain modes of transportation such as rail or trucking could limit our ability to deliver product and therefore materially and adversely affect our operating profits.

Our debt agreements contain restrictive covenants and require us to meet certain financial ratios and tests, which limit our flexibility and could give rise to a default if we are unable to remain in compliance.

Our Credit Facility, Senior Unsecured Notes and Private Placement Note Purchase Agreements governing our Private Placement Senior Unsecured Notes contain, among other things, covenants that limit our ability to finance future operations or capital needs or to engage in other business activities, including but not limited to our ability to:

- ✦ Incur additional indebtedness;
- ✦ Sell assets or make other fundamental changes;
- ✦ Engage in mergers and acquisitions;
- ✦ Pay dividends and make other restricted payments;
- ✦ Make investments, loans, advances or guarantees;
- ✦ Encumber our assets or those of our restricted subsidiaries;
- ✦ Enter into transactions with our affiliates.

In addition, these agreements require us to meet and maintain certain financial ratios and tests, which may require that we take action to reduce our debt or to act in a manner contrary to our business objectives. Events beyond our control, including the changes in general business and economic conditions, may impair our ability to comply with these covenants or meet those financial ratios and tests. A breach of any of these covenants or failure to maintain the required ratios and meet the required tests may result in an event of default under these agreements. This may allow the lenders under these agreements to declare all amounts outstanding to be immediately due and payable, terminate any commitments to extend further credit to us and pursue other remedies available to them under the applicable agreements. If this occurs, our indebtedness may be accelerated and we may not be able to refinance the accelerated indebtedness on favorable terms, or at all, or repay the accelerated indebtedness. In general, the occurrence of any event of default under these agreements could have a material adverse effect on our financial condition or results of operations.

We have incurred substantial indebtedness, which could adversely affect our business, limit our ability to plan for or respond to changes in our business and reduce our profitability.

Our future ability to satisfy our debt obligations is subject, to some extent, to financial, market, competitive, legislative, regulatory and other factors that are beyond our control. Our substantial debt obligations could have negative consequences to our business, and in particular could impede, restrict or delay the implementation of our business strategy or prevent us from entering into transactions that would otherwise benefit our business. For example:

- we may be required to dedicate a substantial portion of our cash flows from operations to payments on our indebtedness, thereby reducing the availability of our cash flow for other purposes, including business development efforts, capital expenditures or strategic acquisitions;
- we may not be able to generate sufficient cash flow to meet our substantial debt service obligations or to fund our other liquidity needs. If this occurs, we may have to take actions such as selling assets, selling equity or reducing or delaying capital expenditures, strategic acquisitions, investments and joint ventures or restructuring our debt;
- as a result of the amount of our outstanding indebtedness and the restrictive covenants to which we are subject, if we determine that we require additional financing to fund future working capital, capital investments or other business activities, we may not be able to obtain such financing on commercially reasonable terms, or at all; and
- our flexibility in planning for, or reacting to, changes in our business and industry may be limited, thereby placing us at a competitive disadvantage compared to our competitors that have less indebtedness.

Our production facilities may experience unexpected equipment failures, catastrophic events and scheduled maintenance.

Interruptions in our production capabilities may cause our productivity and results of operations to decline significantly during the affected period. Our manufacturing processes are dependent upon critical pieces of equipment. Such equipment may, on occasion, be out of service as a result of unanticipated events such as fires, explosions, violent weather conditions or unexpected operational difficulties. We also have periodic scheduled shut-downs to perform maintenance on our facilities. Any significant interruption in production capability may require us to make significant capital expenditures to remedy problems or damage as well as cause us to lose revenue and profits due to lost production time, which could have a material adverse effect on our results of operations and financial condition.

Increases in interest rates and inflation could adversely affect our business and demand for our products, which would have an adverse effect on our results of operations.

Our business is significantly affected by the movement of interest rates. Interest rates have a direct impact on the level of residential, commercial and infrastructure construction activity by impacting the cost of borrowed

funds to builders. Higher interest rates could result in decreased demand for our products, which would have a material adverse effect on our business and results of operations. In addition, increases in interest rates could result in higher interest expense related to borrowings under our Credit Facility. Inflation can result in higher interest rates. With inflation, the costs of capital increase, and the purchasing power of our cash resources can decline. Current or future efforts by the government to stimulate the economy may increase the risk of significant inflation, which could have a direct and indirect adverse impact on our business and results of operations.

Any new business opportunities we may elect to pursue will be subject to the risks typically associated with the early stages of business development or product line expansion.

We are continuing to pursue opportunities which are natural extensions of our existing core businesses and which allow us to leverage our core competencies, existing infrastructure and customer relationships. See “Management’s Discussion and Analysis of Financial Conditions and Results of Operations – Executive Summary.” Our likelihood of success in pursuing and realizing these opportunities must be considered in light of the expenses, difficulties and delays frequently encountered in connection with the early phases of business development or product line expansion, including the difficulties involved in obtaining permits; planning and constructing new facilities; transporting and storing products; establishing, maintaining or expanding customer relationships; as well as navigating the regulatory environment in which we operate. There can be no assurance that we will be successful in the pursuit and realization of these opportunities.

We may be adversely affected by decreased demand for frac sand or the development of either effective alternative proppants or new processes to replace hydraulic fracturing.

Frac sand is a proppant used in the completion and re-completion of natural gas and oil wells through hydraulic fracturing. Frac sand is the most commonly used proppant and is less expensive than ceramic proppant, which is also used in hydraulic fracturing to stimulate and maintain oil and natural gas production. A significant shift in demand from frac sand to other proppants, such as ceramic proppants, could have a material adverse effect on our oil and gas proppants business. The development and use of other effective alternative proppants or the development of new processes to replace hydraulic fracturing altogether, could also cause a decline in demand for the frac sand we produce and could have a material adverse effect on our oil and gas proppants business.

Our operations are dependent on our rights and ability to mine our properties and on our having renewed or received the required permits and approvals from governmental authorities and other third parties.

We hold numerous governmental, environmental, mining and other permits, water rights and approvals authorizing operations at many of our facilities. A decision by a governmental agency or other third party to deny or delay issuing a new or renewed permit or approval, or to revoke or substantially modify an existing permit or approval, could have a material adverse effect on our ability to continue operations at the affected facility. Expansion of our existing operations is also predicated on securing the necessary environmental or other permits, water rights or approvals, which we may not receive in a timely manner or at all.

Title to, and the area of, mineral properties and water rights may also be disputed. Mineral properties sometimes contain claims or transfer histories that examiners cannot verify. A successful claim that we do not have title to one or more of our properties or lack appropriate water rights could cause us to lose any rights to explore, develop and extract any minerals on that property, without compensation for our prior expenditures relating to such property. Our business may suffer a material adverse effect in the event one or more of our properties are determined to have title deficiencies.

In some instances, we have received access rights or easements from third parties, which allow for a more efficient operation than would exist without the access or easement. A third party could take action to suspend the access or easement, and any such action could be materially adverse to our results of operations or financial conditions.

A cyber-attack or data security breach affecting our information technology systems may negatively affect our businesses, financial condition and operating results.

We use information technology systems to collect, store and transmit the data needed to operate our businesses, including our confidential and proprietary information. Although we have implemented industry-standard security safeguards and policies to prevent unauthorized access or disclosure of such information, we cannot prevent all cyber-attacks or data security breaches. If such an attack or breach occurs, our businesses could be negatively affected, and we could incur additional costs in remediating the attack or breach and suffer reputational harm due to the theft or disclosure of our confidential information.

We may pursue acquisitions, joint ventures and other transactions that are intended to complement or expand our businesses. We may not be able to complete proposed transactions, and even if completed, the transactions may involve a number of risks that may result in a material adverse effect on our business, financial condition, operating results and cash flows.

As business conditions warrant and our financial resources permit, we may pursue opportunities to acquire businesses or technologies and to form joint ventures that we believe could complement, enhance or expand our current businesses or product lines or that might otherwise offer us growth opportunities. We may have difficulty identifying appropriate opportunities, or if we do identify opportunities, we may not be successful in completing transactions for a number of reasons. Any transactions that we are able to identify and complete may involve one or more of a number of risks, including:

- the diversion of management's attention from our existing businesses to integrate the operations and personnel of the acquired business or joint venture;
- possible adverse effects on our operating results during the integration process;
- failure of the acquired business or joint venture to achieve expected operational, profitability and investment return objectives;
- the incurrence of significant charges, such as impairment of goodwill or intangible assets, asset devaluation or restructuring charges;
- the assumption of unanticipated liabilities and costs for which indemnification is unavailable or inadequate;
- unforeseen difficulties encountered in operating in new geographic areas; and
- the inability to achieve other intended objectives of the transaction

In addition, we may not be able to successfully or profitably integrate, operate, maintain and manage our newly acquired operations or their employees. We may not be able to maintain uniform standards, controls, procedures and policies, which may lead to operational inefficiencies. In addition, future acquisitions may result in dilutive issuances of equity securities or the incurrence of additional indebtedness.

Our bylaws include a forum selection clause, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any internal corporate claims within the meaning of the Delaware General Corporation Law ("DGCL"), (ii) any derivative action or proceeding brought on our behalf, (iii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, or employees to us or to our stockholders, or (iv) any action asserting a claim arising pursuant to any provision of the DGCL, will be a state or federal court located within the State

of Delaware in all cases subject to the court's having personal jurisdiction over the indispensable parties named as defendants. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock is deemed to have notice of and consented to the foregoing provisions. This forum selection provision in our bylaws may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us. It is also possible that, notwithstanding the forum selection clause included in our bylaws, a court could rule that such a provision is inapplicable or unenforceable.

This report includes various forward-looking statements, which are not facts or guarantees of future performance and which are subject to significant risks and uncertainties.

This report and other materials we have filed or will file with the SEC, as well as information included in oral statements or other written statements made or to be made by us, contain or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. You can identify these statements by the fact that they do not relate to matters of a strictly factual or historical nature and generally discuss or relate to forecasts, estimates or other expectations regarding future events. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "n," "can," "could," "might," "will" and similar expressions identify forward-looking statements, including statements related to expected operating and performing results, planned transactions, plans and objectives of management, future developments or conditions in the industries in which we participate, including future prices for our products, audits and legal proceedings to which we are a party and other trends, developments and uncertainties that may affect our business in the future.

Forward-looking statements are not historical facts or guarantees of future performance but instead represent only our beliefs at the time the statements were made regarding future events, which are subject to significant risks, uncertainties, and other factors, many of which are outside of our control. Any or all of the forward-looking statements made by us may turn out to be materially inaccurate. This can occur as a result of incorrect assumptions, changes in facts and circumstances or the effects of known risks and uncertainties. Many of the risks and uncertainties mentioned in this report or other reports filed by us with the SEC, including those discussed in the risk factor section of this report, will be important in determining whether these forward-looking statements prove to be accurate. Consequently, neither our stockholders nor any other person should place undue reliance on our forward-looking statements and should recognize that actual results may differ materially from those that may be anticipated by us.

All forward-looking statements made in this report are made as of the date hereof, and the risk that actual results will differ materially from expectations expressed in this report will increase with the passage of time. We undertake no obligation, and disclaim any duty, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changes in our expectations or otherwise.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The disclosure required under this Item is included in "Management's Discussion and Analysis of Results of Operations and Financial Condition" of this Quarterly Report on Form 10-Q under the heading "Share Repurchases" and is incorporated herein by reference.

Item 4. Mine Safety Disclosures

The information concerning mine safety violations or other regulatory matters required by Section 1503 (a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 to this Form 10-Q.

Item 6. Exhibits

- 10.1 Settlement Agreement (filed as Exhibit 10.1 to the Current Report on Form 8-K filed with the Commission on December 29, 2017, and incorporated herein by reference).
- 12.1* Computation of Ratio of Earnings to Fixed Charges.
- 31.1* Certification of the Chief Executive Officer of Eagle Materials Inc. pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934, as amended.
- 31.2* Certification of the Chief Financial Officer of Eagle Materials Inc. pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934, as amended.
- 32.1* Certification of the Chief Executive Officer of Eagle Materials Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2* Certification of the Chief Financial Officer of Eagle Materials Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 95* Mine Safety Disclosure
- 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.

* Filed herewith.

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.

EAGLE MATERIALS INC.
Registrant

January 31, 2018 /s/ DAVID B. POWERS
David B. Powers

President and Chief Executive Officer

(principal executive officer)

January 31, 2018 /s/ D. CRAIG KESLER
D. Craig Kesler

Executive Vice President – Finance and
Administration and Chief Financial Officer

(principal financial officer)

January 31, 2018 /s/ WILLIAM R. DEVLIN
William R. Devlin

Senior Vice President – Controller and
Chief Accounting Officer

(principal accounting officer)