Core-Mark Holding Company, Inc.
Form 10-Q
May 09, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(MARK ONE)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2011
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission File Number: 000-51515
CORE-MARK HOLDING COMPANY, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-1489747 (IRS Employer Identification No.)
395 Oyster Point Boulevard, Suite 415 South San Francisco, CA	94080
(Address of principal executive offices)	(Zip Code)

(650) 589-9445
(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 requirement for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o
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 definitions of “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
As of April 29, 2011, 11,389,557 shares of the registrant's common stock, $0.01 par value per share, were outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share data)
(Unaudited)

	March 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 41.2	$ 16.1
Restricted cash	13.5	12.8
Accounts receivable, net of allowance for doubtful accounts of $8.8 and $8.7, respectively	179.0	179.3
Other receivables, net	40.4	43.5
Inventories, net (Note 2)	255.0	290.7
Deposits and prepayments	44.8	42.2
Deferred income taxes	4.3	3.6
Total current assets	578.2	588.2
Property and equipment, net	82.8	84.7
Goodwill	4.6	4.6
Other non-current assets, net	34.0	31.3
Total assets	$ 699.6	$ 708.8
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 75.7	$ 57.3
Book overdrafts	—	6.5
Cigarette and tobacco taxes payable	138.5	166.8
Accrued liabilities	69.7	66.8
Deferred income taxes	0.3	0.3
Total current liabilities	284.2	297.7
Long-term debt (Note 4)	0.7	0.8
Other long-term liabilities	4.5	4.7
Claims liabilities, net	30.9	30.6
Pension liabilities	12.3	12.3
Total liabilities	332.6	346.1
Stockholders' equity:		
Common stock; $0.01 par value (50,000,000 shares authorized, 11,871,827 and 11,613,525 shares issued; 11,376,465 and 11,118,163 shares outstanding at March 31, 2011 and December 31, 2010, respectively)	0.1	0.1
Additional paid-in capital	232.9	229.6
Treasury stock at cost (495,362 shares of common stock at March 31, 2011 and December 31, 2010)	(13.2)	(13.2)
Retained earnings	147.8	147.3
Accumulated other comprehensive loss	(0.6)	(1.1)
Total stockholders' equity	367.0	362.7

Total liabilities and stockholders’ equity	$ 699.6	$ 708.8

See accompanying notes to condensed consolidated financial statements.

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2011	2010
Net sales	$ 1,722.5	$ 1,582.1
Cost of goods sold	1,630.2	1,494.3
Gross profit	92.3	87.8
Warehousing and distribution expenses	53.9	49.1
Selling, general and administrative expenses	36.7	35.4
Amortization of intangible assets	0.5	0.5
Total operating expenses	91.1	85.0
Income from operations	1.2	2.8
Interest expense	(0.6)	(0.6)
Interest income	0.1	—
Foreign currency transaction gains, net	0.6	0.2
Income before income taxes	1.3	2.4
Provision for income taxes (Note 5)	(0.8)	(1.0)
Net income	$ 0.5	$ 1.4
Basic net income per common share (Note 6)	$ 0.04	$ 0.13
Diluted net income per common share (Note 6)	$ 0.04	$ 0.12
Basic weighted-average shares (Note 6)	11.3	10.7
Diluted weighted-average shares (Note 6)	11.8	11.4

See accompanying notes to condensed consolidated financial statements.

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Three Months Ended March 31, 2011	2010
Cash flows from operating activities:		
Net income	$0.5	$1.4
Adjustments to reconcile net income to net cash provided by operating activities:		
LIFO and inventory provisions	2.7	1.2
Amortization of debt issuance costs	0.1	0.1
Stock-based compensation expense	1.3	1.4
Bad debt expense, net	0.3	0.2
Depreciation and amortization	5.1	4.7
Foreign currency transaction gains, net	(0.6)	(0.2)
Deferred income taxes	(0.7)	—
Changes in operating assets and liabilities:		
Accounts receivable	0.5	(2.3)
Other receivables	3.2	4.0
Inventories	34.2	63.9
Deposits, prepayments and other non-current assets	(6.6)	8.6
Accounts payable	18.1	13.3
Cigarette and tobacco taxes payable	(29.3)	(10.2)
Pension, claims and other accrued liabilities	2.3	(1.2)
Net cash provided by operating activities	31.1	84.9
Cash flows from investing activities:		
Restricted cash	(0.4)	(2.3)
Additions to property and equipment, net	(1.3)	(3.0)
Capitalization of software	—	(0.2)
Net cash used in investing activities	(1.7)	(5.5)
Cash flows from financing activities:		
Repayments under revolving credit facility, net	—	(19.2)
Payments of financing costs	—	(1.8)
Proceeds from exercise of common stock options and warrants	2.0	1.8
Tax withholdings related to net share settlements of restricted stock units	(0.6)	(0.5)
Excess tax deductions associated with stock-based compensation	0.6	0.5
Decrease in book overdrafts	(6.5)	(19.4)
Net cash used in financing activities	(4.5)	(38.6)
Effects of changes in foreign exchange rates	0.2	(0.2)
Increase in cash and cash equivalents	25.1	40.6
Cash and cash equivalents, beginning of period	16.1	17.7
Cash and cash equivalents, end of period	$41.2	$58.3
Supplemental disclosures:		
Cash paid during the period for:		
Income taxes, net of refunds	$—	$0.3
Interest	$0.5	$0.2

See accompanying notes to condensed consolidated financial statements.

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Company Information

Business

Core-Mark Holding Company, Inc. and subsidiaries (referred herein as “we,” “us,” “our,” “the Company” or “Core-Mark”) is one of the largest marketers of fresh and broad-line supply solutions to the convenience retail industry in North America. We offer a full range of products, marketing programs and technology solutions to approximately 26,000 customer locations in the U.S. and Canada. Our customers include traditional convenience stores, grocery stores, drug stores, liquor stores and other specialty and small format stores that carry convenience products. Our product offering includes cigarettes, tobacco, candy, snacks, fast food, groceries, fresh products, dairy, non-alcoholic beverages, general merchandise and health and beauty care products. We operate a network of 24 distribution centers (excluding two distribution facilities we operate as a third party logistics provider) in the U.S. and Canada. Following the acquisition of Forrest City Grocery Company on May 2, 2011, discussed in Note 10 -- Subsequent Event, the number of distribution centers we operate increased to 25 and our customer locations increased to approximately 28,000.

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated balance sheet as of March 31, 2011 and the condensed consolidated statements of income and cash flows for the three months ended March 31, 2011 and 2010 have been prepared on the same basis as our audited consolidated financial statements and include all adjustments necessary for the fair presentation of our consolidated results of operations, financial position and cash flows. Results for the interim periods are not necessarily indicative of results to be expected for the full year or any other future period. The condensed consolidated balance sheet as of December 31, 2010 has been derived from our audited financial statements, which are included in our 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 15, 2011.

The significant accounting policies and certain financial information that are normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, but which are not required for interim reporting purposes, have been omitted. The unaudited condensed consolidated interim financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2010.

2. Inventories

Cost of goods sold reflects the application of the last-in, first-out (“LIFO”) method of valuing inventories in the U.S. based upon estimated annual producer price indices. Inventories in Canada are valued on a first-in, first-out (“FIFO”) basis, as LIFO is not a permitted inventory valuation method in Canada. During periods of rising prices, the LIFO method of costing inventories generally results in higher current costs being charged against income while lower costs are retained in inventories. Conversely, during periods of decreasing prices, the LIFO method of costing inventories generally results in lower current costs being charged against income and higher stated inventories. If the FIFO method had been used for valuing inventories in the U.S., inventories would have been approximately $62.5 million higher at March 31, 2011, compared to $59.7 million higher at December 31, 2010. We recorded LIFO expense of $2.9 million and $1.3 million for the three months ended March 31, 2011 and 2010, respectively.

3. Comprehensive Income

Comprehensive income for the three months ended March 31, 2011 and 2010 was as follows (dollars in millions):

	Three Months Ended March 31,	
	2011	2010

Net income	$ 0.5	$ 1.4
Minimum pension liability adjustment	—	(0.2)
Foreign currency translation adjustment	0.5	0.6
Total comprehensive income	$ 1.0	$ 1.8

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4. Long-term Debt
Total long-term debt as presented in the condensed consolidated balance sheets consists of our capital lease obligations of $0.7 million as of March 31, 2011 compared to $0.8 million as of December 31, 2010.
We have a revolving credit facility (“Credit Facility”) with a capacity of $200 million. On May 5, 2011, we entered into a fourth amendment to our Credit Facility (the "Fourth Amendment"), which extended our Credit Facility for two additional years, from February 2014 to May 2016, and reduced the unused facility fees and the margin on LIBOR borrowings. The basis points added to LIBOR is a range of 175 to 225 basis points, down from a range of 275 to 350 basis points. The Fourth Amendment ties the LIBOR margin to the amount of available credit under the revolving Credit Facility, instead of the achievement of certain operating results as defined in the original agreement. At the date of signing the Fourth Amendment, we incurred fees of approximately $0.7 million, which will be amortized over the term of the amendment.
We did not borrow monies under the Credit Facility during the three months ended March 31, 2011. For the same period in 2010, average borrowings were $6.8 million, with amounts outstanding ranging from zero to $34.8 million. The weighted-average interest rate on our revolving credit facility for the three months ended March 31, 2010 was 2.5%. Our weighted-average interest rate was calculated based on our daily cost of borrowing, which was computed on a blend of prime and LIBOR rates. We paid total unused facility fees and letter of credit participation fees, which are included in interest expense, of $0.5 million during the three months ended March 31, 2011, compared to $0.4 million for the same period in 2010. Unamortized debt issuance costs were $1.6 million and $1.7 million as of March 31, 2011 and December 31, 2010, respectively.
Amounts borrowed, outstanding letters of credit and remaining amounts available to borrow under the Credit Facility, net of exposure reserves, were as follows (dollars in millions):

	March 31, 2011	December 31, 2010
Amounts borrowed	$—	$—
Outstanding letters of credit	$27.1	$26.2
Amounts available to borrow	$163.3	$161.4

All obligations under the Credit Facility are secured by first priority liens upon substantially all of our present and future assets. The terms of the Credit Facility permit prepayment without penalty at any time (subject to customary breakage costs with respect to LIBOR- or CDOR-based loans prepaid prior to the end of an interest period).
The Credit Facility contains restrictive covenants, including among others, limitations on dividends and other restricted payments, other indebtedness, liens, investments and acquisitions and certain asset sales. As of March 31, 2011, we were in compliance with all of the covenants under the Credit Facility.

5. Income Taxes
Our effective tax rate was 61.5% for the three months ended March 31, 2011 compared to 41.7% for the same period in 2010. Non-deductible transaction costs related to our recent acquisition of Forrest City Grocery Company, completed on May 2, 2011, added approximately 20% to our effective tax rate for the first quarter of 2011. We did not recognize any similar costs in the first quarter of 2010. We currently expect our effective tax rate to approximate 42% for 2011.
At March 31, 2011, the total gross amount of unrecognized tax benefits, which was included in other long-term liabilities, related to federal, state and foreign taxes, was approximately $1.2 million, all of which would impact our effective tax rate, if recognized. The expiration of the statute of limitations for certain tax positions in future years could impact the total gross amount of unrecognized tax benefits by $0.3 million through March 31, 2012.
We file U.S. federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2007 to 2010 tax years remain subject to examination by federal and state tax authorities. The 2006 tax year is still open for certain state tax authorities. The 2003 to 2010 tax years remain subject to examination by the tax authorities in certain foreign jurisdictions.

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6. Earnings Per Share

The following table sets forth the computation of basic and diluted net earnings per share (dollars in millions, except per share amounts):

	Three Months Ended March 31,					
	2011			2010		
	Net Income	Weighted-Average Shares Outstanding	Net Income Per Common Share	Net Income	Weighted-Average Shares Outstanding	Net Income Per Common Share
Basic EPS	$0.5	11.3	$0.04	$1.4	10.7	$0.13
Effect of dilutive common share equivalents:						
Unvested restricted stock units		0.1	—		0.1	—
Stock options		0.1	—		0.2	—
Warrants		0.3	—		0.4	(0.01)
Diluted EPS	$0.5	11.8	$0.04	$1.4	11.4	$0.12

Note: Basic and diluted earnings per share are calculated based on unrounded actual amounts.

Certain options and warrants to purchase common stock were outstanding but were not included in the computation of diluted earnings per share because the effect would be anti-dilutive. There were 104,020 anti-dilutive stock options for the three months ended March 31, 2011, compared to 105,343 for the same period in 2010. There were no anti-dilutive warrants for either the three months ended March 31, 2011 or March 31, 2010.

In 2004, we issued an aggregate of 9,800,000 shares of our common stock and warrants to purchase an aggregate of 990,616 shares of our common stock to the Class 6(B) creditors of Fleming (our former parent company) pursuant to its plan of reorganization. We refer to the warrants we issued to the Class 6(B) creditors as Class 6(B) warrants. We received no cash consideration at the time we issued the Class 6(B) warrants. The Class 6(B) warrants have an exercise price of $20.93 per share. The shares of common stock and Class 6(B) warrants were issued pursuant to an exemption from registration under Section 1145(a) of the Bankruptcy Code. We also issued warrants to purchase an aggregate of 247,654 shares of our common stock to the holders of our Tranche B Notes, which we refer to as Tranche B warrants. The Tranche B warrants have an exercise price of $15.50 per share. Both the Class 6(B) and Tranche B warrants may be exercised at the election of the holder at any time prior to August 23, 2011, at which time any outstanding warrants will be net issued.

The number of Class 6(B) warrants outstanding was 473,438 as of March 31, 2011 and 901,496 as of March 31, 2010. The number of Tranche B warrants outstanding was 126,716 as of March 31, 2011 and March 31, 2010. The Class 6(B) warrants and Tranche B warrants have been classified as permanent equity. We use the treasury stock method to determine the shares of common stock due to conversion of outstanding warrants as of March 31, 2011 and March 31, 2010.

7. Stock-Based Compensation Plans

Total stock-based compensation cost recognized in the condensed consolidated statements of income was $1.3 million and $1.4 million for the three months ended March 31, 2011 and 2010, respectively. Total unrecognized compensation cost related to non-vested share-based compensation arrangements was $8.3 million at March 31, 2011. This balance is expected to be recognized over a weighted-average period of 2.2 years.

During the three months ended March 31, 2011, we granted 137,532 restricted stock units to employees and non-employee directors from the 2010 Long Term Incentive Plan ("LTIP") at a weighted-average grant date fair value of $34.12, compared to 148,586 restricted stock units from the 2007 LTIP at a weighted-average grant date fair value of $31.57 for the same period in 2010. During the three months ended March 31, 2011, we also granted 28,192 performance-based shares to employees from the 2010 LTIP at the same weighted-average grant date fair value of $34.12. No performance-based shares were granted during the same period in 2010. The weighted-average grant date fair value is based on the fair market value of our common stock at the date of grant.

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The following table summarizes the activity for all stock options, restricted stock units and performance shares under all of the LTIPs for the three months ended March 31, 2011:

		December 31, 2010		Activity during 2011						March 31, 2011			
		Outstanding		Granted		Exercised		Canceled/Retired		Outstanding		Exercisable	
Plans	Securities	Number	Price	Number	Price	Number	Price	Number	Price	Number	Price	Number	Price
2004 LTIP	RSUs	1,221	$0.01	—	$—	(1,032)	$0.01	—	$—	189	$0.01	189	$0.01
	Options	218,255	20.44	—	—	(60,853)	15.52	—	—	157,402	22.34	156,765	22.35
2004 Directors' Plan	Options	30,000	15.50	—	—	—	—	—	—	30,000	15.50	30,000	15.50
2005 LTIP	RSUs	15,772	0.01	—	—	(12,685)	0.01	—	—	3,087	0.01	3,053	0.01
2005 Directors' Plan	Options	15,000	27.03	—	—	—	—	—	—	15,000	27.03	15,000	27.03
2007 LTIP [(1)]	RSUs	217,949	0.01	—	—	(79,908)	0.01	—	—	138,041	0.01	25,229	0.01
	Options	308,783	25.28	—	—	(2,764)	21.36	—	—	306,019	25.31	274,010	26.03
	Perf. shares	32,454	0.01	—	—	(7,407)	0.01	—	—	25,047	0.01	7,043	0.01
2010 LTIP [(1)]	RSUs	—	—	137,532	0.01	—	—	—	—	137,532	0.01	—	—
	Perf. shares	—	—	28,192	0.01	—	—	—	—	28,192	0.01	—	—
Total		839,434		165,724		(164,649)		—		840,509		511,289	

Note: Price is weighted-average price per share.

[(1)] The 2007 and 2010 LTIPs are for officers, employees and non-employee directors.

8. Pension Plans

We sponsored a qualified defined-benefit pension plan and a post-retirement benefit plan which includes medical and life insurance benefits (collectively, "the Pension Plans") for employees hired before September 1986. There have been no new entrants to the Pension Plans since they were frozen on September 30, 1989.

Our defined-benefit pension plan is subject to the Employee Retirement Income Security Act of 1974 (“ERISA”). Under ERISA, the Pension Benefit Guaranty Corporation (“PBGC”) has the authority to terminate an underfunded pension plan under limited circumstances. In the event our pension plan is terminated for any reason while it is underfunded, we will incur a liability to the PBGC that may be equal to the entire amount of the underfunding. Our post-retirement benefit plan is not subject to ERISA. As a result, the post-retirement benefit plan is not required to be pre-funded, and accordingly, has no plan assets.

The following table provides the components of the net periodic pension benefit costs for the three months ended March 31, 2011 and 2010 (dollars in millions):

	Three Months Ended March 31,	
	2011	2010
PENSION BENEFITS		
Interest cost	$0.4	$0.5

Expected return on plan assets	(0.5)	(0.4)
Amortization of net actuarial loss	0.1	—
Net periodic benefit cost	$—	$0.1

Components of the net periodic benefit costs associated with our other post-retirement benefit plan included service and interest costs and amortization of prior service costs, all of which were less than $0.1 million for both the three months ended March 31, 2011 and 2010.

We made no contributions to the Pension Plans during the three months ended March 31, 2011 and less than $0.1 million during the same period in 2010. We expect to contribute a total of approximately $1.2 million to the Pension Plans during 2011.

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9. Segment and Geographic Information

As of March 31, 2011, we operated 24 distribution centers (excluding two distribution facilities we operate as a third party logistics provider) which support our wholesale distribution business. Twenty of our distribution centers are located in the U.S. and four are located in Canada. Two of the facilities we operate in the U.S. are consolidating warehouses which buy products from our suppliers in bulk quantities and then distribute the products to our other distribution centers.

Our distribution centers (operating divisions) produced almost all of our revenues and have been aggregated into two geographic reporting segments (U.S. and Canada). Corporate adjustments and eliminations include the net results after intercompany eliminations for our consolidating warehouses, service fee revenue, LIFO and reclassifying adjustments, corporate allocations and elimination of intercompany interest charges. Inter-segment revenues were not significant and no single customer accounted for 10% or more of our total net sales for the three months ended March 31, 2011 or 2010.

Information about our business operations based on the two geographic reporting segments is as follows (dollars in millions):

	Three Months Ended March 31,	
	2011	2010
Net sales:		
United States	$ 1,451.6	$ 1,324.5
Canada	269.3	254.4
Corporate adjustments and eliminations	1.6	3.2
Total	$ 1,722.5	$ 1,582.1
Income (loss) before income taxes:		
United States	$ 2.4	$ 1.8
Canada	(1.3)	(0.9)
Corporate adjustments and eliminations	0.2	1.5
Total	$ 1.3	$ 2.4
Interest expense:		
United States	$ 5.0	$ 5.7
Canada	0.3	0.3
Corporate adjustments and eliminations	(4.7)	(5.4)
Total	$ 0.6	$ 0.6
Depreciation and amortization:		
United States	$ 3.6	$ 3.3
Canada	0.7	0.7
Corporate	0.8	0.7
Total	$ 5.1	$ 4.7

Identifiable assets by geographic reporting segment are as follows (dollars in millions):

	March 31, 2011	December 31, 2010
Identifiable assets:		
United States	$ 604.9	$ 590.2
Canada	94.7	118.6
Total	$ 699.6	$ 708.8

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The net sales mix for our primary product categories is as follows (dollars in millions):

	Three Months Ended March 31,	
	2011	2010
Product Category	Net Sales	Net Sales
Cigarettes	$ 1,223.0	$ 1,113.8
Food	200.7	181.5
Candy	103.6	99.3
Other tobacco products	122.0	110.2
Health, beauty & general	54.0	50.6
Non-alcoholic beverages	18.4	25.9
Equipment/other	0.8	0.8
Total food/non-food products	$ 499.5	$ 468.3
Total net sales	$ 1,722.5	$ 1,582.1

10. Subsequent Event

On April 5, 2011, we entered into a definitive agreement to acquire Forrest City Grocery Company ("FCGC"), located in Forrest City, Arkansas. FCGC is a regional wholesale distributor servicing customers in Arkansas, Mississippi, Tennessee and the surrounding states with annualized sales of approximately $540 million and assets of approximately $43 million, consisting primarily of accounts receivable, inventory and fixed assets. The acquisition was completed on May 2, 2011 and FCGC thereafter became a subsidiary of Core-Mark. The purchase price for FCGC was approximately $66 million. The purchase price includes an estimated $23 million of goodwill and other intangibles subject to the valuation of its assets and the final purchase price allocation. The acquisition was funded with a combination of cash on hand and borrowings under our $200 million revolving credit facility. The financial results of FCGC's operations will be included in our consolidated financial statements beginning on the date of acquisition. This acquisition will allow us to increase our infrastructure and market share in the southeastern U.S.

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

The following discussion and analysis should be read together with the condensed consolidated financial statements, including the related notes, and the other financial information appearing elsewhere in this Quarterly Report on Form 10-Q. See "Forward-Looking Statements" at the end of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our Business

Core-Mark is one of the largest marketers of fresh and broad-line supply solutions to the convenience retail industry in North America. We offer a full range of products, marketing programs and technology solutions to approximately 26,000 customer locations in the U.S. and Canada. Our customers include traditional convenience stores, grocery stores, drug stores, liquor stores and other specialty and small format stores that carry convenience products. Our product offering includes cigarettes, tobacco, candy, snacks, fast food, groceries, fresh products, dairy, bread, non-alcoholic beverages, general merchandise and health and beauty care products. We operate a network of 24 distribution centers (excluding two distribution facilities we operate as a third party logistics provider) in the U.S. and Canada. Following the acquisition of Forrest City Grocery Company discussed below, which closed on May 2, 2011, the number of distribution centers we operate increased to 25 and our customer locations increased to approximately 28,000.

We derive our net sales primarily from sales to convenience store customers. Our gross profit is derived primarily by applying a markup to the cost of the product at the time of the sale and from cost reductions derived from vendor credit term discounts received and other vendor incentive programs. Our operating expenses are comprised primarily of sales personnel costs; warehouse personnel costs related to receiving, stocking and selecting product for delivery; delivery costs such as delivery personnel, truck leases and fuel; costs relating to the rental and maintenance of our facilities; and other general and administrative costs.

First Quarter Overview

Net sales for the first quarter of 2011 increased $140.4 million, or 8.9%, to $1,722.5 million compared to $1,582.1 million for the same period in 2010, driven by a 9.8% increase in our cigarette sales and a 6.7% increase in our food/non-food sales. Excluding the impact of fluctuations in foreign currency, total net sales increased 8.0%. The largest driver of this increase was the addition of Finkle Distributors, Inc. ("FDI"), who we acquired in the third quarter of 2010. In addition, net sales increased due to inflation in excise taxes, one additional selling day compared with the first quarter of 2010 and market share gains. Food continued to be the fastest growing category of the food/non-food product lines benefiting from the success of our marketing initiatives that focus on fresh foods and vendor consolidation ("VCI"). The sales increase in our food/non-food products was achieved despite a significant decline in non-alcoholic beverages resulting from a change in the marketing and distribution methods by a sports drink manufacturer at the beginning of 2011.

Although our sales grew during the quarter, we continue to monitor current macroeconomic conditions, including consumer confidence, spending, employment and inflation/deflation levels. A significant change in macroeconomic conditions could materially impact our operating results.

Our cigarette carton sales in both the U.S. and Canada increased slightly on a comparable basis for the first quarter of 2011. Longer term, we expect cigarette consumption may be negatively impacted by rising prices, legislative actions, diminishing social acceptance and sales through illicit markets. We expect to offset the impact of these declines through market share expansion and growth in our non-cigarette categories.

Our remaining gross profit[1] increased $5.6 million, or 6.4%, to $93.5 million during the first quarter of 2011 from $87.9 million in the same period last year. Our cigarette remaining gross profit, on a cents per carton basis, continued to show strength as it increased two cents per carton compared with the first quarter last year. More importantly, remaining gross profit margin[1] for our food/non-food products, which has been improving since the third quarter of 2010, increased 7 basis points to 14.06% compared with the first quarter of 2010 excluding the impact of excise taxes.

We expect to continue to make progress toward restoring margins which were negatively impacted by competitive pressures that began toward the end of the first quarter of 2010 and continued through the second quarter last year. A return of meaningful product inflation and/or manufacturer promotions, coupled with market share expansion could accelerate this recovery. The convenience retail industry continues to move towards fresh foods, a more efficient supply chain and flexibility of service, and we believe we are in a strong position to capitalize on these market trends. We believe the margins in these fresh foods will continue to improve and are not significantly impacted by the

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1 Remaining gross profit and remaining gross profit margin are non-GAAP financial measures which we provide to segregate the effects of LIFO expense, cigarette inventory holding profits and other major non-recurring items that significantly affect the comparability of gross profit and related margins.

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competitive pricing pressures which have affected the more traditional categories.

Operating income, excluding cigarette holding gains, LIFO expense, other tobacco products ("OTP") tax gains and acquisition costs related to Forrest City Grocery Company ("FCGC"), which was completed on May 2, 2011, was $3.1 million for the first quarter of 2011 compared to $2.9 million during the same period in 2010. Operating income for the first quarter was positively impacted by operating expense leverage of approximately 12 basis points excluding the FCGC acquisition costs. This leverage was achieved despite a $1.1 million increase in net fuel costs.

Our financial results can be positively or negatively impacted on a comparable basis depending on the relative level of price inflation or deflation year over year. In addition, increases or decreases in future fuel costs or in the fuel surcharges we pass on to our customers may materially impact our financial results depending on the extent and timing of these changes.

Business and Supply Expansion

We continue to expand our presence eastward, expand our fresh product delivery and drive our vendor consolidation initiative. Some of our expansion activities include:

- In 2010, as part of our selling strategy of providing “fresh” product to our retailers to meet consumer demand, we grew the number of stores participating in our proprietary “Fresh and Local” program by over 2,000 locations, increasing total participation to approximately 4,100 stores by the end of the year. A main component of the program is to assist independent convenience store retailers in obtaining food service equipment such as open air refrigeration merchandisers which are necessary to properly implement a “fresh” program. Once the equipment solution is in place, we turn our focus to providing fresh product solutions to the convenience retailer, and we also add additional deliveries in order for them to stock the freshest possible product including fresh sandwiches, fresh bakery items, fruits, salads, vegetables and dairy products. We have partnered with local bakeries and commissaries to further enable us to deliver the freshest product possible aligned with geographical preferences. This program was in addition to our other sales and marketing initiatives focused on increasing sales for fresh products. We continue to add breadth to the program by offering new fresh item solutions and we anticipate solid program growth in 2011.

- We entered into a five-year contract with BP Products North America in February 2010 to provide all of the ampm® proprietary products to its 1,100 stores nationwide. This agreement expands our existing relationship with BP Products North America from a focus in western states to a national basis. In addition, Core-Mark is now designated as the approved supplier for traditional nonproprietary products, in a move designed to further advance ampm®'s ongoing progress in supply chain efficiencies, marketing program effectiveness and consistency of offerings.

- On August 2, 2010, we acquired substantially all of the assets of Finkle Distributors, Inc. ("FDI"), located in Johnstown, New York, for approximately $36 million. FDI was a regional, convenience wholesaler servicing customers in New York, Pennsylvania and the surrounding states with annualized sales of approximately $350 million. The acquired assets consisted primarily of accounts receivable, inventory and fixed assets. Results of operations have been included in our consolidated financial statements since the date of acquisition. Upon completion of the acquisition, we transitioned warehouse operations to our New England and Pennsylvania divisions. As a result of the acquisition, we expect to bring our industry leading Vendor Consolidation and Fresh initiatives to a larger population of convenience retailers primarily in the Northeast.

- On April 5, 2011, we entered into a definitive agreement to acquire Forrest City Grocery Company ("FCGC"), located in Forrest City, Arkansas. FCGC is a regional wholesale distributor servicing customers in Arkansas, Mississippi, Tennessee and the surrounding states with annualized sales of approximately $540 million and assets of approximately $43 million, consisting primarily of accounts receivable, inventory and fixed assets. The acquisition was completed on May 2, 2011 and FCGC thereafter became a subsidiary of Core-Mark. The purchase price for FCGC was approximately $66 million. The purchase price includes an estimated $23 million of goodwill and other intangibles subject to the valuation of its assets and the final purchase price allocation. The acquisition was funded with a combination of cash on hand and borrowings under our $200 million revolving credit facility. The financial results of FCGC's operations will be included in our consolidated financial statements beginning on the date of acquisition. This acquisition will allow us to increase our infrastructure and market share in the southeastern U.S.

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Results of Operations

Comparison of the Three Months Ended March 31, 2011 and 2010 (dollars in millions)[1]:

	2011	Three Months Ended March 31, 2011			Three Months Ended March 31, 2010		
	Increase (Decrease)	Amounts	% of Net Sales	% of Net Sales, Less Excise Taxes	Amounts	% of Net Sales	% of Net Sales, Less Excise Taxes
Net sales	$140.4	$1,722.5	100.0 %	— %	$1,582.1	100.0 %	— %
Net sales — Cigarettes	109.2	1,223.0	71.0	64.5	1,113.8	70.4	64.3
Net sales — Food/non-food	31.2	499.5	29.0	35.5	468.3	29.6	35.7
Net sales, less excise taxes [2]	83.0	1,295.5	75.2	100.0	1,212.5	76.6	100.0
Gross profit [3]	4.5	92.3	5.4	7.1	87.8	5.5	7.2
Warehousing and distribution expenses	4.8	53.9	3.1	4.2	49.1	3.1	4.0
Selling, general and administrative expenses	1.3	36.7	2.1	2.8	35.4	2.2	2.9
Income from operations	(1.6)	1.2	0.1	0.1	2.8	0.2	0.2
Interest expense	—	(0.6)	—	—	(0.6)	—	—
Interest income	0.1	0.1	—	—	—	—	—
Foreign currency transaction gains, net	0.4	0.6	—	0.1	0.2	—	—
Income before taxes	(1.1)	1.3	0.1	0.1	2.4	0.2	0.2
Net income	(0.9)	0.5	—	—	1.4	0.1	0.1

(1) Amounts and percentages have been rounded for presentation purposes and might differ from unrounded results.
(2) Net sales, less excise taxes is a non-GAAP financial measure which we provide to separate the increase in sales due to actual sales growth and increases in state, local and provincial excise taxes which we are responsible for collecting and remitting. Federal excise taxes are levied on the manufacturers who pass the taxes on to us as part of the product cost and thus are not a component of our excise taxes. Although increases in cigarette excise taxes result in higher net sales, our overall gross profit percentage may decrease as a result of increases in excise taxes since gross profit dollars generally remain the same (see Comparison of Sales and Gross Profit by Product Category).
(3) Gross margins may not be comparable to those of other entities because warehousing and distribution expenses are not included as a component of our cost of goods sold.

Net Sales. Net sales increased by $140.4 million, or 8.9%, to $1,722.5 million for the three months ended March 31, 2011 from $1,582.1 million for the same period in 2010. Excluding the effects of foreign currency fluctuations, net sales increased 8.0% for the first quarter, driven by sales attributable to the FDI acquisition, one additional selling day in the current quarter, sales gains to existing customers and inflation of excise taxes.

Net Sales of Cigarettes. Net sales of cigarettes for the three months ended March 31, 2011 increased by $109.2 million, or 9.8%, to $1,223.0 million from $1,113.8 million for the same period in 2010. Net cigarette sales for the three months ended March 31, 2011 increased 8.9%, excluding the effects of foreign currency fluctuations. This increase in cigarette sales is attributable primarily to sales from FDI, one additional selling day in the current quarter and a 3.9% increase in the average sales price per carton, due primarily to increases in excise taxes. Total carton sales during the first quarter of 2011 increased approximately 4.2% in the U.S. and 1.7% in Canada as compared to the first quarter of 2010. Excluding carton sales attributable to the FDI acquisition in the U.S. and the additional selling day in the current quarter, carton sales increased slightly in both the U.S. and Canada. The slight increase in Canadian carton sales was attributable to market share gains in our Toronto division. Total net cigarette sales as a percentage of total net sales increased slightly to 71.0% for the three months ended March 31, 2011 compared to 70.4% for the same period in 2010.

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Net Sales of Food/Non-food Products. Net sales of food/non-food products for the three months ended March 31, 2011 increased by $31.2 million, or 6.7%, to $499.5 million from $468.3 million for the same period in 2010. The following table provides net sales by product category for our food/non-food products (dollars in millions)[1]:

Product Category	Three Months Ended March 31, 2011 Net Sales	2010 Net Sales	Increase / (Decrease) Dollars	Percentage
Food	$ 200.7	$ 181.5	$ 19.2	10.6 %
Candy	103.6	99.3	4.3	4.3 %
Other tobacco products	122.0	110.2	11.8	10.7 %
Health, beauty & general	54.0	50.6	3.4	6.7 %
Non-alcoholic beverages	18.4	25.9	(7.5)	(29.0)%
Equipment/other	0.8	0.8	—	— %
Total Food/Non-food Products	$ 499.5	$ 468.3	$ 31.2	6.7 %

(1) Amounts and percentages have been rounded for presentation purposes and might differ from unrounded results.

The increase in net sales of our food/non-food products of 6.7%, or 5.8% excluding the effects of foreign currency fluctuations, was driven by the FDI acquisition, one additional selling day in the current quarter and increased volume from our sales and marketing initiatives, primarily in our food category. The gains in our food category were offset partially by a decline in non-alcoholic beverages, which was due to a change in the marketing and distribution methods of a sports drink beverage manufacturer. Total net sales of food/non-food products as a percentage of total net sales was 29.0% for the three months ended March 31, 2011 compared to 29.6% for the same period in 2010.

Gross Profit. Gross profit represents the portion of sales remaining after deducting the cost of goods sold during the period. Vendor incentives, cigarette inventory holding profits and changes in LIFO reserves are classified as elements of cost of goods sold. Gross profit for the three months ended March 31, 2011 increased by $4.5 million, or 5.1%, to $92.3 million from $87.8 million for the same period in 2010.

The following table provides the components comprising the change in gross profit as a percentage of net sales for the three months ended March 31, 2011 and 2010 (dollars in millions) [1]:

	2011 Increase (Decrease)	Three Months Ended March 31, 2011 Amounts	% of Net sales	% of Net sales, less excise taxes	Three Months Ended March 31, 2010 Amounts	% of Net sales	% of Net sales, less excise taxes
Net sales	$ 140.4	$ 1,722.5	100.0 %	—	$ 1,582.1	100.0 %	—
Net sales, less excise taxes [2]	83.0	1,295.5	75.2	100.0 %	1,212.5	76.6	100.0 %
Components of gross profit:							
Cigarette inventory holding profits	$ 0.3	$ 0.9	0.05 %	0.07 %	$ 0.6	0.04 %	0.05 %
LIFO expense	1.6	(2.9)	(0.17)	(0.23)	(1.3)	(0.08)	(0.11)
OTP tax items [3]	0.2	0.8	0.05 %	0.06 %	0.6	0.04	0.05
Remaining gross profit [4]	5.6	93.5	5.43	7.22	87.9	5.55	7.25
Gross profit	$ 4.5	$ 92.3	5.36 %	7.12 %	$ 87.8	5.55 %	7.24 %

(1) Amounts and percentages have been rounded for presentation purposes and might differ from unrounded results.

(2) Net sales, less excise taxes is a non-GAAP financial measure which we provide to separate the increase in sales due to actual sales growth and increases in state, local and provincial excise taxes which we are responsible for collecting and remitting. Federal excise taxes are levied on the manufacturers who pass the tax on to us as part of the product cost and thus are not a component of our excise taxes. Although increases in cigarette excise taxes result in higher net sales, our overall gross profit percentage may decrease as a result of increases in excise taxes since gross profit dollars generally remain the same (see

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Comparison of Sales and Gross Profit by Product Category).
(3) During the three months ended March 31, 2011, we received an OTP tax refund of $0.8 million. During the three months ended March 31, 2010, we recognized a $0.6 million OTP tax gain resulting from a state tax method change.
(4) Remaining gross profit is a non-GAAP financial measure which we provide to segregate the effects of LIFO expense, cigarette inventory holding profits and other major non-recurring items that significantly affect the comparability of gross profit.

Our remaining gross profit was 5.43% of total net sales for the three months ended March 31, 2011 compared to 5.55% for the same period in 2010.
Cigarette remaining gross profit increased 1.8% or approximately $0.02 on a cents per carton basis in the first quarter of 2011 compared to the same period in 2010.
Remaining gross profit margin for our food/non-food category for the first quarter of 2011 was 12.95%, or 14.06% excluding excise taxes, compared to 12.94%, or 13.99% excluding excise taxes, for the same period in 2010. Remaining gross profit margins were positively impacted by our marketing and purchasing strategies which focus on higher margin products. In addition, remaining gross profit margin for food/non-food products continued its sequential improvement during the current quarter as compared to the margins resulting from the competitive pressures that began in the first quarter of 2010 and were at their lowest point in the second quarter of 2010.
For the three months ended March 31, 2011, our remaining gross profit for food/non-food products increased to approximately 69.2% of our total remaining gross profit compared to 69.0% for the same period in 2010.
Operating Expenses. Our operating expenses include costs related to warehousing, distribution, and selling, general and administrative activities. For the three months ended March 31, 2011, operating expenses increased $6.1 million, or 7.1%, to $91.1 million from $85.0 million for the same period in 2010. The increase in operating expenses over the first quarter of 2010 was due primarily to the addition of FDI, an additional selling day during the first quarter this year, an increase in net fuel costs of $1.1 million and $0.7 million of costs associated with the FCGC acquisition. As a percentage of total net sales, total operating expenses were 5.3%, or 5.1% excluding net fuel and FCGC acquisition costs, for the first quarter of 2011 compared to 5.4%, or 5.3% excluding net fuel costs, for the same period in 2010.
Warehousing and Distribution Expenses. Warehousing and distribution expenses increased by $4.8 million, or 9.8%, to $53.9 million for the three months ended March 31, 2011 from $49.1 million for the same period in 2010. As a percentage of total net sales, warehousing and distribution expenses were 3.1% for both periods. Operating expenses for the first quarter of 2011 included a $1.1 million increase in net fuel costs compared with the first quarter of 2010. The increase in net fuel costs had a seven basis point impact on warehousing and distribution expenses as a percentage of net sales for the first quarter of 2011.
Selling, General and Administrative (“SG&A”) Expenses. SG&A expenses increased $1.3 million, or 3.7%, to $36.7 million for the three months ended March 31, 2011 from $35.4 million for the same period in 2010. SG&A expenses for the first quarter of 2011 included $0.7 million in acquisition costs related to the FCGC acquisition. As a percentage of total net sales, SG&A expenses were 2.1% for the first quarter of 2011 compared to 2.2% for the same period in 2010. The decrease as a percentage of sales was due primarily to lower health and welfare costs and general cost reductions, offset partially by the FCGC acquisition costs.
Interest Expense. Interest expense includes both debt interest and fees related to borrowings. Interest expense was $0.6 million for both the three months ended March 31, 2011 and 2010. Higher fees for unused facility and letter of credit participation that resulted from the extension of our revolving Credit Facility in February 2010 were offset by lower interest expense due to lack of borrowings during the current quarter. We did not borrow monies during the three months ended March 31, 2011, compared to average borrowings of $6.8 million with an average interest rate of 2.5% for the same period in 2010.
Foreign Currency Transaction Gains, Net. We recognized foreign currency transaction gains of $0.6 million for the three months ended March 31, 2011 compared to gains of $0.2 million for the same period in 2010.
Income Taxes. Our effective tax rate was 61.5% for the three months ended March 31, 2011 compared to 41.7% for the same period in 2010. Non-deductible transaction costs related to our recent acquisition of Forrest City Grocery Company, completed on May 2, 2011, added approximately 20% to our effective tax rate for the first quarter of 2011.

We did not recognize any similar costs in the first quarter of 2010. We currently expect our effective tax rate to approximate 42% for 2011.

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Comparison of Sales and Gross Profit by Product Category

The following table summarizes our cigarette and food/non-food product sales, LIFO expense, gross profit and other relevant financial data for the three months ended March 31, 2011 and 2010 (dollars in millions)[(1)]:

	Three Months Ended March 31,			
	2011		2010	
Cigarettes				
Net sales	$ 1,223.0		$ 1,113.8	
Excise taxes in sales [(2)]	$ 387.4		$ 334.6	
Net sales, less excise taxes [(3)]	$ 835.6		$ 779.2	
LIFO expense	$ 1.2		$ 0.7	
Gross profit [(4)]	$ 28.5		$ 27.2	
Gross profit %	2.33	%	2.44	%
Gross profit % less excise taxes	3.41	%	3.49	%
Remaining gross profit [(5)]	$ 28.8		$ 27.3	
Remaining gross profit %	2.36	%	2.45	%
Remaining gross profit % less excise taxes	3.45	%	3.50	%
Food/Non-food Products				
Net sales	$ 499.5		$ 468.3	
Excise taxes in sales [(2)]	$ 39.6		$ 35.0	
Net sales, less excise taxes [(3)]	$ 459.9		$ 433.3	
LIFO expense	$ 1.7		$ 0.6	
Gross profit [(6)]	$ 63.8		$ 60.6	
Gross profit %	12.78	%	12.95	%
Gross profit % less excise taxes	13.87	%	13.99	%
Remaining gross profit [(5)]	$ 64.7		$ 60.6	
Remaining gross profit %	12.95	%	12.94	%
Remaining gross profit % less excise taxes	14.06	%	13.99	%
Totals				
Net sales	$ 1,722.5		$ 1,582.1	
Excise taxes in sales [(2)]	$ 427.0		$ 369.6	
Net sales, less excise taxes [(3)]	$ 1,295.5		$ 1,212.5	
LIFO expense	$ 2.9		$ 1.3	
Gross profit [(4), (6)]	$ 92.3		$ 87.8	
Gross profit %	5.36	%	5.55	%
Gross profit % less excise taxes	7.12	%	7.24	%
Remaining gross profit [(5)]	$ 93.5		$ 87.9	
Remaining gross profit %	5.43	%	5.55	%
Remaining gross profit % less excise taxes	7.22	%	7.25	%

(1) Amounts and percentages have been rounded for presentation purposes and might differ from unrounded results.
(2) Excise taxes included in our net sales consist of state, local and provincial excise taxes which we are responsible for collecting and remitting. Federal excise taxes are levied on the manufacturers who pass the tax on to us as part of the product cost and thus are not a component of our excise taxes. Although increases in cigarette excise taxes result

in higher net sales, our overall gross profit percentage may decrease as a result of increases in excise taxes since our gross profit dollars generally remain the same.

(3) Net sales, less excise taxes is a non-GAAP financial measure which we provide to separate the increase in sales due to actual

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sales growth and increases in excise taxes.
(4) Cigarette gross profit includes (i) inventory holding profits related to manufacturer price increases, (ii) increases in state, local and provincial excise taxes and (iii) LIFO effects.
(5) Remaining gross profit is a non-GAAP financial measure which we provide to segregate the effects of LIFO expense, cigarette inventory holding profits and other major non-recurring items that significantly affect the comparability of gross profit.
(6) Food/non-food gross profit includes (i) inventory holding profits related to manufacturer price increases, (ii) increases in state, local and provincial excise taxes, (iii) LIFO effects and (iv) OTP tax items.

Liquidity and Capital Resources

Our cash and cash equivalents as of March 31, 2011 were $41.2 million compared to $16.1 million as of December 31, 2010. Our restricted cash as of March 31, 2011 and December 31, 2010 was $13.5 million and $12.8 million, respectively. Restricted cash primarily represents funds that have been set aside in trust as required by one of the Canadian provincial taxing authorities to secure amounts payable for cigarette and tobacco excise taxes.

Our liquidity requirements arise primarily from the funding of our working capital, capital expenditures and debt service requirements of our Credit Facility. We have historically funded our liquidity requirements through our current operations and external borrowings. For the three months ended March 31, 2011, our cash flows from operating activities provided $31.1 million and we had $163.3 million of borrowing capacity available under our Credit Facility as of March 31, 2011.

Based on our anticipated cash needs, availability under our Credit Facility and the scheduled maturity of our debt, we expect that our current liquidity will be sufficient to meet all of our anticipated operating needs during the next twelve months.

Cash flows from operating activities

Net cash provided by operating activities decreased by $53.8 million to $31.1 million for the three months ended March 31, 2011 compared to $84.9 million for the same period in 2010. The decrease in cash provided by operating activities was due primarily to a $53.7 million decrease in cash provided by working capital.

The decrease in cash provided by working capital was due primarily to a higher inventory balance at March 31, 2011 compared to the same period in 2010, payments made to reduce our cigarette and tobacco taxes payable and the timing of vendor prepayments. Inventory increased when compared to the same period in 2010 due primarily to the buildup of certain commodities, particularly candy and cigarettes, in anticipation of manufacturer price increases and changes in promotional programs. The cigarette and tobacco taxes payable balance was higher than usual at December 31, 2010 due primarily to cigarette stamp purchases made to maintain appropriate LIFO inventory levels.

Cash flows from investing activities

Net cash used in investing activities decreased by $3.8 million to $1.7 million for the three months ended March 31, 2011 compared to $5.5 million for the same period in 2010. Restricted cash decreased by $1.9 million due primarily to the timing of payments for excise tax liabilities. Capital expenditures decreased by $1.7 million to $1.3 million in the first three months of 2011 compared to $3.0 million for the same period in 2010. Capital expenditures for the first three months of 2011 were related primarily to equipment to support our marketing programs. Fiscal 2011 capital expenditures are not expected to exceed $24 million, including any post-acquisition capital expenditures associated with FCGC.

Cash flows from financing activities

Net cash used in financing activities decreased by $34.1 million to $4.5 million for the three months ended March 31, 2011 compared to $38.6 million for the same period in 2010. The decrease in net cash used in financing activities was due primarily to the absence of debt at December 31, 2010, as we paid down the balance on our Credit Facility earlier that year. Also, the sufficient cash generated from our operations during the three months ended March 31, 2011 eliminated our need to borrow monies under the Credit Facility during the period. In addition, the higher level of cash on hand at March 31, 2011, and timing of vendor payments, decreased cash used in book overdrafts compared with the same period in 2010.

Our Credit Facility
We have a revolving credit facility (“Credit Facility”) with a capacity of $200
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Roman;font-weight:normal;font-style:normal;text-transform:none;font-variant: normal;">$

37,578

$

26,011

$

96,535

$

77,451

Capital Expenditures -

Cement

$

3,890

$

2,657

$

16,886

$

8,493

Gypsum Wallboard

1,154

1,284

4,947

2,983

Paperboard

303

902

1,452

2,803

Oil and Gas Proppants

18,421

5,533

32,023

26,549

Concrete and Aggregates

1,128

1,135

9,477

2,266

Other

24

114

174

114

$

24,920

$

11,625

$

64,959

$

43,208

Depreciation, Depletion and Amortization -

Cement

$

8,089

$

8,036

$

23,959

$

23,684

Gypsum Wallboard

4,967

5,239

15,096

15,783

Paperboard

2,069

2,205

6,196

6,558

Oil and Gas Proppants

2,673

475

3,926

1,160

Concrete and Aggregates

1,465

1,300

4,058

4,001

Other, net

425

436

1,317

1,129

$

19,688

$

17,691

$

54,552

$

52,315

17

	As of December 31, 2014	March 31, 2014
	(dollars in thousands)	
Identifiable Assets -		
Cement	$759,143	$762,578
Gypsum Wallboard	408,097	412,566
Paperboard	123,131	125,045
Oil and Gas Proppants	448,155	71,366
Concrete and Aggregates	95,303	108,197
Corporate and Other	24,222	31,777
	$1,858,051	$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 December 31, 2014	March 31, 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 December 31, 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 $0.7 million at December 31, 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.

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

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2014	2013	2014	2013
	(dollars in thousands)		(dollars in thousands)	
Revenues	$ 65,815	$ 52,380	$ 197,249	$ 163,944
Gross Margin	$ 26,445	$ 20,513	$ 72,282	$ 57,848
Earnings Before Income Taxes	$ 24,846	$ 19,712	$ 68,548	$ 54,962

	As of December 31, 2014	March 31, 2014
	(dollars in thousands)	
Current Assets	$ 68,161	$ 59,029
Non-Current Assets	$ 43,281	$ 42,826
Current Liabilities	$ 20,961	$ 17,901

(N) INTEREST EXPENSE

The following components are included in interest expense, net:

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2014	2013	2014	2013
	(dollars in thousands)		(dollars in thousands)	
Interest (Income)	$ (2)	$ (1)	$ (5)	$ (3)
Interest Expense	3,730	4,102	10,901	13,071
Interest Expense – Income Taxes	174	155	522	481
Other Expenses	199	219	636	676
Interest Expense, net	$ 4,101	$ 4,475	$ 12,054	$ 14,225

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 December 31, 2014, we had contingent liabilities under these outstanding letters of credit of approximately $9.2 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 $14.3 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, and this agreement was approved by the U.S Department of Justice in January 2015. Under the terms of the agreement, we dismissed 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. We will recognize the recovery of 40% of the penalties, which total approximately $5.8 million, plus approximately $3.4 million of related interest thereon, in our consolidated statement of earnings during the fourth quarter of fiscal 2015.

EPA Notice of Violation

On October 5, 2010, Region IX of the EPA issued a Notice of Violation and Finding of Violation ("NOV") alleging violations by our subsidiary, Nevada Cement Company ("NCC"), of the Clean Air Act ("CAA"). The NOV alleges that NCC made certain physical changes to its facility in the 1990s without first obtaining permits required by the Prevention of Significant Deterioration requirements and Title V permit requirements of the CAA. The EPA also alleges that NCC has failed to submit to the EPA since 2002 certain reports required by the National Emissions Standard for Hazardous Air Pollutants General Provisions and the Portland Cement Manufacturing Industry Standards. On March 12, 2014, 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 and United States Gypsum (together "USG"), 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.

On November 3, 2014 USG announced that it had entered into a binding memorandum of understanding with counsel representing the direct and indirect purchasers classes pursuant to which it agreed to settle all claims against it. Discovery in this litigation is ongoing. Due to the fact that the case is in the discovery phase, 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 December 31, 2014 is as follows:

	Fair Value (dollars in thousands)
Series 2005A Tranche B	$ 58,528
Series 2005A Tranche C	60,304
Series 2007A Tranche B	8,440
Series 2007A Tranche C	25,764
Series 2007A Tranche D	39,895

The estimated fair value of our long-term debt was based on quoted prices of similar debt instruments with similar terms that are publicly traded (level 2 input). The carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable and accrued liabilities approximate their fair values at December 31, 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 December 31, 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 nine months ended December 31, 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 nine month periods ended December 31, 2014 and 2013.

On November 14, 2014, a wholly owned subsidiary of Eagle Materials Inc., a Delaware corporation (the "Company"), completed the previously announced acquisition (the "Acquisition") of all of the outstanding equity interests of CRS Holdco LLC, CRS Proppants LLC, Great Northern Sand, LLC, and related entities (collectively, "CRS Proppants"). The Acquisition was completed pursuant to a Securities Purchase Agreement, dated October 16, 2014 (the "Securities Purchase Agreement"), by and among a wholly owned subsidiary of the Company and the Sellers named therein (EOS Partners, L.P., EOS Capital Partners IV, L.P., Original CRS LLC, Steve Cobb, Bon Accord Partners, L.P. and Stephen R. Horn).

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. The purchase price (the "Purchase Price") paid by the Company for CRS Proppants was approximately $237.2 million in cash, including approximately $9.0 million for in-process capital expenditures paid through the closing date, and estimated working capital and other estimated closing amounts. The Purchase Price is subject to customary post-closing adjustments as provided in the Securities Purchase Agreement. The Purchase Price was funded through borrowings under the Company's credit facility. CRS Proppants was in the process of expanding its frac sand mine in New Auburn, Wisconsin at the time of purchase. We expect to complete the expansion during the first quarter of fiscal 2016 at an additional cost of approximately $25.0 million.

During fiscal 2014, we began selling third-party purchased frac sand from our Corpus Christi plant into the Texas market. During the third quarter of fiscal 2015 we began shipping sand from our mine in Utica, Illinois to Corpus Christi for sale in the Texas market. 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

$60.0 million to $70.0 million in fiscal 2015, including the amounts related to the completion of the plant in New Auburn, Wisconsin. Additionally, we continue to focus on specialty oil well cement, in addition to 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 into shale deposit zones across the United States.. Cement, concrete and aggregates and frac sand demand may fluctuate more widely because local and regional markets and economies may be more sensitive to changes than the national markets. Our Wallboard and Paperboard operations are more national in scope and shipments are made throughout most of the continental United States, except for the northeast.

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 December 31,			For the Nine Months Ended December 31,		
	2014	2013	Change	2014	2013	Change
	(In thousands except per share)			(In thousands except per share)		
Revenues	$291,529	$ 228,812	27%	$ 842,588	$ 708,502	19%
Cost of Goods Sold	(212,380)	(178,964)	19%	(631,977)	(552,571)	14%
Gross Profit	79,149	49,848	59%	210,611	155,931	35%
Equity in Earnings of Unconsolidated Joint Venture	12,423	9,856	26%	34,274	27,481	25%
Corporate General and Administrative Expense	(9,371)	(6,796)	38%	(23,827)	(18,450)	29%
Acquisition and Litigation Expense	(722)	-	-	(2,825)	-	-
Other Income	488	400	22%	2,050	1,300	58%
Interest Expense, net	(4,101)	(4,475)	(8%)	(12,054)	(14,225)	(15%)
Earnings Before Income Taxes	77,866	48,833	59%	208,229	152,037	37%
Income Tax Expense	(25,836)	(17,212)	50%	(68,170)	(50,412)	35%
Net Earnings	$52,030	$ 31,621	65%	$ 140,059	$ 101,625	38%
Diluted Earnings per Share	$1.03	$ 0.63	63%	$ 2.78	$ 2.03	37%

Revenues. Revenues were $291.5 million and $228.8 million for the three months ended December 31, 2014 and 2013, respectively. Approximately $9.5 million of the $62.7 million increase in revenues during the three months ended December 31, 2014, compared to December 31, 2013, was due to the Acquisition. The remaining increase in revenues 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, which remained flat. The impact of the increased net sales prices and sales volumes on revenues for the quarter ended December 31, 2014, compared to December 31, 2013, was approximately $18.9 million and $34.3 million, respectively.

Revenues were $842.6 million and $708.5 million for the nine months ended December 31, 2014 and 2013, respectively. The $134.1 million increase in revenues during the nine months ended December 31, 2014, compared to December 31, 2013, was primarily due to the Acquisition, increased sales volumes for all of our businesses except aggregates, and increased average net sales prices for all of our businesses, except recycled paperboard, which was flat. Revenues from the Acquisition were approximately $9.5 million, while the impact of the increased net sales prices and sales volumes on revenues for the nine months ended December 31, 2014, compared to December 31, 2013, was approximately $53.4 million and $71.2 million, respectively.

Cost of Goods Sold. Cost of goods sold was $212.4 million and $179.0 million during the three months ended December 31, 2014 and 2013, respectively. The $33.4 million increase in cost of goods sold was related primarily to an increase in volumes, which increased cost of sales by approximately $35.4 million, partially offset by a decrease in operating costs of approximately $2.0 million. Approximately $9.2 million of the increase in cost of goods sold related to sales volumes attributable to the Acquisition, with the remaining increase due to increased sales volumes in all of our businesses except aggregates. The decrease in operating costs in the third quarter of fiscal 2015, compared to fiscal 2014, was primarily related to our cement, recycled paperboard and concrete businesses and was approximately $1.3 million, $0.7 million and $2.3 million, respectively, partially offset by increased costs in our gypsum wallboard and aggregates businesses or approximately $1.8 million and $0.5 million, respectively.

Cost of goods sold was $632.0 million and $552.6 million during the nine months ended December 31, 2014 and 2013, respectively. The $79.4 million increase in cost of goods sold was related primarily to an increase in volumes, which increased cost of sales by approximately $56.7 million, and an increase in operating costs of approximately $13.5 million. Approximately $9.2 million of the increase in cost of goods sold related to sales volumes was attributable to the Acquisition, with the remaining increase due to increased sales volumes in all of our businesses except aggregates. The increase in operating costs in the nine months ended December 31, 2014, compared to the nine months ended December 31, 2013, was primarily related to our cement, gypsum wallboard and concrete businesses and was approximately $5.2 million, $10.0 million and $0.9 million, respectively, partially offset by decreased costs in our recycled paperboard and aggregates businesses or approximately $1.9 million and $0.7 million, respectively.

Gross Profit. Gross profit was $79.1 million and $49.8 million during the three months ended December 31, 2014 and 2013, respectively. The 59% 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, as noted above. The increase in the gross margin to 27% for the three months ended December 31, 2014, compared to 22% for the three months ended December 31, 2013, was primarily due to increased gross margin in our gypsum wallboard and cement divisions.

Gross profit was $210.6 million and $155.9 million during the nine months ended December 31, 2014 and 2013, respectively. The 35% 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 25% for the nine months ended December 31, 2014, compared to 22% for the nine months ended December 31, 2013, was primarily due to increased gross margin in our cement and gypsum wallboard divisions.

Equity in Earnings of Joint Venture. Equity in earnings of our unconsolidated joint venture increased $2.6 million, or 26%, for the three months ended December 31, 2014, compared to the similar period in 2013. The increase is primarily due to a 13% increase in sales volumes and an 11% 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 December 31, 2014 was approximately $1.3 million and $3.3 million, respectively, partially offset by increased operating costs of approximately $2.0 million. The increase in operating costs was primarily due to an increase in the cost of purchased cement of approximately $1.0 million, and an increase in maintenance of approximately $0.3 million.

Equity in earnings of our unconsolidated joint venture increased $6.8 million, or 25%, for the nine months ended December 31, 2014, compared to the similar period in 2013. The increase is primarily due to an 11% 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 December 31, 2014 was approximately $3.1 million and $7.5 million, respectively, partially offset by increased operating costs of approximately $3.1 million. The increase in operating costs was primarily due to an increase in the cost of purchased cement of approximately $2.5 million.

Corporate General and Administrative. Corporate general and administrative expenses increased 38% and 29% for the three and nine months ended December 31, 2014, respectively, compared to the similar periods in 2013. The approximately $2.6 million and $5.4 million increase in corporate general and administrative expenses for the three and nine month periods ended December 31, 2014, respectively, compared to 2013, is due primarily to increased long-term incentive compensation expenses. Long-term incentive compensation increased approximately $1.7 million and $3.9 million during the three and nine months ended December 31, 2014, respectively, compared to similar periods in 2013, primarily due to increased operating earnings.

Acquisition and Litigation Expense. Acquisition and litigation expense consists of litigation expenses related to our lawsuit against the IRS and expenses related to the Acquisition. Legal fees related to our lawsuit against the IRS were approximately $0.1 million and $1.8 million for the three and nine months ended December 31, 2014. As discussed in Footnote (O) to the Unaudited Consolidated Financial Statements, the U.S Department of Justice approved the proposed settlement of this case in January 2015 and the case was dismissed. Expenses related to the Acquisition, which closed in November 2014, were $ 0.4 million and $1.1 million for the three and nine months ended December 31, 2014.

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 $0.4 million and $2.2 million during the three and nine months ended December 31, 2014, respectively, compared to the three and nine months ended December 31, 2013. The 8% and 15% decrease in interest expense, net for the three and nine months ended December 31, 2014, respectively, compared to the similar three and nine months in the prior fiscal year, is due primarily to the decrease in interest expense from our Credit Facility, which decreased approximately $0.2 million and $2.0 million in the three and nine months ended December 31, 2014, compared to the three and nine months ended December 31, 2013. The decrease in interest expense from our Credit Facility is due to reduced outstanding balances during the three and nine month periods ended December 31, 2014, compared to the three and nine months ended December 31, 2013, as a result of repayments made during fiscal 2014 and during the first nine months of fiscal 2015. Because of borrowings to finance the Acquisition, we expect interest expense to increase during the fourth quarter of fiscal 2015 compared to the first nine months of the fiscal year. Additionally, interest expense from our Senior Notes decreased $0.1 million during both the three and nine month periods ended December 31, 2014, compared to December 31, 2013, due to the maturity and repayment of $9.5 million during October 2014.

Earnings Before Income Taxes. Earnings before income taxes were $77.9 million and $48.8 million during the three months ended December 31, 2014 and 2013, respectively. The $29.1 million increase was primarily due to a $29.3 million increase in gross profit, a $2.6 million increase in equity in earnings of unconsolidated joint venture and a decrease in interest expense, net of $0.3 million, partially offset by an increase of approximately $0.7 million in acquisition and litigation expense and $2.6 million in corporate general and administrative expenses, respectively.

Earnings before income taxes were $208.2 million and $152.0 million during the nine months ended December 31, 2014 and 2013, respectively. The $56.2 million increase was primarily due to a $54.7 million increase in gross profit, a $6.8 million increase in equity in earnings of unconsolidated joint venture and a decrease in interest expense, net of $2.1 million, partially offset by an increase of approximately $2.8 million in acquisition and litigation expense and $5.3 million in corporate general and administrative expenses, respectively.

Income Taxes. Income tax expense was $68.2 million and $50.4 million for the nine months ended December 31, 2014 and 2013, respectively. The estimated effective tax rate for fiscal 2015, compared to fiscal 2014, remained consistent at 33%.

Net Earnings and Diluted Earnings per Share. Net earnings for the quarter ended December 31, 2014 of $52.0 million increased 65% from last year's net earnings of $31.6 million; while net earnings of $140.1 million for the nine months ended December 31, 2014 increased 38% from last year's net earnings of $101.6 million. Diluted earnings per share for the three and nine month periods ended December 31, 2014 were $1.03 and $2.78, respectively, compared to $0.63 and $2.03 for the three and nine months ended December 31, 2013, respectively.

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

	For the Three Months Ended December 31,			For the Nine Months Ended December 31,		
	2014	2013	Percentage	2014	2013	Percentage
	(In thousands except per unit)		Change	(In thousands except per unit)		Change
Revenues (1)						
Cement (2)	$124,048	$ 105,578	17%	$397,845	$ 356,482	12%
Gypsum Wallboard	118,573	104,158	14%	342,905	299,099	15%
Recycled Paperboard	39,936	33,696	19%	112,994	100,501	12%
Oil and Gas Proppants	31,731	3,960	701%	53,325	6,152	767%
Concrete and Aggregates	27,116	24,376	11%	85,239	77,487	10%
Gross Revenues	341,404	271,768	26%	992,308	839,721	18%
Less: Intersegment Revenues	(16,968)	(16,766)	1%	(51,096)	(49,247)	4%
Less: Joint Venture Revenues	(32,907)	(26,190)	26%	(98,624)	(81,972)	20%
	$291,529	$ 228,812	27%	$842,588	$ 708,502	19%
Sales Volume						
Cement (M Tons) (2)	1,205	1,115	8%	3,972	3,790	5%
Gypsum Wallboard (MMSF)	610	584	4%	1,746	1,670	5%
Recycled Paperboard (M Tons)	77	66	17%	219	197	11%
Concrete (M Yards)	246	231	6%	767	723	6%
Aggregates (M Tons)	682	709	(4%)	2,372	2,606	(9%)
Average Net Sales Prices (3)						
Cement (2)	$93.76	$ 87.01	8%	$91.43	$ 86.10	6%
Gypsum Wallboard	158.95	143.40	11%	160.23	144.54	11%
Recycled Paperboard	504.30	504.08	-	505.09	504.64	-
Concrete	89.00	84.88	5%	86.77	82.02	6%
Aggregates	7.36	6.46	14%	7.54	6.70	13%
Operating Earnings						
Cement (2)	$37,578	$ 26,011	44%	$96,535	$ 77,451	25%
Gypsum Wallboard	40,013	30,730	30%	114,443	90,234	27%
Recycled Paperboard	9,102	6,661	37%	24,633	19,277	28%
Oil and Gas Proppants	3,241	(2,162)	250%	3,315	(3,968)	184%
Concrete and Aggregates	1,638	(1,536)	207%	5,959	418	1326%
Other, net	488	400	22%	2,050	1,300	58%
Net Operating Earnings	$92,060	$ 60,104	53%	$246,935	$ 184,712	34%

(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 $124.0 million for the three months ended December 31, 2014, which is a 17% increase over revenues of $105.6 million for the three months ended December 31, 2013. The increase in revenues during the three months ended December 31, 2014, compared to the similar period in 2013, is primarily due to an 8% increase in average net sales price, as well as an 8% increase in sales volume. The increase in average net sales price and sales volume positively impacted revenues by approximately $9.9 million and $8.5 million, respectively, for the three months ended December 31, 2014, compared to the three months ended December 31, 2013.

Operating earnings for the Cement business increased 44% to $37.6 million from $26.0 million for the third quarters 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 $9.9 million and $2.4 million, respectively, partially offset by increased operating costs of $0.7 million. The increase in operating costs in the third quarter of fiscal 2015, compared to the third quarter of fiscal 2014, is primarily related to increased purchased cement and other raw material costs, which adversely impacted operating earnings by approximately $1.4 million and $1.0 million, respectively, partially offset by decreased maintenance, fuel and power costs of approximately $0.4 million, $0.7 million and $0.2 million. The operating margin increased to 30% for the third quarter of fiscal 2015, compared to 24% for the third quarter of fiscal 2014, primarily due to increased sales prices and lower operating costs.

Cement revenues were $397.8 million for the nine months ended December 31, 2014, which is a 12% increase over revenues of $356.5 million for the nine months ended December 31, 2013. The increase in revenues during the nine months ended December 31, 2014, compared to the similar period in 2013, is primarily due to a 5% increase in average net sales price, as well as a 6% increase in sales volume. The increases in average net sales price and sales volume positively impacted revenues by approximately $23.5 million and $17.8 million, respectively, for the nine months ended December 31, 2014, compared to the nine months ended December 31, 2013.

Operating earnings for the Cement business increased 25% to $96.5 million from $77.5 million for the nine months ended December 31, 2014 and 2013, respectively. The increase in operating earnings was due primarily to increased average sales price and average sales volumes, which positively impacted operating earnings by $23.5 million and $4.7 million, respectively, partially offset by increased operating costs of $8.9 million. The increase in operating costs during the nine months ended December 31, 2014, compared to the nine months ended December 31, 2013, is primarily related to increased maintenance, purchased cement, power and other raw material costs, which adversely impacted operating earnings by approximately $2.7 million, $3.9 million, $1.0 million and $1.5 million, respectively, partially offset by lower fuel costs of approximately $2.3 million. The operating margin increased to 24% for the nine months ended December 31, 2014, compared to 22% for the nine months ended December 31, 2013, primarily due to increased sales prices, partially offset by increased operating costs.

Gypsum Wallboard Operations. Sales revenues increased 14% to $118.6 million in the third quarter of fiscal 2015, from $104.2 million in the third quarter of fiscal 2014, primarily due to an 11% increase in our average net sales price and a 4% increase in sales volumes. The increase in our average net sales price and sales volumes positively impacted revenues by approximately $9.8 million and $4.6 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 December 31, 2014, compared to the three months ended December 31, 2013.

Operating earnings increased to $40.0 million for the three months ended December 31, 2014, compared to $30.7 million for the three months ended December 31, 2013, primarily due to the increase in our average net sales price and sales volumes, which positively impacted operating earnings by approximately $9.8 million and $1.4 million, respectively, partially offset by increased operating costs of $1.9 million. The increase in operating costs during the three months ended December 31, 2014, compared to the three months ended December 31, 2013, was primarily due to increased freight, natural gas and other raw materials costs, which negatively impacted operating earnings by $0.3 million, $1.1 million and $0.6 million, respectively, partially offset by reduced maintenance costs of approximately $0.5 million. The increase in our average net sales price is the primary reason our operating margin increased to 34% for the three months ended December 31, 2014, compared to 29% for the three months ended December 31, 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 $342.9 million for the nine months ended December 31, 2014, from $299.1 million for the nine months ended December 31, 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

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impacted revenues by approximately $30.2 million and $13.6 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 nine months ended December 31, 2014, compared to the nine months ended December 31, 2013.

Operating earnings increased to $114.4 million for the nine months ended December 31, 2014, compared to $90.2 million for the nine months ended December 31, 2013, primarily due to the increase in average net sales price and sales volumes, which positively impacted operating earnings by approximately $30.2 million and $4.1 million, respectively, partially offset by increased operating costs of $10.1 million. The increase in operating costs during the nine months ended December 31, 2014, compared to the nine months ended December 31, 2013, was primarily due to increased freight, paper, labor, other raw materials and natural gas costs, which negatively impacted operating earnings by $2.8 million, $0.4 million, $1.7 million, $1.6 million and $1.7 million, respectively. The increase in our average net sales price is the primary reason our operating margin increased to 33% for the nine months ended December 31, 2014, compared to 30% for the nine months ended December 31, 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 19% to $39.9 million during the three months ended December 31, 2014, compared to $33.7 million for the three months ended December 31, 2013. The increase in revenues during the quarter ended December 31, 2014, compared to December 31, 2013, is due primarily to the 17% increase in sales volumes, which positively impacted revenue by $5.7 million.

Operating earnings increased to $9.1 million for the third quarter of fiscal 2015, compared to $6.7 million for the third quarter of fiscal 2014. The increase in operating earnings is primarily due to increased sales volumes, average net sales price and decreased operating costs, which positively impacted operating earnings by approximately $1.1 million, $0.5 million and $0.7 million, respectively. The decrease in operating costs is primarily related to lower recycled fiber, chemical and natural gas costs, which positively impacted operating earnings by approximately $1.0 million, $0.1 million and $0.2 million, partially offset by increased maintenance costs of approximately $0.7 million. The decrease in operating costs was the primary reason operating margin increased to 23% during the third quarter of fiscal 2015, compared to 20% during the third quarter of fiscal 2014.

Revenues increased 12% to $113.0 million for the nine months ended December 31, 2014, from $100.5 million for nine months ended December 31, 2013. The increase in revenue during the nine months ended December 31, 2014, compared to the nine months ended December 31, 2013, is due to the increase in sales volumes, which positively impacted revenues by approximately $11.2 million.

Operating earnings increased to $24.6 million for the nine months ended December 31, 2014, compared to $19.3 million for the nine months ended December 31, 2013. The increase in operating earnings is primarily due to increased sales volumes, average net sales price and decreased operating costs, which positively impacted operating earnings by approximately $2.1 million, $1.3 million and $1.9 million, respectively. The decrease in operating costs is primarily related to lower recycled fiber and chemical costs, which positively impacted operating earnings by approximately $2.2 million and $0.8 million, partially offset by increased maintenance costs of approximately $1.1 million. The increase in sales volumes and average net sales price, together with reduced operating expenses were the primary reasons operating margin increased to 22% during the nine months ended December 31, 2014, compared to 19% during the nine months ended December 31, 2013.

Concrete and Aggregates Operations. Concrete and aggregates revenues increased 11% to $27.1 million for the three months ended December 31, 2014, compared to $24.4 million for the three months ended December 31, 2013. The primary reason for the increase in revenue for the third quarter of fiscal 2015, compared to the third quarter of fiscal 2014, was the 5% and 14% 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 $1.6 million and $1.4 million, respectively. These increases were partially offset by a decrease in sales volumes for our aggregates business, which negatively impacted revenues by approximately $0.3 million during the three months ended December 31, 2014, compared to the three months ended December 31, 2013.

Operating earnings increased to approximately $1.6 million for the three months ended December 31, 2014, compared to an operating loss of $1.5 million for the three months ended December 31, 2013. Operating earnings were positively impacted by increased average net sales prices and reduced operating costs, which positively impacted operating earnings by approximately $1.6 million and $1.7 million, respectively, partially offset by reduced sales volumes in the aggregates business of approximately $0.2 million during the three months ended December 31, 2014, compared to the three months ended December 31, 2013. The decrease in operating costs during the three months ended December 31, 2014, compared to the three months ended December 31, 2013, were primarily related to maintenance, purchased materials, and delivery costs, which decreased operating costs by approximately $0.7 million, $0.2 million, and $0.2 million, respectively.

Concrete and aggregates revenues increased 10% to $85.2 million for the nine months ended December 31, 2014, compared to $77.4 million for the nine months ended December 31, 2013. The primary reason for the increase in revenue for the nine months ended December 31, 2014, compared to the nine months ended December 31, 2013, was the 6% and 13% 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 $5.8 million and $3.7 million, respectively. These increases were partially offset by a decrease in sales volumes for our aggregates business, which negatively impacted revenues by approximately $1.6 million during the nine months ended December 31, 2014, compared to the nine months ended December 31, 2013.

Operating earnings increased to approximately $6.0 million for the nine months ended December 31, 2014, compared to $0.4 million for the nine months ended December 31, 2013. Operating earnings were positively impacted by increased average net sales prices and sales volumes, which positively impacted operating earnings by approximately $5.8 million and $0.3 million, respectively, partially offset by increased operating costs of approximately $0.5 million during the nine months ended December 31, 2014, compared to the nine months ended December 31, 2013. Increased operating costs during the nine months ended December 31, 2014, compared to the nine months ended December 31, 2013, were primarily related to purchased materials and royalties, which increased operating costs by approximately $1.2 million and $0.6 million, respectively, partially offset by reduced fuel and lease costs of approximately $0.3 million and $0.6 million, respectively.

Oil and Gas Proppants. Revenues for our oil and gas proppants segment increased approximately $27.7 million to $31.7 million during the three months ended December 31, 2014, compared to $4.0 million during the three months ended December 31, 2013. This segment is still in the start-up phase, and approximately $17.7 million of the increase in revenues during the three months ended December 31, 2014, compared to December 31, 2013, reflects sales volume growth at our Corpus Christi, Texas location, with the remaining $9.5 million increase related to the Acquisition.

Operating earnings for the three months ended December 31, 2014 were approximately $3.2 million, which improved from an operating loss of approximately $2.2 million during the three months ended December 31, 2013. Approximately $0.2 million of the increase was related to the Acquisition, with the remaining increase in operating earnings due primarily to the increase in sales volumes during the three months ended December 31, 2014, compared to the three months ended December 31, 2013. Operating income related to the Acquisition was adversely impacted by approximately $0.7 million related to the “step-up” of inventory acquired on November 14, 2014 and sold prior to December 31, 2014.

Revenues for our oil and gas proppants segment increased approximately $47.2 million to $53.3 million during the nine months ended December 31, 2014, compared to $6.2 million during the nine months ended December 31, 2013. This segment is still in the start-up phase, and approximately $37.7 million of the increase in revenues during the three months ended December 31, 2014, compared to December 31, 2013, reflects sales volume growth at our

Corpus Christi, Texas location, with the remaining $9.5 million increase related to the Acquisition.

Operating earnings for the nine months ended December 31, 2014 were approximately $3.3 million, which improved from an operating loss of approximately $4.0 million during the nine months ended December 31, 2013. Approximately $0.2 million of the increase was related to the Acquisition, with the remaining increase in operating earnings due primarily to the increase in sales volumes during the nine months ended December 31, 2014, compared to the nine months ended December 31, 2013. Operating income related to the Acquisition was adversely impacted by approximately $0.7 million related to the "step-up" of inventory acquired on November 14, 2014 and sold prior to December 31, 2014.

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 during calendar 2015, each region will increase at a different pace. Cement markets are affected by infrastructure spending, industrial construction and residential building activity.

Wallboard demand is heavily influenced by new residential housing construction as well as repair and remodeling. Most forecasts point to a continued pick-up in demand in both of these areas into calendar 2015. Industry shipments of gypsum wallboard exceeded 21.5 billion square feet in calendar 2014, and are expected to increase in calendar 2015. No new plants are expected to be added during the first half of calendar 2015, but it is possible that previously idled plants or curtailed lines could be brought back into service. American Gypsum implemented a wallboard price increase effective in January.

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 calendar 2015, compared to fiscal 2015, 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 long-term outlook for frac sand proppants in the oil and gas industry remains robust. Between the opening of our mine in Illinois in July 2014, and the Acquisition in November 2014, we expect increased sales volumes during the remainder of fiscal 2015 and into fiscal 2016. The Acquisition will increase our mining and processing ability, add trans-load facilities expanding our market reach as well as contracted volume commitments.

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.

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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 Nine Months Ended December 31,	
	2014	2013
	(dollars in thousands)	
Net Cash Provided by Operating Activities	$ 183,143	$ 144,012
Investing Activities:		
Capital Expenditures	(64,959)	(43,208)
Acquisition	(237,171)	-
Net Cash Used in Investing Activities	(302,130)	(43,208)
Financing Activities:		
Increase (Decrease) in Long-Term Debt	136,500	(97,000)
Dividends Paid	(15,044)	(14,903)
Shares Repurchased to Settle Employee Taxes on RSUs	(1,356)	(489)
Payment of Debt Acquisition Costs	(1,661)	-
Proceeds from Stock Option Exercises	4,270	10,496
Excess Tax Benefits from Share Based Payment Arrangements	3,493	4,619
Net Cash Provided by Financing Activities	126,202	(97,277)
Net Increase in Cash	$ 7,215	$ 3,527

Cash flows from operating activities increased $39.1 million to $183.1 million during the nine month period ended December 31, 2014, compared to $144.0 million during the similar period in 2013. This increase was largely attributable to increased net earnings of approximately $38.5 million and increased cash flows from changes in operating assets and liabilities Excluding the impact of working capital purchased in the Acquisition, cash flows from operations were positively impacted during the nine months ended December 31, 2014 by increases in accounts payable and accrued liabilities and income taxes payable of approximately $6.4 million and $4.3 million, respectively, and a decrease in other assets of approximately $3.9 million, partially offset by increased accounts and notes receivable and inventories of approximately $19.1 million and $10.3 million, respectively. During the nine months ended December 31, 2013, cash flows from operations were negatively impacted by increases in accounts and notes receivable, and inventories of approximately $6.5 million and $19.5 million, respectively, and a decrease in accounts payable and accrued liabilities of approximately $8.1 million, partially offset by an increase of approximately $13.9 million in income taxes payable.

Working capital decreased to $190.2 million at December 31, 2014, compared to $198.1 million at March 31, 2014, primarily due to the increased current portion of long-term debt, accounts payable and accrued liabilities and a reduction of prepaid and other assets of approximately $47.5 million, $11.4 million, $3.7 million and $5.5 million, respectively, partially offset by increased cash, accounts and notes receivable and inventories of approximately $7.2 million, $33.9 million and $19.9 million, respectively. The increase in current portion of long-term debt is related to the maturity of Tranche B of our Series 2005A Senior Notes, which is expected to be repaid in November 2015. Increases in accounts and notes receivable, inventories, accounts payable and accrued liabilities are due primarily to working capital acquired in the Acquisition. In connection with the Acquisition, working capital, primarily accounts receivable and inventory, partially offset by accounts payable and accrued liabilities, positively impacted working capital by approximately $19.0 million.

The increase in accounts and notes receivable at December 31, 2014, compared to March 31, 2014, is primarily due to accounts receivable obtained in the Acquisition. Excluding the accounts receivable acquired in the Acquisition, accounts receivable increased slightly at December 31, 2014, compared to March 31, 2014. Excluding the impact of the Acquisition, as a percentage of quarterly sales generated in the quarter then ended, accounts receivable were approximately 44% at December 31, 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 December 31, 2014. Notes receivable are monitored on an individual basis, and no significant deterioration in the collectability of notes receivable was identified at December 31, 2014.

Our inventory balance at December 31, 2014 increased approximately 11% from the inventory balance at March 31, 2014. Excluding the impact of the inventory acquired in the Acquisition, inventory would have increased approximately 5%. This increase is due primarily to an increase in raw materials and materials in progress, frac sand and repair parts of approximately \$6.4 million, \$3.2 million and \$4.0 million, respectively, partially offset by declines in finished cement, gypsum wallboard and aggregates of approximately \$2.6 million, \$1.0 million and 1.0 million, respectively. 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.

In September 2014 the Company and the IRS reached a tentative agreement to settle the lawsuit, and this agreement was approved by the U.S. Department of Justice in January 2015. Under the terms of the agreement, we dismissed our lawsuit seeking to recover taxes, interest and penalties paid, as discussed above, in exchange for the IRS conceding 40% of the penalties, plus interest, paid to date. We will recognize the recovery of 40% of the penalties, which total approximately \$5.8 million, plus approximately \$3.4 million of related interest thereon, during the fourth quarter of fiscal 2015. See Note (O) of the Notes to Unaudited Consolidated Financial Statements for more information.

Net cash used in investing activities during the nine months ended December 31, 2014 was approximately \$302.1 million, compared to net cash used in investing activities of approximately \$43.2 million during the similar period in 2013, an increase of \$258.9 million. The vast majority of the increase in net cash used in investing activities, \$237.2 million, related to the Acquisition, while the remaining amount primarily related to construction of our sand processing plant in Utica, Illinois. The majority of the remaining expenditures are related to cost reduction projects and sustaining capital expenditures. 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 provided by financing activities was approximately \$126.2 million during the nine months ended December 31, 2014, compared to net cash used of approximately \$97.3 million during the similar period in 2013. This \$223.5 million increase in net cash provided by financing activities is primarily due to the increase in net borrowings under our Amended Credit Facility necessary to fund the Acquisition, and to repay the $9.5 million due upon the maturity of Tranche A of our Series 2007A Senior Notes. Our debt-to-capitalization ratio and net-debt-to-capitalization ratio improved to 34.7% and 34.1%, respectively, at December 31, 2014, compared to 31.4% and 31.1%, respectively, at March 31, 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 nine 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 $335.0 million of borrowings outstanding at December 31, 2014. Based on our Leverage Ratio, we had $155.8 million of available borrowings, net of the outstanding letters of credit, at December 31, 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 December 31, 2014, we had $9.2 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^{th} day of May and the 15^{th} 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 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 December 31, 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 December 31, 2014, we had $9.2 million of letters of credit outstanding that renew annually. We are contingently liable for performance under $14.3 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 nine month period ended December 31, 2014. As of December 31, 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 nine month period ended December 31, 2014, 20,771 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 $15.0 million and $14.9 million for the nine month periods ended December 31, 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 Nine Months Ended December 31,	
	Acquisition	2014	2013
		(dollars in thousands)	
Land and Quarries	$ 170,913	$ 3,572	$ 4,978
Plants	21,624	29,200	30,260
Buildings, Machinery and Equipment	11,100	32,187	7,970
Total Capital Expenditures	$ 203,637	$ 64,959	$ 43,208

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 $85.0 million to $100.0 million, including the completion of the plant expansion in New Auburn, Wisconsin. Historically, we have financed such expenditures with cash from operations and borrowings under our revolving credit facility.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks related to fluctuations in interest rates on our Credit Facility. From time-to-time we have utilized derivative instruments, including interest rate swaps, in conjunction with our overall strategy to manage the debt outstanding that is subject to changes in interest rates. We have a $500.0 million Credit Facility available at December 31, 2014, under which borrowings bear interest at a variable rate. A hypothetical 100 basis point increase in interest rates on the $335.0 million of borrowings at December 31, 2014 would increase our interest expense by approximately $3.4 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, and this agreement was approved, by the U.S Department of Justice in January 2015. Under the terms of the agreement we dismissed 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. We will recognize the recovery of 40% of the penalties, which total approximately $5.8 million, plus approximately $3.4 million of related interest thereon, in our consolidated statement of earnings during the fourth quarter of fiscal 2015.

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 and United States Gypsum (together “USG”), 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.

On November 3, 2014 USG announced that it had entered into a binding memorandum of understanding with counsel representing the direct and indirect purchaser classes pursuant to which it agreed to settle all claims against it. Discovery in this litigation is ongoing. Due to the fact that the case is in the discovery phase, 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

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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.

On December 19, 2014, EPA released a prepublication copy of a final rule addressing the storage, reuse and disposal of coal combustion products, which include fly ash and flue gas desulfurization gypsum ("synthetic gypsum"). We use synthetic gypsum in wallboard manufactured at our Georgetown, South Carolina plant. The rule, which applies only to electric utilities and independent power producers, establishes standards for the management of coal combustion residuals (CCRs) under Subtitle D of the Resource Conservation and Recovery Act, or RCRA, which is the Subtitle that regulates non-hazardous wastes. The rule imposes requirements addressing CCR surface impoundments and landfills, including location restrictions, design and operating specifications, groundwater monitoring requirements, corrective action requirements, recordkeeping and reporting obligations, and closure requirements. Beneficial encapsulated uses of CCRs, including synthetic gypsum, are exempt from regulation. The rule becomes effective six months after publication in the Federal Register, with many of the requirements phased in months or years after the effective date. Given EPA's decision to continue to allow CCR to be used in synthetic gypsum and to regulate CCR under the non-hazardous waste sections of RCRA, we do not expect the rule to materially affect our business, financial condition and results of operations.

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

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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 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

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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.

Certain of our businesses depend on the level of activity in the oil and natural gas industries.

Our frac sand and oil well cement sales 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 and oil well cement we produce is closely related to the number of natural gas and oil wells completed in geological formations where our products are sold. 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 and oil well cement. 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 these businesses, 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 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 Acquisition

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

We may not be able to achieve the anticipated benefits of the Acquisition and 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 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 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 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 incurred significant liabilities and costs as a result of or in connection with the Acquisition.

Upon consummation of the Acquisition we became responsible for all liabilities and obligations that arose in connection with the operation of CRS Proppants.

In addition, we incurred significant costs in connection with the Acquisition. The substantial majority of these costs are non-recurring transaction expenses and costs. Furthermore, substantial time and resources have been and may continue to be devoted to the Acquisition and related matters, which could otherwise have been devoted to other opportunities that may have been beneficial to us.

We incurred substantial indebtedness financing the 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 Acquisition, incurred 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 December 31, 2014, on a pro forma basis giving effect to the Acquisition, the aggregate principal amount of our debt instruments with exposure to interest rate risk was approximately $335.0 million. As of the same date, on a pro forma basis, each change in interest rates of 100 basis points would result in an approximate $3.4 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,” “n “can,” “could,” “might,” “will” and similar expressions identify forward-looking statements, including statements related to expected operating and performing results, planned transactions, plans and objectives of management, future developments or conditions in the industries in which we participate, including future prices for our products, audits and legal proceedings to which we are a party and other trends, developments and uncertainties that may affect our business in the future.

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

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

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

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

Item 4. Mine Safety Disclosures

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

Item 6. Exhibits

12.1*	Computation of Ratio of Earnings to Fixed Charges.
31.1*	Certification of the Chief Executive Officer of Eagle Materials Inc. pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of the Chief Financial Officer of Eagle Materials Inc. pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934, as amended.
32.1*	Certification of the Chief Executive Officer of Eagle Materials Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Chief Financial Officer of Eagle Materials Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
95*	Mine Safety Disclosure
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.

** 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.

(1) 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

February 4, 2015 /s/ STEVEN R. ROWLEY
Steven R. Rowley

President and Chief Executive Officer

(principal executive officer)

February 4, 2015 /s/ D. CRAIG KESLER
D. Craig Kesler

Executive Vice President – Finance and

Administration and Chief Financial Officer

(principal financial officer)

February 4, 2015 /s/ WILLIAM R. DEVLIN
William R. Devlin

Senior Vice President – Controller and

Chief Accounting Officer

(principal accounting officer)

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