

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, 2016

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)

(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 or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Yes No

As of January 20, 2017, the number of outstanding shares of common stock was:

Class	Outstanding Shares
Common Stock, \$.01 Par Value	48,410,358

PART I. FINANCIAL INFORMATION (unaudited)

	Page
Item 1.	Consolidated Financial Statements
	Consolidated Statements of Earnings for the Three and Nine Months Ended December 31, 2016 and 2015
	Consolidated Statements of Comprehensive Earnings for the Three and Nine Months Ended December 31, 2016 and 2015
	Consolidated Balance Sheets as of December 31, 2016, and March 31, 2016
	Consolidated Statements of Cash Flows for the Nine Months Ended December 31, 2016 and 2015
	Notes to Unaudited Consolidated Financial Statements
Item 2.	Management's Discussion and Analysis of Results of Operations and Financial Condition
Item 3.	Quantitative and Qualitative Disclosures About Market Risk
Item 4.	Controls and Procedures

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	43
Item 1a.	Risk Factors	44
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	54
Item 4.	Mine Safety Information	54
Item 6.	Exhibits	54

SIGNATURES	55
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Eagle Materials Inc. and Subsidiaries
Consolidated Statements of Earnings
(dollars in thousands, except share data)
(unaudited)

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2016	2015	2016	2015
Revenues	\$ 302,395	\$ 277,409	\$ 932,557	\$ 891,360
Cost of Goods Sold	215,015	208,544	682,012	717,104
Gross Profit	87,380	68,865	250,545	174,256
Equity in Earnings of Unconsolidated Joint Venture	11,244	10,483	31,371	29,993
Corporate General and Administrative	(9,166)	(8,304)	(27,831)	(26,659)
Other Income	429	1,163	2,008	2,170
Interest Expense, Net	(6,198)	(4,002)	(15,755)	(12,830)
Earnings Before Income Taxes	83,689	68,205	240,338	166,930
Income Tax Expense	(27,302)	(22,357)	(78,370)	(53,501)
Net Earnings	<u>\$ 56,387</u>	<u>\$ 45,848</u>	<u>\$ 161,968</u>	<u>\$ 113,429</u>
EARNINGS PER SHARE:				
Basic	<u>\$ 1.18</u>	<u>\$ 0.93</u>	<u>\$ 3.38</u>	<u>\$ 2.29</u>
Diluted	<u>\$ 1.17</u>	<u>\$ 0.92</u>	<u>\$ 3.35</u>	<u>\$ 2.26</u>
AVERAGE SHARES OUTSTANDING:				
Basic	47,881,662	49,187,738	47,901,369	49,593,821
Diluted	48,297,748	49,770,020	48,340,326	50,230,091
CASH DIVIDENDS PER SHARE:	<u>\$ 0.10</u>	<u>\$ 0.10</u>	<u>\$ 0.30</u>	<u>\$ 0.30</u>

See notes to unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries
 Consolidated Statements of Comprehensive Earnings
 (unaudited – dollars in thousands)

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2016	2015	2016	2015
Net Earnings	\$ 56,387	\$ 45,848	\$ 161,968	\$ 113,429
Change in Funded Status of Defined Benefit Plans:				
Amortization of Net Actuarial Loss	500	506	1,500	1,522
Tax Expense	(188)	(188)	(564)	(564)
Comprehensive Earnings	<u>\$ 56,699</u>	<u>\$ 46,166</u>	<u>\$ 162,904</u>	<u>\$ 114,387</u>

See notes to unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries
Consolidated Balance Sheets
(dollars in thousands)

	December 31, 2016 (unaudited)	March 31, 2016
ASSETS		
Current Assets -		
Cash and Cash Equivalents	\$ 164,665	\$ 5,391
Accounts and Notes Receivable	115,278	120,221
Inventories	222,783	243,595
Income Tax Receivable	—	5,623
Prepaid and Other Assets	5,959	5,173
Total Current Assets	508,685	380,003
Property, Plant and Equipment -	2,098,695	2,072,776
Less: Accumulated Depreciation	(870,859)	(817,465)
Property, Plant and Equipment, net	1,227,836	1,255,311
Notes Receivable	1,002	2,672
Investment in Joint Venture	47,600	49,465
Goodwill and Intangible Assets	161,765	165,827
Other Assets	27,101	30,357
	\$ 1,973,989	\$ 1,883,635
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities -		
Accounts Payable	\$ 63,847	\$ 66,614
Accrued Liabilities	57,649	45,975
Income Tax Payable	5,215	—
Current Portion of Long-term Debt	81,214	8,000
Total Current Liabilities	207,925	120,589
Long-term Debt	380,134	499,714
Other Long-term Liabilities	57,514	61,122
Deferred Income Taxes	164,841	161,679
Total Liabilities	810,414	843,104
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 48,409,454 and 48,526,843 Shares, respectively	484	485
Capital in Excess of Par Value	143,623	168,969
Accumulated Other Comprehensive Losses	(10,473)	(11,409)
Retained Earnings	1,029,941	882,486
Total Stockholders' Equity	1,163,575	1,040,531
	\$ 1,973,989	\$ 1,883,635

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,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Earnings	\$ 161,968	\$ 113,429
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities -		
Depreciation, Depletion and Amortization	67,894	74,245
Impairment of Intangible Assets	—	28,354
Inventory Adjustment to Net Realizable Value	8,492	9,382
Deferred Income Tax Provision	2,751	(6,478)
Stock Compensation Expense	9,067	12,293
Excess Tax Benefits from Share Based Payment Arrangements	(8,546)	(2,504)
Equity in Earnings of Unconsolidated Joint Venture	(31,371)	(29,993)
Distributions from Joint Venture	33,250	27,250
Changes in Operating Assets and Liabilities:		
Accounts and Notes Receivable	6,613	11,765
Inventories	12,320	(3,974)
Accounts Payable and Accrued Liabilities	6,633	(10,228)
Other Assets	413	(1,484)
Income Taxes Payable	19,384	(5,767)
Net Cash Provided by Operating Activities	288,868	216,290
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, Plant and Equipment Additions	(34,043)	(75,536)
Acquisition Spending	—	(32,427)
Net Cash Used in Investing Activities	(34,043)	(107,963)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (Decrease) in Credit Facility	(382,000)	45,000
Repayment of Senior Notes	(8,000)	(57,045)
Issuance of Long-term Debt	350,000	—
Payment of Debt Issuance Costs	(6,637)	—
Dividends Paid to Stockholders	(14,500)	(15,078)
Shares Redeemed to Settle Employee Taxes on Stock Compensation	(3,084)	(1,815)
Purchase and Retirement of Common Stock	(60,013)	(76,231)
Proceeds from Stock Option Exercises	20,137	2,580
Excess Tax Benefits from Share Based Payment Arrangements	8,546	2,504
Net Cash Used in Financing Activities	(95,551)	(100,085)
NET INCREASE IN CASH AND CASH EQUIVALENTS	159,274	8,242
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,391	7,514
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 164,665	\$ 15,756

See notes to the unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
December 31, 2016

(A) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements as of and for the three and nine month periods ended December 31, 2016 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 25, 2016.

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 standard will be effective for us in the first quarter of fiscal 2018. Each of the various provisions within this standard has its own specified transition method; some will be applied prospectively and others will be applied on a retrospective or modified retrospective basis. The effect of adopting this standard will result in volatility in the provision for income taxes depending on fluctuations in the price of the Company’s stock.

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 expect to 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 are currently evaluating the impact of this ASU.

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) PENDING ACQUISITION

On September 11, 2016, Eagle Materials Inc. (the “Company”) and Cemex Construction Materials Atlantic, LLC (the “Seller”) entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”) pursuant to which the Company will acquire (the “Fairborn Acquisition”) (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”) to be paid by the Company in the Fairborn Acquisition is \$400.0 million in cash, subject to a customary post-closing inventory adjustment. In addition, the Company will assume 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 after the closing of the Fairborn Acquisition. The Company expects to fund 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. The Fairborn Acquisition is expected to close during the fourth quarter of fiscal 2017. In connection with the closing, we expect to incur approximately \$4.0 million in transaction related expenses.

(C) CASH FLOW INFORMATION—SUPPLEMENTAL

Cash payments made for interest were \$10.7 million and \$15.0 million for the nine months ended December 31, 2016 and 2015, respectively. Net payments made for federal and state income taxes during the nine months ended December 31, 2016 and 2015, were \$55.6 million and \$64.8 million, respectively.

(D) ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable have been shown net of the allowance for doubtful accounts of \$11.3 million and \$10.2 million at December 31, 2016 and March 31, 2016, 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 \$4.5 million at December 31, 2016, of which approximately \$3.5 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 on various dates between 2017 and 2019. 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, 2016 (dollars in thousands)	
Common Stock –		
Balance at Beginning of Period	\$	485
Purchase and Retirement of Common Stock		(9)
Issuance of Restricted Stock		1
Stock Option Exercises		7
Balance at End of Period		484
Capital in Excess of Par Value –		
Balance at Beginning of Period		168,969
Stock Compensation Expense		9,066
Shares Redeemed to Settle Employee Taxes		(3,084)
Stock Option Exercises		28,676
Purchase and Retirement of Common Stock		(60,004)
Balance at End of Period		143,623
Retained Earnings –		
Balance at Beginning of Period		882,486
Dividends Declared to Stockholders		(14,513)
Net Earnings		161,968
Balance at End of Period		1,029,941
Accumulated Other Comprehensive Loss -		
Balance at Beginning of Period		(11,409)
Change in Funded Status of Pension Plan, net of tax		936
Balance at End of Period		(10,473)
Total Stockholders' Equity	\$	1,163,575

There were no share repurchases during the three months ended December 31, 2016. During the nine months ended December 31, 2016 we have repurchased 788,800 shares at an average price of \$76.08. At December 31, 2016, we have authorization to purchase an additional 4,817,200 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, 2016	March 31, 2016
	(dollars in thousands)	
Raw Materials and Material-in-Progress	\$ 104,173	\$ 119,060
Finished Cement	18,963	21,834
Gypsum Wallboard	6,944	5,839
Frac Sand	3,847	5,501
Aggregates	7,510	10,660
Paperboard	4,818	7,575
Repair Parts and Supplies	70,986	68,155
Fuel and Coal	5,542	4,971
	<u>\$ 222,783</u>	<u>\$ 243,595</u>

During the nine months ended December 31, 2016, we wrote down approximately \$7.7 million and \$0.8 million of raw materials and materials-in-process and frac sand, respectively. During the nine months ended December 31, 2015, we wrote down approximately \$9.4 million of raw materials and materials-in-process. These inventories related to our Oil and Gas Proppants segment.

(G) ACCRUED EXPENSES

Accrued expenses consist of the following:

	As of	
	December 31, 2016	March 31, 2016
	(dollars in thousands)	
Payroll and Incentive Compensation	\$ 24,917	\$ 19,956
Benefits	10,686	10,663
Interest	8,132	3,373
Property Taxes	3,729	4,186
Power and Fuel	1,807	1,390
Sales and Use Tax	798	1,486
Legal	2,217	549
Other	5,363	4,372
	<u>\$ 57,649</u>	<u>\$ 45,975</u>

(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 2016, the Compensation Committee approved the granting of an aggregate of 91,074 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 2017 Employee Performance Stock Option Grant"). The performance criterion for the Fiscal 2017 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, 2017. 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, 2018 through 2020. The stock options have a term of ten years from the date of grant. The Compensation Committee also approved the granting of 75,896 time vesting stock options to the same officers and key employees, which vest ratably over four years (the "Fiscal 2017 Employee Time Vesting Stock Option Grant"). In August 2016, we granted 17,894 options to members of the Board of Directors (the "Fiscal 2017 Board of Directors Stock Option Grant"). Options granted under the Fiscal 2017 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 grant. The Fiscal 2017 Employee Performance Stock Option Grant, Fiscal 2017 Employee Time Vesting Stock Option Grant and the Fiscal 2017 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 2017 are as follows:

	Fiscal 2017
Dividend Yield	1.3%
Expected Volatility	36.5%
Risk Free Interest Rate	1.4%
Expected Life	6.0 years

Stock option expense for all outstanding stock option awards totaled approximately \$1.2 million and \$4.2 million for the three and nine months ended December 31, 2016, respectively and approximately \$1.9 million and \$6.1 million for the three and nine months ended December 31, 2015, respectively. At December 31, 2016, there was approximately \$8.1 million of unrecognized compensation cost related to outstanding stock options, net of estimated forfeitures, 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, 2016:

	Number of Shares	Weighted-Average Exercise Price
Outstanding Options at Beginning of Period	1,817,763	\$ 53.03
Granted	192,364	\$ 76.29
Exercised	(619,345)	\$ 34.51
Cancelled	(19,182)	\$ 70.30
Outstanding Options at End of Period	1,371,600	\$ 64.41
Options Exercisable at End of Period	871,840	\$ 56.57
Weighted-Average Fair Value of Options Granted during the Period	\$ 24.56	

The following table summarizes information about stock options outstanding at December 31, 2016:

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Number of Shares Outstanding	Weighted - Average Remaining Contractual Life	Weighted - Average Exercise Price	Number of Shares Outstanding	Weighted - Average Exercise Price
\$23.17 – \$ 30.74	169,374	3.08	\$ 24.95	168,374	\$ 24.92
\$33.43 – \$ 37.34	210,201	5.46	\$ 33.85	204,201	\$ 33.79
\$53.22 – \$ 77.67	442,524	7.83	\$ 70.08	229,197	\$ 67.20
\$79.73 – \$ 93.56	549,501	8.06	\$ 83.70	270,068	\$ 84.51
	1,371,600	6.97	\$ 64.41	871,840	\$ 56.57

At December 31, 2016, the aggregate intrinsic value for outstanding and exercisable options was approximately \$46.8 million and \$36.6 million, respectively. The total intrinsic value of options exercised during the nine months ended December 31, 2016 was approximately \$28.7 million.

Restricted Stock. In May 2016, the Compensation Committee approved the granting of an aggregate of 63,029 shares of performance vesting restricted stock to certain officers and key employees that will be earned if certain performance conditions are satisfied (the "Fiscal 2017 Employee Restricted Stock Performance Award"). The performance criterion for the Fiscal 2017 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, 2017. 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, 2018 through 2020. The Compensation Committee also approved the granting of 52,527 shares of time vesting restricted stock to the same officers and key employees, which vest ratably over four years (the "Fiscal 2017 Employee Restricted Stock Time Vesting Award"). Both of the Fiscal 2017 Employee Restricted Stock Performance Award and the Fiscal 2017 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. In August 2016, we awarded 11,173 shares of restricted stock to members of the Board of Directors (the "Board of Directors Fiscal 2017 Restricted Stock Award"). Awards issued under the Board of Directors Fiscal 2017 Restricted Stock Award do not fully vest until the retirement of each director, in accordance with our director retirement policy.

Expense related to restricted shares was approximately \$1.8 million and \$5.0 million for the three and nine months ended December 31, 2016, respectively, and approximately \$2.1 million and \$6.3 million for the three and nine months ended December 31, 2015, respectively. At December 31, 2016, there was approximately \$18.3 million of unearned compensation from restricted stock, net of estimated forfeitures, which will be recognized over a weighted-average period of 3.0 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 4,324,866 at December 31, 2016.

(I) COMPUTATION OF EARNINGS PER SHARE

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

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2016	2015	2016	2015
Weighted-Average Shares of Common Stock Outstanding	47,881,662	49,187,738	47,901,369	49,593,821
Common Equivalent Shares:				
Assumed Exercise of Outstanding Dilutive Options	764,631	1,017,117	889,411	1,208,130
Less: Shares Repurchased from Assumed Proceeds of Assumed Exercised Options	(523,194)	(669,209)	(612,885)	(803,972)
Restricted Shares	174,649	234,374	162,431	232,112
Weighted-Average Common and Common Equivalent Shares Outstanding	48,297,748	49,770,020	48,340,326	50,230,091
Shares Excluded Due to Anti-dilution Effects	700,734	826,610	679,849	627,090

(J) PENSION AND EMPLOYEE BENEFIT PLANS

We sponsor several defined benefit and defined contribution pension 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 December 31,		For the Nine Months ended December 31,	
	2016	2015	2016	2015
	(dollars in thousands)		(dollars in thousands)	
Service Cost – Benefits Earned During the Period	\$ 222	\$ 257	\$ 665	\$ 745
Interest Cost of Benefit Obligations	399	377	1,196	1,135
Expected Return on Plan Assets	(416)	(439)	(1,247)	(1,308)
Recognized Net Actuarial Loss	425	427	1,276	1,286
Amortization of Prior-Service Cost	75	75	224	225
Net Periodic Pension Cost	\$ 705	\$ 697	\$ 2,114	\$ 2,083

(K) INCOME TAXES

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 effective tax rate for the nine months ended December 31, 2016 was approximately 33%, which was slightly above the effective tax rate of 32% for the nine months ended December 31, 2015.

(L) LONG-TERM DEBT

Long-term debt consists of the following:

	As of	
	December 31, 2016	March 31, 2016
	(dollars in thousands)	
Credit Facility	\$ —	\$ 382,000
4.500% Senior Unsecured Notes Due 2026	350,000	—
Private Placement Senior Unsecured Notes	117,714	125,714
Total Debt	467,714	507,714
Less: Current Portion of Long-term Debt	(81,214)	(8,000)
Less: Debt Origination Costs	(6,366)	—
Total Long-term Debt	\$ 380,134	\$ 499,714

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 ½% 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. There were no borrowings outstanding at December 31, 2016. Based on our Leverage Ratio, we had \$490.7 million of available borrowings, net of the outstanding letters of credit, at December 31, 2016.

The Credit Facility has a \$50.0 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, 2016, we had \$9.3 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 (P) 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 (the "2005 Note Purchase Agreement") in connection with our sale of \$200 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. At December 31, 2016, the amount outstanding for the remaining tranche is as follows:

	Principal	Maturity Date	Interest Rate
Tranche C	\$57.2 million	November 15, 2017	5.48%

Interest for this tranche of Series 2005A Senior Unsecured Notes is payable semi-annually on May 15 and November 15 of each year until all principal is paid.

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 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. At December 31, 2016, the amounts outstanding for each of the remaining tranches were as follows:

	Principal	Maturity Date	Interest Rate
Tranche C	\$24.0 million	October 2, 2017	6.36%
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.

Our obligations under the 2005 Note Purchase Agreement and 2007 Note Purchase Agreement (together, the “Private Placement Note Purchase Agreements”) and the Private Placement Senior Unsecured Notes 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 Private Placement Note Purchase Agreements contain 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 Private Placement Note Purchase Agreements require 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. The 2007 Note Purchase Agreement requires us 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, 2016.

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 Private Placement Note Purchase Agreements) on the Private Placement Senior Unsecured Notes and the other payment and performance obligations of the Company contained in the Private Placement Senior Unsecured Notes and in the Private Placement Note Purchase Agreements. 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 Private Placement 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 Private Placement 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 Private Placement 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 grinding 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 six cement plants, one slag grinding facility, sixteen cement distribution terminals, five gypsum wallboard plants, including the plant idled in Bernalillo, N.M., 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, and six frac sand trans-load locations. The principal markets for our cement products are Texas, northern Illinois (including Chicago), the central plains, the Rocky Mountains, northern Nevada, 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 into shale deposit zones across the United States.

We conduct one of our six 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,		For the Nine Months Ended December 31,	
	2016	2015	2016	2015
	(dollars in thousands)		(dollars in thousands)	
Revenues -				
Cement	\$ 138,047	\$ 135,419	\$ 449,650	\$ 428,385
Gypsum Wallboard	121,504	108,907	357,689	343,660
Paperboard	41,254	36,822	128,528	111,285
Oil and Gas Proppants	7,124	8,476	18,851	49,608
Concrete and Aggregates	40,843	31,779	114,734	96,982
Sub-total	348,772	321,403	1,069,452	1,029,920
Less: Intersegment Revenues	(20,468)	(17,986)	(59,123)	(56,005)
Net Revenues, including Joint Venture	328,304	303,417	1,010,329	973,915
Less: Joint Venture	(25,909)	(26,008)	(77,772)	(82,555)
Net Revenues	\$ 302,395	\$ 277,409	\$ 932,557	\$ 891,360

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2016	2015	2016	2015
	(dollars in thousands)		(dollars in thousands)	
Intersegment Revenues -				
Cement	\$ 4,336	\$ 3,714	\$ 12,407	\$ 11,072
Paperboard	15,887	14,069	45,845	44,216
Concrete and Aggregates	245	203	871	717
	\$ 20,468	\$ 17,986	\$ 59,123	\$ 56,005
Cement Sales Volume (in thousands of tons) -				
Wholly-owned Operations	967	999	3,200	3,238
Joint Venture	231	213	691	661
	1,198	1,212	3,891	3,899

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2016	2015	2016	2015
	(dollars in thousands)		(dollars in thousands)	
Operating Earnings -				
Cement	\$ 45,307	\$ 41,768	\$ 127,623	\$ 116,058
Gypsum Wallboard	41,075	37,289	122,109	118,185
Paperboard	9,380	7,923	30,827	22,091
Oil and Gas Proppants	(1,726)	(9,153)	(11,728)	(59,389)
Concrete and Aggregates	4,588	1,521	13,085	7,304
Other, net	429	1,163	2,008	2,170
Sub-total	99,053	80,511	283,924	206,419
Corporate General and Administrative	(9,166)	(8,304)	(27,831)	(26,659)
Earnings Before Interest and Income Taxes	89,887	72,207	256,093	179,760
Interest Expense, net	(6,198)	(4,002)	(15,755)	(12,830)
Earnings Before Income Taxes	\$ 83,689	\$ 68,205	\$ 240,338	\$ 166,930
Cement Operating Earnings -				
Wholly-owned Operations	\$ 34,063	\$ 31,285	\$ 96,252	\$ 86,065
Joint Venture	11,244	10,483	31,371	29,993
	\$ 45,307	\$ 41,768	\$ 127,623	\$ 116,058
Capital Expenditures -				
Cement	\$ 8,558	\$ 3,206	\$ 18,812	\$ 16,705
Gypsum Wallboard	1,756	1,131	5,181	2,831
Paperboard	634	650	2,338	3,918
Oil and Gas Proppants	1,469	5,619	1,534	38,330
Concrete and Aggregates	3,045	9,061	5,595	13,752
Other	350	—	583	—
	\$ 15,812	\$ 19,667	\$ 34,043	\$ 75,536
Depreciation, Depletion and Amortization -				
Cement	\$ 8,763	\$ 8,390	\$ 26,158	\$ 24,885
Gypsum Wallboard	4,636	5,445	14,166	15,050
Paperboard	2,105	2,093	6,311	6,209
Oil and Gas Proppants	4,987	7,210	14,432	21,974
Concrete and Aggregates	1,805	1,597	5,474	4,667
Other, net	349	476	1,353	1,460
	\$ 22,645	\$ 25,211	\$ 67,894	\$ 74,245

	As of	
	December 31, 2016	March 31, 2016
	(dollars in thousands)	
Identifiable Assets -		
Cement	\$ 807,008	\$ 819,994
Gypsum Wallboard	368,153	392,523
Paperboard	121,358	127,371
Oil and Gas Proppants	390,116	409,497
Concrete and Aggregates	106,744	106,634
Corporate and Other	180,610	27,616
	\$ 1,973,989	\$ 1,883,635

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 and unrecognized tax benefits. The segment breakdown of goodwill is as follows:

	As of	
	December 31, 2016	March 31, 2016
	(dollars in thousands)	
Cement	\$ 9,729	\$ 9,729
Gypsum Wallboard	116,618	116,618
Paperboard	7,538	7,538
	<u>\$ 133,885</u>	<u>\$ 133,885</u>

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 Ended December 31,		For the Nine Months Ended December 31,	
	2016	2015	2016	2015
	(dollars in thousands)			
Revenues	\$ 53,018	\$ 52,016	\$ 158,351	\$ 165,110
Gross Margin	\$ 23,887	\$ 22,388	\$ 66,812	\$ 64,593
Earnings Before Income Taxes	\$ 22,488	\$ 20,967	\$ 62,742	\$ 59,987

	As of	
	December 31, 2016	March 31, 2016
	(dollars in thousands)	
Current Assets	\$ 69,465	\$ 70,491
Non-Current Assets	\$ 39,543	\$ 41,464
Current Liabilities	\$ 17,353	\$ 15,964

(N) INTEREST EXPENSE

The following components are included in interest expense, net:

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2016	2015	2016	2015
	(dollars in thousands)			
Interest (Income)	\$ (19)	\$ (2)	\$ (23)	\$ (4)
Interest Expense	5,982	3,833	15,078	12,289
Other Expenses	235	171	700	545
Interest Expense, net	<u>\$ 6,198</u>	<u>\$ 4,002</u>	<u>\$ 15,755</u>	<u>\$ 12,830</u>

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, 2016, we had contingent liabilities under these outstanding letters of credit of approximately \$9.3 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 \$18.2 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.

EPA Notice of Violation

On October 5, 2010, Region IX of the EPA issued a Notice of Violation and Finding of Violation ("NOV") alleging violations by our subsidiary, Nevada Cement Company ("NCC"), of the Clean Air Act ("CAA"). The NOV alleges that NCC made certain physical changes to its facility in the 1990s without first obtaining permits required by the Prevention of Significant Deterioration requirements and Title V permit requirements of the CAA. The EPA also alleges that NCC has failed to submit to the EPA since 2002 certain reports required by the National Emissions Standard for Hazardous Air Pollutants General Provisions and the Portland Cement Manufacturing Industry Standards. On March 12, 2014, the EPA Region IX issued a second NOV to NCC. The second NOV is materially similar to the 2010 NOV except that it alleges violations of the new source performance standards ("NSPS") for Portland cement plants. The NOVs state that the EPA may seek penalties although it does not propose or assess any specific level of penalties or specify what relief the EPA will seek for the alleged violations. In January 2017, NCC entered into a Consent Decree in which NCC agreed to install at its Fernley, Nevada plant certain emission control equipment (selective non-catalytic reduction) to reduce nitrous oxide emissions and to pay a penalty of \$0.6 million. NCC also agreed to replace two existing vehicles with two new vehicles with more efficient Tier 4 engines. Under the terms of the Consent Decree, NCC will complete the installation of the emission control equipment and vehicle replacement in approximately 2 years. It is anticipated that the investment in the new emission control equipment and vehicles will cost approximately \$3.0 million. In the Consent Decree NCC denies all allegations set forth in the NOVs and the Complaint which is to be filed simultaneously with the entry of the Consent Decree, and the Consent Decree resolves all such claims by the government. The Consent Decree is expected to be executed by the EPA and the US Department of Justice in February 2017, and is subject to approval of the United States District Court in the District of Nevada after a 30-day public comment period.

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 allege 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., USG Corporation and United States Gypsum (together “USG”), New NGC, Inc., Lafarge North America (“Lafarge”), Temple Inland Inc. (“TIN”) and PABCO Building Products LLC. 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 lawsuits bring 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. Initial discovery in this litigation is complete. Following completion of the initial discovery, the Company and remaining co-defendants moved for summary judgement. On February 18, 2016, the court denied the Company’s motion for summary judgement. 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. Indirect purchaser plaintiffs filed a motion for preliminary approval of this settlement in September 2016. On July 14, 2016, the Company’s motion for permission to appeal the summary judgement 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. Class certification proceedings are ongoing. We are unable to estimate the amount of any reasonably possible loss or range of reasonably possible losses. We deny the allegations in these lawsuits and will vigorously defend ourselves against these claims.

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. 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.

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 Notes at December 31, 2016 is as follows:

	Fair Value (dollars in thousands)
Series 2005A Tranche C	\$ 58,431
Series 2007A Tranche C	24,609
Series 2007A Tranche D	39,056
4.5% Senior Unsecured Notes Due 2026	349,171

The estimated fair value of our long-term debt was 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, 2016 due to the short-term maturities of these assets and liabilities. There were no borrowings under our Credit Facility at December 31, 2016.

(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 For the Three Months Ended December 31, 2016	Parent	Guarantor 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 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 Taxes	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
For the Three Months Ended December 31, 2015

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ —	\$ 277,409	\$ —	\$ 277,409
Cost of Goods Sold	—	208,544	—	208,544
Gross Profit	—	68,865	—	68,865
Equity in Earnings of Unconsolidated Joint Venture	10,483	10,483	(10,483)	10,483
Equity in Earnings of Subsidiaries	46,387	—	(46,387)	—
Corporate General and Administrative Expenses	(7,063)	(1,241)	—	(8,304)
Other Income (Loss)	258	905	—	1,163
Interest Expense, net	(9,791)	5,789	—	(4,002)
Earnings before Income Taxes	40,274	84,801	(56,870)	68,205
Income Taxes	5,574	(27,931)	—	(22,357)
Net Earnings	\$ 45,848	\$ 56,870	\$ (56,870)	\$ 45,848
Net Earnings	\$ 45,848	\$ 56,870	\$ (56,870)	\$ 45,848
Net Actuarial Change in Benefit Plans, net of tax	318	318	(318)	318
Comprehensive Earnings	\$ 46,166	\$ 57,188	\$ (57,188)	\$ 46,166

Condensed Consolidating Statement of Earnings and Comprehensive Earnings
For the Nine Months Ended December 31, 2016

	Parent	Guarantor 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 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 Taxes	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 Statement of Earnings and Comprehensive Earnings
For the Nine Months Ended December 31, 2015

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ —	\$ 891,360	\$ —	\$ 891,360
Cost of Goods Sold	—	717,104	—	717,104
Gross Profit	—	174,256	—	174,256
Equity in Earnings of Unconsolidated Joint Venture	29,993	29,993	(29,993)	29,993
Equity in Earnings of Subsidiaries	118,088	—	(118,088)	—
Corporate General and Administrative Expenses	(22,794)	(3,865)	—	(26,659)
Other Income (Loss)	(48)	2,218	—	2,170
Interest Expense, net	(28,275)	15,445	—	(12,830)
Earnings before Income Taxes	96,964	218,047	(148,081)	166,930
Income Taxes	16,465	(69,966)	—	(53,501)
Net Earnings	\$ 113,429	\$ 148,081	\$ (148,081)	\$ 113,429
Net Earnings	\$ 113,429	\$ 148,081	\$ (148,081)	\$ 113,429
Net Actuarial Change in Benefit Plans, net of tax	958	958	(958)	958
Comprehensive Earnings	\$ 114,387	\$ 149,039	\$ (149,039)	\$ 114,387

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS				
Current Assets -				
Cash and Cash Equivalents	\$ 162,792	\$ 1,873	\$ —	\$ 164,665
Accounts and Notes Receivable	581	114,697	—	115,278
Inventories	—	222,783	—	222,783
Income Tax Receivable	21,354	—	(21,354)	—
Prepaid and Other Current Assets	5,167	792	—	5,959
Total Current Assets	189,894	340,145	(21,354)	508,685
Property, Plant and Equipment -	3,196	2,095,499	—	2,098,695
Less: Accumulated Depreciation	(897)	(869,962)	—	(870,859)
Property, Plant and Equipment, net	2,299	1,225,537	—	1,227,836
Notes Receivable	—	1,002	—	1,002
Deferred Income Taxes	3,478	—	(3,478)	—
Investment in Joint Venture	47	47,553	—	47,600
Investments in Subsidiaries and Receivables from Affiliates	4,431,726	2,980,527	(7,412,253)	—
Goodwill and Intangible Assets, net	—	161,765	—	161,765
Other Assets	5,888	21,213	—	27,101
	<u>\$ 4,633,332</u>	<u>\$ 4,777,742</u>	<u>\$ (7,437,085)</u>	<u>\$ 1,973,989</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities-				
Accounts Payable	\$ 6,684	\$ 57,163	\$ —	\$ 63,847
Accrued Liabilities	20,992	36,657	—	57,649
Income Tax Payable	—	26,569	(21,354)	5,215
Current Portion of Long-term Debt	81,214	—	—	81,214
Total Current Liabilities	108,890	120,389	(21,354)	207,925
Long-term Debt	380,134	—	—	380,134
Other Long-term Liabilities	206	57,308	—	57,514
Payables to Affiliates	2,980,527	2,184,696	(5,165,223)	—
Deferred Income Taxes	—	168,319	(3,478)	164,841
Total Liabilities	3,469,757	2,530,712	(5,190,055)	810,414
Total Stockholders' Equity	1,163,575	2,247,030	(2,247,030)	1,163,575
	<u>\$ 4,633,332</u>	<u>\$ 4,777,742</u>	<u>\$ (7,437,085)</u>	<u>\$ 1,973,989</u>

Condensed Consolidating Balance Sheet
At March 31, 2016

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS				
Current Assets -				
Cash and Cash Equivalents	\$ 3,507	\$ 1,884	\$ —	\$ 5,391
Accounts and Notes Receivable	324	119,897	—	120,221
Inventories	—	243,595	—	243,595
Income Tax Receivable	—	6,731	(1,108)	5,623
Prepaid and Other Current Assets	1,365	3,808	—	5,173
Total Current Assets	5,196	375,915	(1,108)	380,003
Property, Plant and Equipment -	2,612	2,070,164	—	2,072,776
Less: Accumulated Depreciation	(814)	(816,651)	—	(817,465)
Property, Plant and Equipment, net	1,798	1,253,513	—	1,255,311
Notes Receivable	—	2,672	—	2,672
Deferred Income Taxes	3,375	—	(3,375)	—
Investment in Joint Venture	33	49,432	—	49,465
Investments in Subsidiaries and Receivables from Affiliates	4,085,806	2,529,480	(6,615,286)	—
Goodwill and Intangible Assets, net	—	165,827	—	165,827
Other Assets	5,557	24,800	—	30,357
	<u>\$ 4,101,765</u>	<u>\$ 4,401,639</u>	<u>\$ (6,619,769)</u>	<u>\$ 1,883,635</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities-				
Accounts Payable	\$ 6,968	\$ 59,646	\$ —	\$ 66,614
Accrued Liabilities	15,708	30,267	—	45,975
Income Tax Payable	1,108	—	(1,108)	—
Current Portion of Long-term Debt	8,000	—	—	8,000
Total Current Liabilities	31,784	89,913	(1,108)	120,589
Long-term Debt	499,714	—	—	499,714
Other Long-term Liabilities	256	60,866	—	61,122
Payables to Affiliates	2,529,480	2,042,633	(4,572,113)	—
Deferred Income Taxes	—	165,054	(3,375)	161,679
Total Liabilities	3,061,234	2,358,466	(4,576,596)	843,104
Total Stockholders' Equity	1,040,531	2,043,173	(2,043,173)	1,040,531
	<u>\$ 4,101,765</u>	<u>\$ 4,401,639</u>	<u>\$ (6,619,769)</u>	<u>\$ 1,883,635</u>

Condensed Consolidating Statement of Cash Flows
Nine Months ended December 31, 2016

	Parent	Guarantor 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				
Additions to Property, Plant and Equipment	(271)	(33,772)	—	(34,043)
Net Cash Used in Investing Activities	(271)	(33,772)	—	(34,043)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net Decrease in Long-term Debt	(40,000)	—	—	(40,000)
Payment of Debt Issuance Costs	(6,637)	—	—	(6,637)
Dividends Paid to Stockholders	(14,500)	—	—	(14,500)
Purchase and Retirement of Common Stock	(60,013)	—	—	(60,013)
Proceeds from Stock Option Exercises	20,137	—	—	20,137
Shares Redeemed to Settle Employee Taxes on Stock Compensation	(3,084)	—	—	(3,084)
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 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	<u>\$ 162,792</u>	<u>\$ 1,873</u>	<u>\$ —</u>	<u>\$ 164,665</u>

Condensed Consolidating Statement of Cash Flows
Nine Months ended December 31, 2015

	Parent	Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Cash Provided by (Used in) Operating Activities	\$ (51,482)	\$ 267,772	\$ —	\$ 216,290
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to Property, Plant and Equipment	—	(75,536)	—	(75,536)
Acquisition Spending	—	(32,427)	—	(32,427)
Net Cash Used in Investing Activities	—	(107,963)	—	(107,963)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of Credit Facility	(12,045)	—	—	(12,045)
Dividends Paid to Stockholders	(15,078)	—	—	(15,078)
Shares Redeemed to Settle Employee Taxes on Stock Compensation	(1,815)	—	—	(1,815)
Purchase and Retirement of Common Stock	(76,231)	—	—	(76,231)
Proceed from Stock Option Exercises	2,580	—	—	2,580
Excess Tax Benefits from Share Based Payment Arrangements	2,504	—	—	2,504
Intra-entity Activity, net	160,107	(160,107)	—	—
Net Cash Provided by (Used in) Financing Activities	60,022	(160,107)	—	(100,085)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,540	(298)	—	8,242
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,644	3,870	—	7,514
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 12,184</u>	<u>\$ 3,572</u>	<u>\$ —</u>	<u>\$ 15,756</u>

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 products used in residential, industrial, commercial and infrastructure construction. Information presented for the three and nine months ended December 31, 2016 and 2015, 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) as well as 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) and the mining and sale of sand used in hydraulic fracturing ("frac sand"). 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, slag, 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 each business segment, range from local in nature to national businesses. We have operations in a variety 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. Our cement and slag companies focus on the U.S. heartland in Texas, Oklahoma, Missouri, Colorado, Wyoming and Nevada, as well as the Chicago, Illinois metropolitan area. Due to the low value-to-weight ratio of cement, it is usually shipped within a 150 mile radius of the plants by truck and up to 300 miles by rail. Concrete and aggregates are even more regional as our operations serve the areas immediately surrounding Austin, Texas, north of Sacramento, California and the greater Kansas City, Missouri area, while frac sand is currently sold into shale deposit zones across the United States. Cement, concrete and aggregates and frac sand demand may fluctuate more widely because local and regional markets and economies may be more sensitive to changes than the national markets. Our Wallboard and Paperboard operations are more national in scope and shipments are made throughout most of the continental United States, except for the northeast.

On July 10, 2015, we completed the acquisition of a 600,000 ton per year Granulated Ground Blast Furnace Slag ("Slag") plant in South Chicago (the "Skyway Plant") from Holcim (US) Inc. (the "Skyway Acquisition"). Among other applications, slag is used in connection with Portland cement to make lower permeability concrete. The Skyway facility purchases its primary raw material, Slag, pursuant to a long-term supply agreement with a third party. The purchase price (the "Skyway Purchase Price") for the Skyway Acquisition was approximately \$29.9 million, net of \$2.5 million which was refunded in two installments in January 2016 and 2017. We funded the payment of the Skyway Purchase Price and expenses incurred in connection with the Skyway Acquisition through operating cash flow. We also assumed certain liabilities, including contractual obligations, related to the Skyway Plant.

On September 11, 2016, Eagle Materials Inc. (the "Company") and Cemex Construction Materials Atlantic, LLC (the "Seller") entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") pursuant to which the Company will acquire (the "Fairborn Acquisition") (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") to be paid by the Company in the Fairborn Acquisition is \$400.0 million in cash, subject to a customary post-closing inventory adjustment. In addition, the Company will assume 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 after the closing of the Fairborn Acquisition. The Company expects to fund 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. The Fairborn Acquisition is expected to close fourth quarter of fiscal 2017.

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.

RESULTS OF OPERATIONS

Consolidated Results

	For the Three Months Ended			For the Nine Months Ended		
	December 31,		Change	December 31,		Change
	2016	2015		2016	2015	
	(In thousands except per share)			(In thousands except per share)		
Revenues	\$ 302,395	\$ 277,409	9%	\$ 932,557	\$ 891,360	5%
Cost of Goods Sold	(215,015)	(208,544)	3%	(682,012)	(717,104)	(5)%
Gross Profit	87,380	68,865	27%	250,545	174,256	44%
Equity in Earnings of Unconsolidated Joint Venture	11,244	10,483	7%	31,371	29,993	5%
Corporate General and Administrative	(9,166)	(8,304)	10%	(27,831)	(26,659)	4%
Other Income	429	1,163	(63)%	2,008	2,170	(7)%
Interest Expense, net	(6,198)	(4,002)	55%	(15,755)	(12,830)	23%
Earnings Before Income Taxes	83,689	68,205	23%	240,338	166,930	44%
Income Tax Expense	(27,302)	(22,357)	22%	(78,370)	(53,501)	46%
Net Earnings	\$ 56,387	\$ 45,848	23%	\$ 161,968	\$ 113,429	43%
Diluted Earnings per Share	\$ 1.17	\$ 0.92	27%	\$ 3.35	\$ 2.26	48%

Revenues. Revenues were \$302.4 million and \$277.4 million for the three months ended December 31, 2016 and 2015, respectively. Revenues increased in all of our segments except our oil and gas proppants segment. The increase in revenues for the three months ended December 31, 2016, compared to the three months ended December 31, 2015, was due primarily to increased average net sales prices in all segments except gypsum wallboard, which declined approximately 3%, and increased sales volumes in all segments except cement, which declined approximately 1%. The increase in average net sales prices and sales volumes positively impacted net revenue by approximately \$3.1 million and \$21.9 million, respectively, during the quarter ended December 31, 2016, compared to December 31, 2015.

Revenues were \$932.6 million and \$891.4 million for the nine months ended December 31, 2016 and 2015, respectively. Revenues from the Skyway Acquisition positively impacted revenues by approximately \$9.4 million. Net revenues from our legacy businesses increased approximately 4% during the nine months ended December 31, 2016, compared to the nine months ended December 31, 2015. Revenues increased in all of our segments except our oil and gas proppants segment. The increase in revenues for the nine months ended December 31, 2016 was due primarily to increased average net sales prices in all segments except gypsum wallboard, which declined approximately 3%, and recycled paperboard, which was flat compared to the nine months ended December 31, 2015. Sales volumes also increased in all segments except cement, which was down

slightly and oil and gas proppants. Excluding revenues from the Skyway Acquisition, increased net sales prices and sales volumes positively impacted net revenue during the quarter ended December 31, 2016, by approximately \$5.1 million and \$26.7 million, respectively.

Cost of Goods Sold. Cost of goods sold was \$215.0 million and \$208.5 million during the three months ended December 31, 2016 and 2015, respectively. The increase in cost of goods sold was related to increased sales volumes, primarily in our gypsum wallboard and concrete and aggregates businesses, which increased cost of goods sold by approximately \$9.8 million and \$8.2 million, respectively, partially offset by decreased operating costs of approximately \$11.5 million. The decrease in operating costs in the three months ended December 31, 2016, compared to December 31, 2015, was primarily related to our concrete and aggregates and oil and gas proppants businesses and were approximately \$2.2 million and \$9.3 million, respectively. The decrease in operating costs for our oil and gas proppants business is primarily related to a gain on settlement associated with the termination of one of our long-term customer contracts, and lower amortization expenses. See Oil and Gas Proppants discussion on page 32 for more information.

Cost of goods sold was \$682.0 million and \$717.1 million during the nine months ended December 31, 2016 and 2015, respectively. The decrease in cost of goods sold for the nine months ended December 31, 2016, compared to the nine months ended December 31, 2015, was primarily related an impairment charge of \$28.4 million and a write-down of \$9.4 million in raw sand inventory values in our oil and gas proppants segment during the nine months ended December 31, 2015. Excluding the impairment charge, inventory write-down and cost of goods sold from the Skyway Acquisition of \$4.5 million, cost of goods sold decreased approximately \$2.1 million during the nine months ended December 31, 2016, compared to the nine months ended December 31, 2015. The decrease in cost of goods sold was related to a net decrease in sales volumes of approximately \$12.4 million, partially offset by increased operating costs of \$10.6 million. The net decrease in sales volumes was primarily related to our oil and gas proppants business, which declined approximately \$48.8 million, partially offset by increases in sales volumes of gypsum wallboard, paperboard and concrete and aggregates businesses of \$15.2 million, \$9.3 million and \$14.5 million, respectively. The increase in operating costs was due primarily to our cement and oil and gas proppants businesses, which increased operating costs by approximately \$12.8 million and \$8.1 million, partially offset by reduced operating costs in our gypsum wallboard, paperboard and concrete and aggregates businesses of \$5.1 million, \$2.5 million and \$2.7 million, respectively.

Gross Profit. Gross profit was \$87.4 million and \$68.9 million during the three months ended December 31, 2016 and 2015, respectively. The increase in gross profit was primarily related to increased average net sales prices and sales volumes, as noted above. The gross margin for the three months ended December 31, 2016 increased to 29%, compared to 26% for the three months ended December 31, 2015. The increase in the gross margin to 29% for the three months ended December 31, 2016, compared to the gross margin of 26% for the three months ended December 31, 2015 is due primarily to the increase in average net sales prices.

Gross profit was \$250.6 million and \$174.3 million during the nine months ended December 31, 2016 and 2015, respectively. The increase in gross profit was primarily related to an impairment charge of \$28.4 million and a write-down of \$9.4 million in raw sand inventory values in our oil and gas proppants segment during the nine months ended December 31, 2015. The remaining increase in gross profit was due primarily to increased average net sales prices and sales volumes, as noted above. The gross margin for the nine months ended December 31, 2016 increased to 27%, compared to 20% for the nine months ended December 31, 2015. Excluding the \$28.4 million impairment of customer contract intangibles and the write-down of \$9.4 million in raw sand inventory during the three months ended December 31, 2015, the gross margin for the nine months ended December 31, 2015 would have been approximately 24%. The increase in the gross margin to 27% for the nine months ended December 31, 2016, compared to the adjusted gross margin of 24% for the nine months ended December 31, 2015 is due primarily to the increase in average net sales prices and the Skyway Acquisition.

Equity in Earnings of Joint Venture. Equity in earnings of our unconsolidated joint venture increased \$0.7 million, or 7%, for the three months ended December 31, 2016, compared to the similar period in 2015. The increase is primarily due to an 8% increase in sales volumes and a decrease in operating costs, partially offset by

an 8% decrease in average net sales price. The impact of the increase in sales volumes and decrease in operating costs on equity in earnings of our unconsolidated joint venture during the three months ended December 31, 2016, compared to the three months ended December 31, 2015, was approximately \$0.9 million and \$2.1 million, respectively, partially offset by a decrease in average net sales price of approximately \$2.3 million. The decrease in operating costs was primarily due to a decrease in fuel and power, purchased raw materials and purchased cement of approximately \$0.6 million, \$0.4 million and \$0.8 million, respectively, while the decrease in the average net sales prices was due to a reduction in oil well cement sales.

Equity in earnings of our unconsolidated joint venture increased \$1.4 million, or 5%, for the nine months ended December 31, 2016, compared to the similar period in 2015. The increase is primarily due to a 5% increase in sales volumes and a decrease in operating costs, partially offset by an 10% decrease in average net sales price. The impact of the increase in sales volumes and decrease in operating costs on equity in earnings of our unconsolidated joint venture during the nine months ended December 31, 2016, compared to the nine months ended December 31, 2015, was approximately \$1.4 million and \$8.5 million, respectively, partially offset by a decrease in average net sales price of approximately \$8.5 million. The decrease in operating costs was primarily due to a decrease in fuel and power and purchased cement costs of approximately \$1.7 million and \$6.9 million, respectively, while the decrease in the average net sales prices was due to a reduction in oil well cement sales.

Corporate General and Administrative. Corporate general and administrative expenses increased 10% for the three months ended December 31, 2016, compared to the similar periods in 2015. The approximately \$0.9 million increase in corporate general and administrative expenses for the three months ended December 31, 2016, compared to 2015, is due primarily to an increase of approximately \$0.8 million in legal expense during the three months ended December 31, 2016, compared to the three months ended December 31, 2015.

Corporate general and administrative expenses increased 4% for the nine months ended December 31, 2016, compared to the similar periods in 2015. The approximately \$1.1 million increase in corporate general and administrative expenses for the nine months ended December 31, 2016, compared to 2015, is due primarily due to increased legal expenses of approximately \$1.9 million during the nine months ended December 31, 2016, compared to the similar period in 2015, partially offset by a decrease in stock and incentive compensation of approximately \$1.1 million. The increase in legal expenses is due primarily to the domestic wallboard antitrust litigation and approximately \$1.0 million related to the Fairborn Acquisition, while the decrease in stock and incentive compensation is due to the vesting of grants issued in prior years.

Other 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 \$2.2 million and \$2.9 million during the three and nine months ended December 31, 2016, respectively, compared to the three and nine months ended December 31, 2015. The increase in interest expense, net for both of the three and nine months ended December 31, 2016, compared to the similar three and nine months in the prior fiscal year, is due primarily to our issuance of \$350.0 million of 4.5% senior notes during August 2016. The proceeds from this debt issuance were used to repay the outstanding balance under our Credit Facility, which currently has a lower interest rate. We expect our interest expense to increase during the remainder of fiscal 2017, as we expect to use borrowings under the Credit Facility to fund the Fairborn Acquisition, which is expected to close in the fourth quarter of fiscal 2017. See Footnote (B) to the Unaudited Consolidated Financial Statements for more information regarding the Fairborn Acquisition.

Earnings Before Income Taxes. Earnings before income taxes were \$83.7 million and \$68.2 million during the three months ended December 31, 2016 and 2015, respectively. The increase was primarily due to an approximately \$18.5 million increase in gross profit, a \$0.7 million increase in equity in earnings of unconsolidated joint venture, partially offset by an increase in interest expense, net of approximately \$2.2 million and an increase of approximately \$0.9 million in corporate general and administrative expenses.

Earnings before income taxes were \$240.3 million and \$166.9 million during the nine months ended December 31, 2016 and 2015, respectively. The increase was primarily due to an approximately \$76.2 million increase in gross profit, a \$1.4 million increase in equity in earnings of unconsolidated joint venture, partially offset by an increase in interest expense, net of approximately \$3.0 million and an increase of approximately \$1.1 million in corporate general and administrative expenses.

Income Taxes. Income tax expense was \$78.4 million and \$53.5 million for the nine months ended December 31, 2016 and 2015, respectively. The estimated effective tax rate for fiscal 2017 was approximately 33%, which is slightly above with the 32% tax rate for fiscal 2016.

Net Earnings and Diluted Earnings per Share. Net earnings for the quarter ended December 31, 2016 of approximately \$56.4 million increased 23% compared to net earnings for the quarter ended December 31, 2015 of approximately \$45.8 million; while net earnings for the nine months ended December 31, 2016 of \$162.0 million increased 43% compared to net earnings for the nine months ended December 31, 2015 of \$113.4 million. Diluted earnings per share for the three and nine months ended December 31, 2016 were \$1.17 and \$3.35, respectively, compared to diluted earnings per share of \$0.92 and \$2.26 for the three and nine months ended December 31, 2015.

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

	For the Three Months Ended December 31,		Percentage Change	For the Nine Months Ended December 31,		Percentage Change
	2016	2015		2016	2015	
	(In thousands except per unit)			(In thousands except per unit)		
Revenues (1)						
Cement (2)	\$ 138,047	\$ 135,419	2%	\$ 449,650	\$ 428,385	5%
Gypsum Wallboard	121,504	108,907	12%	357,689	343,660	4%
Recycled Paperboard	41,254	36,822	12%	128,528	111,285	15%
Oil and Gas Proppants	7,124	8,476	(16%)	18,851	49,608	(62%)
Concrete and Aggregates	40,843	31,779	29%	114,734	96,982	18%
Gross Revenues	348,772	321,403	9%	1,069,452	1,029,920	4%
Less: Intersegment Revenues	(20,468)	(17,986)	14%	(59,123)	(56,005)	6%
Less: Joint Venture Revenues	(25,909)	(26,008)	(0%)	(77,772)	(82,555)	(6%)
	<u>\$ 302,395</u>	<u>\$ 277,409</u>	9%	<u>\$ 932,557</u>	<u>\$ 891,360</u>	5%
Sales Volume						
Cement (M Tons) (2)	1,198	1,212	(1%)	3,891	3,899	(0%)
Gypsum Wallboard (MMSF)	646	568	14%	1,883	1,764	7%
Recycled Paperboard (M Tons)	76	71	7%	245	215	14%
Concrete (M Yards)	348	266	31%	950	839	13%
Aggregates (M Tons)	906	792	14%	2,877	2,223	29%
Frac Sand (M Tons)	115	107	7%	299	541	(45%)
Average Net Sales Prices (3)						
Cement (2)	\$ 100.88	\$ 97.10	4%	\$ 100.45	\$ 97.54	3%
Gypsum Wallboard	153.34	157.99	(3%)	155.06	159.74	(3%)
Recycled Paperboard	524.75	510.38	3%	508.00	506.42	0%
Concrete	94.38	93.56	1%	94.08	92.54	2%
Aggregates	8.52	8.34	2%	8.49	8.28	3%
Operating Earnings						
Cement (2)	\$ 45,307	\$ 41,768	8%	\$ 127,623	\$ 116,058	10%
Gypsum Wallboard	41,075	37,289	10%	122,109	118,185	3%
Recycled Paperboard	9,380	7,923	18%	30,827	22,091	40%
Oil and Gas Proppants	(1,726)	(9,153)	(81%)	(11,728)	(59,389)	(80%)
Concrete and Aggregates	4,588	1,521	202%	13,085	7,304	79%
Other, net	429	1,163	(63%)	2,008	2,170	(7%)
Net Operating Earnings	<u>\$ 99,053</u>	<u>\$ 80,511</u>	23%	<u>\$ 283,924</u>	<u>\$ 206,419</u>	38%

(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 were \$138.0 million for the three months ended December 31, 2016, which is a 2% increase over revenues of \$135.4 million for the three months ended December 31, 2015. The increase in revenue during the three months ended December 31, 2016, compared to the three months ended December 31, 2015, is primarily due to a 4% increase in average net sales price, partially offset by a 1% decrease in sales volumes. The decrease in sales volumes during the three months ended December 31, 2016, compared to the three months ended December 31, 2015, was primarily due to the onset of early winter conditions in our northern markets. The increase in average net sales price during the three months ended December 31, 2016, compared to the three months ended December 31, 2015, positively impacted cement revenues by approximately \$2.9 million, partially offset by the reduction in sales volumes which reduced revenues by approximately \$0.3 million.

Cement operating earnings increased 8% to \$45.3 million from \$41.8 million for the three months ended December 31, 2016 and 2015, respectively. The increase in operating earnings was due primarily to increased

average net sales prices and lower operating expenses, which positively impacted operating earnings by approximately \$2.9 million and \$0.8 million, respectively, partially offset by reduced sales volumes of approximately \$0.2 million. The operating margin increased to 30% for the third quarter of fiscal 2017, compared to 29% for the third quarter of fiscal 2016, primarily due to increased sales average net sales prices.

Cement revenues were \$449.7 million for the nine months ended December 31, 2016, which is a 5% increase over revenues of \$428.4 million for the nine months ended December 31, 2015. Approximately \$9.9 million of the increase in revenues for the nine months ended December 31, 2016, compared to the nine months ended December 31, 2015, was related to the Skyway Acquisition. The remaining increase in revenue during the nine months ended December 31, 2016, compared to the nine months ended December 31, 2015, is primarily due to a 3% increase in average net sales prices. The increase in average net sales prices during the nine months ended December 31, 2016, compared to the nine months ended December 31, 2015 positively impacted cement revenues by approximately \$11.4 million.

Cement operating earnings increased 10% to \$127.6 million from \$116.1 million for the nine months ended December 31, 2016 and 2015, respectively. Approximately \$4.4 million of the increase in operating earnings for the nine months ended December 31, 2016, compared to the nine months ended December 31, 2015, was related to the Skyway Acquisition. The remaining increase in operating earnings was due primarily to increased average net sales prices, which positively impacted operating earnings by approximately \$11.4 million, partially offset by increased operating costs of approximately \$4.3 million. The increase in operating costs in the nine months ended December 31, 2016, compared to December 31, 2015, is primarily related to increased maintenance costs, which adversely impacted operating earnings by approximately \$5.5 million, partially offset by decreased energy costs, which positively impacted operating costs by approximately \$2.2 million. The operating margin increased to 28% for the nine months ended December 31, 2016, compared to 27% for the nine months ended December 31, 2015, primarily due to increased sales prices.

Gypsum Wallboard Operations. Sales revenues increased 12% to \$121.5 million for the three months ended December 31, 2016, from \$108.9 million for the three months ended December 31, 2015, primarily due to a 14% increase in sales volumes, partially offset by a 3% decrease in average net sales price. The increase in sales volumes positively impacted revenues by approximately \$15.0 million, while the decrease in average net sales price negatively impacted revenue by an approximately \$2.4 million. The increased sales volumes are primarily due to increased construction activity in fiscal 2017, compared to fiscal 2016. Our market share was essentially unchanged during the last year.

Operating earnings increased to \$41.1 million for the three months ended December 31, 2016, compared to \$37.3 million for the three months ended December 31, 2015, primarily due to the increase in our sales volumes and reduced operating costs, which positively impacted operating earnings by approximately \$5.1 million and \$1.1 million, respectively, partially offset by reduced average net sales prices, which adversely impacted operating earnings by approximately \$2.4 million. The decrease in operating costs during the three months ended December 31, 2016, compared to the three months ended December 31, 2015, was primarily due to reduced maintenance and other production costs, which positively impacted operating earnings by \$1.2 million and \$0.8 million, respectively, partially offset by increased paper and natural gas costs of approximately \$0.3 million and \$0.5 million. Our operating margin was 34% for the three months ended December 31, 2016 and December 31, 2015. 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 4% to \$357.7 million for the nine months ended December 31, 2016, from \$343.6 million for the nine months ended December 31, 2015, primarily due to a 7% increase in sales volumes. The increase in sales volumes positively impacted revenues by approximately \$23.1 million, partially offset by a decline in average net sales prices, which adversely impacted revenues by approximately \$9.2 million. The increased sales volumes are primarily due to increased construction activity in fiscal 2017, compared to fiscal 2016. Our market share was essentially unchanged during the last year.

Operating earnings increased to \$122.1 million for the nine months ended December 31, 2016, compared to \$118.2 million for the nine months ended December 31, 2015, primarily due to the increase in our sales volumes and reduced operating costs, which positively impacted operating earnings by approximately \$8.0 million and \$5.1 million, respectively, partially offset by reduced average net sales prices, which adversely impacted operating earnings by approximately \$9.2 million. The decrease in operating costs during the nine months ended December 31, 2016, compared to the nine months ended December 31, 2015, was primarily due to reduced freight, natural gas and maintenance costs, which positively impacted operating earnings by \$0.4 million, \$0.5 million and \$2.4 million, respectively. Our operating margin remained consistent at 34% for both of the nine months ended December 31, 2016 and 2015. 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 12% to \$41.3 million during the three months ended December 31, 2016, compared to \$36.8 million for the three months ended December 31, 2015. The increase in revenues during the quarter ended December 31, 2016, compared to December 31, 2015, is due primarily to the 7% increase in sales volumes and 3% increase average net sales prices, which positively impacted revenue by approximately \$3.2 million and \$1.3 million, respectively. The increase in sales volumes is primarily due to the increase in demand for gypsum liner due to both improving demand for gypsum wallboard and an increase in demand from certain customers.

Operating earnings increased to \$9.4 million for the third quarter of fiscal 2017, compared to \$7.9 million for the third quarter of fiscal 2016. The increase in operating earnings is primarily due to increased sales volumes and average net sales price, which positively impacted operating earnings by approximately \$0.7 million and \$1.3 million, respectively, partially offset by increased operating costs, which adversely impacted operating earnings by approximately \$0.5 million. The increase in operating costs is primarily related to increased recycled fiber costs, which adversely impacted operating earnings by approximately \$2.1 million, partially offset by decreases in energy and repair and maintenance costs, which positively impacted operating earnings by approximately \$0.4 million and \$1.2 million, respectively. The increase in average net sales price was the primary reason operating margin increased to 23% during the third quarter of fiscal 2017, compared to 22% during the third quarter of fiscal 2016.

Revenues increased 15% to \$128.5 million during the nine months ended December 31, 2016, compared to \$111.3 million for the nine months ended December 31, 2015. The increase in revenues during the nine months ended December 31, 2016, compared to the nine months ended December 31, 2015, is due primarily to the 14% increase in sales volume and a slight increase in average net sales price, which positively impacted revenue by approximately \$15.9 million and \$1.3 million, respectively. The increase in sales volumes is primarily due to the increase in demand for gypsum liner due to both improving demand for gypsum wallboard and an increase in demand from certain customers.

Operating earnings increased to \$30.8 million for the nine months ended December 31, 2016, compared to \$22.1 million for the nine months ended December 31, 2015. The increase in operating earnings is primarily due to increased sales volumes, average net sales price and reduced operating costs, which positively impacted operating earnings by approximately \$3.2 million, \$1.3 million and \$4.3 million, respectively. The decrease in operating costs is primarily related to a decrease in energy and repair and maintenance costs, which positively impacted operating earnings by approximately \$2.2 million and \$2.6 million, respectively, partially offset by increased recycled fiber costs of approximately \$1.3 million. The increase in average net sales price and decrease in operating cost was the primary reason operating margin increased to 24% during the nine months ended December 31, 2016, compared to 20% during the nine months ended December 31, 2015.

Oil and Gas Proppants. Revenues for our oil and gas proppants segment decreased to approximately \$7.2 million during the three months ended December 31, 2016, compared to \$8.5 million during the three months ended December 31, 2015. The decrease in sales revenue for the three months ended December 31, 2016, compared to December 31, 2015, was due to a decrease in average net sales price, which adversely impacted

revenue by approximately \$2.0 million, partially offset by increased sales volumes which positively impacted revenue by approximately \$0.7 million.

Operating loss for the three months ended December 31, 2016 was approximately \$1.8 million, compared to an operating loss of approximately \$9.2 million during the three months ended December 31, 2015. Operating loss for the three months ended December 31, 2016 was positively impacted by a \$4.1 million gain on settlement associated with the termination of one of our long-term customer contracts. Excluding the gain on settlement, operating loss decreased approximately \$3.3 million during the three months ended December 31, 2016, compared to the three months ended December 31, 2015. The reduction in operating loss was primarily due to lower operating costs, which positively impacted earnings by \$5.3 million, partially offset by lower average net sales price, which adversely impacted earnings by approximately \$2.0 million. The reduction in operating expenses is due primarily to approximately \$1.8 million of lower amortization expense from customer contracts, and cost reduction measures related to lower demand. Demand continues to be adversely impacted by low crude oil prices, which has contributed to lower drilling activity.

Revenues for our oil and gas proppants segment decreased to \$18.9 million during the nine months ended December 31, 2016, compared to \$49.6 million during the nine months ended December 31, 2015. The decrease in sales revenue for the nine months ended December 31, 2016, compared to December 31, 2015, was due to a decrease in both average net sales prices and sales volumes. The decrease in average net sales prices and sales volumes during the nine months ended December 31, 2016, compared to the nine months ended December 31, 2015, adversely impacted revenues by approximately \$8.6 million and \$22.1 million, respectively.

Operating loss for the nine months ended December 31, 2016 was approximately \$11.7 million, compared to operating loss of approximately \$59.4 million during the nine months ended December 31, 2015. Operating loss for nine months ended December 31, 2016 was primarily due to the continued decline in the oil and gas industry, which negatively impacted sales volumes. Operating loss for the nine months ended December 31, 2016 includes the write-off of a customer contract valued at approximately \$1.3 million and a write-down of finished and raw sand inventories at our Corpus Christi location of approximately \$8.5 million. The write-down of finished and raw sand inventories is based upon the current sales price of proppants in the associated shale basin. From time to time, we have sales contracts with drilling companies that specified the purchase of a certain amount of tonnage at stated sales prices. During the nine months ended December 31, 2016, sales contracts with two of our customers expired, or were terminated. These customers had not purchased their contractually required amounts at the time the contracts expired or were terminated, and we entered into settlement agreements with such customers in connection with their failure to purchase the required amounts. Based on these settlement agreements, we received settlement payments of approximately \$12.9 million in exchange for releasing our claims against such customers. We also recognized \$2.0 million related to the forfeiture of a customer prepayment upon the expiration of the related contract. These payments and forfeiture were recorded in our income statement as a reduction of cost of sales. During the nine months ended December 31, 2015, we recorded an impairment charge of \$28.4 million of intangible assets (customer contracts) generated from the CRS Acquisition and a write-down of \$9.4 million in raw sand inventory values associated primarily with downward revaluation of raw sand inventory. Excluding the impact of the above, operating loss for the nine months ended December 31, 2016 was approximately \$16.8 million, compared to operating loss of approximately \$21.6 million for the nine months ended December 31, 2015. The reduction in operating loss was primarily due to lower operating costs, which positively impacted earnings by \$13.4 million, partially offset by lower average net sales price, which adversely impacted earnings by approximately \$8.6 million. The reduction in operating expenses is due primarily to approximately \$7.3 million of lower amortization expense from customer contracts, and cost reduction measures related to lower demand. Demand continues to be adversely impacted by low crude oil prices, which has contributed lower drilling activity.

Concrete and Aggregates Operations. Concrete and aggregates revenues increased 29% to \$40.8 million for the three months ended December 31, 2016, compared to \$31.8 million for the three months ended December 31, 2015. The primary reason for the increase in revenue for the three months ended December 31, 2016, compared to the three months ended December 31 2015, was the 31% and 14% increase in sales volumes for concrete and

aggregates, respectively, which positively impacted revenues by approximately \$8.6 million. Average net sales prices for concrete and aggregates also increased 3% and 1%, respectively, during the three months ended December 31, 2016, compared to the three months ended December 31, 2015, which positively impacted revenues by approximately \$0.4 million.

Operating earnings increased 202% to approximately \$4.6 million for the three months ended December 31, 2016, compared to \$1.5 million for the three months ended December 31, 2015. Operating earnings were positively impacted by increased average net sales prices, sales volumes and reduced operating costs, which positively impacted operating earnings by approximately \$0.4 million, \$0.4 million and \$2.3 million, respectively. The decrease in operating costs was primarily due to lower maintenance, delivery and purchased materials, which positively impacted operating earnings by approximately \$1.0 million, \$0.2 million and \$0.5 million, respectively.

Concrete and aggregates revenues increased 18% to \$114.7 million for the nine months ended December 31, 2016, compared to \$97.0 million for the nine months ended December 31, 2015. The primary reason for the increase in revenue for the nine months ended December 31, 2016, compared to the nine months ended December 31, 2015, was the 13% and 29% increase in sales volumes for concrete and aggregates, respectively, which positively impacted revenues by approximately \$15.7 million. Average net sales prices for concrete and aggregates also increased 2% and 3%, respectively, during the nine months ended December 31, 2016, compared to the nine months ended December 31, 2015, which positively impacted revenues by approximately \$2.0 million.

Operating earnings increased 79% to approximately \$13.1 million for the nine months ended December 31, 2016, compared to \$7.3 million for the nine months ended December 31, 2015. Operating earnings were positively impacted by increased average net sales prices and sales volumes, which positively impacted operating earnings by approximately \$1.9 million and \$1.2 million, respectively. Operating earnings were also positively impacted by a decrease in operating costs, which positively impacted operating earnings by approximately \$2.7 million. The decrease in operating costs during the nine months ended December 31, 2016, compared to the nine months ended December 31, 2015, was primarily related to maintenance and purchased materials, which positively impacted operating earnings by approximately \$0.5 million and \$1.3 million, respectively.

GENERAL OUTLOOK

The drivers of construction products demand continue to improve the prospects for increased infrastructure spending and should 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 2017, 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.

We expect aggregate volumes to continue to increase during the remainder of fiscal 2017, while concrete volumes are expected to remain relatively consistent throughout the rest of the fiscal year as compared to the prior year.

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 into calendar 2017. Industry shipments of gypsum wallboard were 24.6 billion square feet in calendar 2016, and we are expecting shipments to increase approximately 5% during calendar 2017. Residential housing construction and repair and remodeling are also expected to continue to grow.

We anticipate increased demand for gypsum wallboard to positively impact our recycled paperboard business as sales of higher priced gypsum paper are expected to continue to increase throughout the remainder of fiscal 2017, both in gross tons and as a percentage of total sales volumes.

The decline in oil and gas rig count and well completion activity has adversely impacted oil and gas activity, leading to reduced demand and pricing for proppants. In connection with the reduction in demand and pricing, during fiscal 2017, we reduced the value of our sand inventories by approximately \$8.5 million. We anticipate proppant volumes will increase in part due to recovery in rig counts and in part due to greater sand utilization per well.

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 Note (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,	
	2016	2015
	(dollars in thousands)	
Net Cash Provided by Operating Activities	\$ 288,868	\$ 216,290
Investing Activities:		
Capital Expenditures	(34,043)	(75,536)
Acquisition Spending	—	(32,427)
Net Cash Used in Investing Activities	(34,043)	(107,963)
Financing Activities:		
Increase (Decrease) in Credit Facility	(382,000)	45,000
Repayment of Senior Notes	(8,000)	(57,045)
Issuance of Long-term Debt	350,000	—
Payment of Debt Issuance Costs	(6,637)	—
Dividends Paid	(14,500)	(15,078)
Shares Repurchased to Settle Employee Taxes on Stock Compensation	(3,084)	(1,815)
Purchase and Retirement of Common Stock	(60,013)	(76,231)
Proceeds from Stock Option Exercises	20,137	2,580
Excess Tax Benefits from Share Based Payment Arrangements	8,546	2,504
Net Cash Used in Financing Activities	(95,551)	(100,085)
Net Increase (Decrease) in Cash	\$ 159,274	\$ 8,242

Cash flows from operating activities increased to \$288.9 million during nine months ended December 31, 2016, compared to \$216.3 million during the similar period in 2015. This increase was primarily attributable to increased net earnings and distributions from Joint Venture, and an increase in cash from changes in working capital, which positively impacted cash flows from operations by approximately \$20.2 million, \$6.0 million and \$55.1 million, respectively. The increase in cash flows from increased net earnings is shown net of the \$28.4 million non-cash impairment expense recognized during the nine months ended December 31, 2015. The increase in cash flows from changes in working capital are primarily due to changes in inventory, accounts payable and accrued liabilities and income taxes payable, which increased cash flows by approximately \$16.3 million, \$16.8 million and \$25.2 million, respectively, partially offset by decreased cashflows from changes in accounts receivable of approximately \$5.1 million.

Working capital increased to \$300.8 million at December 31, 2016, compared to \$259.4 million at March 31, 2016, primarily due to the increased cash approximately \$159.3 million, partially offset by decreased accounts and notes receivable, inventory and income taxes payable, increased accounts payable and accrued liabilities and current portion of long-term debt of approximately \$4.9 million, \$20.8 million, \$10.8 million, \$8.9 million and \$73.2 million, respectively. The increase in cash is due to improved operating earnings during the nine months ended December 31, 2016, as well as the issuance of \$350.0 million in long-term debt and the related repayment of outstanding amounts under the Credit Facility. The decrease in inventory is due primarily to the increase in revenues during the nine months ended December 31, 2016, compared to the nine months ended December 31, 2015. The changes in accounts payable and accrued liabilities and accounts and notes receivable are primarily due to timing of payments and cash receipts.

The decrease in accounts and notes receivable at December 31, 2016, compared to March 31, 2016, is primarily due to the timing of payments received during the nine months ended December 31, 2016, compared to December 31, 2015. As a percentage of quarterly sales generated in the quarter then ended, accounts receivable

was approximately 38% at December 31, 2016 and 48% at March 31, 2016. 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, 2016. Notes receivable are monitored on an individual basis, and no significant deterioration in the collectability of notes receivable was identified at December 31, 2016.

Our inventory balance at December 31, 2016 declined approximately \$20.8 million from our inventory balance at March 31, 2016. Within our inventory, raw materials and materials-in-progress, finished cement and frac sand decreased approximately \$14.9 million, \$2.8 million and \$1.71 million, respectively. Included in the decrease in raw materials and materials-in-progress and frac sand inventory is a write-down of approximately \$7.7 million and \$0.8 million, respectively, of frac sand at our Corpus Christi location. This write-down is based on the current sales price of proppants in the associated shale basin, which was lower than the value of our inventory. The decline in finished cement is consistent with our business cycle as we generally build inventory over the winter to meet the demand in the spring and summer. 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, 2016 was approximately \$34.0 million, compared to net cash used in investing activities of approximately \$108.0 million during the similar period in 2015, a decrease of \$74.0 million. The decrease in cash used in investing activities for the nine months ended December 31, 2016, compared to the nine months ended December 31, 2015, is primarily due to \$32.4 million for the Skyway Acquisition, and capital expenditures to complete certain projects in our oil and gas proppants segment during the nine months ended December 31, 2015. We anticipate spending approximately \$50.0 million on capital expenditures for all of our businesses during fiscal 2017. We also anticipate spending \$400.0 million to close the Fairborn Acquisition during the fourth quarter of fiscal 2017.

Net cash used in financing activities was approximately \$95.6 million during the nine months ended December 31, 2016, compared to net cash used in financing activities of approximately \$100.1 million during the similar period in 2016. This \$4.5 million decrease in net cash used in financing activities is primarily due to the increase in cash flows from the stock option exercises and tax benefits from share based payments, and a reduction in the repurchase and retirement of common stock, which increased cash flows approximately \$17.5 million, \$6.1 million and \$16.2 million, respectively, partially offset increased repayments of long-term debt of approximately \$34.6 million. Our debt-to-capitalization ratio and net-debt-to-capitalization ratio was 28.4% and 20.3%, respectively, at December 31, 2016, compared to 32.8% and 32.6%, respectively, at March 31, 2016.

Debt Financing Activities.

Bank 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 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. There were no borrowings outstanding at December 31, 2016. Based on our Leverage Ratio, we had \$490.7 million of available borrowings, net of the outstanding letters of credit, at December 31, 2016.

The Credit Facility has a \$50.0 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, 2016, we had \$9.3 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 (P) 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 (the "2005 Note Purchase Agreement") in connection with our sale of \$200.0 million of senior unsecured notes, designated as Series 2005A Senior Notes (the "Series 2005A Senior Notes") in a private placement transaction. The Series 2005A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in three tranches. At December 31, 2016, the amount outstanding for the remaining tranche was as follows:

	Principal	Maturity Date	Interest Rate
Tranche C	\$57.2 million	November 15, 2017	5.48%

Interest for this tranche of Series 2005A Senior Notes is payable semi-annually on May 15 and November 15 of each year until all principal is paid.

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 Notes" and together with the Series 2005A Senior Notes, the "Private Placement Senior Unsecured Notes") in a private placement transaction. The Series 2007A Senior 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, 2016, the amounts outstanding for each of the remaining tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche C	\$24.0 million	October 2, 2017	6.36%
Tranche D	\$36.5 million	October 2, 2019	6.48%

Interest for each tranche of Series 2007A Senior 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 2016, the \$8.0 million outstanding under Tranche B of the Series 2007A Senior Unsecured Notes matured, and the related notes were repaid and cancelled at that time.

Our obligations under the 2005 Note Purchase Agreement and 2007 Note Purchase Agreement (together, the "Private Placement Note Purchase Agreements") and the Private Placement Senior Unsecured Notes 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 Private Placement Note Purchase Agreements contain 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 Private Placement Note Purchase Agreements require 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. The 2007 Note Purchase Agreement requires us 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, 2016.

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 Private Placement Note Purchase Agreements) on the Private Placement Senior Unsecured Notes and the other payment and performance obligations of the Company contained in the Senior Notes and in the Private Placement Note Purchase Agreements. 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 Private Placement 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 Private Placement 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 Private Placement 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 \$50.0 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 \$50.0 million Letter of Credit Facility. At December 31, 2016, we had \$9.3 million of letters of credit outstanding that renew annually. We are contingently liable for performance under \$18.2 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 \$14.5 million and \$15.1 million for the nine month periods ended December 31, 2016 and 2015, 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 Purchased	Average Price Paid Per Share
April 1 through April 30, 2016	230,000	\$ 69.80
May 1 through May 31, 2016	30,000	77.57
June 1 through June 30, 2016	265,000	78.32
Quarter 1 Totals	525,000	\$ 74.55
July 1 through July 31, 2016	233,100	78.83
August 1 through August 31, 2016	30,700	81.51
September 1 through September 30, 2016	—	—
Quarter 2 Totals	263,800	79.15
Year-to-Date Totals	788,800	\$ 76.08

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. We did not repurchase any shares during the three months ended December 31, 2016. At December 31, 2016, we have authorization to purchase an additional 4,817,200 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, 2016, 48,372 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' minimum statutory tax withholding, 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,	
	2016	2015
	(dollars in thousands)	
Land and Quarries	\$ 2,973	\$ 18,151
Plants	17,477	37,046
Buildings, Machinery and Equipment	13,593	20,339
Total Capital Expenditures	\$ 34,043	\$ 75,536

Total capital expenditures for fiscal 2017, including sustaining capital expenditures, are expected to be approximately \$50.0 million. Additionally, we anticipate spending approximately \$400.0 million to complete the Fairborn Acquisition during the fiscal fourth quarter. We anticipate sustaining capital expenditures will be approximately \$30.0 to \$35.0 annually, post the Fairborn Acquisition. Historically, we have financed such expenditures with cash from operations and borrowings under our revolving credit facility.

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, 2016, under which borrowings bear interest at a variable rate. There were no borrowings outstanding under the Credit Facility at December 31, 2016. 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

EPA Notice of Violation

On October 5, 2010, Region IX of the EPA issued a Notice of Violation and Finding of Violation (“NOV”) alleging violations by our subsidiary, Nevada Cement Company (“NCC”), of the Clean Air Act (“CAA”). The NOV alleges that NCC made certain physical changes to its facility in the 1990s without first obtaining permits required by the Prevention of Significant Deterioration requirements and Title V permit requirements of the CAA. The EPA also alleges that NCC has failed to submit to the EPA since 2002 certain reports required by the National Emissions Standard for Hazardous Air Pollutants General Provisions and the Portland Cement Manufacturing Industry Standards. On March 12, 2014, the EPA Region IX issued a second NOV to NCC. The second NOV is materially similar to the 2010 NOV except that it alleges violations of the new source performance standards (“NSPS”) for Portland cement plants. The NOVs state that the EPA may seek penalties although it does not propose or assess any specific level of penalties or specify what relief the EPA will seek for the alleged violations. In January 2017, NCC entered into a Consent Decree in which NCC agreed to install at its Fernley, Nevada plant certain emission control equipment (selective non-catalytic reduction) to reduce nitrous oxide emissions and to pay a penalty of \$0.6 million. NCC also agreed to replace two existing vehicles with two new vehicles with more efficient Tier 4 engines. Under the terms of the Consent Decree, NCC will complete the installation of the emission control equipment and vehicle replacement in approximately 2 years. It is anticipated that the investment in the new emission control equipment and vehicles will cost approximately \$3.0 million. In the Consent Decree NCC denies all allegations set forth in the NOVs and the Complaint which is to be filed simultaneously with the entry of the Consent Decree, and the Consent Decree resolves all such claims by the government. The Consent Decree is expected to be executed by the EPA and the US Department of Justice in February 2017, and is subject to approval of the United States District Court in the District of Nevada after a 30-day public comment period.

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 allege 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., USG Corporation and United States Gypsum (together “USG”), New NGC, Inc., Lafarge North America (“Lafarge”), Temple Inland Inc. (“TIN”) and PABCO Building Products LLC. 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 lawsuits bring 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. Initial discovery in this litigation is complete. Following completion of the initial discovery, the Company and remaining co-defendants moved for summary judgement. On February 18, 2016, the court denied the Company's motion for summary judgement. 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. Indirect purchaser plaintiffs filed a motion for preliminary approval of this settlement in September 2016. On July 14, 2016, the Company's motion for permission to appeal the summary judgement 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. Class certification proceedings are ongoing. We are unable to estimate the amount of any reasonably possible loss or range of reasonably possible losses. We deny the allegations in these lawsuits and will vigorously defend ourselves against these claims.

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. 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.

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.

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 2016; 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 will require 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. The PC NESHAP will materially increase capital costs and costs of production for the Company and the industry as a whole.

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) and more stringent standards than PC NESHAP for particulate matter and 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 expected to be March 1, 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, homebuilders suit and the DOJ investigation described in Part II, Item 1. Legal Proceedings), 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, but could be adverse and material in amount. 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, 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," "may," "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

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 24, 2017

/s/ DAVID B. POWERS

David B. Powers
President and Chief Executive Officer
(principal executive officer)

January 24, 2017

/s/ D. CRAIG KESLER

D. Craig Kesler
Executive Vice President – Finance and
Administration and Chief Financial Officer
(principal financial officer)

January 24, 2017

/s/ WILLIAM R. DEVLIN

William R. Devlin
Senior Vice President – Controller and
Chief Accounting Officer
(principal accounting officer)

	Nine Months Ended December 31, 2016	Fiscal Year Ended March 31,			
		2016	2015	2014	2013
Earnings: (1)					
Earnings before income taxes	240,338	219,252	252,927	181,804	84,096
Add: Fixed charges	17,222	18,539	16,631	18,171	15,791
Add: Amortization of capitalized interest and FIN 48 Interest	402	536	(3,311)	1,117	945
Add: Cash distributions from equity method investments	33,250	37,250	40,375	37,750	28,500
Subtract: Income from equity method investments	(31,371)	(39,083)	(44,967)	(37,811)	(32,507)
Total Earnings	259,841	236,494	261,655	201,091	96,825
Fixed Charges: (2)					
Interest expense	15,755	16,583	15,590	17,646	15,467
Interest component of rent expense	1,467	1,956	1,041	525	324
Total Fixed Charges	17,222	18,539	16,631	18,171	15,791
Ratio of Earnings to Fixed Charges	15.1x	12.8x	15.7.1x	11.1x	6.1x

(1) Earnings represent earnings before income taxes and before income from equity method investments plus: (a) fixed charges; and (b) cash distributions from equity method investments.

(2) Fixed charges include: (a) interest expense, whether expensed or capitalized, less interest accrued for uncertain tax positions; and (b) the portion of operating rental expense which management believes is representative of the interest component of rent expense.

Certification of Periodic Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David B. Powers, certify that:

1. I have reviewed this report on Form 10-Q of Eagle Materials Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: January 24, 2017

By: /s/ David B. Powers
David B. Powers
President and Chief Executive Officer

Certification of Periodic Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, D. Craig Kesler, certify that:

1. I have reviewed this report on Form 10-Q of Eagle Materials Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: January 24, 2017

By: /s/ D. Craig Kesler
D. Craig Kesler
Chief Financial Officer
(Principal Financial Officer)

Certification of Periodic Report Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Eagle Materials Inc. and subsidiaries (the "Company") on Form 10-Q for the period ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David B. Powers, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (i) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: January 24, 2017

By: /s/ David B. Powers
David B. Powers
President and Chief Executive Officer

Certification of Periodic Report Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Eagle Materials Inc. and subsidiaries (the "Company") on Form 10-Q for the period ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, D. Craig Kesler, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (i) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: January 24, 2017

By: /s/ D. Craig Kesler
D. Craig Kesler
Chief Financial Officer
(Principal Financial Officer)

MINE SAFETY DISCLOSURE

Section 1503 of the Dodd-Frank Wall Street Reform and Consumer Protection Act contains reporting requirements regarding mine safety. The operation of our quarries is subject to regulation by the federal Mine Safety and Health Administration, or MSHA, under the Federal Mine Safety and Health Act of 1977, or the Mine Act. Set forth below is the required information regarding certain mining safety and health matters for the three month period ending December 31, 2016 for our facilities. In evaluating this information, consideration should be given to factors such as: (i) the number of citations and orders will vary depending on the size of the quarry, (ii) the number of citations issued will vary from inspector-to-inspector and mine-to-mine, and (iii) citations and orders can be contested and appealed, and in that process, may be reduced in severity and amount, and are sometimes dismissed.

Mine or Operating Name/MSHA Identification Number	Section 104 S&S Citations	Section 104(b) Orders	Section 104(d) Citations and Orders	Section 110(b)(2) Violations	Section 107(a) Orders	Total Dollar Value of MSHA Assessments Proposed	Total Number of Mining Related Fatalities	Received Notice of Pattern of Violations Under Section 104(e) (yes/no)	Received Notice of Potential to Have Pattern Under Section 104(e) (yes/no)	Legal Actions Pending as of Last Day of Period	Legal Actions Initiated During Period	Legal Actions Resolved During Period
American Gypsum Company LLC Albuquerque, NM (2900181)	0	0	0	0	0	\$0	0	no	no	0	0	0
American Gypsum Company LLC Duke, OK (3400256)	0	0	0	0	0	\$228	0	no	no	0	0	0
American Gypsum Company LLC Eagle, CO (0503997)	0	0	0	0	0	\$0	0	no	no	0	0	0
Centex Materials LLC Buda, TX (4102241)	0	0	0	0	0	\$0	0	no	no	0	0	0
Central Plains Cement Company Sugar Creek, MO (2302171)	2	0	0	0	0	\$3,541	0	no	no	0	0	0
Central Plains Cement Company Tuisa, OK (3400026)	0	0	0	0	0	\$0	0	no	no	0	0	1(1)
Great Northern Sand Barron Co., WI (4703646)	1	0	0	0	0	\$0	0	no	no	0	0	0
Great Northern Sand LLC Barron Co., WI (4703740)	0	0	0	0	0	\$0	0	no	no	0	0	0
Illinois Cement Company LaSalle, IL (1100003)	3	0	0	0	0	\$0	0	no	no	0	0	0
Mountain Cement Company Laramie, WY (4800007)	0	0	0	0	0	\$0	0	no	no	0	0	0
Mountain Cement Company Laramie, WY (4800529)	0	0	0	0	0	\$0	0	no	no	0	0	0
Nevada Cement Company Fernley, NV (2600015)	0	0	0	0	0	\$0	0	no	no	0	0	0
Northern White Sand LLC Utica, IL (1103253)	0	0	0	0	0	\$0	0	no	no	0	0	0
Northern White Sand LLC Corpus Christi, TX (4105013)	0	0	0	0	0	\$0	0	no	no	0	0	0
Talon Concrete and Aggregates LLC Sugar Creek, MO (2302211)	0	0	0	0	0	\$413	0	no	no	0	0	0
Western Aggregates LLC Yuba, CA (0404950)	0	0	0	0	0	\$0	0	no	no	0	0	0

(1) The legal action was a penalty contest.