

EAGLE MATERIALS INC  
Form 10-Q  
November 05, 2014

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 September 30, 2014

Commission File Number 1-12984

Eagle Materials Inc.

Delaware

(State of Incorporation)

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)

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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 October 31, 2014, the number of outstanding shares of common stock was:

Class	Outstanding Shares
Common Stock, \$.01 Par Value	50,262,957

Eagle Materials Inc. and Subsidiaries

Form 10-Q

September 30, 2014

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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 September 30,		For the Six Months Ended September 30,	
	2014	2013	2014	2013
Revenues	\$284,808	\$252,646	\$551,059	\$479,690
Cost of Goods Sold	209,747	193,167	419,597	373,607
Gross Profit	75,061	59,479	131,462	106,083
Equity in Earnings of Unconsolidated Joint Venture	12,051	9,747	21,851	17,625
Corporate General and Administrative	(7,414 )	(6,060 )	(14,456 )	(11,654 )
Acquisition and Litigation Expense	(2,103 )	-	(2,103 )	-
Other Income	883	317	1,562	900
Interest Expense, Net	(3,901 )	(4,795 )	(7,953 )	(9,750 )
Earnings Before Income Taxes	74,577	58,688	130,363	103,204
Income Tax Expense	(24,258 )	(18,785 )	(42,334 )	(33,200 )
Net Earnings	\$50,319	\$39,903	\$88,029	\$70,004
<b>EARNINGS PER SHARE:</b>				
Basic	\$1.01	\$0.81	\$1.78	\$1.43
Diluted	\$1.00	\$0.80	\$1.75	\$1.40
<b>AVERAGE SHARES OUTSTANDING:</b>				
Basic	49,591,495	49,012,045	49,546,916	48,984,038
Diluted	50,427,286	49,860,100	50,357,914	49,835,382
<b>CASH DIVIDENDS PER SHARE:</b>				
	\$ 0.10	\$0.10	\$0.20	\$0.20

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 September 30,		For the Six Months Ended September 30,	
	2014	2013	2014	2013
Net Earnings	\$ 50,319	\$ 39,903	\$ 88,029	\$ 70,004
Change in Funded Status of Defined Benefit Plans:				
Amortization of Net Actuarial Loss	163	238	326	476
Tax Expense	(57 )	(83 )	(114 )	(166 )
Comprehensive Earnings	\$ 50,425	\$ 40,058	\$ 88,241	\$ 70,314





See notes to unaudited consolidated financial statements.

## Eagle Materials Inc. and Subsidiaries

## Consolidated Balance Sheets

(dollars in thousands)

	September 30, 2014 (unaudited)	March 31, 2014
<b>ASSETS</b>		
Current Assets -		
Cash and Cash Equivalents	\$ 11,063	\$6,482
Accounts and Notes Receivable	132,823	102,917
Inventories	190,711	187,096
Prepaid and Other Assets	6,309	10,465
Total Current Assets	340,906	306,960
Property, Plant and Equipment -	1,698,495	1,660,975
Less: Accumulated Depreciation	(708,311 )	(676,924 )
Property, Plant and Equipment, net	990,184	984,051
Notes Receivable	2,966	3,063
Investment in Joint Venture	45,489	43,008
Goodwill and Intangible Assets	159,835	160,690
Other Assets	15,007	13,757
	\$ 1,554,387	\$ 1,511,529
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities -		
Accounts Payable	\$ 66,953	\$57,098
Accrued Liabilities	47,845	41,520
Income Taxes Payable	8,610	702
Current Portion of Long-term Debt	9,500	9,500
Total Current Liabilities	132,908	108,820
Long-term Debt	302,759	371,759
Other Long-term Liabilities	54,070	53,678
Deferred Income Taxes	142,259	145,773
Total Liabilities	631,996	680,030
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 50,265,957 and 50,053,738 Shares, respectively	503	501
Capital in Excess of Par Value	266,212	253,524
Accumulated Other Comprehensive Losses	(5,271 )	(5,483 )
Retained Earnings	660,947	582,957
Total Stockholders' Equity	922,391	831,499

\$ 1,554,387      \$1,511,529

See notes to the unaudited consolidated financial statements.

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## Eagle Materials Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

(unaudited – dollars in thousands)

	For the Six Months Ended September 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Earnings	\$88,029	\$70,004
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities -		
Depreciation, Depletion and Amortization	34,864	34,624
Deferred Income Tax Provision	(3,628 )	(3,594 )
Stock Compensation Expense	6,702	4,816
Excess Tax Benefits from Share Based Payment Arrangements	(3,195 )	(1,053 )
Equity in Earnings of Unconsolidated Joint Venture	(21,851 )	(17,625)
Distributions from Joint Venture	19,375	20,500
Changes in Operating Assets and Liabilities:		
Accounts and Notes Receivable	(29,809 )	(30,132)
Inventories	(3,615 )	(7,712 )
Accounts Payable and Accrued Liabilities	16,878	(2,894 )
Other Assets	2,798	(1,203 )
Income Taxes Payable	11,103	13,524
Net Cash Provided by Operating Activities	117,651	79,255
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Property, Plant and Equipment Additions	(40,039 )	(31,583)
Net Cash Used in Investing Activities	(40,039 )	(31,583)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in Credit Facility	(69,000 )	(34,000)
Dividends Paid to Stockholders	(10,019 )	(9,910 )
Proceeds from Stock Option Exercises	4,092	2,351
Shares Redeemed to Settle Employee Taxes on Stock Compensation	(1,299 )	(435 )
Excess Tax Benefits from Share Based Payment Arrangements	3,195	1,053
Net Cash Used in Financing Activities	(73,031 )	(40,941)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>4,581</b>	<b>6,731</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>6,482</b>	<b>3,897</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$11,063</b>	<b>\$10,628</b>

See notes to the unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

September 30, 2014

#### (A) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements as of and for the six month period ended September 30, 2014 include the accounts of Eagle Materials Inc. and its majority-owned subsidiaries (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 23, 2014.

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.

We have chosen to separately present certain costs on a single line item on our consolidated statement of earnings titled Acquisition and Litigation Expense. These expenses consist of acquisition transaction costs of approximately \$0.4 million and legal fees related to our lawsuit against the Internal Revenue Service (“IRS”) of approximately \$1.7 million. See Footnotes (B) and (O) to the Unaudited Consolidated Financial Statements for more information.

#### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (“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 2018, with early adoption not permitted. There are two transition methods available under the new standard, either cumulative effect or retrospective. We are currently evaluating the impact of this ASU and have not yet selected a transition method.

#### (B) PENDING ACQUISITION

On October 16, 2014, Northern White Sand LLC (“NWS”), a wholly owned subsidiary of the Company, entered into a securities purchase agreement to acquire all of the outstanding equity interest in CRS Holdco LLC, CRS Proppants LLC and Great Northern Sand LLC and related entities (collectively “CRS Proppants”) (such acquisition, the “Pending Acquisition”). CRS Proppants is a supplier of frac sand to the energy industry, and its business currently consists of a frac sand mine in New Auburn, Wisconsin, and a transload network into Texas and southwest Oklahoma. CRS Proppants also has multi-year sales contracts with customers for approximately 85% of its current and prospective production volumes.



The purchase price (the “Purchase Price”) to be paid by the Company in the Pending Acquisition is approximately \$225.0 million, subject to adjustments for working capital and other customary post-closing adjustments, including in-process capital expenditures paid through closing. We expect to fund the payment of the Purchase Price and expenses incurred in connection with the Pending Acquisition through operating cash flow and borrowings under our bank credit facility, which was amended and restated on October 30, 2014. This transaction is expected to close during our fiscal third quarter. See Footnote (L) to the Unaudited Consolidated Financial Statements for more information about the amended bank credit facility.

#### (C) CASH FLOW INFORMATION—SUPPLEMENTAL

Cash payments made for interest were \$7.3 million and \$9.0 million for the six months ended September 30, 2014 and 2013, respectively. Net payments made for federal and state income taxes during the six months ended September 30, 2014 and 2013, were \$32.2 million and \$20.8 million, respectively.

#### (D) ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable have been shown net of the allowance for doubtful accounts of \$6.1 million and \$5.8 million at September 30, 2014 and March 31, 2014, 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 \$3.7 million at September 30, 2014, of which approximately \$0.8 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 2014 and 2017. 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 Six Months Ended September 30, 2014 (dollars in thousands)	
Common Stock –		
Balance at Beginning of Period	\$ 501	
Stock Option Exercises	2	
Balance at End of Period	503	
Capital in Excess of Par Value –		
Balance at Beginning of Period	253,524	
Stock Compensation Expense	6,702	
Shares Redeemed to Settle Employee Taxes	(1,299	)
Stock Option Exercises	7,285	
Balance at End of Period	266,212	
Retained Earnings –		
Balance at Beginning of Period	582,957	
Dividends Declared to Stockholders	(10,039	)
Net Earnings	88,029	
Balance at End of Period	660,947	
Accumulated Other Comprehensive Loss -		
Balance at Beginning of Period	(5,483	)
Change in Funded Status of Pension Plan, net of tax	212	
Balance at End of Period	(5,271	)
Total Stockholders' Equity	\$ 922,391	

There were no open market share repurchases during the three and six month periods ended September 30, 2014. As of September 30, 2014, we have authorization to purchase an additional 717,300 shares.

## (F) INVENTORIES

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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	
	September 30, 2014	March 31, 2014
	(dollars in thousands)	
Raw Materials and Material-in-Progress	\$91,255	\$82,319
Finished Cement	12,965	19,173
Gypsum Wallboard	7,400	7,144
Frac Sand	376	275
Aggregates	10,869	11,815
Paperboard	3,936	4,102
Repair Parts and Supplies	57,331	56,119
Fuel and Coal	6,579	6,149
	\$190,711	\$187,096

## (G) ACCRUED EXPENSES

Accrued expenses consist of the following:

	As of	
	September 30,	March 31,
	2014	2014
	(dollars in thousands)	
Payroll and Incentive Compensation	\$ 14,956	\$ 12,855
Benefits	10,139	10,158
Interest	4,813	4,813
Property Taxes	5,008	2,801
Power and Fuel	1,836	2,132
Sales and Use Tax	868	658
Legal	1,341	1,831
Acquisition and Litigation	2,103	-
Other	6,781	6,272
	\$ 47,845	\$ 41,520

## (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 June 2014, the Compensation Committee approved an incentive equity award of an aggregate of 193,636 stock options pursuant to the Plan to certain officers and key employees (the “Fiscal 2015 Employee Stock Option Grant”) that will be earned if our ten year return on equity is at least 15% at March 31, 2015. If this criterion is not met, all of the options will be forfeited. If the criterion is met, the award may be reduced by the Compensation Committee based on individual performance goals. Following any such reduction, the earned options will vest ratably over three years, with the first third vesting promptly following the determination date, and the remaining options vesting on March 31, 2016 and 2017. The stock options have a term of ten years from the date of grant. In August 2014, we granted 18,515 options to members of the Board of Directors (the “Fiscal 2015 Board of Directors Grant”). Options granted under the Fiscal 2015 Board of Directors Grant vest immediately and can be exercised from the date of grant until their expiration on the tenth anniversary of the date of grant.

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The Fiscal 2015 Employee Stock Option Grant and Fiscal 2015 Board of Directors Grants 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 2015 are as follows:

	Fiscal 2015
Dividend Yield	2.0%
Expected Volatility	44.8%
Risk Free Interest Rate	1.8%
Expected Life	6.0 years

Stock option expense for all outstanding stock option awards totaled approximately \$2.0 million and \$3.4 million for the three and six month periods ended September 30, 2014, respectively, and \$1.9 million and

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\$2.7 million for the three and six month periods ended September 30, 2013, respectively. At September 30, 2014, there was approximately \$11.9 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 3.1 years.

The following table represents stock option activity for the six month period ended September 30, 2014:

	Number of Shares	Weighted- Average Exercise Price
Outstanding Options at Beginning of Period	2,788,999	\$ 41.83
Granted	217,151	\$ 87.91
Exercised	(144,420 )	\$ 32.36
Cancelled	(1,269,500)	\$ 47.50
Outstanding Options at End of Period	1,592,230	\$ 44.49
Options Exercisable at End of Period	1,037,331	\$ 34.33
Weighted-Average Fair Value of Options Granted during the Period		\$32.44

The following table summarizes information about stock options outstanding at September 30, 2014:

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Number of Shares	Weighted - Average Remaining Contractual Life	Weighted - Average Exercise Price	Number of Shares	Weighted - Average Exercise Price
\$23.17 – \$ 30.74	594,310	4.69	\$ 26.50	591,310	\$ 26.48
\$33.08 – \$ 40.78	492,533	7.35	\$ 33.97	312,917	\$ 34.02
\$53.22 – \$ 74.10	283,236	8.32	\$ 66.58	114,589	\$ 66.37
\$87.34 – \$ 93.56	222,151	9.68	\$ 87.89	18,515	\$ 91.95
	1,592,230	6.86	\$ 44.50	1,037,331	\$ 34.33

At September 30, 2014, the aggregate intrinsic value for outstanding and exercisable options was approximately \$91.3 million and \$35.6 million, respectively. The total intrinsic value of options exercised during the six month period ended September 30, 2014 was approximately \$9.2 million.

**Restricted Stock.** In June 2014, the Compensation Committee approved the granting of an aggregate of 80,416 shares of restricted stock to certain officers and key employees (the “Fiscal 2015 Employee Restricted Stock Award”) that will be earned if our ten year return on equity is at least 15% at March 31, 2015. If this criterion is not met, all of the shares will be forfeited. If the criterion is met, the award may be reduced by the Compensation Committee based on individual performance goals. Following any such reduction, restrictions on the earned shares will lapse ratably over five years, with the first fifth lapsing promptly following the determination date, and the remaining restrictions lapsing on March 31, 2016 through 2019. The value of the Fiscal 2015 Employee Restricted Stock Award, net of estimated forfeitures, is being expensed over a five year period. In August 2014, we granted 7,457 shares of restricted stock to members of the Board of Directors (the “Board of Directors Fiscal 2015 Restricted Stock Award”). Awards issued under the Board of Directors Fiscal 2015 Restricted Stock Award do not fully vest until the retirement of each director, in accordance with the Company’s director retirement policy.

Expense related to restricted shares was approximately \$1.8 million and \$3.3 million for the three and six month periods ended September 30, 2014, respectively, and \$1.2 million and \$2.1 million for the three and six month periods ended September 30, 2013, respectively. At September 30, 2014, there was approximately \$19.7 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 4,986,278 at September 30, 2014.

#### (L) COMPUTATION OF EARNINGS PER SHARE

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

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2014	2013	2014	2013
Weighted-Average Shares of Common Stock Outstanding	49,591,495	49,012,045	49,546,916	48,984,038
Common Equivalent Shares:				
Assumed Exercise of Outstanding Dilutive Options	1,423,211	1,682,592	1,453,437	1,692,782
Less: Shares Repurchased from Assumed Proceeds of				
Assumed Exercised Options	(891,837 )	(1,134,329 )	(933,050 )	(1,137,668 )
Restricted Shares	304,417	299,792	290,611	296,230
Weighted-Average Common and Common Equivalent Shares				
Outstanding	50,427,286	49,860,100	50,357,914	49,835,382
Shares Excluded Due to Anti-dilution Effects	218,636	121,957	170,227	71,479
During the quarter ended June 30, 2014, approximately 1,270,000 options expired without the performance criteria having been met.				

#### (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 September 30,		For the Six Months ended September 30,	
	2014	2013	2014	2013
	(dollars in thousands)		(dollars in thousands)	
Service Cost – Benefits Earned During the Period	\$ 236	\$ 197	\$ 472	\$ 393
Interest Cost of Benefit Obligations	315	306	630	611
Expected Return on Plan Assets	(414 )	(343 )	(828 )	(686 )
Recognized Net Actuarial Loss	155	247	310	492
Amortization of Prior-Service Cost	3	2	6	8
Net Periodic Pension Cost	\$ 295	\$ 409	\$ 590	\$ 818



(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 both the three and six months ended September 30, 2014 was approximately 32%, which increased from the prior year due to the reduction in the impact of our depletion deduction as a result of increased earnings in fiscal year 2014.

In September 2013, the Internal Revenue Service enacted final guidance regarding the deduction and capitalization of expenditures related to tangible property (“tangible property regulations”). The tangible property

regulations clarify and expand sections 162(a) and 263(a) of the Internal Revenue Code which relate to amounts paid to acquire, produce, or improve tangible property. Additionally, the tangible property regulations provide final guidance under section 167 regarding accounting for and retirement of depreciable property and regulations under section 168 relating to the accounting for property under the Modified Accelerated Cost Recovery System. The tangible property regulations affect all taxpayers that acquire, produce, or improve tangible property, which includes the Company, and generally apply to taxable years beginning on or after January 1, 2014, which will impact us for the fiscal year ending March 31, 2015. We have evaluated the tangible property regulations and determined the regulations will not have a material impact on our financial condition, results of operations or cash flows.

#### (L) LONG-TERM DEBT

Long-term debt consists of the following:

	As of	
	June 30,	March 31,
	2014	2014
	(dollars in thousands)	
Credit Facility	\$ 120,000	\$ 189,000
Senior Notes	192,259	192,259
Total Debt	312,259	381,259
Less: Current Portion of Long-term Debt	(9,500 )	(9,500 )
Total Debt	\$302,759	\$371,759

#### Credit Facility –

Our Credit Facility was amended and restated on October 30, 2014 (the “Amended Credit Facility”). The Amended Credit Facility increased available borrowings from \$400.0 million to \$500.0 million and extended the term from December 15, 2015 to October 30, 2019. Borrowings under the Amended Credit Facility are guaranteed by substantially all of the Company’s subsidiaries. At the option of the Company, outstanding principal amounts on the Amended Credit Facility bear interest at a variable rate equal to (i) LIBOR, plus an agreed margin (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 agreed margin (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 LIBOR advance periods, which can be a period of up to six months at the option of the Company. The Company is also required to pay a commitment fee on unused available borrowings under the Amended Credit Facility ranging from 10 to 35 basis points depending upon the Leverage Ratio. The Amended 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 Amended Credit Facility also requires us to maintain a consolidated indebtedness ratio (calculated as consolidated indebtedness to consolidated earnings before interest, taxes, depreciation, amortization, certain transaction-related deductions and other non-cash deductions) of 3.5:1.0 or less and an interest coverage ratio (consolidated earnings before interest, taxes, depreciation, amortization, certain transaction-related deductions and other non-cash deductions to consolidated interest expense) of at least 2.5:1.0. We had \$120.0 million of borrowings outstanding at September 30, 2014. Based on our Leverage Ratio, we had \$272.4 million of available borrowings, net

of the outstanding letters of credit, at September 30, 2014.

The Amended 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 September 30, 2014, we had \$7.6 million of letters of credit outstanding.

## Senior Notes -

We entered into a Note Purchase Agreement on November 15, 2005 (the “2005 Note Purchase Agreement”) related to our sale of \$200 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 on November 15, 2005. Since entering into the 2005 Note Purchase Agreement, we have repurchased \$81.1 million in principal of the Series 2005A Senior Notes (in periods prior to the fiscal year ended March 31, 2013). During November 2012, Tranche A of the Series 2005A Senior Notes matured and we retired the remaining \$4.7 million in notes from this Tranche. Following these repurchases and maturities, the amounts outstanding for each of the remaining tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche B	\$57.0 million	November 15, 2015	5.38%
Tranche C	\$57.2 million	November 15, 2017	5.48%

Interest for each tranche of Notes is payable semi-annually on the 15<sup>th</sup> day of May and the 15<sup>th</sup> day of November of each year until all principal is paid for the respective tranche.

We also entered into an additional Note Purchase Agreement on October 2, 2007 (the “2007 Note Purchase Agreement”) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2007A Senior Notes (the “Series 2007A Senior 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. Since entering into the 2007 Note Purchase Agreement, we have repurchased \$122.0 million in principal of the Series 2007A Senior Notes (in periods prior to the fiscal year ended March 31, 2013). Following the repurchase, the amounts outstanding for each of the four tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche A	\$9.5 million	October 2, 2014	6.08%
Tranche B	\$8.0 million	October 2, 2016	6.27%
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 on the second day of April and the second day of October of each year until all principal is paid for the respective tranche.

On October 2, 2014 we repaid the \$9.5 million outstanding under Tranche A of the Series 2007 Senior Notes.

Our obligations under the 2005 Note Purchase Agreement and the 2007 Note Purchase Agreement (collectively referred to as the “Note Purchase Agreements”) and the Series 2005A Senior Notes and the Series 2007A Senior Notes (collectively referred to as “the Senior Notes”) are equal in right of payment with all other senior, unsecured debt of the Company, including our debt under the Amended Credit Facility. The Note Purchase Agreements contain customary restrictive covenants, including 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, as well as certain cross covenants with the Amended Credit Facility. We were in compliance with all financial ratios and tests at September 30, 2014 and throughout the fiscal year.

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 Note Purchase Agreements) on the Senior Notes and the other payment and performance obligations of the Company contained in the Senior Notes and in the 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 Senior 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 Senior 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 Senior Notes being prepaid.

We are leasing 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. During the quarter ended June 30, 2014, we changed our segment presentation to reflect Oil and Gas Proppants, which had been included in Concrete and Aggregates, as a separate segment. We have adjusted the prior period segment presentation to reflect this change for comparative purposes.

We operate in five business segments: Cement, Gypsum Wallboard, Recycled Paperboard, Concrete and Aggregates and Oil and Gas Proppants, with Gypsum Wallboard and Cement currently being our principal lines of business. 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), 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”). These products are used primarily in commercial and residential construction, public construction projects and projects to build, expand and repair roads and highways and in oil and natural gas extraction.

We operate six cement plants, sixteen cement distribution terminals, five gypsum wallboard plants, including the plant temporarily 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 and a frac sand mine and processing facility. 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 in Texas.

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 September 30, 2014		For the Six Months Ended September 30, 2014	
	2013	2014	2013	2014
	(dollars in thousands)		(dollars in thousands)	
Revenues -				
Cement	\$ 145,861	\$ 133,204	\$ 273,797	\$ 250,904
Gypsum Wallboard	111,655	98,960	224,332	194,941
Paperboard	35,579	34,642	73,058	66,805
Oil and Gas Proppants	10,414	1,250	21,594	2,192
Concrete and Aggregates	31,961	28,847	58,123	53,111
Sub-total	335,470	296,903	650,904	567,953
Less: Intersegment Revenues	(17,523 )	(16,879 )	(34,128 )	(32,481 )
Net Revenues, including Joint Venture	317,947	280,024	616,776	535,472
Less: Joint Venture	(33,139 )	(27,378 )	(65,717 )	(55,782 )
Net Revenues	\$ 284,808	\$ 252,646	\$ 551,059	\$ 479,690

	For the Three Months Ended September 30, 2014		For the Six Months Ended September 30, 2014	
	2013	2014	2013	2014
	(dollars in thousands)		(dollars in thousands)	
Intersegment Revenues -				
Cement	\$ 2,911	\$ 2,955	\$ 5,271	\$ 4,947
Paperboard	14,324	13,650	28,340	26,862
Concrete and Aggregates	288	274	517	672
	\$ 17,523	\$ 16,879	\$ 34,128	\$ 32,481
Cement Sales Volume (in thousands of tons) -				
Wholly –owned Operations	1,193	1,182	2,200	2,161
Joint Venture	283	252	567	514
	1,476	1,434	2,767	2,675



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	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2014	2013	2014	2013
	(dollars in thousands)		(dollars in thousands)	
Operating Earnings -				
Cement	\$ 38,450	\$ 32,430	\$ 58,957	\$ 51,440
Gypsum Wallboard	37,002	29,868	74,430	59,504
Paperboard	7,984	6,937	15,531	12,616
Oil and Gas Proppants	711	(951 )	74	(1,806 )
Concrete and Aggregates	2,965	942	4,321	1,954
Other, net	883	317	1,562	900
Sub-total	87,995	69,543	154,875	124,608
Corporate General and Administrative Acquisition and Litigation Expense	(7,414 )	(6,060 )	(14,456 )	(11,654 )
	(2,103 )	-	(2,103 )	-
Earnings Before Interest and Income Taxes	78,478	63,483	138,316	112,954
Interest Expense, net	(3,901 )	(4,795 )	(7,953 )	(9,750 )
Earnings Before Income Taxes	\$ 74,577	\$ 58,688	\$ 130,363	\$ 103,204
Cement Operating Earnings -				
Wholly-owned Operations	\$ 26,399	\$ 22,683	\$ 37,106	\$ 33,815
Joint Venture	12,051	9,747	21,851	17,625
	\$ 38,450	\$ 32,430	\$ 58,957	\$ 51,440
Capital Expenditures -				
Cement	\$ 4,176	\$ 2,069	\$ 12,996	\$ 5,836
Gypsum Wallboard	1,558	602	3,793	1,699
Paperboard	823	1,364	1,149	1,901
Oil and Gas Proppants	6,000	5,728	13,602	21,016
Concrete and Aggregates	4,219	583	8,349	1,131
Other	82	—	150	—
	\$ 16,858	\$ 10,346	\$ 40,039	\$ 31,583
Depreciation, Depletion and Amortization -				
Cement	\$ 7,987	\$ 7,811	\$ 15,870	\$ 15,648
Gypsum Wallboard	5,031	5,261	10,129	10,544
Paperboard	2,058	2,171	4,127	4,353
Oil and Gas Proppants	684	368	1,253	686
Concrete and Aggregates	1,369	1,342	2,593	2,700
Other, net	445	450	892	693
	\$ 17,574	\$ 17,403	\$ 34,864	\$ 34,624

	As of	
	September 30,	March 31,
	2014	2014
	(dollars in thousands)	
Identifiable Assets -		
Cement	\$778,307	\$762,578
Gypsum Wallboard	409,758	412,566
Paperboard	124,002	125,045
Oil and Gas Proppants	118,083	71,366
Concrete and Aggregates	99,667	108,197
Corporate and Other	24,570	31,777
	\$1,554,387	\$1,511,529

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	
	September 30,	March 31,
	2014	2014
	(dollars in thousands)	
Cement	\$8,359	\$8,359
Gypsum Wallboard	116,618	116,618
Paperboard	7,538	7,538
	\$132,515	\$132,515

We perform our annual test of impairment on goodwill during the fourth quarter of our fiscal year. If business conditions in the operating units containing goodwill change substantially during the fiscal year, and we are unable to conclude that an impairment loss is not likely to occur, we will perform impairment tests for those business units during our quarterly periods. At September 30, 2014, we determined that impairment losses are not likely to occur; therefore, no impairment tests were performed during the quarter.

We temporarily idled our gypsum manufacturing facility in Bernalillo, N.M. beginning in December 2009, due to cyclical low gypsum wallboard demand. The carrying value of the Bernalillo plant was \$2.8 million, and the carrying value of the equipment was \$1.0 million at September 30, 2014, and we continue to depreciate the assets over their estimated useful life. We currently have a strong market position in New Mexico, and our Albuquerque gypsum wallboard facility is operating at close to capacity. We plan on resuming manufacturing at the Bernalillo facility in the future when demand for our products increases. Costs of maintaining the facility during the idling are not significant, and the facility was generating positive cash flow prior to being idled; therefore, we have determined that the value of the plant and equipment is not impaired. We are not currently considering the permanent closure of the Bernalillo facility. Any decision to permanently close Bernalillo would be the result of future changes in the building materials industry in the southwest United States and Rocky Mountain region, including changes in the production capacity or operations of our competitors, demand for gypsum wallboard or general macro-economic conditions, which we do not foresee at the present time. If we were to permanently close the Bernalillo facility, or if our expectations as to its use changed such that we project the future undiscounted cash flows from its operations would be insufficient to recover its carrying value due to the factors described above, or for any other reason, we would recognize impairment at that

time. All of our other wallboard facilities are currently generating positive cash flow from operations.

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

	For the Three Months		For the Six Months	
	Ended September 30,		Ended September 30,	
	2014	2013	2014	2013
	(dollars in thousands)		(dollars in thousands)	
Revenues	\$ 66,278	\$ 54,756	\$ 131,434	\$ 111,564
Gross Margin	\$ 25,369	\$ 20,641	\$ 45,827	\$ 37,335
Earnings Before Income Taxes	\$ 24,102	\$ 19,649	\$ 43,702	\$ 35,568

	As of	
	September 30,	March 31,
	2014	2014
	(dollars in thousands)	
Current Assets	\$ 65,391	\$ 59,029
Non-Current Assets	\$ 43,470	\$ 42,826
Current Liabilities	\$ 19,838	\$ 17,901

#### (N) INTEREST EXPENSE

The following components are included in interest expense, net:

	For the Three Months		For the Six Months	
	Ended September 30,		Ended September 30,	
	2014	2013	2014	2013
	(dollars in thousands)		(dollars in thousands)	
Interest (Income)	\$ (1 )	\$ (1 )	\$ (2 )	\$ (2 )
Interest Expense	3,510	4,410	7,170	8,969
Interest Expense – Income Taxes	174	163	348	326
Other Expenses	218	223	437	457
Interest Expense, net	\$ 3,901	\$ 4,795	\$ 7,953	\$ 9,750

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

Interest expense – Income Taxes relates to interest accrued on our unrecognized tax benefits, primarily related to the Republic Asset Acquisition.

(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 September 30, 2014, we had contingent liabilities under these outstanding letters of credit of approximately \$7.6 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 \$16.3 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.

#### Outstanding Lawsuit against the IRS

As previously reported, the IRS completed the examination of our federal income tax returns for all of the fiscal years ended March 31, 2001 through 2006. The IRS issued Exam Reports and Notices of Proposed Adjustment on November 9, 2007 for the examination of the 2001, 2002 and 2003 tax years, and on February 5, 2010 for the examination of the 2004, 2005 and 2006 fiscal years, in which it denied certain depreciation deductions claimed by us with respect to assets acquired by us from Republic Group LLC in November 2000. In response to the examination reports, we previously paid an aggregate amount to the IRS, net of certain refunds of interest, of \$97.9 million of taxes, penalties and interest with respect to these fiscal years. On May 4, 2011, we filed a lawsuit in Federal District Court to recover the \$97.9 million of taxes, penalties and interest paid. In March 2013, the IRS agreed to suspend the audit for tax years 2007 through 2011 pending the outcome of our case before the Federal District Court. In September 2013, the judge heard arguments on each party's motion for summary judgment and in November 2013 the judge denied each such motion.

In September 2014 the Company and the IRS reached a tentative agreement to settle this case. The tentative settlement is subject to various governmental approvals. If the tentative agreement is approved, we will dismiss our lawsuit seeking to recover taxes, interest and penalties paid, as discussed above, in exchange for the IRS conceding 40% of the penalties, plus related interest, to date. If the settlement is not approved, we will continue to pursue our claims in court. In the event the settlement is approved, we will recognize the recovery of 40% of the penalties, which total approximately \$5.8 million, plus the related interest thereon, in our consolidated statement of earnings during the period in which the settlement is finalized.

#### 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 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, 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. NCC believes it has meritorious defenses to the allegations in the NOVs. NCC met with the EPA in December 2010, September 2012 and May 2014 to present its defenses and to discuss a resolution of the alleged violations. EPA and NCC remain in discussions regarding the alleged violations. If a negotiated settlement cannot be reached, NCC intends to vigorously defend these matters in any enforcement action that may be pursued by the EPA. As a part of a settlement, or should NCC fail in its defense in any enforcement action, NCC could be required to make substantial capital expenditures to modify its facility and incur increased operating costs. NCC could also be required to pay significant civil penalties. Additionally, an enforcement action could take many years to resolve the underlying issues alleged in the NOV. We are currently

unable to determine the final outcome of this matter or the impact of an unfavorable determination upon our financial position or results of operations.

## 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 American Gypsum conspired with other wallboard manufacturers 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, New NGC, Inc., Lafarge North America, Temple Inland Inc. and PABCO Building Products LLC. On April 8, 2013, the Judicial Panel on Multidistrict Litigation 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.

While American Gypsum's production of written discovery is substantially complete, discovery is ongoing. Due to the fact that the case is in the discovery phase, and the plaintiffs have not specified the amount of any damages they are seeking, we are unable to estimate the amount of any reasonably possible loss or range of reasonably possible losses. American Gypsum denies the allegations in these lawsuits and will vigorously defend itself against these claims.

## (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 September 30, 2014 is as follows:

	Fair Value (dollars in thousands)
Series 2005A Tranche B	\$ 59,070
Series 2005A Tranche C	60,933
Series 2007A Tranche A	9,500
Series 2007A Tranche B	8,560
Series 2007A Tranche C	26,130
Series 2007A Tranche D	40,479

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 September 30, 2014 due to the short-term maturities of these assets and liabilities. The fair value of our Amended Credit Facility also approximates its carrying value at September 30, 2014.





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 six months ended September 30, 2014 and 2013, respectively, reflects the Company's business segments, consisting of Cement, Gypsum Wallboard, Recycled Paperboard, Concrete and Aggregates and Oil and Gas Proppants. 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 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"). These products are used primarily in commercial and residential construction, public construction projects, projects to build, expand and repair roads and highways and in natural gas extraction. Certain information for each of Concrete and Aggregates is broken out separately in the segment discussions. During the quarter ended June 30, 2014, we changed our segments presentation to reflect Oil and Gas Proppants, which had been included in Concrete and Aggregates, as a separate segment. We have adjusted the prior period segment presentation to reflect this change for comparative purposes for both the three and six month periods ended September 30, 2014 and 2013.

During fiscal 2014, we began selling third-party purchased frac sand from our Corpus Christi plant into the Texas market, and we anticipate selling sand from our mine in Utica, Illinois during the latter half of fiscal 2015. We continue to pursue other locations that are geographically supportive of the oil and gas proppants business, and anticipate additional capital expenditures related to this business in the range of \$30.0 million to \$40.0 million in fiscal 2015. Additionally, we continue to increase our production of specialty oil well cement, which can generate higher profit margins than regular construction cement sales.

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 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 in Texas. Cement, concrete and aggregates 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 October 16, 2014, Northern White Sand LLC ("NWS"), a wholly owned subsidiary of the Company, entered into a securities purchase agreement to acquire all of the outstanding equity interest in CRS Holdco LLC, CRS Proppants LLC and Great Northern Sand LLC and related entities (collectively "CRS Proppants") (such acquisition, the "Pending Acquisition"). CRS Proppants is a supplier of frac sand to the energy industry, and its business currently consists of a

frac sand mine in New Auburn, Wisconsin, and a transload network into Texas and southwest Oklahoma. CRS Proppants also has multi-year sales contracts with customers for approximately 85% of its current and prospective production volumes.

The purchase price (the "Purchase Price") to be paid by the Company in the Pending Acquisition is approximately \$225.0 million, subject to adjustments for working capital and other customary post-closing adjustments, including in-process capital expenditures paid through closing. We expect to fund the payment of the Purchase Price and expenses incurred in connection with the Pending Acquisition through operating cash flow

and borrowings under our bank credit facility, which was amended and restated on October 30, 2014. This transaction is expected to close during our fiscal third quarter. See Footnote (L) to the Unaudited Consolidated Financial Statement for more information about the amended bank credit facility.

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

## RESULTS OF OPERATIONS

### Consolidated Results

	For the Three Months Ended September 30,			For the Six Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
	(In thousands except per share)			(In thousands except per share)		
Revenues	\$284,808	\$ 252,646	13%	\$ 551,059	\$ 479,690	15%
Cost of Goods Sold	(209,747 )	(193,167 )	9%	(419,597 )	(373,607 )	12%
Gross Profit	75,061	59,479	26%	131,462	106,083	24%
Equity in Earnings of Unconsolidated Joint Venture	12,051	9,747	24%	21,851	17,625	24%
Corporate General and Administrative Acquisition and Litigation Expense	(7,414 )	(6,060 )	22%	(14,456 )	(11,654 )	24%
Other Income	(2,103 )	-	-	(2,103 )	-	-
Interest Expense, net	883	317	179%	1,562	900	74%
Earnings Before Income Taxes	(3,901 )	(4,795 )	(19%)	(7,953 )	(9,750 )	(18%)
Income Tax Expense	74,577	58,688	27%	130,363	103,204	26%
Net Earnings	(24,258 )	(18,785 )	29%	(42,334 )	(33,200 )	28%
Diluted Earnings per Share	\$50,319	\$ 39,903	26%	\$ 88,029	\$ 70,004	26%
	\$1.00	\$ 0.80	25%	\$ 1.75	\$ 1.40	25%

Revenues. Revenues were \$284.8 million and \$252.6 million for the three months ended September 30, 2014 and 2013, respectively. The \$32.2 million increase in revenues during the three months ended September 30, 2014, as compared to September 30, 2013, was primarily due to increased sales volumes for all of our businesses except aggregates, and increased average net sales prices for all businesses except recycled paperboard. The impact of the increased net sales prices and sales volumes on revenues for the quarter ended September 30, 2014, compared to September 30, 2013, was approximately \$18.6 million and \$13.6 million, respectively.

Revenues were \$551.1 million and \$479.7 million for the six months ended September 30, 2014 and 2013, respectively. The \$71.4 million increase in revenues during the six months ended September 30, 2014, as compared to September 30, 2013, was primarily due to increased sales volumes for all of our businesses except aggregates, and increased average net sales prices for all of our businesses. The impact of the increased net sales prices and sales volumes on revenues for the six months ended September 30, 2014, compared to September 30, 2013, was approximately \$34.5 million and \$36.9 million, respectively.

Cost of Goods Sold. Cost of goods sold was \$209.7 million and \$193.2 million during the three month periods ended September 30, 2014 and 2013, respectively. The \$16.5 million increase in cost of goods sold was related primarily to

an increase in volumes, which increased cost of sales by approximately \$10.5 million, and an increase in operating costs of approximately \$6.0 million. The increase in cost of sales due to increased sales volumes was due primarily to the \$2.9 million and \$7.4 million increase in costs related to increased volumes in our cement and oil and gas proppants businesses, respectively. The increase in operating costs in the second quarter of fiscal 2015, as compared to fiscal 2014, was primarily related to our cement, gypsum wallboard and concrete businesses and was approximately \$2.5 million, \$3.9 million and \$1.8 million, respectively, partially

offset by decreased costs in our paperboard and aggregates businesses or approximately \$1.1 million and \$1.1 million, respectively.

Cost of goods sold was \$419.6 million and \$373.6 million during the six month periods ended September 30, 2014 and 2013, respectively. The \$46.0 million increase in cost of goods sold was related primarily to an increase in volumes, which increased cost of sales by approximately \$29.9 million, and an increase in operating costs of approximately \$16.1 million. The increase in cost of sales due to sales volumes is due primarily to the \$2.8 million, \$6.2 million and \$17.7 million increase in costs related to increased volumes in our cement, gypsum wallboard and oil and gas proppants businesses, respectively. The increase in operating costs in the six months ended September 30, 2014, as compared to September 30, 2013, was primarily related to our cement and gypsum wallboard businesses and was approximately \$6.5 million and \$8.2 million, respectively.

Gross Profit. Gross profit was \$75.1 million and \$59.5 million during the three months ended September 30, 2014 and 2013, respectively. The 26% increase in gross profit was due primarily to increased average sales prices and increased sales volumes, partially offset by increased cost of goods sold related to the increased sales volumes and operating costs, as noted above. The increase in the gross margin to 26% for the three months ended September 30, 2014, compared to 24% for the three months ended September 30, 2013, was primarily due to increased gross margin in our gypsum wallboard division.

Gross profit was \$131.5 million and \$106.1 million during the six months ended September 30, 2014 and 2013, respectively. The 24% increase was due primarily to increased average sales prices and increased sales volumes, partially offset by increased cost of goods sold related to the increased sales volumes and operating costs, as noted above. The increase in the gross margin to 24% for the six months ended September 30, 2014, as compared to 22% for the six months ended September 30, 2013, was primarily due to increased gross margin in our gypsum wallboard division.

Equity in Earnings of Joint Venture. Equity in earnings of our unconsolidated joint venture increased \$2.3 million, or 24%, for the three months ended September 30, 2014, compared to the similar period in 2013. The increase is primarily due to a 12% increase in sales volumes and a 9% increase in average net sales price. The impact of the increases in sales volumes and average net sales price on equity in earnings of our unconsolidated joint venture during the three months ended September 30, 2014 was approximately \$1.2 million and \$2.4 million, respectively, partially offset by increased operating costs of sales of approximately \$1.3 million. The increase in operating costs was primarily due to an increase in the cost of purchased cement of approximately \$0.8 million, and an increase in power cost of approximately \$0.2 million.

Equity in earnings of our unconsolidated joint venture increased \$4.2 million, or 24%, for the six months ended September 30, 2014, compared to the similar period in 2013. The increase is primarily due to a 10% increase in sales volumes and an 8% increase in average net sales price. The impact of the increases in sales volumes and average net sales price on equity in earnings of our unconsolidated joint venture during the three months ended September 30, 2014 was approximately \$1.8 million and \$4.2 million, respectively, partially offset by increased operating costs of approximately \$1.8 million. The increase in operating costs was primarily due to an increase in the cost of purchased cement of approximately \$1.5 million.

Corporate General and Administrative. Corporate general and administrative expenses increased 22% and 24% for the three and six month periods ended September 30, 2014, respectively, compared to the similar periods in 2013. The approximately \$1.4 million and \$2.8 million increase in corporate general and administrative expenses for the three and six month periods ended September 30, 2014, respectively, compared to 2013, is due primarily to increased long-term incentive compensation expenses. Long-term incentive compensation increased approximately \$1.0 million and \$2.0 million during the three and six month periods ended September 30, 2014, respectively, compared to similar

periods in 2013, primarily due to increased operating earnings.

**Acquisition and Litigation Expense.** Acquisition and litigation expense consists primarily of approximately \$1.7 million of litigation expenses related to our lawsuit against the IRS. As discussed in Footnote (O) to the Unaudited Consolidated Financial Statements, the Company has reached a tentative agreement to settle the lawsuit subject to certain governmental approvals. The remaining expense is due to the Pending Acquisition, which is expected to close during our fiscal third quarter.

**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, decreased approximately \$0.9 million and \$1.8 million during the three and six months ended September 30, 2014, respectively, compared to the three and six months ended September 30, 2013. The 19% and 18% decrease in interest expense, net for the three and six months ended September 30, 2014, respectively, compared to the similar three and six months in the prior fiscal year, is due primarily to the decrease in interest expense from our Credit Facility, which decreased approximately \$0.9 million and \$1.8 million in the three and six months ended September 30, 2014, compared to the three and six months ended September 30, 2013. The decrease in interest expense from our Credit Facility is due to reduced outstanding balances during the three and six month periods ended September 30, 2014, as compared to the three and six months ended September 30, 2013, due to repayments made during fiscal 2014 and during the first six months of fiscal 2015. If the Pending Acquisition closes during the next quarter, we expect interest expense to increase during the last six months of fiscal 2015 as compared to the first six months.

**Earnings Before Income Taxes.** Earnings before income taxes were \$74.6 million and \$58.7 million during the three months ended September 30, 2014 and 2013, respectively. The \$15.9 million increase was primarily due to a \$15.6 million increase in gross profit, a \$2.3 million increase in equity in earnings of unconsolidated joint venture and a decrease in interest expense, net of \$0.8 million, partially offset by an increase of approximately \$2.1 million in acquisition and litigation expense and \$1.3 million in corporate general and administrative expenses, respectively.

Earnings before income taxes were \$130.4 million and \$103.2 million during the six month periods ended September 30, 2014 and 2013, respectively. The \$27.2 million increase was primarily due to a \$25.4 million increase in gross profit, a \$4.2 million increase in equity in earnings of unconsolidated joint venture and a decrease in interest expense, net of \$1.8 million, partially offset by an increase of approximately \$2.1 million in acquisition and litigation expense and \$2.8 million in corporate general and administrative expenses, respectively.

**Income Taxes.** Income tax expense was \$42.3 million and \$33.2 million for the six months ended September 30, 2014 and 2013, respectively. The estimated effective tax rate for fiscal 2015, as compared to fiscal 2014, remained consistent at 32%.

**Net Earnings and Diluted Earnings per Share.** Net earnings for the quarter ended September 30, 2014 of \$50.3 million increased 25% from last year's net earnings of \$39.9 million; while net earnings of \$88.0 million for the six month period ended September 30, 2014 increased 26% from last year's net earnings of \$70.0 million. Diluted earnings per share for the three and six month periods ended September 30, 2014 were \$1.00 and \$1.75, respectively, compared to \$0.80 and \$1.40 for the three and six month periods ended September 30, 2013, respectively.



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

	For the Three Months Ended September 30,			For the Six Months Ended September 30,		
	2014	2013	Percentage Change	2014	2013	Percentage Change
	(In thousands except per unit)			(In thousands except per unit)		
<b>Revenues <sup>(1)</sup></b>						
Cement <sup>(2)</sup>	\$ 145,861	\$ 133,204	10%	\$ 273,797	\$ 250,904	9%
Gypsum Wallboard	111,655	98,960	13%	224,332	194,941	15%
Recycled Paperboard	35,579	34,642	3%	73,058	66,805	9%
Oil and Gas Proppants	10,414	1,250	733%	21,594	2,192	885%
Concrete and Aggregates	31,961	28,847	11%	58,123	53,111	9%
Gross Revenues	335,470	296,903	13%	650,904	567,953	15%
Less: Intersegment Revenues	(17,523 )	(16,879 )	4%	(34,128 )	(32,481 )	5%
Less: Joint Venture Revenues	(33,139 )	(27,378 )	21%	(65,717 )	(55,782 )	18%
	\$ 284,808	\$ 252,646	13%	\$ 551,059	\$ 479,690	15%
<b>Sales Volume</b>						
Cement (M Tons) <sup>(2)</sup>	1,476	1,434	3%	2,767	2,675	3%
Gypsum Wallboard (MMSF)	567	554	2%	1,136	1,086	5%
Recycled Paperboard (M Tons)	70	67	4%	142	131	8%
Concrete (M Yards)	286	265	8%	521	492	6%
Aggregates (M Tons)	872	1,006	(13%)	1,690	1,915	(12%)
<b>Average Net Sales Prices <sup>(3)</sup></b>						
Cement <sup>(2)</sup>	\$ 90.20	\$ 85.34	6%	\$ 90.42	\$ 85.72	5%
Gypsum Wallboard	160.09	144.05	11%	160.92	145.15	11%
Recycled Paperboard	501.27	507.28	(1%)	505.52	504.92	-
Concrete	86.74	82.15	6%	85.73	80.68	6%
Aggregates	7.82	6.70	17%	7.61	6.79	12%
<b>Operating Earnings</b>						
Cement <sup>(2)</sup>	\$ 38,450	\$ 32,430	19%	\$ 58,957	\$ 51,440	15%
Gypsum Wallboard	37,002	29,868	24%	74,430	59,504	25%
Recycled Paperboard	7,984	6,937	15%	15,531	12,616	23%
Oil and Gas Proppants	711	(951 )	-	74	(1,806 )	-
Concrete and Aggregates	2,965	942	215%	4,321	1,954	121%
Other, net	883	317	179%	1,562	900	74%
Net Operating Earnings	\$ 87,995	\$ 69,543	27%	\$ 154,875	\$ 124,608	24%

(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 \$145.9 million for the three months ended September 30, 2014, which is a 10% increase over revenues of \$133.2 million for the three months ended September 30, 2013. The increase in revenues during the three months ended September 30, 2014, as compared to the similar period in 2013, is primarily due to a 6% increase in average net sales price, as well as a 3% increase in sales volume. The increase in average net sales price and sales volume positively impacted revenues by approximately \$8.4 million and \$4.3 million, respectively, for the three months ended September 30, 2014, compared to the three months ended September 30, 2013.

Operating earnings for the Cement business increased 19% to \$38.5 million from \$32.4 million for the second quarter of fiscal 2015 and 2014, respectively. The increase in operating earnings was due primarily to increased average sales prices and sales volumes, which positively impacted operating earnings by \$8.4 million and \$1.4 million, respectively, partially offset by increased operating costs of \$3.8 million. The increase in operating costs in the second quarter of fiscal 2015, compared to the second quarter of fiscal 2014, is primarily related to increased purchased cement, power and other raw material costs, which adversely impacted operating earnings by approximately \$1.3 million, \$0.7 million and \$1.3 million, respectively. The operating margin

increased to 26% for the second quarter of fiscal 2015, as compared to 24% for the second quarter of fiscal 2014, primarily due to increased sales prices, partially offset by increased operating costs.

Cement revenues were \$273.8 million for the six months ended September 30, 2014, which is a 9% increase over revenues of \$250.9 million for the six months ended September 30, 2013. The increase in revenues during the six months ended September 30, 2014, compared to the similar period in 2013, is primarily due to a 5% increase in average net sales price, as well as a 3% increase in sales volume. The increase in average net sales price and sales volume positively impacted revenues by approximately \$13.4 million and \$9.5 million, respectively, for the six months ended September 30, 2014, compared to the six months ended September 30, 2013.

Operating earnings for the Cement business increased 15% to \$59.0 million from \$51.4 million for the six months ended September 30, 2014 and 2013, respectively. The increase in operating earnings was due primarily to increased average sales prices and average sales volumes, which positively impacted operating earnings by \$13.4 million and \$2.4 million, respectively, partially offset by increased operating costs of \$8.2 million. The increase in operating costs during the six months ended September 30, 2014, compared to the six months ended September 30, 2013, is primarily related to increased maintenance, purchased cement and power costs, which adversely impacted operating earnings by approximately \$3.8 million, \$2.5 million and \$1.8 million, respectively, partially offset by lower fuel costs of approximately \$1.6 million. The operating margin increased to 22% for the six months ended September 30, 2014, compared to 21% for the six months ended September 30, 2013, primarily due to increased sales prices, partially offset by increased operating costs.

Gypsum Wallboard Operations. Sales revenues increased 13% to \$111.7 million in the second quarter of fiscal 2015, from \$99.0 million in the second quarter of fiscal 2014, primarily due to an 11% increase in our average net sales price and a 2% increase in sales volumes. The increase in our average net sales price and sales volumes positively impacted revenues by approximately \$10.4 million and \$2.3 million, respectively. The increase in our average net sales price was due to the implementation of our price increase in January 2014. The increased sales volumes are primarily due to increased construction activity in fiscal 2015, compared to fiscal 2014. Our market share was essentially unchanged during the three months ended September 30, 2014, compared to the three months ended September 30, 2013.

Operating earnings increased to \$37.0 million for the three months ended September 30, 2014, compared to \$29.9 million for the three months ended September 30, 2013, primarily due to the increase in our average net sales price and sales volumes, which positively impacted operating earnings by approximately \$10.4 million and \$0.6 million, respectively, partially offset by increased operating costs of \$3.9 million. The increase in operating costs during the three months ended September 30, 2014, compared to the three months ended September 30, 2013, was primarily due to increased freight, maintenance, other raw materials and natural gas costs, which negatively impacted operating earnings by \$1.2 million, \$0.8 million, \$0.4 million and \$0.5 million, respectively. The increase in our average net sales price is the primary reason our operating margin increased to 33% for the three months ended September 30, 2014, compared to 30% for the three months ended September 30, 2013. 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 15% to \$224.3 million for the six months ended September 30, 2014, from \$195.0 million for the six months ended September 30, 2013, primarily due to an 11% increase in our average net sales price and a 5% increase in sales volumes. The increase in our average net sales price and sales volumes positively impacted revenues by approximately \$20.4 million and \$8.9 million, respectively. The increase in our average net sales price was due to the implementation of our price increase in January 2014. The increased sales volumes are primarily due to increased construction activity in fiscal 2015, compared to fiscal 2014. Our market share was essentially unchanged during the six months ended September 30, 2014, compared to the six months ended September 30, 2013.



Operating earnings increased to \$74.4 million for the six months ended September 30, 2014, compared to \$59.5 million for the six months ended September 30, 2013, primarily due to the increase in average net sales price and sales volumes, which positively impacted operating earnings by approximately \$20.4 million and \$2.7 million, respectively, partially offset by increased operating costs of \$8.2 million. The increase in operating costs during the six months ended September 30, 2014, compared to the six months ended September 30, 2013, was primarily due to increased freight, maintenance, other raw materials and natural gas costs, which negatively impacted operating earnings by \$2.5 million, \$1.6 million, \$0.9 million and \$1.1 million, respectively. The increase in our average net sales price is the primary reason our operating margin increased to 33% for the six months ended September 30, 2014, compared to 31% for the six months ended September 30, 2013. 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 3% to \$35.6 million during the three months ended September 30, 2014, compared to \$34.6 million for the three months ended September 30, 2013. The increase in revenues was due primarily to the 4% increase in sales volumes, which positively impacted revenue by \$1.5 million, partially offset by a decline in average net sales prices which adversely impacted revenue by approximately \$0.5 million.

Operating earnings increased to \$8.0 million for the second quarter of fiscal 2015, compared to \$6.9 million for the second quarter of fiscal 2014. The increase in operating earnings is primarily due to increased sales volumes and decreased operating costs, which positively impacted operating earnings by approximately \$0.5 million and \$1.1 million, respectively, partially offset by decreased average net sales prices, which adversely impacted operating earnings by approximately \$0.5 million. The decrease in operating costs is primarily related to lower recycled fiber costs, which positively impacted operating earnings by approximately \$1.5 million, partially offset by increased maintenance costs of approximately \$0.5 million. The decrease in operating costs was the primary reason operating margin increased to 22% during the second quarter of fiscal 2015, compared to 20% during the second quarter of fiscal 2014.

Revenues increased 9% to \$73.1 million for the six months ended September 30, 2014, from \$66.8 million for six months ended September 30, 2013. The increase in revenue during the six months ended September 30, 2014, compared to the six months ended September 30, 2013, is due to the increase in sales volumes and slight increase in average net sales price, which positively impacted revenues by approximately \$5.6 million and \$0.7 million, respectively.

Operating earnings increased to \$15.5 million for the six months ended September 30, 2014, compared to \$12.6 million for the six months ended September 30, 2013. The increase in operating earnings is primarily due to increased sales volumes, average net sales prices and decreased operating costs, which positively impacted operating earnings by approximately \$1.3 million, \$0.7 million and \$0.9 million, respectively. The decrease in operating costs is primarily related to lower recycled fiber costs, which positively impacted operating earnings by approximately \$1.5 million, partially offset by increased natural gas and maintenance costs of approximately \$0.2 million and \$0.3 million, respectively. The increase in sales volumes and average net sales price, together with reduced operating expenses were the primary reasons operating margin increased to 21% during the six months ended September 30, 2014, compared to 19% during the six months ended September 30, 2013.

Concrete and Aggregates Operations. Concrete and aggregates revenues increased 11% to \$32.0 million for the three months ended September 30, 2014, compared to \$28.8 million for the three months ended September 30, 2013. The primary reason for the increase in revenue for the second quarter of fiscal 2015, compared to the second quarter of fiscal 2014, was the 6% and 17% increase in average net sales prices for concrete and aggregates, respectively, and the 8% increase in sales volumes for concrete, which positively impacted revenues by approximately \$2.3 million and \$1.8 million, respectively. These increases were partially offset by a decrease in sales volumes for our aggregates

business, which negatively impacted revenues by approximately \$0.9 million during the three months ended September 30, 2014, compared to the three months ended September 30, 2013.

Operating earnings increased to approximately \$3.0 million for the three months ended September 30, 2014, compared to \$0.9 million for the three months ended September 30, 2013. Operating earnings were positively impacted by increased average net sales prices and sales volumes, which positively impacted operating earnings by approximately \$2.3 million and \$0.5 million, respectively, partially offset by increased operating costs of approximately \$0.7 million during the three months ended September 30, 2014, compared to the three months ended September 30, 2013. Increased operating costs during the three months ended September 30, 2014, compared to the three months ended September 30, 2013, were primarily related to royalties, purchased materials, and maintenance, which increased operating costs by approximately \$0.3 million, \$0.2 million, and \$0.1 million, respectively.

Concrete and aggregates revenues increased 9% to \$58.1 million for the six months ended September 30, 2014, compared to \$53.1 million for the six months ended September 30, 2013. The primary reason for the increase in revenue for the six months ended September 30, 2014, compared to the six months ended September 30, 2013, was the 6% and 7% increase in average net sales prices for concrete and aggregates, respectively, and the 6% increase in sales volumes for concrete, which positively impacted revenues by approximately \$4.1 million and \$2.3 million, respectively. These increases were partially offset by a decrease in sales volumes for our aggregates business, which negatively impacted revenues by approximately \$1.2 million during the six months ended September 30, 2014, compared to the six months ended September 30, 2013.

Operating earnings increased to approximately \$4.3 million for the six months ended September 30, 2014, compared to \$2.0 million for the six months ended September 30, 2013. Operating earnings were positively impacted by increased average net sales prices and sales volumes, which positively impacted operating earnings by approximately \$4.1 million and \$0.6 million, respectively, partially offset by increased operating costs of approximately \$2.2 million during the six months ended September 30, 2014, compared to the six months ended September 30, 2013. Increased operating costs during the six months ended September 30, 2014, compared to the six months ended September 30, 2013, were primarily related to purchased materials, maintenance and delivery, which increased operating costs by approximately \$1.2 million, \$0.4 million, and \$0.3 million, respectively.

Oil and Gas Proppants. Revenues for our oil and gas proppants segment increased to approximately \$10.4 million during the three months ended September 30, 2014, compared to \$1.3 million during the three months ended September 30, 2013. This segment is still in the start-up phase, and the increase in revenues during the three months ended September 30, 2014, compared to September 30, 2013, reflects sales volume growth at our Corpus Christi, Texas location.

Operating earnings for the three months ended September 30, 2014 were approximately \$0.7 million, which improved from an operating loss of approximately \$0.8 million during the three months ended September 30, 2013. The increase in operating earnings is due primarily to the increase in sales volumes during the three months ended September 30, 2014, compared to the three months ended September 30, 2013. This segment is still in the start-up phase, and we continue to sell purchased sand out of our Corpus Christi, Texas facility. We expect to be able to sell our mined sand from the Corpus Christi facility during our fiscal third quarter.

Revenues for our oil and gas proppants segment increased to approximately \$21.6 million during the six months ended September 30, 2014, compared to \$2.2 million during the six months ended September 30, 2013. This segment is still in the start-up phase, and the increase in revenues during the six months ended September 30, 2014, compared to September 30, 2013, reflects sales volume growth at our Corpus Christi, Texas location.

Operating earnings for the six months ended September 30, 2014 were approximately \$0.1 million, which improved from an operating loss of approximately \$1.6 million during the six months ended September 30, 2013. The increase in operating earnings is due primarily to the increase in sales volumes during the six months ended September 30, 2014, compared to the six months ended September 30, 2013. This segment is still in the start-up phase, and we

continue to sell purchased sand out of our Corpus Christi, Texas facility. We expect to be able to sell our mined sand from the Corpus Christi facility during our fiscal third quarter.

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## GENERAL OUTLOOK

The drivers of construction products demand continue to improve incrementally, reinforcing the notion that a cyclic recovery is underway. The pace of recovery continues to hinge on the pace of growth in the U.S. economy. Our cement sales network stretches across the central U.S., both east to west and north to south. While we anticipate cement consumption to continue to increase throughout calendar 2014 and into calendar 2015, each region will increase at a different pace. Cement markets are affected by infrastructure spending, industrial construction and residential building activity. We expect improvement to vary in each of our cement markets.

We do not necessarily anticipate significant increases in concrete and aggregate sales volumes in northern California. We are experiencing a recovery in both volume and price in our Austin, Texas markets, and expect volumes to continue to increase throughout fiscal 2015. Demand improved in the greater Kansas City area during fiscal 2014, and we expect demand to continue to improve in this area during fiscal 2015.

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 throughout calendar 2014 and into 2015. Industry shipments of gypsum wallboard exceeded 20 billion square feet in calendar 2013, and are expected to increase in calendar 2014. No new plants are expected to be added in fiscal 2015, but it is possible that previously idled plants or curtailed lines could be brought back into service. We implemented a wallboard price increase effective January 2014 and recently announced a 15% price increase effective in January 2015.

Increased demand for gypsum wallboard will positively impact our recycled paperboard business as sales of higher priced gypsum paper are expected to continue to increase during fiscal 2015, as compared to fiscal 2014, both in gross tons and as a percentage of total sales volumes.

We began operations in our new frac sand business during the first quarter of fiscal 2014. The outlook for frac sand proppants in the oil and gas industry remains robust. Between the opening of our mine in Illinois, and the Pending Acquisition, we expect increased sales volumes during the remainder of fiscal 2015. The Pending Acquisition will increase our mining and processing ability, as well as provide trans-load facilities, expanding our market reach.

## 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 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 Six Months Ended September 30,	
	2014	2013
	(dollars in thousands)	
Net Cash Provided by Operating Activities	\$ 117,651	\$ 79,255
Investing Activities:		
Capital Expenditures	(40,039 )	(31,583 )
Net Cash Used in Investing Activities	(40,039 )	(31,583 )
Financing Activities:		
Excess Tax Benefits from Share Based Payment Arrangements	3,195	1,053
Decrease in Long-Term Debt	(69,000 )	(34,000 )
Dividends Paid	(10,019 )	(9,910 )
Shares Repurchased to Settle Employee Taxes on RSUs	(1,299 )	(435 )
Proceeds from Stock Option Exercises	4,092	2,351
Net Cash Provided by Financing Activities	(73,031 )	(40,941 )
Net Increase in Cash	\$ 4,581	\$ 6,731

Cash flows from operating activities increased \$38.4 million to \$117.7 million during the six month period ended September 30, 2014, compared to \$79.3 million during the similar period in 2013. This increase was largely attributable to increased net earnings of approximately \$18.0 million and reduced growth in working capital, which increased approximately \$2.6 million during the six months ended September 30, 2014, compared to approximately \$28.4 million during the six months ended September 30, 2013. Cash flows from operations were negatively impacted during the six months ended September 30, 2014 by increases in accounts and notes receivable, and inventories of approximately \$29.8 million and \$3.6 million, respectively, partially offset by increases in accounts payable and accrued liabilities, other assets and income taxes payable of approximately \$16.9 million, \$2.8 million and \$11.1 million, respectively. During the six months ended September 30, 2013, cash flows from operations were negatively impacted by increases in accounts and notes receivable, and inventories of approximately \$30.1 million and \$7.7 million, respectively, and a decrease in accounts payable and accrued liabilities of approximately \$2.9 million, partially offset by an increase of approximately \$13.5 million in income taxes payable.

Working capital increased to \$208.0 million at September 30, 2014, compared to \$198.1 million at March 31, 2014, primarily due to increased accounts and notes receivable and inventories of approximately \$29.9 million and \$3.6 million, respectively, partially offset by decreased prepaid assets of approximately \$4.2 million and increased accounts payable, accrued liabilities and income taxes payable of approximately \$9.9 million, \$6.3 million and \$7.9 million, respectively.

The increase in accounts and notes receivable at September 30, 2014, compared to March 31, 2014, is primarily due to increased revenues during the three months ended September 30, 2014, compared to the three months ended March 31, 2014. As a percentage of quarterly sales generated in the quarter then ended, accounts receivable were approximately 47% at September 30, 2014 and 51% at March 31, 2014. 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 was identified at September 30, 2014. Notes receivable are monitored on an individual basis, and no significant deterioration in the collectability of notes receivable was identified at September 30, 2014.

Our inventory balance at September 30, 2014 increased approximately 2% from the inventory balance at March 31, 2014. This increase is due primarily to an increase in raw materials and materials in progress of approximately \$9.0 million, partially offset by a decline in finished cement. The increase in raw materials and materials in process is primarily due to the increase in sand inventory related to our oil and gas proppants business, which is due to the continued growth of the business. 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.

In June 2010, we received a Notice of Deficiency ("Notice") of \$71.5 million of taxes and penalties for the fiscal years ended March 31, 2001 through 2006, inclusive, related to the IRS audit of the Republic Asset Acquisition. The final amount related to the Notice, including interest, was approximately \$97.9 million, which we paid to the IRS. Refund claims were filed with the IRS in October 2010 to recover all \$97.9 million paid to the IRS, plus interest thereon. The IRS denied our refund request and we filed a lawsuit in May 2011 in Federal District Court to recover the requested refunds.

With respect to the tax returns for the fiscal years ended March 31, 2007 through March 31, 2010, the IRS issued an assessment of approximately \$8.1 million of income tax and approximately \$1.9 million in penalties. In addition, we estimate that interest of approximately \$2.9 million has accrued on these amounts as of September 30, 2014. These amounts have been fully accrued in our financial statements at September 30, 2014. The amounts accrued have been treated as unrecognized tax liabilities and are included in Other Long Term Liabilities on our Consolidated Balance Sheet at September 30, 2014 and March 31, 2014. We have reached a tentative agreement with the IRS to settle this lawsuit subject to governmental approval. See Note (O) of the Notes to Unaudited Consolidated Financial Statements for more information.

Net cash used in investing activities during the six month period ended September 30, 2014 was approximately \$40.0 million, compared to net cash used in investing activities of approximately \$31.6 million during the similar period in 2013, an increase of \$8.4 million. The increase in capital expenditure is primarily related to increased expenditures in our cement and concrete and aggregates businesses, partially offset by reduced capital spending in our oil and gas proppants business. We anticipate spending between \$20.0 million and \$25.0 million on sustaining capital expenditures for all of our businesses during fiscal 2015, which is consistent with historic levels.

Net cash used in financing activities increased to approximately \$73.0 million during the six month period ended September 30, 2014, compared to net cash used of approximately \$40.9 million during the similar period in 2013. This \$32.1 million increase in net cash used in financing activities is primarily due to the increase in net repayments of debt to \$69.0 million during the six month period ended September 30, 2014 from net repayments of \$34.0 million during the six month period ended September 30, 2013. The increase in debt repayments is due primarily to the increase in net cash provided by operating activities. Our debt-to-capitalization ratio and net-debt-to-capitalization ratio improved to 25.3% and 24.6%, respectively, at September 30, 2014, as compared to 31.4% and 31.1%, respectively, at March 31, 2014.

On October 16, 2014 we announced the acquisition of CRS Proppants. The Purchase Price to be paid by the Company in the Pending Acquisition is approximately \$225.0 million subject to adjustments for working capital and other customary post-closing adjustments, including in-process capital expenditures paid through closing. We expect to fund the payment of the Purchase Price and expenses incurred in the Pending Acquisition through operating cash flows and borrowings under our Bank Credit Facility, which was amended and restated on October 30, 2014.



## Debt Financing Activities.

## Bank Credit Facility

The Credit Facility was amended and restated on October 30, 2014 (the “Amended Credit Facility”). The Amended Credit Facility increased available borrowings from \$400.0 million to \$500.0 million and extended the term to October 30, 2019. Borrowings under the Amended Credit Facility are guaranteed by substantially all of the Company’s subsidiaries. At the option of the Company, outstanding principal amounts on the Amended Credit Facility bear interest at a variable rate equal to (i) LIBOR, plus an agreed margin (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 agreed margin (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 LIBOR advance periods, which can be up to a period of six months at the option of the Company. The Company is also required to pay a commitment fee on unused available borrowings under the Amended Credit Facility ranging from 10 to 35 basis points depending upon the Leverage Ratio. The Amended 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 Amended Credit Facility also requires us to maintain a consolidated indebtedness ratio (calculated as consolidated indebtedness to consolidated earnings before interest, taxes, depreciation, amortization, certain transaction-related deductions and other non-cash deductions) of 3.5:1.0 or less and an interest coverage ratio (consolidated earnings before interest, taxes, depreciation, amortization, certain transaction-related deductions and other non-cash deductions to consolidated interest expense) of at least 2.5:1.0. We had \$120.0 million of borrowings outstanding at September 30, 2014. Based on our Leverage Ratio, we had \$272.4 million of available borrowings, net of the outstanding letters of credit, at September 30, 2014.

The Amended 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 September 30, 2014, we had \$7.6 million of letters of credit outstanding.

Senior Notes - We entered into a Note Purchase Agreement on November 15, 2005 (the “2005 Note Purchase Agreement”) related to our sale of \$200 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 on November 15, 2005. Since entering into the 2005 Note Purchase Agreement, we have repurchased \$81.1 million in principal of the Series 2005A Senior Notes (in periods prior to the fiscal year ended March 31, 2013). During November 2012, Tranche A of the Series 2005A Senior Notes matured and we retired the remaining \$4.7 million in notes from this Tranche. Following these repurchases and maturities, the amounts outstanding for each of the remaining tranches are as follows:

	Principal	Maturity Date	Interest Rate	
Tranche B	\$57.0 million	November 15, 2015	5.38	%
Tranche C	\$57.2 million	November 15, 2017	5.48	%

Interest for each tranche of Notes is payable semi-annually on the 15<sup>th</sup> day of May and the 15<sup>th</sup> day of November of each year until all principal is paid for the respective tranche.

We also entered into an additional Note Purchase Agreement on October 2, 2007 (the “2007 Note Purchase Agreement”) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2007A Senior Notes (the “Series 2007A Senior 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. Since entering into the 2007 Note Purchase Agreement, we have repurchased \$122.0 million in



principal of the Series 2007A Senior Notes (in periods prior to the fiscal year ended March 31, 2013). Following the repurchase, the amounts outstanding for each of the four tranches are as follows:

	Principal	Maturity Date	Interest Rate	
Tranche A	\$9.5 million	October 2, 2014	6.08	%
Tranche B	\$8.0 million	October 2, 2016	6.27	%
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 on the second day of April and the second day of October of each year until all principal is paid for the respective tranche.

On October 2, 2014 we repaid the \$9.5 million outstanding under Tranche A of the Series 2007 Senior Notes.

Our obligations under the 2005 Note Purchase Agreement and the 2007 Note Purchase Agreement (collectively referred to as the “Note Purchase Agreements”) and the Series 2005A Senior Notes and the Series 2007A Senior Notes (collectively referred to as “the Senior Notes”) are equal in right of payment with all other senior, unsecured debt of the Company, including our debt under the Amended Credit Facility. The Note Purchase Agreements contain customary restrictive covenants, including 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, as well as certain cross covenants with the Amended Credit Facility. We were in compliance with all financial ratios and tests at June 30, 2014 and throughout the fiscal year.

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 Note Purchase Agreements) on the Senior Notes and the other payment and performance obligations of the Company contained in the Senior Notes and in the 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 Senior 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 Senior 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 Senior Notes being prepaid.

We are leasing 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 Amended Credit Facility, we have no other source of committed external financing in place. In the event the Amended 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 Amended 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 \$15.0 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 Amended Credit Facility a \$50.0 million Letter of Credit Facility. At September 30, 2014, we had \$7.6 million of letters of credit outstanding that renew annually. We are contingently liable for performance under \$16.3 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.

#### Share Repurchases.

We did not repurchase any of our shares on the open market during the six month period ended September 30, 2014. As of September 30, 2014, we had a remaining authorization to purchase 717,300 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.

During the six month period ended September 30, 2014, 20,074 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.

#### Dividends.

Dividends paid were \$10.0 million and \$9.9 million for the six month periods ended September 30, 2014 and 2013, 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.

#### Capital Expenditures.

The following table compares capital expenditures:

	For the Six Months Ended September 30,	
	2014	2013
	(dollars in thousands)	
Land and Quarries	\$ 2,610	\$ 6,014
Plants	26,554	20,572
Buildings, Machinery and Equipment	10,875	4,997
Total Capital Expenditures	\$ 40,039	\$ 31,583

Historically, annual maintenance capital expenditures have been approximately \$20.0 to \$25.0 million, which we anticipate will be similar for fiscal 2015. Total capital expenditures for fiscal 2015, including sustaining capital expenditures, are expected to be approximately \$50.0 million to \$70.0 million. 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 \$400.0 million Credit Facility available at September 30, 2014, under which borrowings bear interest at a variable rate. A hypothetical 100 basis point increase in interest rates on the \$120.0 million of borrowings at September 30, 2014 would increase our interest expense by approximately \$1.2 million on an annual basis. At present, we do not utilize derivative financial instruments.

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

#### Outstanding Lawsuit against the IRS

As previously reported, the Internal Revenue Service (the “IRS”) completed the examination of our federal income tax returns for all of the fiscal years ended March 31, 2001 through 2006. The IRS issued Exam Reports and Notices of Proposed Adjustment on November 9, 2007 for the examination of the 2001, 2002 and 2003 tax years, and on February 5, 2010 for the examination of the 2004, 2005 and 2006 fiscal years, in which it denied certain depreciation deductions claimed by us with respect to assets acquired by us from Republic Group LLC in November 2000. In response to the examination reports, we previously paid an aggregate amount to the IRS, net of certain refunds of interest, of \$97.9 million of taxes, penalties and interest with respect to these fiscal years. On May 4, 2011, we filed a lawsuit in Federal District Court to recover the \$97.9 million of taxes, penalties and interest paid. In March 2013, the IRS agreed to suspend the audit for tax years 2007 through 2011 pending the outcome of our case before the Federal District Court. In September 2013, the judge heard arguments on each party’s motion for summary judgment and in November 2013 the judge denied each such motion.

In September 2014 the Company and the IRS reached a tentative agreement to settle this case. The tentative settlement is subject to various governmental approvals. If the tentative agreement is approved, we will dismiss our lawsuit seeking to recover taxes, interest and penalties paid, as discussed above, in exchange for the IRS conceding 40% of the penalties, plus related interest, to date. If the settlement is not approved, we will continue to pursue our claims in court. In the event the settlement is approved, we will recognize the recovery of 40% of the penalties, which total approximately \$5.8 million, plus the related interest thereon, in our consolidated statement of earnings during the period in which the settlement is finalized.

#### 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 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, 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. NCC believes it has meritorious defenses to the allegations in the NOVs. NCC met with the EPA in December 2010, September 2012 and May 2014 to present its defenses and to discuss a resolution of the alleged violations. EPA and NCC remain in discussions regarding the alleged violations. If a negotiated settlement cannot be reached, NCC intends to vigorously defend these matters in any enforcement action that may be pursued by the EPA. As a part of a settlement, or should NCC fail in its defense in any enforcement action, NCC could be required to make substantial capital expenditures to modify its facility and incur increased operating costs. NCC could also be required to pay significant civil penalties. Additionally, an enforcement action could take many years to resolve the underlying issues alleged in the NOV. We are currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon our financial position or results of operations.

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 American Gypsum conspired with other wallboard manufacturers 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

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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, New NGC, Inc., Lafarge North America, Temple Inland Inc. and PABCO Building Products LLC. On April 8, 2013, the Judicial Panel on Multidistrict Litigation 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.

While American Gypsum’s production of written discovery is substantially complete, discovery is ongoing. Due to the fact that the case is in the discovery phase, and the plaintiffs have not specified the amount of any damages they are seeking, we are unable to estimate the amount of any reasonably possible loss or range of reasonably possible losses. American Gypsum denies the allegations in these lawsuits and will vigorously defend itself against these claims.

#### Item 1A. Risk Factors

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

Demand for our products 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 into calendar 2014; however, the rate and sustainability of such improvement remains uncertain. Furthermore, activity in the infrastructure construction business is directly related to the amount of government funding available for such projects. Despite the enactment of a new federal highway bill in July 2012, 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, hurricanes, tropical storms and heavy 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.

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

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 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.

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, 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.

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*, 655 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 PC NESHAP will materially increase capital costs and costs of production for the Company and the industry as a whole.

On March 21, 2011 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 Clean Air Act, which created emission standards for 4 subcategories of industrial facilities, one of which is “Waste Burning Kilns.” EPA simultaneously stayed the CISWI Rule for further reconsideration. On February 12, 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 on February 12, 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 approximately early 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.

In 2010, the EPA released proposed regulations to address the storage 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. In its proposed regulations, the EPA is considering two alternatives. Under one proposal, the EPA would characterize coal combustion products destined for disposal as a special waste under Subtitle C of the Resource Conservation and Recovery Act, or RCRA, which is the Subtitle that regulates hazardous wastes. Under this proposal, beneficial encapsulated use of coal combustion products, including synthetic gypsum, would continue to be exempt under the Bevill Amendment and not warrant regulation. Under the other proposal, the EPA would continue to regulate coal combustion products under Subtitle D of RCRA, which regulates solid wastes that are not hazardous wastes. The EPA has stated that Subtitle D regulation could be sufficient to protect human health and the environment. The EPA has emphasized that it does not wish to discourage the beneficial reuse of coal combustion products under either of its two proposals. It is not possible to accurately predict the regulations that will be ultimately adopted, if any. The EPA continues to review the public comments and associated data that were received in response to its 2010 proposal. It is anticipated that a final rule will be issued by the end of 2014. It is possible that such rulemaking could affect our business, financial condition and results of

operations, depending on how any such regulation affects our costs or the demand for our products utilizing synthetic gypsum.

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The 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. Not all specific limitations have been finalized; however, upon determination, these limitations, along with specific emissions limitations that have already been finalized, will apply to our operation of these cement plants. It is difficult to predict with reasonable certainty the impact of these limitations on the operations or operating costs of the Kansas City, Missouri and Tulsa, Oklahoma cement plants. 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.

The 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, revised HWC MACT regulations would apply to one of the cement kilns used at the cement plant in Tulsa, Oklahoma. This revision may require new control requirements and significant capital expenditure for compliance. The revised regulations have not been proposed. In 2013, the EPA adopted the final CISWI Rule (as discussed above) that likely will apply to one of the cement kilns used by the cement plant in Tulsa, Oklahoma 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 approximately 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, 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.

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 Amended Credit Facility and the Note Purchase Agreements governing our Senior 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

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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, including our frac sand business, 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 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.

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 (“OPEC”), 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.

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

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access or easement, and any such action could be materially adverse to or 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.

#### Risks Related to the Pending Acquisition

We may not be able to complete the Pending Acquisition.

Our ability to complete the Pending Acquisition is subject to various closing conditions, which may not be satisfied or may take longer than expected. Accordingly, there is no assurance that we will in fact acquire or own CRS Proppants. Although some of the information included in this Report generally assumes consummation of the Pending Acquisition, we cannot assure you that the Pending Acquisition will occur on the terms currently contemplated or at all. If we fail to close the Pending Acquisition, depending on certain circumstances, we could be subject to litigation relating to the failure of the Pending Acquisition to be completed, including claims for damages from CRS Proppants or other persons. If the Pending Acquisition is not completed the price of our common stock could decline.

We may not realize any or all of the anticipated benefits of the Pending Acquisition and the Pending Acquisition may adversely impact our existing operations.

We may not be able to achieve the anticipated benefits of the Pending Acquisition even if we complete it. Upon completion of the Pending Acquisition, we will need to integrate CRS Proppants with our existing operations. We may not be able to accomplish the integration of CRS Proppants smoothly, successfully or within the anticipated costs or timeframe. In general, we cannot assure you that we will be able to timely achieve the anticipated incremental revenues, cost savings, operational synergies and other expected benefits of the Pending Acquisition.

The diversion of our management's attention from our current operations to integration efforts and any difficulties encountered in combining operations could prevent us from realizing the full benefits anticipated to result from the Pending Acquisition and could adversely affect our business and the price of our common stock. The integration process may be complex, costly and time-consuming. The difficulties of integrating CRS Proppants with our business include, among others:

- failure to implement our business plan for the combined business;
- unanticipated issues in integrating logistics, information, communications and other systems;
- unanticipated changes in applicable laws and regulations;
  
- the impact of the Pending Acquisition on our internal controls and compliance with the regulatory requirements under the Sarbanes-Oxley Act of 2002; and

- unanticipated issues, expenses and liabilities.

We will incur significant liabilities and costs as a result of or in connection with the Pending Acquisition.

Upon consummation of the Pending Acquisition we will generally be responsible for all liabilities and obligations that arise in connection with the operation of CRS Proppants.

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In addition, we will incur significant costs in connection with the Pending Acquisition. The substantial majority of these costs will be non-recurring transaction expenses and costs. Significant costs will be incurred whether or not the Pending Acquisition is consummated. Furthermore, substantial time and resources have been and may continue to be devoted to the Pending Acquisition and related matters, which could otherwise have been devoted to other opportunities that may have been beneficial to us.

We will incur substantial indebtedness in order to finance the Pending Acquisition, which could adversely affect our business, limit our ability to plan for or respond to changes in our business and reduce our profitability.

In order to finance the Pending Acquisition, we expect to incur additional borrowings of approximately \$225.0 million under our Amended Credit Facility. We expect to use cash flow generated from our future operations to make payments on our debt obligations and to fund planned capital expenditures. Our future ability to satisfy these obligations and make these expenditures 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, which 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 we cannot service our indebtedness, 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 restructure our debt;
- we may not be able to obtain additional financing on commercially reasonable terms or at all to fund future working capital, capital investments and other business activities; 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.

As of September 30, 2014, on a pro forma basis giving effect to the Pending Acquisition, the aggregate principal amount of our debt instruments with exposure to interest rate risk was approximately \$345.0 million. As of the same date, on a pro forma basis, each change in interest rates of .125 percentage points would result in an approximate \$0.4 million change in our annual cash interest expense before any principal payment on our financial instruments with exposure to interest rate risk. As a result, increases in interest rates will increase the cost of servicing our financial instruments with exposure to interest rate risk and could materially reduce our profitability and cash flows.

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,” “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.

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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

- 2.1\* Securities Purchase Agreement between Northern White Sand LLC and the sellers named therein, dated October 16, 2014. \*\*
- 10.1\* Eagle Materials Inc. Director Compensation Summary.<sup>(1)</sup>
- 10.2\* Form of Management Non-Qualified Stock Option Agreement.<sup>(1)</sup>
- 10.3\* Form of Management Restricted Stock Agreement.<sup>(1)</sup>
- 10.4\* Form of Director Non-Qualified Stock Option Agreement.<sup>(1)</sup>
- 10.5\* Form of Director Restricted Stock Agreement.<sup>(1)</sup>
- 10.6 Eagle Materials Inc. Amended and Restated Incentive Plan (filed as Exhibit A to the Company's Schedule 14A, filed with the Securities and Exchange Commission on June 21, 2013 and incorporated herein by reference).<sup>(1)</sup>
- 10.7\* Third Amended and Restated Credit Agreement by and among Eagle Materials Inc., JPMorgan Chase Bank, N.A., as Administrative Agent, and the other Lenders party thereto dated October 30, 2014.
- 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.

\*\*Pursuant to Item 601(b)(2) of Regulation S-K, the Company agrees to furnish supplementally a copy of any omitted exhibit or schedule to the Securities and Exchange Commission upon request.

<sup>(1)</sup>Management contract or compensatory plan or arrangement.

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

November 5, 2014 /s/ STEVEN R. ROWLEY  
Steven R. Rowley

President and Chief Executive Officer  
  
(principal executive officer)

November 5, 2014 /s/ D. CRAIG KESLER  
D. Craig Kesler

Executive Vice President – Finance and  
Administration and Chief Financial Officer  
  
(principal financial officer)

November 5, 2014 /s/ WILLIAM R. DEVLIN  
William R. Devlin

Senior Vice President – Controller and  
Chief Accounting Officer  
  
(principal accounting officer)