EAGLE MATERIALS INC
Form 10-Q
January 29, 2016
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United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended

December 31, 2015

Commission File Number 1-12984

Eagle Materials Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

75-2520779

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

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

(Address of principal executive offices)

(214) 432-2000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x 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 x 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 x	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 x

As of January 27, 2016, the number of outstanding shares of common stock was:

Class	Outstanding Shares
Common Stock, $.01 Par Value	49,309,781

Eagle Materials Inc. and Subsidiaries

Form 10-Q

December 31, 2015

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PART I. FINANCIAL INFORMATION (unaudited)

Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Earnings

(dollars in thousands, except share data)

(unaudited)

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2015	2014	2015	2014
Revenues	$277,409	$291,529	$891,360	$842,588
Cost of Goods Sold	208,544	212,380	717,104	631,977
Gross Profit	68,865	79,149	174,256	210,611
Equity in Earnings of Unconsolidated Joint Venture	10,483	12,423	29,993	34,274
Corporate General and Administrative	(8,304)	(9,371)	(26,659)	(23,827)
Acquisition and Litigation Expense	-	(722)	-	(2,825)
Other Income	1,163	488	2,170	2,050
Interest Expense, Net	(4,002)	(4,101)	(12,830)	(12,054)
Earnings Before Income Taxes	68,205	77,866	166,930	208,229
Income Tax Expense	(22,357)	(25,836)	(53,501)	(68,170)
Net Earnings	$45,848	$52,030	$113,429	$140,059
EARNINGS PER SHARE:				
Basic	$0.93	$1.05	$2.29	$2.82
Diluted	$0.92	$1.03	$2.26	$2.78
AVERAGE SHARES OUTSTANDING:				
Basic	49,187,738	49,655,405	49,593,821	49,583,210
Diluted	49,770,020	50,411,147	50,230,091	50,375,619
CASH DIVIDENDS PER SHARE:	$0.10	$0.10	$0.30	$0.30

See notes to unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Comprehensive Earnings

(unaudited – dollars in thousands)

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2015	2014	2015	2014
Net Earnings	$ 45,848	$ 52,030	$ 113,429	$ 140,059
Change in Funded Status of Defined Benefit Plans:				
Amortization of Net Actuarial Loss	506	163	1,522	489
Tax Expense	(188)	(57)	(564)	(171)
Comprehensive Earnings	$ 46,166	$ 52,136	$ 114,387	$ 140,377

See notes to unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries

Consolidated Balance Sheets

(dollars in thousands)

	December 31, 2015 (unaudited)	March 31, 2015
ASSETS		
Current Assets -		
Cash and Cash Equivalents	$15,756	$7,514
Accounts and Notes Receivable	103,859	113,577
Inventories	232,447	235,464
Income Tax Receivable	5,319	-
Prepaid and Other Assets	8,013	10,080
Total Current Assets	365,394	366,635
Property, Plant and Equipment -	2,065,745	1,962,215
Less: Accumulated Depreciation	(799,494)	(740,396)
Property, Plant and Equipment, net	1,266,251	1,221,819
Notes Receivable	2,716	2,847
Investment in Joint Venture	50,372	47,614
Goodwill and Intangible Assets	174,916	211,167
Other Assets	28,921	32,509
	$1,888,570	$1,882,591
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities -		
Accounts Payable	$61,327	$77,749
Accrued Liabilities	46,750	46,830
Income Taxes Payable	-	2,952
Current Portion of Long-term Debt	8,000	57,045
Total Current Liabilities	116,077	184,576
Long-term Debt	492,714	455,714
Other Long-term Liabilities	70,673	69,055
Deferred Income Taxes	159,790	162,653
Total Liabilities	839,254	871,998
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 49,305,408 and 50,245,364 Shares, respectively	493	502
Capital in Excess of Par Value	211,781	272,441
Accumulated Other Comprehensive Losses	(11,109)	(12,067)

Retained Earnings	848,151	749,717
Total Stockholders’ Equity	1,049,316	1,010,593
	$1,888,570	$1,882,591

See notes to the unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(unaudited – dollars in thousands)

	For the Nine Months Ended December 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Earnings	$113,429	$140,059
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities -		
Depreciation, Depletion and Amortization	74,245	54,552
Impairment of Intangible Assets	28,354	-
Deferred Income Tax Provision	(6,478)	1,172
Stock Compensation Expense	12,293	9,807
Excess Tax Benefits from Share Based Payment Arrangements	(2,504)	(3,493)
Equity in Earnings of Unconsolidated Joint Venture	(29,993)	(34,274)
Distributions from Joint Venture	27,250	30,125
Changes in Operating Assets and Liabilities:		
Accounts and Notes Receivable	11,765	(19,093)
Inventories	5,408	(10,279)
Accounts Payable and Accrued Liabilities	(10,228)	6,352
Other Assets	(1,484)	3,916
Income Taxes Payable	(5,767)	4,299
Net Cash Provided by Operating Activities	216,290	183,143
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, Plant and Equipment Additions	(75,536)	(64,959)
Acquisition Spending	(32,427)	(237,171)
Net Cash Used in Investing Activities	(107,963)	(302,130)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Credit Facility	45,000	146,000
Repayment of Senior Notes	(57,045)	(9,500)
Dividends Paid to Stockholders	(15,078)	(15,044)
Payment of Debt Acquisition Costs	-	(1,661)
Shares Redeemed to Settle Employee Taxes on Stock Compensation	(1,815)	(1,356)
Purchase and Retirement of Common Stock	(76,231)	-
Proceeds from Stock Option Exercises	2,580	4,270
Excess Tax Benefits from Share Based Payment Arrangements	2,504	3,493
Net Cash Used in Financing Activities	(100,085)	126,202
	8,242	7,215

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,514	6,482
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$15,756	$13,697

See notes to the unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

December 31, 2015

(A) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements as of and for the three and nine month periods ended December 31, 2015 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 22, 2015.

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

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") 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. In July 2015, the FASB delayed the implementation of this standard by one year. The standard will now be effective for us in the first quarter of fiscal 2019, with early adoption not permitted. There are two transition methods available under the new standard, either modified or full retrospective. We are currently evaluating the impact of this ASU and have not yet selected a transition method.

In April 2015, the Financial Accounting Standards Board issued ASU 2015-03, "Interest-Imputation of Interest (Subtopic 830-30)". This Standard requires that discounts, premiums or debt issue costs related to borrowings be reported in the balance sheet as a direct reduction of the associated borrowing. The standard will be effective for us in the first quarter of fiscal 2017, and earlier application is permitted for financial statements that have not been previously issued. This impact of adopting this ASU is not expected to be material.

In November 2015, the Financial Accounting Standards Board issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes (Topic 740)". This standard simplifies the presentation of deferred taxes by requiring all deferred tax assets and liabilities, as well as any related valuation allowance, be classified as noncurrent on the balance sheet, resulting in each tax jurisdiction having only one net noncurrent deferred asset or liability. The standard will be effective for us in the first quarter of fiscal 2017, with early adoption permitted at the beginning of an interim or annual reporting period. This guidance may be applied prospectively or retrospectively by reclassifying the comparative balance sheet. The impact of adopting this ASU will not have a material impact on our financial position.

In July 2015, the Financial Accounting Standards Board issued ASU 2015-11, “Simplifying the Measurement of Inventory”. This standard requires inventory to be measured at the lower of cost or net realizable value, which is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The standard will be effective for us in the first quarter of fiscal 2017, with early adoption permitted at the beginning of an annual or interim reporting period. Prospective application is required. This impact of adopting this ASU is not expected to be material.

In September 2015, the Financial Accounting Standards Board issued ASU 2015-16, “Simplifying the Accounting for Measurement-Period Adjustments”. This standard eliminates the requirement to restate prior period financial statements for measurement period adjustments. The cumulative impact of measurement period adjustments, including those in prior periods, will now be recognized in the reporting period in which the adjustment is made. The cumulative adjustment should be reflected in the financial statements within the respective line items impacted. Additionally, companies must present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the adjustment recorded in the current period earnings by line item that would have been recorded in previous periods if the adjustment to the provisional amounts had been recognized on the acquisition date. This standard is effective for annual periods beginning after December 15, 2016 and interim periods beginning after December 31, 2017. Early adoption is permitted for all entities. We adopted this standard on October 1, 2015, with no material impact to our results of operations or financial position.

(B) GOODWILL AND INTANGIBLE ASSETS

Goodwill: 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 December 31, 2015, we determined that impairment losses are not likely to occur; therefore, no impairment tests were performed during the quarter.

Intangible Assets: Intangible assets are currently being amortized over their expected lives. During calendar 2015, the continued decline in oil prices adversely impacted oil and gas drilling activity, leading to further reductions in demand and pricing for proppants. This reduction in demand adversely impacted performance under our customer contracts, resulting in the amendment of certain of these contracts. Based on the reduced demand for proppants and the executed and pending amendments to our customer contracts, we concluded that long-lived asset impairment indicators were present during the quarter ended September 30, 2015 for our customer contract intangible assets. We performed a recovery test to determine if any of the customer contract intangible assets related to our oil and gas proppants business unit were impaired at September 30, 2015. Based on our analysis of the undiscounted cash flows for each of our customer contract intangibles related to our oil and gas proppants business, we concluded that the carrying value of certain customer contract intangible assets exceeded the undiscounted cash flows for the related assets. For those contracts whose carrying value exceeded the undiscounted cash flows, we calculated the fair value of each contract using the weighted-average probable cash flows related to each contract (level 3 inputs), discounted using a weighted-average cost of capital (“WACC”). The WACC was determined from relevant market comparisons, and adjusted for specific risks. This analysis resulted in an impairment loss of approximately $28.4 million, which is included in cost of goods sold in the unaudited Consolidated Statement of Earnings for the nine months ended December 31, 2015. We reviewed customer activity for the remaining customer contract intangible assets and determined that there was no indication of additional impairment at December 31, 2015.

Intangible assets, including the impact of the impairment charge discussed above, consist of the following:

	Cost at December 31, 2015	Amortization for Nine Months ended December 31, 2015	Impairment	Accumulated Amortization	Net
	(dollars in thousands)				
Goodwill and Intangible Assets:					
Customer Contracts and Relationships	$63,260	$ 9,480	$ 28,354	$ (43,828)	$19,432
Sales Contracts	2,500	468	-	(1,926)	$574
Permits	27,440	519	-	(6,415)	$21,025
Goodwill	133,885	-	-	-	$133,885
Total Goodwill and Intangible Assets	$227,085	$ 10,467	$ 28,354	$ (52,169)	$174,916

At December 31, 2015, approximately $14.3 million of Customer Contracts and Relationships was related to our oil and gas proppants business. Under the terms of one of the customer contracts, the customer prepaid $15.0 million for sand. At December 31, 2015, approximately $12.5 million of this prepaid is still available to the customer. This prepayment is included in Other Long-term Liabilities on the unaudited Consolidated Balance Sheet.

	March 31, 2015 Amortization Period	Cost	Accumulated Amortization	Net
	(dollars in thousands)			
Goodwill and Intangible Assets:				
Customer contracts and relationships	5-15 years	$62,060	$ (5,994)	$56,066
Sales contracts	4 years	2,500	(1,458)	1,042
Permits	40 years	27,440	(5,896)	21,544
Goodwill		132,515	-	132,515
Total Goodwill and Intangible Assets		$224,515	$ (13,348)	$211,167

During July 2015, goodwill increased approximately $1.4 million and customer contracts and relationships increased $1.2 million in connection with the Skyway Acquisition.

Amortization expense of intangibles was $5.7 million the year ended March 31, 2015. After the impairment discussed above, amortization expense is expected to be approximately $2.5 million for the remainder of fiscal 2016, $9.2 million for fiscal year 2017, and $3.2 million for fiscal years 2018 and 2019, $2.2 million for fiscal year 2020 and $1.3 million for fiscal year 2021.

(C) ACQUISITIONS

CRS Acquisition

On November 14, 2014, we acquired all of the outstanding equity interest in CRS Holdco LLC, CRS Proppants LLC, Great Northern Sand LLC and related entities (collectively “CRS Proppants”) (such acquisition, the “CRS 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 trans-load network into Texas and southwest Oklahoma.

Purchase Price: The purchase price (the “CRS Purchase Price”) of the CRS Acquisition was approximately $236.1 million, including approximately $8.9 million of in-process capital expenditures paid as of the closing date. We funded the payment of the CRS Purchase Price at closing and expenses incurred in connection with the CRS Acquisition through borrowings under our bank credit facility, which was amended and restated on October 30, 2014. See Footnote (M) to the Unaudited Consolidated Financial Statements for more information about our bank credit facility.

We previously reported the estimated CRS Purchase Price in our Form 10-K as approximately $237.2 million. During the quarter ended June 30, 2015, we finalized the amount of working capital acquired at the closing, which resulted in a reduction in the CRS Purchase Price of approximately $1.1 million.

Recording of assets acquired and liabilities assumed: The CRS Acquisition has been accounted for using the acquisition method of accounting which requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. We engaged a third-party to perform an appraisal valuation to support our preliminary estimate of the fair value of certain assets acquired in the CRS Acquisition. Included in the assets acquired, and liabilities assumed, are two long-term sales agreements that included prepayments for future sales under such agreements, with such prepayments classified as liabilities. Additionally, one of the agreements is with a customer that is currently in bankruptcy, and is not expected to fulfill its obligations under the agreement. We have been indemnified by the former owner against any loss related to this agreement, and such indemnity has been valued at fair value and recorded as an asset at the date of the CRS Acquisition.

During the quarter ended December 31, 2015, we received the information related to the tax structure of the acquired entities, enabling us to finalize the percentage of carryover ownership in CRS Proppants. The application of the final carryover ownership percentage resulted in an increase in deferred tax liabilities and taxes payable of approximately $3.0 million and $1.5 million, respectively, and an increase in property and equipment of approximately $4.5 million.

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

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

Purchase price allocation (in thousands)	As of November 14, 2014	
Cash and cash equivalents	$ 219	
Accounts Receivable	14,640	
Inventories	9,627	
Prepaid and Other Assets	753	
Property and Equipment	197,238	
Intangible Assets	56,200	
Indemnity under Sales Agreement	14,810	
Accounts Payable and Accrued Liabilities	(8,428	)
Obligations under Long-term Sales Agreements	(28,131	)
Asset Retirement Obligation	(4,112	)
Deferred Taxes	(16,765	)
Total Net Assets	236,051	
Goodwill	-	
Total Estimated Purchase Price	$ 236,051	

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

	Weighted Average Life	Estimated Fair Value
Customer Relationships	4	56,000
Permits	40	200
Total Intangible Assets		$ 56,200

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During the quarter ended September 30, 2015, the above customer relationships were tested for impairment. See Footnote (B) to the unaudited Consolidated Financial Statements for discussion of the impairment testing of these assets.

Actual and pro forma impact of the CRS Acquisition: The following table presents the net sales and operating loss of CRS Proppants that have been included in our consolidated statement of earnings from April 1, 2015 through December 31, 2015:

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2015	2014	2015	2014
	(dollars in thousands)		(dollars in thousands)	
Revenues	$ 7,864	$ 9,452	$ 39,088	$ 9,452
Operating Income (Loss)	$ (5,765)	$ 223	$ (51,406)	$ 223

Operating loss shown above for the three months ended December 31, 2015 has been impacted by approximately $5.4 million of depreciation and amortization. Non cash charges and inventory write-offs totaling approximately $55.0 million adversely impacted operating loss for the nine months ended December 31, 2015. These charges were approximately $16.7 million, $28.4 million, $9.4 million and $0.5 million and related to depreciation and amortization, impairments, write-down of raw sand inventory and the recording of acquired inventory at fair value, respectively.

The unaudited pro forma results presented below include the effects of the CRS Acquisition as if it had been consummated as of April 1, 2014. The pro forma results include the amortization associated with an estimate for acquired intangible assets and interest expense associated with debt used to fund the Acquisition and depreciation from the fair value adjustments for property and equipment. To better reflect the combined operating results, material nonrecurring charges incurred by the Company directly related to the CRS Acquisition of $2.1 million have been excluded from pro forma net income for the three and nine months ended December 31, 2014.

	Three Months Ended December 31, 2014	Nine Months Ended December 31, 2014
	(dollars in thousands)	
Revenues	$ 303,043	$ 900,975
Net Income	$ 53,142	$ 145,010
Earnings per share - basic	$ 1.07	$ 2.92
Earnings per share - diluted	$ 1.05	$ 2.88

The pro forma results do not include any anticipated synergies or other expected benefits of the CRS Acquisition. Accordingly, the unaudited pro forma results are not necessarily indicative of either future results of operations or results that might have been achieved had the CRS Acquisition been consummated as of April 1, 2014.

Skyway Acquisition

On July 10, 2015, we completed the acquisition of a 600,000 ton per year Granulated Ground Blast Furnace Slag ("GGBFS") plant in South Chicago (the "Skyway Plant") from Holcim (US) Inc. (the "Skyway Acquisition"). Among other applications, GGBFS is used in conjunction with Portland cement to make durable concrete structures. The Skyway Plant purchases its primary raw material, slag, pursuant to a long term supply agreement with a third party.

The purchase price (the "Skyway Purchase Price") for the Skyway Acquisition was approximately $29.9 million, net of $2.5 million which will be refunded by the seller. We received $1.5 million of the expected refund in January 2016, and we expect to receive the remaining $1.0 million in January 2017. We funded the payment of the Skyway Purchase Price and expenses incurred in connection with the Skyway Acquisition through operating cash flow and borrowings under our bank credit facility. We also assumed certain liabilities, including contractual obligations, related to the Skyway Plant. The purchase price was allocated as follows: $1.9 million to accounts and notes receivable; $2.3 million to inventories; $24.6 million to property, plant and equipment; $1.2 million to intangible assets; $1.4 million to goodwill; and $1.0 million to other assets. See Note (M) in the Notes to the Unaudited Financial Statements for more information about our bank credit facility.

(D) CASH FLOW INFORMATION—SUPPLEMENTAL

Cash payments made for interest were $15.0 million and $13.6 million for the nine months ended December 31, 2015 and 2014, respectively. Net payments made for federal and state income taxes during the nine months ended December 31, 2015 and 2014, were $64.8 million and $60.0 million, respectively.

(E) ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable have been shown net of the allowance for doubtful accounts of $9.2 million and $7.1 million at December 31, 2015 and March 31, 2015, 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 and oil and gas industries, detailed analysis of the expected collectability of accounts receivable that are past due and the expected collectability of overall receivables. Based on this analysis, we increased our allowance for doubtful accounts approximately $2.0 million in recognition of the downturn in our oil and gas proppants business and potential financial impact of this downturn to our customers during the September 2015 quarter. We have no significant credit risk concentration among our diversified customer base.

We had notes receivable totaling approximately $3.2 million at December 31, 2015, of which approximately $0.5 million has been classified as current and presented with accounts receivable on the balance sheet. We lend funds to certain companies in the ordinary course of business, and the notes bear interest, on average, at LIBOR plus 3.5%. Remaining unpaid amounts, plus accrued interest, mature on various dates through 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.

(F) STOCKHOLDERS' EQUITY

A summary of changes in stockholders' equity follows:

	For the Nine Months Ended December 31, 2015 (dollars in thousands)
Common Stock –	
Balance at Beginning of Period	$ 502
Share Repurchase and Retirement	(12)
Stock Option Exercises and Restricted Share Vesting	3
Balance at End of Period	493
Capital in Excess of Par Value –	
Balance at Beginning of Period	272,441
Stock Compensation Expense	12,292
Shares Redeemed to Settle Employee Taxes	(1,815)
Stock Option Exercises	5,082
Share Repurchases and Retirement	(76,219)
Balance at End of Period	211,781
Retained Earnings –	
Balance at Beginning of Period	749,717
Dividends Declared to Stockholders	(14,995)
Net Earnings	113,429
Balance at End of Period	848,151
Accumulated Other Comprehensive Loss -	
Balance at Beginning of Period	(12,067)
Change in Funded Status of Pension Plan, net of tax	958
Balance at End of Period	(11,109)
Total Stockholders' Equity	$ 1,049,316

On August 10, 2015, the Company announced that the Board of Directors had authorized the Company to repurchase up to an additional 6,782,700 shares, for a total outstanding authorization of 7,500,000 shares. During the nine months ended December 31, 2015, we repurchased 1,124,000 shares at an average price of $67.84. At December 31, 2015, we have authorization to purchase an additional 6,376,000 shares.

(G) INVENTORIES

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

	As of December 31, 2015	March 31, 2015
	(dollars in thousands)	
Raw Materials and Material-in-Progress	$111,401	$115,345
Finished Cement	19,022	20,508
Gypsum Wallboard	7,064	7,741
Finished Frac Sand	4,925	4,928
Aggregates	10,721	11,131
Paperboard	6,889	8,493
Repair Parts and Supplies	66,116	62,121
Fuel and Coal	6,309	5,197
	$232,447	$235,464

(H) ACCRUED EXPENSES

Accrued expenses consist of the following:

	As of December 31, 2015	March 31, 2015
	(dollars in thousands)	
Payroll and Incentive Compensation	$21,155	$ 19,082
Benefits	9,935	9,951
Interest	1,490	4,524
Property Taxes	2,639	3,189
Power and Fuel	1,217	1,619
Sales and Use Tax	536	523
Legal	1,793	1,673
Other	7,985	6,269
	$46,750	$ 46,830

(I) 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 2015, the Compensation Committee approved an equity award of an aggregate of 268,571 stock options pursuant to the Plan to certain officers and key employees that vest ratably over a three year period (the “Fiscal 2016 Employee Stock Option Grant”). The stock options have a term of ten years from the date of grant. The Fiscal 2016 Employee Stock Option Grant was valued at the grant date using the Black-Scholes option pricing model. In August 2015, we granted 17,501 options to members of the Board of Directors (the “Fiscal 2016 Board of Directors Stock Option Grant”). Options granted under the Fiscal 2016 Board of Directors Stock Option

Grant vest immediately and can be exercised from the date of grant until their expiration on the tenth anniversary of the date of grant.

The weighted-average assumptions used in the Black-Scholes model to value the option awards in fiscal 2016 are as follows:

	Fiscal 2016
Dividend Yield	2.0%
Expected Volatility	36.5%
Risk Free Interest Rate	1.7%
Expected Life	6.0 years

Stock option expense for all outstanding stock option awards totaled approximately $1.9 million and $6.1 million for the three and nine months ended December 31, 2015, respectively and approximately $1.4 million and $4.8 million for the three and nine months ended December 31, 2014, respectively. At December 31, 2015, there was approximately $11.8 million of unrecognized compensation cost related to outstanding stock options, net of estimated forfeitures, which is expected to be recognized over a weighted-average period of 2.2 years.

The following table represents stock option activity for the nine months ended December 31, 2015:

	Number of Shares	Weighted-Average Exercise Price
Outstanding Options at Beginning of Period	1,665,565	$ 46.37
Granted	293,572	$ 81.48
Exercised	(97,410)	$ 26.47
Cancelled	(21,000)	$ 86.35
Outstanding Options at End of Period	1,840,727	$ 52.57
Options Exercisable at End of Period	1,270,961	$ 40.81
Weighted-Average Fair Value of Options Granted during the Period	$24.76	

The following table summarizes information about stock options outstanding at December 31, 2015:

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Number of Shares Outstanding	Weighted - Average Remaining Contractual Life	Weighted - Average Exercise Price	Number of Shares Outstanding	Weighted - Average Exercise Price
$23.17 – $ 30.74	504,200	4.11	$ 26.65	502,200	$ 26.64
$33.08 – $ 37.95	478,868	6.16	$ 33.96	458,868	$ 33.92

$53.22 – $ 74.10	282,936	7.07	$ 66.60	194,325	$ 66.63
$79.73 – $ 93.56	574,723	9.00	$ 83.90	115,568	$ 86.33
	1,840,727	6.63	$ 52.57	1,270,961	$ 40.81

At December 31, 2015, the aggregate intrinsic value for outstanding and exercisable options was approximately $14.5 million and $24.9 million, respectively. The total intrinsic value of options exercised during the nine months ended December 31, 2015 was approximately $5.2 million.

Restricted Stock. In June 2015, the Compensation Committee approved the granting of an aggregate of 93,782 shares of restricted stock to certain officers and key employees that will be earned if certain performance conditions are satisfied (the “Fiscal 2016 Employee Restricted Stock Award”). The performance criterion for the Fiscal 2016 Employee Restricted Stock Award is based upon the achievement of certain levels of return on equity, ranging from 12.5% to 17.5%, for fiscal year ending March 31, 2016. All restricted shares will be earned if the return on equity is 17.5% or greater, and the percentage of shares earned will be reduced proportionately to approximately 75% if the return on equity is 12.5%. If the Company does not achieve a return on equity of at least 12.5%, all awards will be forfeited. If the criteria are 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, 2017 through 2020. The value of the Fiscal 2016 Employee Restricted Stock Award, net of estimated forfeitures, is being expensed over a five year period. In August 2015, we awarded 15,139 shares of restricted stock to members of the Board of Directors (the "Board of Directors Fiscal 2016 Restricted Stock Award"). Awards issued under the Board of Directors Fiscal 2016 Restricted Stock Award do not fully vest until the retirement of each director, in accordance with our director retirement policy.

Expense related to restricted shares was approximately $2.1 million and $6.3 million for the three and nine months ended December 31, 2015, respectively, and approximately $1.7 million and $5.0 million for the three and nine months ended December 31, 2014, respectively. At December 31, 2015, there was approximately $18.0 million of unearned compensation from restricted stock, net of estimated forfeitures, which will be recognized over a weighted-average period of 2.4 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 4,548,204 at December 31, 2015.

(J) COMPUTATION OF EARNINGS PER SHARE

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

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2015	2014	2015	2014
Weighted-Average Shares of Common Stock Outstanding	49,187,738	49,655,405	49,593,821	49,583,210
Common Equivalent Shares:				
Assumed Exercise of Outstanding Dilutive Options	1,017,117	1,349,997	1,208,130	1,418,957
Less: Shares Repurchased from Assumed Proceeds of Assumed Exercised Options	(669,209)	(893,874)	(803,972)	(920,113)
Restricted Shares	234,374	299,619	232,112	293,565
Weighted-Average Common and Common Equivalent Shares Outstanding	49,770,020	50,411,147	50,230,091	50,375,619
Shares Excluded Due to Anti-dilution Effects	826,610	279,651	627,090	206,702

(K) 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.

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

	For the Three Months Ended December 31,		For the Nine Months ended December 31,	
	2015	2014	2015	2014
	(dollars in thousands)		(dollars in thousands)	
Service Cost – Benefits Earned During the Period	$ 257	$ 224	$ 745	$ 696
Interest Cost of Benefit Obligations	377	324	1,135	954
Expected Return on Plan Assets	(439)	(426)	(1,308)	(1,254)
Recognized Net Actuarial Loss	427	150	1,286	460
Amortization of Prior-Service Cost	75	3	225	9
Net Periodic Pension Cost	$ 697	$ 275	$ 2,083	$ 865

(L) INCOME TAXES

Income taxes for the interim period presented have been included in the accompanying financial statements on the basis of an estimated annual effective tax rate. In addition to the amount of tax resulting from applying the estimated annual effective tax rate to pre-tax income, we will, when appropriate, include certain items treated as discrete events to arrive at an estimated overall tax amount. The effective tax rate for the nine months ended December 31, 2015 was approximately 32%, compared to an effective tax rate for the nine months ended December 31, 2014 of 33%.

(M) LONG-TERM DEBT

Long-term debt consists of the following:

	As of December 31, 2015	March 31, 2015
	(dollars in thousands)	
Credit Facility	$375,000	$330,000
Senior Notes	125,714	182,759
Total Debt	500,714	512,759
Less: Current Portion of Long-term Debt	(8,000)	(57,045)
Total Long-term Debt	$492,714	$455,714

Credit Facility –

We have a $500.0 million revolving credit facility (the "Credit Facility"), including a swingline loan sublimit of $25.0 million, which is scheduled to expire on October 30, 2019. Borrowings under the Credit Facility are guaranteed by substantially all of the Company's subsidiaries. At the option of the Company, outstanding principal amounts on the Credit Facility bear interest at a variable rate equal to (i) 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 nine months at the option of the Company. The Company is also required to pay a commitment fee on unused available borrowings under the Credit Facility ranging from 10 to 35 basis points depending upon the Leverage Ratio. The Credit Facility contains customary covenants that restrict our ability to incur additional debt, encumber our assets, sell assets, make or enter into certain investments, loans or guaranties and enter into sale and leaseback arrangements. The Credit Facility also requires us to maintain a consolidated indebtedness ratio (calculated as consolidated indebtedness to consolidated earnings before interest, taxes, depreciation, amortization, certain transaction-related deductions and other non-cash deductions) of 3.5:1.0 or less and an interest coverage ratio (consolidated earnings before interest, taxes, depreciation, amortization, certain transaction-related deductions and other non-cash deductions to consolidated interest expense) of at least 2.5:1.0. We had $375.0 million of borrowings outstanding at December 31, 2015. Based on our Leverage Ratio, we had $116.0 million of available borrowings, net of the outstanding letters of credit, at December 31, 2015.

The Credit Facility has a $50.0 million letter of credit facility. Under the letter of credit facility, the Company pays a fee at a per annum rate equal to the applicable margin for Eurodollar loans in effect from time to time plus a one-time letter of credit fee in an amount equal to 0.125% of the initial stated amount. At December 31, 2015, we had $9.0 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, and during November 2015 Tranche B of the Series 2005A Senior Notes matured and we retired the remaining $57.0 million 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 C	$57.2 million	November 15, 2017	5.48%

Interest for each tranche of Notes is payable semi-annually on the 15th day of May and the 15th 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). During October 2014, Tranche A of the Series 2007A Senior Notes matured and we retired the remaining $9.5 million in notes from this Tranche. Following the repurchase, the amounts outstanding for each of the four tranches are as follows:

	Principal	Maturity Date	Interest Rate
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.

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 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 Credit Facility. We were in compliance with all financial ratios and tests at December 31, 2015.

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.

(N) SEGMENT INFORMATION

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

We operate in five business segments: Cement, Gypsum Wallboard, Recycled Paperboard, Oil and Gas Proppants and Concrete and Aggregates. These operations are conducted in the U.S. and include the mining of limestone and the manufacture, production, distribution and sale of Portland cement (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”). The products that we manufacture, distribute and sell are basic materials used with broad application as construction products, building materials, and basic materials used for oil and natural gas extraction. Our construction products are used in residential, industrial, commercial and infrastructure construction and include cement, concrete and aggregates. Our building materials are sold into similar markets and include gypsum wallboard. Our basic materials used for oil and natural gas extraction include frac sand and oil well cement.

We operate six cement plants, one slag grinding facility, sixteen cement distribution terminals, five gypsum wallboard plants, including the plant idled in Bernalillo, N.M., a gypsum wallboard distribution center, a recycled paperboard mill, seventeen readymix concrete batch plant locations, three aggregates processing plant locations, three frac sand processing facilities, three frac sand drying facilities and six frac sand trans-load locations. The principal markets for our cement products are Texas, northern Illinois (including Chicago), the central plains, the Rocky Mountains, northern Nevada, and northern California. Gypsum wallboard and recycled paperboard are distributed throughout the continental U.S, with the exception of the northeast. Concrete and aggregates are sold to local readymix producers and paving contractors in the Austin, Texas area, north of Sacramento, California and the greater Kansas City, Missouri area, while frac sand is currently sold into shale deposit zones across the United States.   During July 2015, we completed the Skyway Acquisition, which is operated by Illinois Cement Company, and its operations are included in the Cement segment.

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

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

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2015	2014	2015	2014
	(dollars in thousands)		(dollars in thousands)	
Revenues -				
Cement	$ 135,419	$ 124,048	$ 428,385	$ 397,845
Gypsum Wallboard	108,907	118,573	343,660	342,905
Paperboard	36,822	39,936	111,285	112,994
Oil and Gas Proppants	8,476	31,731	49,608	53,325
Concrete and Aggregates	31,779	27,116	96,982	85,239
Sub-total	321,403	341,404	1,029,920	992,308
Less: Intersegment Revenues	(17,986)	(16,968)	(56,005)	(51,096)
Net Revenues, including Joint Venture	303,417	324,436	973,915	941,212
Less: Joint Venture	(26,008)	(32,907)	(82,555)	(98,624)
Net Revenues	$ 277,409	$ 291,529	$ 891,360	$ 842,588

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2015	2014	2015	2014
	(dollars in thousands)		(dollars in thousands)	
Intersegment Revenues -				
Cement	$ 3,714	$ 2,489	$ 11,072	$ 7,760
Paperboard	14,069	14,305	44,216	42,645
Concrete and Aggregates	203	174	717	691
	$ 17,986	$ 16,968	$ 56,005	$ 51,096
Cement Sales Volume (in thousands of tons) -				
Wholly –owned Operations	999	935	3,238	3,135
Joint Venture	213	270	661	837
	1,212	1,205	3,899	3,972

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2015	2014	2015	2014
	(dollars in thousands)		(dollars in thousands)	
Operating Earnings -				
Cement	$ 41,768	$ 37,578	$ 116,058	$ 96,535
Gypsum Wallboard	37,289	40,013	118,185	114,443
Paperboard	7,923	9,102	22,091	24,633
Oil and Gas Proppants	(9,153)	3,241	(59,389)	3,315
Concrete and Aggregates	1,521	1,638	7,304	5,959
Other, net	1,163	488	2,170	2,050
Sub-total	80,511	92,060	206,419	246,935
Corporate General and Administrative	(8,304)	(9,371)	(26,659)	(23,827)
Acquisition and Litigation Expense	-	(722)	-	(2,825)
Earnings Before Interest and Income Taxes	72,207	81,967	179,760	220,283
Interest Expense, net	(4,002)	(4,101)	(12,830)	(12,054)
Earnings Before Income Taxes	$ 68,205			