

EAGLE MATERIALS INC  
Form 10-K  
May 25, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT

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

For the Fiscal Year Ended

March 31, 2016

Commission File No. 1-12984

EAGLE MATERIALS INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

75-2520779

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

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

(Address of principal executive offices)

(214) 432-2000

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(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock (par value \$.01 per share)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES  NO

The aggregate market value of the voting stock held by nonaffiliates of the Company at September 30, 2015 (the last business day of the registrants' most recently completed second fiscal quarter) was approximately \$3.3 billion.

As of May 19, 2016, the number of outstanding shares of common stock was:

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Class	Outstanding Shares
Common Stock, \$.01 Par Value	48,282,065

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders of Eagle Materials Inc. to be held on August 4, 2016 are incorporated by reference in Part III of this Report.

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## PART I

### ITEM 1. BUSINESS

#### Overview

Eagle Materials Inc. (the “Company” or “EXP” which may be referred to as “we”, “our” or “us”) is a leading supplier of construction products, building materials, and materials used for oil and natural gas extraction. Our construction products are used in residential, industrial, commercial and infrastructure construction and include cement, slag, concrete and aggregates. Our building materials are sold into similar markets and include gypsum wallboard. Our basic materials used for oil and natural gas extraction include frac sand and oil well cement.

The Company was founded in 1963 as a building materials subsidiary of Centex Corporation (“Centex”), and we operated as a public company under the name Centex Construction Products, Inc. from April 1994 to January 30, 2004, at which time Centex completed a tax-free distribution of its shares in EXP to its shareholders.

We sell cement in six regional markets, including northern Nevada and California, the greater Chicago area, the Rocky Mountain region, the Central Plains region and Texas, and we sell slag in the greater Chicago, Illinois area and the greater Midwest area. We have three concrete and aggregates businesses, serve the areas immediately surrounding Austin, Texas, the greater Kansas City area and north of Sacramento, California. Gypsum wallboard is distributed throughout the U.S. with particular emphasis in the geographic markets nearest to our production facilities. We also operate a recycled paperboard business which sells internally to our wallboard business as well as to external customers. Oil well cement and frac sand are sold into shale deposit zones across the United States.

Our products are commodities that are essential in commercial and residential construction, public construction projects, projects to build, expand and repair roads and highways and in natural gas and oil extraction. Demand for these products is generally cyclical and seasonal, depending on economic and geographic conditions. Our operations are geographically diverse, providing us with regional economic diversification. The markets for our cement and slag products are more regional due to the low value-to-weight ratio of cement and slag, which generally limit shipments by truck to a 150 mile radius of the plants and up to 300 miles by rail. Our cement companies focus on the U.S. heartland in Texas, Oklahoma, Missouri, Nebraska, Kansas, Colorado, Wyoming and Nevada, as well as the Chicago, Illinois metropolitan area. Slag is ground in the greater Chicago, Illinois area and sold primarily in Illinois, Pennsylvania, Iowa, Ohio, Minnesota and Kansas. Our concrete and aggregates are more local as our operations serve the areas immediately surrounding Austin, Texas, the greater Kansas City area and north of Sacramento, California. Demand for cement, concrete and aggregates may fluctuate more widely because local and regional markets and economies can be more sensitive to changes than the national market, as well as being more susceptible to seasonal impact due to adverse weather.

Our gypsum wallboard and paperboard operations are more national in scope and shipments of wallboard and paper are made throughout the continental U.S., except for the northeast, and therefore are more impacted by national trends. Frac sand is currently sold into shale deposit zones across the United States. Demand for oil and gas proppants is impacted primarily by rig counts and well completion activity.

Our goal, through continuous improvement, is to be the lowest cost producer in each of the markets in which we compete. As such, we will continue to focus on reducing costs and improving our operations, recognizing that being a low cost producer is a key to our success.

Demand continues to increase for our construction products and building materials businesses, as underlying economic fundamentals in the U.S. continued to improve during calendar 2015. Cement consumption in the United States, as estimated by the Portland Cement Association, increased approximately 4% to 99.0 million short tons in calendar 2015, compared to 95.4 million short tons in calendar 2014, with imported cement consumption increasing to approximately 13% of total sales in calendar 2015, compared to 9% in calendar 2014. Although cement consumption

increased in calendar 2015, our cement volumes for fiscal 2016 remained consistent with 2015, primarily due to poor weather in certain of our markets in the spring and fall of 2015.

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Demand for gypsum wallboard continues to improve as well, as industry shipments of gypsum wallboard increased to 22.0 billion square feet in calendar 2015, compared to 21.5 billion square feet in calendar 2014, primarily due to the approximately 10% and 12% increase in single family and multi-family housing starts during calendar 2015 compared to calendar 2014.

Drilling and completion activity for oil and gas declined during calendar 2015, primarily due to the decrease in oil and gas prices during the year. The decline in oil prices adversely impacted drilling activity, which reduced demand for our frac sand products and oil well cement. This demand has also had a downward impact on the price of frac sand, which has declined since the peak in 2014. We do not expect any meaningful increase in oil and gas drilling activity during calendar 2016.

At March 31, 2016, we operated six cement plants (one of which belongs to our joint venture company), one slag grinding facility, sixteen cement distribution terminals, five gypsum wallboard plants, one recycled paperboard plant, seventeen concrete batching plants, four aggregates facilities, three frac sand wet processing facilities, three frac sand drying facilities and six frac sand trans-load locations. Our gypsum wallboard plant in Bernalillo, New Mexico has been idled since 2009. During the fourth quarter of fiscal 2016, we idled our Corpus Christi, Texas frac sand processing plant and our Kenedy, Texas and Fowlerton, Texas trans-load facilities, along with our Utica, Illinois frac sand mine. We intend to re-open the idled facilities when market conditions improve.

We continue to focus on growth through acquisitions or expansion of existing facilities that we believe provide an opportunity to realize an appropriate return on investment and create value for our shareholders.

On July 10, 2015, we completed the acquisition of a 0.6 million ton per year Granulated Ground Blast Furnace Slag (“Slag”) plant in South Chicago (the “Skyway Plant”) with Holcim (US) Inc. (the “Skyway Acquisition”). Among other applications, Slag is used in conjunction with Portland cement to make a lower permeability concrete. The Skyway Plant purchases its primary raw material, slag, pursuant to a long term supply agreement with a third party.

The purchase price (the “Skyway Purchase Price”) for the Skyway Acquisition was approximately \$29.9 million, net of \$2.5 million which will be refunded by the seller. We received \$1.5 million of the expected refund in January 2016, and we expect to receive the remaining \$1.0 million in January 2017. We funded the payment of the Skyway Purchase Price and expenses incurred in connection with the Skyway Acquisition with operating cash flow. We also assumed certain liabilities, including contractual obligations, related to the Skyway Plant.

On November 14, 2014, we acquired all of the outstanding equity interests of CRS Holdco LLC, CRS Proppants LLC, Great Northern Sand LLC, and related entities (collectively, “CRS Proppants”) (such acquisition, the “CRS Acquisition”). CRS Proppants is a supplier of frac sand to the energy industry, and its business currently consists of a frac sand mine in New Auburn, Wisconsin, and a trans-load network into Texas and southwest Oklahoma. The purchase price (the “CRS Purchase Price”) paid by the Company for the CRS Acquisition was approximately \$236.1 million in cash, including approximately \$8.9 million for in-process capital expenditures paid through the closing date, estimated working capital and other estimated closing amounts. This expansion was completed during the first quarter of fiscal 2016, at a cost of approximately \$8.0 million.

#### Industry Segment Information

We currently have five different business segments, which are Cement, Concrete and Aggregates, Gypsum Wallboard, Recycled Paperboard and Oil and Gas Proppants. A description of these business segments can be found on pages 3-19.

We conduct one of our six cement plant operations through a joint venture, Texas Lehigh Cement Company LP, which is located in Buda, Texas. We own a 50% interest in the joint venture and account for our interest using the equity method of accounting. However, for segment reporting purposes, we proportionately consolidate our 50% share



of the cement joint venture's revenues and operating earnings, which is consistent with the way

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management organizes the segments within the Company for making operating decisions and assessing performance. Revenues from external customers, operating earnings, identifiable assets, depreciation, depletion and amortization, and capital expenditures by segment are presented in Footnote (G) of the Notes to Consolidated Financial Statements on pages 72-75.

#### Cement, SlaG, CONCRETE AND AGGREGATES Operations

##### Company Operations

Cement and Slag. Our cement production facilities are located in or near Buda, Texas; LaSalle, Illinois; Laramie, Wyoming; Sugar Creek, Missouri; Tulsa, Oklahoma and Fernley, Nevada, and our slag grinding facility is located in Chicago, Illinois. Our slag facility and all of our cement subsidiaries are wholly-owned except the Buda, Texas plant, which is owned by Texas Lehigh Cement Company LP, a limited partnership joint venture owned 50% by us and 50% by Lehigh Cement Company LLC, a subsidiary of Heidelberg Cement AG. Our LaSalle, Illinois plant operates under the name Illinois Cement Company; the Laramie, Wyoming plant operates under the name Mountain Cement Company; the Fernley, Nevada plant operates under the name Nevada Cement Company and our Sugar Creek, Missouri and Tulsa, Oklahoma plants operate under the name Central Plains Cement Company. Our slag facility operates under the name Skyway Cement Company.

Cement is the basic binding agent for concrete, a primary construction material. All of our cement plants utilize dry process technology and, at present, approximately 75% of our clinker capacity is from preheater or preheater/pre-calciner kilns. Slag granules are obtained from a steel company and ground in our grinding facility. Slag is used in concrete mix designs to improve the durability of concrete which should reduce future maintenance costs.

The following table sets forth certain information regarding our cement plants:

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Plant Location	Owned or Leased Reserves	Rated Annual Clinker Capacity (M short tons) <sup>(1)</sup>	Process	Kilns	Kiln Dedication Date	Estimated Minimum Limestone Reserves (M short tons) <sup>(2)</sup>	Estimated Limestone Reserves (Years)	Fiscal 2016 Mined (Thousand tons)
Buda, TX	Owned	1,300 <sup>(3)</sup>	Dry – 4 Stage 1 Preheater/ Pre-calciner		1983	224,500	50+	1,830
LaSalle, IL	Owned	1,000	Dry – 5 Stage 1 Preheater/ Pre-calciner		2006	35,530	30	1,215
Sugar Creek, MO	Owned	1,000	Dry – 5 Stage 1 Preheater/ Pre-calciner		2002	137,000	50+	1,090
	Leased					15,000		
Laramie, WY	Owned	650	Dry – 2 Stage 1 Preheater		1988	125,000	50+	860
	Leased		Dry – Long Dry Kiln	1	1996	7,000		
Tulsa, OK	Owned	650	Dry – Long Dry Kiln	2	1961 1964	41,260	44	785
Fernley, NV	Owned	500	Dry – Long Dry Kiln	1	1964	14,400	50+	680
	Leased		Dry – 1 Stage 1 Preheater		1969	70,600		

Total-Gross <sup>(4)</sup>	5,100
Total-Net <sup>(4)(5)</sup>	4,450

<sup>(1)</sup>One short ton equals 2,000 pounds.

<sup>(2)</sup>All limestone reserves are deemed to be probable under the definition provided by Industry Guide 7.

<sup>(3)</sup>The amount shown represents 100% of plant capacity and production. This plant is owned by a separate limited partnership in which the Company has a 50% interest.

<sup>(4)</sup>Generally, a plant's cement grinding production capacity is greater than its clinker production capacity.

<sup>(5)</sup>Net of partner's 50% interest in the Buda, Texas plant.

Our cement production, including our 50% share of the cement Joint Venture production, totaled 4.2 million short tons in both fiscal 2016 and fiscal 2015. Total net cement sales, including our 50% share of cement sales from the Joint Venture, were 4.8 million short tons in in fiscal 2016 and fiscal 2015. The Joint Venture also owns a minority interest in an import terminal in Houston, Texas and can purchase up to 495,000 short tons annually from this cement terminal.

Our slag facility can process up to 0.6 million tons per year, and is located in Chicago, Illinois. Our net slag production and slag sales both totaled 0.3 million tons from the date of purchase in July 2015 through the end of fiscal 2016.

Concrete and Aggregates. Readymix concrete is a versatile, low-cost building material used in almost all construction. The production of readymix concrete involves the mixing of cement, sand, gravel, or crushed stone and water to form concrete, which is then sold and distributed to numerous construction contractors. Concrete is produced in batch plants and transported to the customer's job site in mixer trucks.

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The construction aggregates business consists of the mining, extraction, production and sale of crushed stone, sand, gravel and lightweight aggregates such as expanded clays and shales. Construction aggregates of suitable characteristics are employed in virtually all types of construction, including the production of readymix concrete and asphaltic mixes used in highway construction and maintenance.

We produce and distribute readymix concrete from company-owned sites north of Sacramento, California; Austin, Texas and the greater Kansas City area. The following table sets forth certain information regarding these operations:

Location	Number of Plants	Number of Trucks
Northern California	3	26
Austin, Texas	6	78
Kansas City Area	8	110
Total	17	214

We conduct aggregate operations near our concrete facilities in northern California; Austin, Texas and the greater Kansas City area. Aggregates are obtained principally by mining and extracting from quarries owned or leased by the Company. The following table sets forth certain information regarding these operations:

Location	Owned or Leased	Types of Aggregates	Estimated Annual Production Capacity (Thousand tons)		Estimated Minimum Reserves (Thousand Tons)	Fiscal 2016 Tons Mined (Thousand Tons)
			(Thousand tons)	Estimated Minimum Reserves (Thousand Tons) <sup>(1)</sup>	Minimum Reserves (Years)	
Northern California	Owned	Sand and Gravel	4,000	915,000	100+	815
Austin, Texas	Owned	Limestone	3,000	4,300	44	1,900
Kansas City Area	Owned	Limestone	700	51,000 <sup>(2)</sup>	50+	600

<sup>(1)</sup>All reserves are deemed to be probable under the definition of Industry Guide 7.

<sup>(2)</sup>Includes reserves located in our underground mine that we believe can be economically used for aggregate supply. Our total net aggregate sales were 3.0 million tons in both fiscal 2016 and fiscal 2015. Total aggregates production was 3.4 million tons and 3.6 million tons for fiscal 2016 and fiscal 2015, respectively. A portion of our total aggregates production is used internally by our readymix concrete operations in Texas, the greater Kansas City area and California.

#### Raw Materials and Fuel Supplies

**Cement and Slag.** The principal raw material used in the production of Portland cement is calcium carbonate in the form of limestone. Limestone is obtained principally through mining and extraction operations conducted at quarries that we own or lease and are located in close proximity to our plants. We believe that the estimated recoverable limestone reserves owned or leased by us will permit each of our plants to operate at our present production capacity for at least 30 years. Other raw materials used in substantially smaller quantities than limestone are sand, clay, iron ore and gypsum. These materials are readily available and can either be obtained from Company-owned or leased reserves or purchased from outside suppliers.

Coal and petroleum coke are the primary fuels used in our cement plants, but the plants are equipped to burn natural gas, if necessary. The cost of fuel declined in fiscal 2016 as compared to fiscal 2015, primarily due to the increased use of petroleum coke and alternative fuels as a percentage of total fuel. The Tulsa plant currently burns fuel quality wastes, as well as coal and petroleum coke, and the Sugar Creek plant currently burns alternative fuels and petroleum coke. When we acquired Sugar Creek and Tulsa in late 2012, both plants had existing alternative fuels programs managed by a company that supplies alternative fuels and materials to the cement plants. In keeping with Eagle's commitment to sustainability and to cost management, we continued these programs to manage our alternative fuels and materials at those plants.

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We have a long term supply agreement with a steel manufacturer to supply granules necessary for the grinding of slag. This agreement allows for the purchases of 550,000 tons per year.

Electric power is also a major cost component in the manufacturing process for both cement and slag, and we have sought to diminish overall power costs by adopting interruptible power supply agreements at certain locations. These agreements may expose us to some production interruptions during periods of power curtailment.

Concrete and Aggregates. We supply from our cement plants approximately 100% of the cement requirements for both our greater Kansas City and northern California concrete operations. We internally supply approximately 35%, 10% and 80%, respectively, of our aggregates requirements for our Austin, greater Kansas City and northern California concrete operations. We obtain the balance of our cement and aggregates requirements from multiple outside sources in each of these areas.

We mine and extract limestone, sand and gravel, the principal raw materials used in the production of aggregates, from quarries owned or leased by us and located near our plants. The quarry serving our northern California business is estimated to contain over nine hundred million tons of sand and gravel reserves. The quarry serving our Austin, Texas market is covered by a lease which expires in 2060. Based on its current production capacity, we estimate our northern California and Austin, Texas quarries contain over 100 years and approximately 25 years of reserves, respectively. Our quarries in the Kansas City market currently have approximately 50 years of reserves, and we are actively seeking additional more economical reserves to extend the life of the quarry.

#### Sales and Distribution

Cement and Slag. The principal sources of demand for cement and slag are infrastructure, commercial construction and residential construction, with public works infrastructure comprising over 50% of total demand. Cement consumption increased approximately 4% during calendar 2015 from calendar 2014, and the Portland Cement Association forecasts cement consumption will increase another 3.4% in calendar 2016. Demand for cement is seasonal, particularly in northern states where inclement winter weather often affects construction activity. Cement sales are generally greater from spring through the middle of autumn than during the remainder of the year. The impact to our business of regional construction cycles may be mitigated to some degree by our geographic diversification. Demand for slag has increased as the availability of fly ash has decreased due to the conversion of power plants to natural gas from coal.

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The following table sets forth certain information regarding the geographic areas served by each of our cement and slag plants and the location of our distribution terminals in each area. We have a total of 16 cement storage and distribution terminals that are strategically located to extend the sales areas of our plants.

Plant Location	Type of Plant	Principal Geographic Areas	Distribution Terminals
Buda, Texas	Cement	Texas and western Louisiana	Corpus Christi, Texas Houston, Texas Roanoke (Ft. Worth), Texas Waco, Texas Houston Cement Company (Joint Venture), Houston, Texas
LaSalle, Illinois	Cement	Illinois and southern Wisconsin	Hartland, Wisconsin
Sugar Creek, Missouri	Cement	Western Missouri, eastern Kansas and northern Nebraska	Sugar Creek, Missouri Iola, Kansas Wichita, Kansas Omaha, Nebraska
Laramie, Wyoming	Cement	Wyoming, Utah, Colorado and western Nebraska	Salt Lake City, Utah Denver, Colorado North Platte, Nebraska
Tulsa, Oklahoma	Cement	Oklahoma, western Arkansas and southern Missouri	Oklahoma City, Oklahoma Springfield, Missouri
Fernley, Nevada	Cement	Northern Nevada and northern California	Sacramento, California
Chicago, Illinois	Slag	Greater Chicago area, Illinois, Pennsylvania, Iowa, Ohio, Minnesota, Missouri and Kansas	Kansas City, Missouri Cincinnati, Ohio <sup>(1)</sup> Des Moines, Iowa <sup>(1)</sup> St. Paul, Minnesota <sup>(1)</sup>



<sup>(1)</sup>These facilities are currently being leased.

Cement and slag is distributed directly to our customers mostly through customer pickups, as well as by common carriers from our plants or distribution terminals. We transport cement and slag by barge and rail to our storage and distribution terminals. No single customer accounted for 10% or more of our cement segment sales during fiscal 2016. Sales are made on the basis of competitive prices in each market and, as is customary in the industry, we do not typically enter into long-term sales contracts.

Four of our slag terminals are currently being leased from the former owner. The initial term of the lease is one year from the date of purchase, and includes the option to extend the term for two one year periods, the first of which has been exercised for all locations.

The cement industry is extremely competitive as a result of multiple domestic suppliers and the importation of foreign cement through various terminal operations. Approximately 75% of the U.S. cement industry is owned by foreign international companies. Competition among producers and suppliers of cement is based primarily on price, with consistency of quality and service to customers being important but of lesser significance. Price competition among individual producers and suppliers of cement within a geographic area is intense because of the fungible nature of the product. Because of cement's low value-to-weight ratio, the relative cost of transporting cement on land is high and limits the geographic area in which each company can market its products profitably; therefore, the U.S. cement industry is fragmented into regional geographic areas rather than a single national

selling area. No single cement company has a distribution of plants extensive enough to serve all geographic areas, so profitability is sensitive to shifts in the balance between regional supply and demand.

Cement imports into the U.S. occur primarily to supplement domestic cement production or to supply a particular region. Cement is typically imported into deep water ports or transported on the Mississippi River system near major population centers to take advantage of lower waterborne freight costs versus higher truck and rail transportation costs that U.S. based manufacturers incur to deliver into the same areas.

The Portland Cement Association estimates that imports represented approximately 13% of cement used in the U.S. during calendar year 2015, and approximately 9% in both calendar year 2014 and 2013. Based on the normal distribution of cement into the market, we believe that no less than approximately 5% to 10% of the total consumption will consistently be served by imported cement.

Concrete and Aggregates. Demand for readymix concrete and aggregates largely depend on local levels of construction activity. Construction activity is also subject to weather conditions, the availability of financing at reasonable rates and overall fluctuations in local economies, and therefore tends to be cyclical. We sell readymix concrete to numerous contractors and other customers in each plant's marketing area. Our batch plants in Austin, the greater Kansas City area and northern California are strategically located to serve each marketing area. Concrete is delivered from the batch plants primarily by company-owned trucks.

We sell aggregates to building contractors and other customers engaged in a wide variety of construction activities. Aggregates are delivered from our aggregate plants by common carriers and customer pick-up. None of our customers accounted for 10% or more of our segment revenues during fiscal 2016. We are continuing our efforts to secure a rail link from our principal aggregates deposit north of Sacramento, California to supply extended markets in northern California.

Both the concrete and aggregates industries are highly fragmented, with numerous participants operating in each local area. Because the cost of transporting concrete and aggregates is very high relative to product values, producers of concrete and aggregates typically can profitably sell their products only in areas within 50 miles of their production facilities. Barriers to entry in each industry are low, except with respect to environmental permitting requirements for new aggregates production facilities and zoning of land to permit mining and extraction of aggregates.

#### Environmental Matters

Cement. Our cement operations are subject to numerous federal, state and local laws and regulations pertaining to health, safety and the environment. Some of these laws, such as the federal Clean Air Act and the federal Clean Water Act (and analogous state laws) impose environmental permitting requirements and govern the nature and amount of emissions that may be generated when conducting particular operations. Some laws, such as the federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") (and analogous state laws) impose obligations to clean up or remediate spills of hazardous materials into the environment. Other laws require us to reclaim certain land upon completion of extraction and mining operations in our quarries. We believe that we have obtained all the material environmental permits that are necessary to conduct our operations. We further believe that we are conducting our operations in substantial compliance with these permits. In addition, none of our manufacturing sites is listed as a CERCLA "Superfund" site.

Eight environmental issues involving the cement manufacturing industry deserve special mention.

The first environmental issue involves cement kiln dust or CKD. The U.S. Environmental Protection Agency ("EPA") has been evaluating the regulatory status of CKD under the Resource Conservation and Recovery Act ("RCRA") for a number of years. In 1999, the EPA proposed a rule that would allow states to regulate properly-managed CKD as a non-hazardous waste under state laws and regulations governing solid waste. In contrast, CKD that was not properly

managed would be treated as a hazardous waste under RCRA. In 2002, the EPA confirmed its intention to continue to exempt properly-managed CKD from the hazardous waste

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requirements of RCRA. The agency announced that it would collect additional data over the next three to five years to determine if the states' regulation of CKD is effective. Although the EPA had previously indicated that it continues to consider an approach whereby it would finalize its 1999 proposal to exempt properly-managed CKD wastes and establish protective CKD management standards, as of May 1, 2016, the EPA still has not finalized the 1999 proposal. Based on currently available information, it is uncertain whether or when this proposal will be finalized. Nevertheless, in the interim many state environmental agencies have been using the EPA's 1999 proposed CKD management standards as general industry guidelines.

Currently, substantially all CKD produced in connection with our ongoing operations is recycled, and therefore such CKD is not viewed as a waste under RCRA. However, CKD was historically collected and stored on-site at our Illinois, Nevada, Missouri, Oklahoma and Wyoming cement plants and at a former plant site in Corpus Christi, Texas, which is no longer producing cement. If either the EPA or the states decide to reclassify or impose new management standards on this CKD at some point in the future, we could incur additional costs to comply with those requirements with respect to our historically collected CKD. CKD that comes in contact with water might produce a leachate with an alkalinity high enough to be classified as hazardous and might also leach certain hazardous trace metals therein.

The second environmental issue involves the historical disposal of refractory brick containing chromium. Such refractory brick was formerly used widely in the cement industry to line cement kilns. We currently do not use refractory brick containing chromium, and we crush spent refractory brick which is then used as raw feed in the kiln.

The third environmental issue involves the potential regulation of our emission of greenhouse gasses ("GHGs"), including carbon dioxide, under the Clean Air Act ("CAA"). The consequences of GHG emission reduction regulations for our cement operations will likely be significant because (1) the cement manufacturing process requires the combustion of large amounts of fuel to generate very high kiln temperatures, and (2) the production of carbon dioxide is a byproduct of the calcination process, whereby carbon dioxide is removed from calcium carbonate to produce calcium oxide.

In response to the Supreme Court's ruling in *Massachusetts v. EPA*, 127 S. Ct. 1438 (2007), that GHGs are "air pollutants" and, thus, potentially subject to regulation under the CAA, the EPA has taken steps to regulate GHG emissions from mobile and stationary sources. On September 22, 2009, the EPA issued a "Mandatory Reporting of Greenhouse Gases" final rule, which took effect December 29, 2009. This rule established a comprehensive scheme requiring operators of stationary sources in the United States emitting more than established annual thresholds of GHGs to inventory and report their GHG emissions annually on a facility-by-facility basis. On December 15, 2009, the EPA published a final rule finding that current and projected concentrations of six key GHGs in the atmosphere threaten public health and welfare. Based on this finding, on May 7, 2010, the EPA promulgated a final rule establishing GHG emission standards for new motor vehicles under Title II of the CAA. According to the EPA, the motor vehicle rule triggered construction and operating permit requirements for large stationary sources of GHGs, including cement plants, under Title I of the CAA. On May 13, 2010, the EPA promulgated a final rule, known as the "Tailoring Rule," addressing the thresholds at which stationary sources of GHGs trigger prevention of significant deterioration ("PSD") and Title V permitting requirements. PSD review requires an analysis of possible GHG controls and, potentially, the installation of GHG controls or emissions limitations.

On June 23, 2014 the U.S. Supreme Court issued an opinion with respect to the Tailoring Rule holding that the EPA can require PSD controls for GHG emissions only for sources subject to PSD review based on another pollutant. *Util. Air Regulatory Grp. v. E.P.A.*, 134 S. Ct. 2427 (2014). Following the Supreme Court decision, the EPA issued a memorandum clarifying that the EPA intends to continue to apply PSD requirements to GHG emissions if a source emits or has the potential to emit 75,000 tons per year ("tpy") or more of GHGs until the EPA establishes a de minimis threshold for GHG emissions below which a source would not be subject to GHG PSD permitting requirements. The EPA intends to propose a rule addressing the de minimis threshold for GHG PSD permitting in the summer of 2016. Until the EPA issues a final rule addressing the de minimis threshold for GHG emissions, any major modification of our existing plants or construction of a new plant that triggers PSD



review for non-GHG emissions also would trigger PSD review for GHG emissions if the proposed major modification or construction would result in a GHG emission increase of at least 75,000 tpy.

In October 2015, the EPA published a rule establishing guidelines for states to regulate carbon dioxide emissions from existing fossil fuel power plants (the “Clean Power Plan”). The Clean Power Plan established national performance rates for steam generating units and stationary combustion turbines as well as state emission reduction goals based on the application of the performance rates to a state’s unique generation mix. Numerous states and industry petitioners are challenging the Clean Power Plan on multiple grounds. On February 9, 2016, the U.S. Supreme Court stayed implementation of the Clean Power Plan while the litigation is pending. The U.S. Court of Appeals for the District of Columbia Circuit (“D.C. Circuit”) will hold oral argument on the challenges to the Clean Power Plan on June 2, 2016. In the future, the EPA is expected to propose performance standards for GHG emissions for other sectors, including cement manufacturing, and the ultimate outcome of the Clean Power Plan could affect the timing and form of standards for cement plants.

Several states have individually implemented measures to reduce emissions of GHGs, primarily through the planned development of GHG inventories or registries or regional GHG “cap and trade” programs. California’s AB 32 program is the most advanced of such state initiatives, with regulations affecting all major sources of GHGs. States also have joined together to form regional initiatives to reduce GHG emissions.

It is not possible at this time to predict how any future legislation that may be enacted or final EPA regulations that may be adopted to address GHG emissions would impact our business. However, any imposition of raw materials or production limitations, fuel-use or carbon taxes, or emission limitations or reductions could have a significant impact on the cement manufacturing industry and a material adverse effect on us and our results of operations.

The fourth environmental issue is the EPA’s promulgation on September 9, 2010 of final regulations establishing national emissions standards for hazardous air pollutants for portland cement plants (“PC NESHAP”) pursuant to Section 112 of the CAA. For specific hazardous air pollutants (“HAPs”), the final rule requires cement plants to meet certain emission and operating standards. The rule sets limits on mercury emissions from existing Portland cement kilns and increases the stringency of emission limits for new kilns. The rule sets emission limits for total hydrocarbons, and also sets emission limits for particulate matter as a surrogate for non-volatile metal HAPS, from cement kilns of all sizes, and reduces hydrochloric acid emissions from kilns that are large emitters. As a result of industry challenges to the regulations, the EPA issued a revised rule on February 12, 2013. The revised rule made two notable changes to the 2010 HAP regulations. First, the rule established less stringent emission standards for total hydrocarbons and particulate matter. Second, the rule extended the deadline for existing sources to comply with the HAP regulations to September 9, 2015. Two of our cement plants are currently operating with one-year extensions of compliance for one and two of the PC NESHAP emission standards, respectively. We do not believe we are placed at a competitive disadvantage by the revised rule.

A fifth environmental issue involves excess emissions that may occur during periods of startup, shutdown or malfunction. In June 2015, the EPA issued a rule requiring revisions to 36 state implementation plans (“SIPs”) that allowed exemptions or contained affirmative defenses to excess emissions during periods of startup, shutdown or malfunction (“SSM rule”). The SIP revisions are due to the EPA in November 2016. The states required to revise their SIPs include states where the company has operations, such as Illinois, Oklahoma, Missouri and Texas. Under the revised SIPs, companies would be required to comply with their emissions limits at all times, including during startup, shutdown and malfunctions. States and members of industry have challenged the SSM rule in the U.S. Court of Appeals for the D.C. Circuit, with briefing scheduled to conclude in September 2016. The court likely will not issue a decision on the SSM rule until sometime in 2017. If the SSM rule is upheld, some of the company’s sources may need to revise their permits or take other actions to ensure compliance with emissions limits during startup, shutdown or malfunctions.

The sixth environmental issue is the EPA's promulgation pursuant to Section 129 of the CAA of revised regulations for Commercial and Industrial Solid Waste Incineration ("CISWI") units. Clean Air Act Section 129 requires the EPA to set standards for solid waste incineration units. Affected sources must comply with the

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revised CISWI regulations the earlier of 3 years after State CISWI plan approval, or 5 years from the date of the final rule on reconsideration. On January 1, 2015, the EPA published a proposal to reconsider four provisions of the February 2013 final CISWI rule, and eliminate the affirmative defense to penalties for non-compliance during well documented malfunction events. Compared to the PC NESHAP, the CISWI regulations contain requirements for more pollutants and the requirements for particulate matter and dioxin/furans for existing and new sources are more stringent.

Whether a facility is a CISWI unit regulated under Section 129 of the Clean Air Act or a cement plant regulated under Section 112 of the Clean Air Act hinges on whether it combusts “solid waste” as that term is defined under Subtitle D of the Resource Conservation and Recovery Act. On March 21, 2011 (and also revised on February 7, 2013), the EPA finalized the Identification of Non-Hazardous Secondary Materials that Are Solid Waste (“NHSM”) rule. The NHSM rule’s primary purpose is to provide the definition of solid waste that is used to determine if a cement kiln is regulated under CISWI regulations or the PC NESHAP regulations. The rule lays out processing and legitimacy criteria that are used to determine if a non-traditional fuel is a solid waste. Combustion of a solid waste triggers applicability of the CISWI requirements.

At some of our operations, kilns are or will be using non-hazardous secondary materials as a replacement for traditional fuels used in the manufacturing process. These kiln systems are capable of beneficially utilizing a wide array of NHSM and may be subject to the CISWI requirements, depending on whether these materials are identified as “solid wastes” under the NHSM rule. The EPA issued a rule clarifying the definition of “solid waste” and establishing a uniform recycling standard for all hazardous secondary materials recycling on January 13, 2015, which became effective on July 13, 2015. Solid waste-burning kilns must meet the CISWI emission and operating standards. Non-waste burning kilns must prove any alternative fuels used are not solid wastes. We are in the process of analyzing the implications of using NHSM and compliance with the CISWI standards. In addition, industry and environmental organizations have filed lawsuits challenging the CISWI regulations. It is not possible at this time to predict whether the CISWI regulations will be changed as an outcome of the litigation. We do not believe we would be placed at a competitive disadvantage by either the NHSM or the CISWI rule.

The seventh environmental issue is a revision to the Hazardous Waste Combustor National Emission Standards for Hazardous Waste Standards (“HWC NESHAP”). The Tulsa, Oklahoma cement facility utilizes hazardous waste as fuel and is required to meet the emission and operating standards of the HWC NESHAP. This facility has demonstrated and remains in compliance with all of the requirements of the current HWC NESHAP regulation. On October 12, 2005, as a result of ongoing litigation, the EPA promulgated final HWC regulations, with compliance required for all facilities by 2008. On October 28, 2008, the EPA promulgated a final rule addressing eight issues for which the EPA granted reconsideration. The final rule on reconsideration did not change the compliance date for existing sources established by the 2005 rule. Environmental and industry organizations filed lawsuits in the U.S. Court of Appeals for the D.C. Circuit challenging the 2005 and 2008 regulations. The EPA subsequently agreed to revise the HWC NESHAP standards in accordance with an agreement with litigants, and the court remanded, without vacatur, the 2005 and 2008 regulations to the EPA for further consideration. The EPA has not indicated when it will issue a proposed rule amending the regulations. It is not possible to predict at this time the stringency or impact of revised HWC NESHAP regulations or timing required for compliance.

We believe that our current procedures and practices in our operations, including those for handling and managing hazardous materials, are consistent with industry standards and are in substantial compliance with applicable environmental laws and regulations. Nevertheless, because of the complexity of our operations and the environmental laws to which we are subject, there can be no assurance that past or future operations will not result in violations, remediation costs or other liabilities or claims. Moreover, we cannot predict what environmental laws will be enacted or adopted in the future or how such future environmental laws or regulations will be administered or interpreted. Compliance with more stringent environmental laws, or stricter interpretation of existing environmental laws, could necessitate significant capital outlays.



The eighth environmental issue is the EPA's ongoing review and implementation of the national ambient air quality standards ("NAAQS") for ozone. In October 2015, the EPA strengthened the ozone NAAQS by lowering

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the primary and secondary standards from 75 parts per billion (ppb) to 70 ppb. As a result of this change, the EPA is required to make attainment/nonattainment designations for the revised standards by October 2017. We are currently reviewing this final rule and cannot at this time predict the impact it may have on our operations. Nonattainment designations in or surrounding our areas of operations could have a material impact on our consolidated financial results.

**Concrete and Aggregates.** The concrete and aggregates industry is subject to environmental regulations similar to those governing our cement operations.

#### Capital Expenditures

**Cement and Slag.** We had capital expenditures related to compliance with environmental regulations applicable to our cement operations of \$1.4 million during fiscal 2016 and anticipate spending an additional \$1.7 million during fiscal 2017 at this time.

**Concrete and Aggregates.** We had capital expenditures related to compliance with environmental regulations applicable to our concrete and aggregates operations of \$0.1 million during fiscal 2016. We anticipate spending approximately \$0.8 million in fiscal 2017 at this time.

#### Gypsum Wallboard and RECYCLED PAPERBOARD Operations

##### Company Operations

**Gypsum Wallboard.** We currently own five gypsum wallboard manufacturing facilities; however, we idled our gypsum manufacturing facility in Bernalillo, New Mexico in December 2009, due to cyclical low wallboard demand. We anticipate re-opening this facility when additional capacity is needed to meet marketplace demand. There are four primary steps in the gypsum wallboard manufacturing process: (1) gypsum is mined and extracted from the ground (or, in the case of synthetic gypsum, received from a power generation company); (2) the gypsum is then calcined and converted into plaster; (3) the plaster is mixed with various other materials and water to produce a mixture known as slurry, which is extruded between two continuous sheets of recycled paperboard on a high-speed production line and allowed to harden; and (4) the sheets of gypsum wallboard are then cut to appropriate lengths, dried and bundled for sale. Gypsum wallboard is used to finish the interior walls and ceilings in residential, commercial and industrial structures.

The following table sets forth certain information regarding our plants:

Location	Owned or Leased Reserves <sup>(7)</sup>	Approximate Annual Gypsum		Estimated Minimum Gypsum Reserves (years) <sup>(2)</sup>	Fiscal 2016 Tons Mined (Thousand Tons)
		Wallboard Capacity (MMSF) <sup>(1)</sup>	Estimated Minimum Gypsum Reserves (Thousand Tons) <sup>(3)</sup>		
Albuquerque, New Mexico	Owned	425	10,500 <sup>(4)</sup>	50+ <sup>(4)</sup>	380
	Leased		55,900 <sup>(4)</sup>		
Bernalillo, New Mexico <sup>(6)</sup>		550	(4)	50+ <sup>(4)</sup>	—

Gypsum, Colorado	Owned	700	10,000	16	470
Duke, Oklahoma	Owned	1,300	24,700	23	680
	Leased		2,300		
Georgetown, South Carolina <sup>(5)</sup>		900		52 <sup>(5)</sup>	—
Total		3,875			

(1) Million Square Feet (“MMSF”), based on anticipated product mix.

(2) At 100% capacity utilization.

(3) All gypsum tons are deemed probable under the definition provided by Industry Guide 7.

(4) The same reserves serve both New Mexico plants.

(5) We have a sixty year supply agreement with Santee Cooper for synthetic gypsum that expires in 2068.

(6) This plant was idled in December 2009.

(7) Owned reserves include mining claims.

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Our gypsum wallboard production totaled 2,406 MMSF in fiscal 2016 and 2,244 MMSF in fiscal 2015. Total gypsum wallboard sales were 2,394 MMSF in fiscal 2016 and 2,210 MMSF in fiscal 2015.

**Recycled Paperboard.** Our recycled paperboard manufacturing operation, which we refer to as Republic Paperboard Company (“Republic”), is located in Lawton, Oklahoma, and has a technologically advanced paper machine designed primarily for gypsum liner production. The paper’s uniform cross-directional strength and finish characteristics facilitate the efficiencies of new high-speed wallboard manufacturing lines and improve the efficiencies of the slower wallboard manufacturing lines. Although the machine was designed primarily to manufacture gypsum liner products, we are also able to manufacture several alternative products, including containerboard grades and lightweight packaging grades. To maximize manufacturing efficiencies, namely machine width, recycled industrial paperboard grades are produced.

Our paper machine allows the paperboard operation to manufacture high-strength gypsum liner that is approximately 10-15% lighter in basis weight than generally available in the U.S. The low-basis weight product utilizes less recycled fiber to produce paper that, in turn, requires less energy (natural gas) to evaporate moisture from the board during the gypsum wallboard manufacturing process. The low-basis weight paper also reduces the overall finished board weight, providing wallboard operations with more competitive transportation costs for both the inbound and outbound segments.

#### Raw Materials and Fuel Supplies

**Gypsum Wallboard.** We mine and extract natural gypsum rock, the principal raw material used in the manufacture of gypsum wallboard, from mines and quarries owned, leased or subject to mining claims owned by the Company and located near our plants. Certain of our New Mexico reserves are under lease with the Pueblo of Zia. Gypsum ore reserves at the Gypsum, Colorado plant are contained within a total of 115 placer claims encompassing 2,300 acres. Included in this are 94 unpatented mining claims where mineral rights can be developed upon completion of permitting requirements. We currently own land containing gypsum in the area of Duke, Oklahoma, with additional reserves controlled through a lease agreement. Other gypsum deposits are located near the plant in Duke, which we believe may be obtained at reasonable cost when needed. We are currently in the eighth year of a sixty year supply agreement (original twenty year term with two twenty year extension options) with a public utility in South Carolina for synthetic gypsum, which we use at our Georgetown, South Carolina plant. If the utility is unable to generate the agreed-upon amount of gypsum, it is responsible for providing gypsum from a third party to fulfill its obligations.

Through our modern low cost paperboard mill we manufacture sufficient quantities of paper necessary for our gypsum wallboard production. Paper is a significant cost component in the manufacture of gypsum wallboard, currently representing approximately one-third of our cost of production.

Our gypsum wallboard manufacturing operations use natural gas and electrical power. A significant portion of the Company’s natural gas requirements for our gypsum wallboard plants are currently provided by three gas producers under gas supply agreements expiring in May 2017 for New Mexico; March 2017 for Colorado; and October 2016 for South Carolina and Oklahoma. If the agreements are not renewed, we anticipate being able to obtain our gas supplies from other suppliers at competitive prices. Electrical power is supplied to our New Mexico plants at standard industrial rates by a local utility. Our Albuquerque plant utilizes an interruptible power supply agreement, which may expose it to some production interruptions during periods of power curtailment. Power for our Gypsum, Colorado facility is generated at the facility by a cogeneration power plant that we own. Currently, the cogeneration power facility supplies power and waste hot gases for drying to the gypsum wallboard plant. We do not sell any power to third parties. Gas costs represented approximately 7% of our production costs in fiscal 2016.

**Recycled Paperboard.** The principal raw materials are recycled paper fiber (recovered waste paper), water and specialty paper chemicals. The largest waste paper source used by the operation is old cardboard containers (known as OCC). A blend of high grades (white papers consisting of ink-free papers such as news blank and unprinted papers) is

used in the gypsum liner facing paper, white top linerboard and white bag liner grades.

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We believe that an adequate supply of OCC recycled fiber will continue to be available from sources located within a reasonable proximity of the paper mill. Although we have the capability to receive rail shipments, the vast majority of the recycled fiber purchased is delivered via truck. Prices are subject to market fluctuations based on generation of material (supply), demand and the presence of the export market. The current outlook for fiscal 2017 is for waste paper prices, namely OCC, to remain relatively consistent with fiscal 2016. Current gypsum liner customer contracts include price escalators that partially offset/compensate for changes in raw material fiber prices. The chemicals used in the paper making operation, including size, retention aids, biocides and bacteria controls, are readily available from several manufacturers at competitive prices.

The manufacture of recycled paperboard involves the use of large volumes of water in the production process. We have an agreement with the City of Lawton municipal services for supply of water to Republic. Electricity, natural gas and other utilities are available to us at either contracted rates or standard industrial rates in adequate supplies. These utilities are subject to standard industrial curtailment provisions.

Paperboard operations are generally large consumers of energy, primarily natural gas and electricity. During fiscal 2016, natural gas and electricity costs were lower compared to fiscal 2015. The reduced costs were the result of both lower energy prices and lower usage rates. During fiscal 2016, electricity costs were lower compared to fiscal 2015 due to a reduction in pricing. Electricity is supplied to the paper mill by Public Service of Oklahoma (PSO). This power company is working to switch its fuel source dependency to natural gas, which could impact our electricity rates in future years. Oklahoma is a regulated state for electricity services and all rate change requests must be presented to the Oklahoma Corporation Commission for review and approval before implementation.

#### Sales and Distribution

Gypsum Wallboard. The principal sources of demand for gypsum wallboard are (i) residential construction, (ii) repair and remodeling, (iii) non-residential construction, and (iv) other markets such as exports and manufactured housing, which we estimate accounted for approximately 44%, 45%, 10% and 1%, respectively, of calendar 2016 industry sales. Demand for gypsum wallboard remains highly cyclical; and closely follows construction industry cycles, particularly housing construction. Demand for wallboard can be seasonal and is generally greater from spring through the middle of autumn.

We sell gypsum wallboard to numerous building materials dealers, gypsum wallboard specialty distributors, lumber yards, home center chains and other customers located throughout the United States, with the exception of the northeast. Gypsum wallboard is sold on a delivered basis, mostly by truck. We generally utilize third-party common carriers for deliveries. Two customers accounted for approximately 25% of our gypsum wallboard segment sales during fiscal 2016.

Although gypsum wallboard is distributed principally in local areas, certain industry producers (including the Company) have the ability to ship gypsum wallboard by rail outside their usual regional distribution areas to regions where demand is strong. We own approximately 100 railcars for transporting gypsum wallboard. In addition, in order to facilitate distribution in certain strategic areas, we maintain a distribution center in New Mexico. Our rail distribution capabilities permit us to service customers in markets on both the east and west coasts, except for the northeast.

There are seven manufacturers of gypsum wallboard in the U.S. operating a total of approximately 60 plants. We estimate that the three largest producers - USG Corporation, National Gypsum Company and Koch Industries - account for approximately 60% of gypsum wallboard sales in the U.S. Due to the commodity nature of the product, competition is based principally on price, which is highly sensitive to changes in supply and demand. Product quality and customer service are also important to the customer.

Total wallboard rated production capacity in the United States is currently estimated at approximately 33.0 billion square feet per year; however, certain lines have been curtailed and plants closed or idled. It is possible that previously closed plants or lines could be brought back into service. The Gypsum Association, an industry

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trade group, estimates that total calendar 2015 gypsum wallboard shipments by U.S. manufacturers were approximately 22.0 billion square feet.

Recycled Paperboard. Our manufactured recycled paperboard products are sold to gypsum wallboard manufacturers and other industrial users. During fiscal 2016, just below 40% of the recycled paperboard sold by our paper mill was consumed by the Company's gypsum wallboard manufacturing operations. We also have contracts with two other gypsum wallboard manufacturers that represent approximately 40% of our total segment revenue with the remaining volume shipped to other gypsum liner manufacturers and bag producers. The current contracts with other gypsum wallboard manufacturers expire in the next one to seven years. The loss of either of these contracts or a termination or reduction of their current production of gypsum wallboard, unless replaced by a commercially similar arrangement, could have a material adverse effect on the Company.

#### Environmental Matters

Gypsum Wallboard. The gypsum wallboard industry is subject to numerous federal, state and local laws and regulations pertaining to health, safety and the environment. Some of these laws, such as the federal Clean Air Act and the federal Clean Water Act (and analogous state laws), impose environmental permitting requirements and govern the nature and amount of emissions that may be generated when conducting particular operations. Some laws, such as CERCLA (and analogous state laws), impose obligations to clean up or remediate spills of hazardous materials into the environment. Other laws require us to reclaim certain land upon completion of extraction and mining operations in our quarries. None of our gypsum wallboard operations is the subject of any local, state or federal environmental proceedings or inquiries. We do not, and have not, used asbestos in any of our gypsum wallboard products.

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

In October 2015, the EPA strengthened the national ambient air quality standards ("NAAQS") for ozone by lowering the primary and secondary standards from 75 parts per billion (ppb) to 70 ppb. As a result of this change, the EPA is required to make attainment/nonattainment designations for the revised standards by October 2017. We are currently reviewing this final rule and cannot at this time predict the impact it may have on our operations. Nonattainment designations in or surrounding our areas of operations could have a material impact on our consolidated financial results.

Our gypsum wallboard manufacturing process combusts natural gas. It is possible that GHG emissions from our manufacturing could become subject to regulation under the CAA. For a more detailed discussion of this issue, see the "Environmental Matters" section of our cement business description on pages 8-12.

Although our gypsum wallboard operations could be adversely affected by federal, regional or state climate change initiatives, at this time, it is not possible to accurately estimate how future laws or regulations addressing GHG emissions would impact our business. However, any imposition of raw materials or production limitations, fuel-use or



carbon taxes or emission limitations or reductions could have a significant impact on the gypsum wallboard manufacturing industry and a material adverse effect on the financial results of our operations.

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Capital Expenditures

Gypsum Wallboard and Recycled Paperboard. There were no capital expenditures related to compliance with environmental regulations applicable to our gypsum wallboard and recycled paperboard operations during fiscal 2016, and we do not anticipate any capital expenditures during fiscal 2017.

OIL AND GAS PROPPANTS OPERATIONS

Company Operations

We currently own two frac sand mines, three frac sand wet processing plants and three frac sand drying facilities. Our frac sand mines and wet plants are in New Auburn, Wisconsin and Utica, Illinois. Our frac sand drying facilities are in New Auburn, Wisconsin and Corpus Christi, Texas, as outlined in the table below. We ship wet sand from our Utica, Illinois mine site to Corpus Christi, Texas, where the sand is processed into various mesh sizes and marketed primarily to oil service companies. In addition to Corpus Christi, we have the following trans-load locations where sand processed at our New Auburn, Wisconsin facility is sold. These locations are El Reno, Oklahoma; Cotulla, Texas; Odessa, Texas; San Antonio, Texas; Kenedy, Texas; and Fowlerton, Texas. The Kenedy, Texas and Fowlerton, Texas trans-loads are supplied from our Corpus Christi, Texas site.

The following table provides information regarding our frac sand production facilities at March 31, 2016:

Wet Plant Location	Owned or Leased Reserves	Estimated Annual Wet Production Capacity		Estimated Minimum Fiscal 2016 Tons Mined Reserves	
		(Thousand tons)	(Thousand Tons) <sup>(1)</sup>	(Years)	(Thousand Tons) <sup>(2)</sup>
New Auburn, Wisconsin	Owned	2,800	15,200	9 <sup>(2)</sup>	785
	Leased		8,000		
Utica, Illinois	Owned	2,200	139,900	50+	13

Dry Plant Capacity

Dry Plant Location	(Thousand Tons)
New Auburn, Wisconsin (two lines)	1,900
Corpus Christi, Texas	1,500

<sup>(1)</sup>All sand tons are deemed to be probable under the definition provided by Industry Guide 7.

<sup>(2)</sup>We have an option to purchase property that, if purchased, will increase our estimated minimum reserves to approximately 20 years.

<sup>(3)</sup>Represents throughput capacity.

As a result of the decline in oil and gas drilling, and the corresponding reduction in demand for proppants, we elected to temporarily idle our Utica, Illinois and Corpus Christi, Texas facilities during the fourth quarter of fiscal 2016. Additionally, we idled the Fowlerton, Texas and Kenedy, Texas trans-load operations. Our facilities are relatively new, and are in very good physical condition. We plan on resuming business at these facilities in the future when demand for proppants increases, and additional capacity is needed. The cost of maintaining these idled facilities is not considered to be significant. Due to the decline in demand for proppants, and the idling of the two operating facilities and two trans-load locations, we performed a test for impairment on the long-lived assets of the oil and gas proppants segment. Based on the results of this test, no impairment was recorded. See Critical Accounting Policies, Impairment of Long-Lived Assets on page 45 for more information about the test for impairment.

#### Raw Materials and Fuel Supplies

We mine our frac sand from open pit mines, and process the sand in our wet plants. The excavation process includes stripping the overburden overlaying the planned mining area, and removing the sand through blasting or mechanically with the use of mobile equipment. Processing includes washing the sand with water, and screening to remove non-salable material after which the sand is dried and further screened to its final mesh sizes, which range from 20 mesh to 140 mesh. During the winter months, the cold weather adversely impacts our ability to

operate our wet processing plants, resulting in these plants being shut-down for much of the winter. Generally our New Auburn, Wisconsin facility is impacted more by the weather than our Utica, Illinois facility.

Natural gas is the major fuel used in our wet and dry plants. The cost of natural gas declined throughout fiscal 2016, and is not expected to fluctuate materially in fiscal 2017. Electricity and water are also major cost component in our manufacturing process. We do not anticipate significant changes in the cost of these utilities in fiscal 2017.

#### Sales and Distribution

A portion of the frac sand we produce is sold under long-term contracts that require our customers to pay a specified price per mesh size for a specified volume of sand each month, or quarter depending on the contract. The terms of our customer contracts, including pricing, delivery and mesh distribution, vary by customer. Our long-term customer contracts contain liquidated damages for non-performance by our customers, and certain of our contracts contain provisions allowing the customer to terminate the contract at various times during the term of the contract by paying a termination fee. The recent decline in U.S. rig count and completion activity has adversely impacted oil and gas activity leading to reduced demand and pricing for proppants. As a result, we have renegotiated certain provisions of our long-term contracts with certain customers. The renegotiated contracts reflect the reduced demand for frac sand in the current environment by restructuring the contracts to provide reduced contracted sales volumes and prices in the near term, with the contracted minimums being increased in the later years. In addition to the long-term sales contracts, we sell frac sand through our distribution network under short-term pricing and other agreements. The terms of our short-term pricing agreements vary by customer.

We currently have contracts to provide frac sand to six customers. For the year ended March 31, 2016, five customers exceeded 10% of our segment revenues, and collectively this group of customers accounted for approximately 70% of our segment revenues. Approximately 75% of our revenues for the fiscal year 2016 were generated from contract sales.

We utilize in basin trans-load facilities as a part of our distribution network. The San Antonio, Cotulla and Odessa trans-load locations are supplied by rail, and operated by third-party contractors. The El Reno, Oklahoma trans-load location is also supplied by rail, and is operated by company personnel. Frac sand is delivered to the sites in rail cars specifically designed for loading and unloading sand. At March 31, 2016 we had approximately 700 rail cars under lease, with an average term of approximately five years. Our Corpus Christi location is served by barge, and the Kenedy and Fowlerton, Texas trans-load sites are served by truck from Corpus Christi.

#### Environmental Matters

We and the commercial silica industry are subject to extensive governmental regulation pertaining to matters such as permitting and licensing requirements, plant and wildlife protection, hazardous materials, air and water emissions, and environmental contamination and reclamation. A variety of federal, state and local agencies have established, implement and enforce these regulations.

**Federal Regulation.** At the federal level, we may be required to obtain permits under Section 404 of the Clean Water Act from the U.S. Army Corps of Engineers for the discharge of dredged or fill material into waters of the United States, including wetlands and streams, in connection with our operations. We also may be required to obtain permits under Section 402 of the Clean Water Act from the EPA or the state environmental agencies, to which the EPA has delegated local implementation of the permit program, for discharges of pollutants into waters of the United States, including discharges of wastewater or storm-water runoff associated with construction activities. Failure to obtain these required permits or to comply with their terms could subject us to administrative, civil and criminal penalties as well as injunctive relief.

The U.S. Clean Air Act and comparable state laws regulate emissions of various air pollutants through air emissions permitting programs and the imposition of other requirements. These regulatory programs may require us to install expensive emissions abatement equipment, modify operational practices, and obtain permits for

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existing or new operations. Before commencing construction on a new or modified source of air emissions, such laws may require us to reduce emissions at existing facilities. As a result, we may be required to incur increased capital and operating costs to comply with these regulations. We could be subject to administrative, civil and criminal penalties as well as injunctive relief for noncompliance with air permits or other requirements of the U.S. Clean Air Act and comparable state laws and regulations.

As part of our operations, we utilize or store petroleum products and other substances such as diesel fuel, lubricating oils and hydraulic fluid. We are subject to regulatory programs pertaining to the storage, use, transportation and disposal of these substances. Spills or releases may occur in the course of our operations, and we could incur substantial costs and liabilities as a result of such spills or releases, including claims for damage or injury to property and persons. CERCLA and comparable state laws may impose joint and several liability, without regard to fault or legality of conduct, on classes of persons who are considered to be responsible for the release of hazardous substances into the environment. These persons include the owner or operator of the site where the release occurred and anyone who disposed of or arranged for disposal, including offsite disposal, of a hazardous substance generated or released at the site. Under CERCLA, such persons may be subject to liability for the costs of cleaning up the hazardous substances, for damages to natural resources, and for the costs of certain health studies. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment.

In addition, RCRA and comparable state statutes regulate the generation, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous wastes. The EPA and state environmental agencies, to which the EPA has delegated portions of the RCRA program for local implementation, administer the RCRA program.

Our operations may also be subject to broad environmental review under the National Environmental Policy Act (“NEPA”). NEPA requires federal agencies to evaluate the environmental impact of all “major federal actions” significantly affecting the quality of the human environment. The granting of a federal permit for a major development project, such as a mining operation, may be considered a “major federal action” that requires review under NEPA. Therefore, our projects may require review and evaluation under NEPA. As part of this evaluation, the federal agency considers a broad array of environmental impacts, including, among other things, impacts on air quality, water quality, wildlife (including threatened and endangered species), historic and archaeological resources, geology, socioeconomics and aesthetics. NEPA also requires the consideration of alternatives to the project. The NEPA review process, especially the preparation of a full environmental impact statement, can be time consuming and expensive. The purpose of the NEPA review process is to inform federal agencies’ decision-making on whether federal approval should be granted for a project and to provide the public with an opportunity to comment on the environmental impacts of a proposed project. Though NEPA requires only that an environmental evaluation be conducted and does not mandate a particular result, a federal agency could decide to deny a permit or impose certain conditions on its approval, based on its environmental review under NEPA, or a third party could challenge the adequacy of a NEPA review and thereby delay the issuance of a federal permit or approval.

Federal agencies granting permits for our operations also must consider impacts to endangered and threatened species and their habitat under the Endangered Species Act. We also must comply with and are subject to liability under the Endangered Species Act, which prohibits and imposes stringent penalties for the harming of endangered or threatened species and their habitat. Federal agencies also must consider a project’s impacts on historic or archaeological resources under the National Historic Preservation Act, and we may be required to conduct archaeological surveys of project sites and to avoid or preserve historical areas or artifacts.

**State and Local Regulation.** We are also subject to a variety of state and local environmental review and permitting requirements. Some states, including Wisconsin where one of our operations is located, have state laws similar to NEPA; thus our development of a new site or the expansion of an existing site may be subject to comprehensive state environmental reviews even if it is not subject to NEPA. In some cases, the state environmental review may be more stringent than the federal review. Our operations may require state-law based



permits in addition to federal permits, requiring state agencies to consider a range of issues, many the same as federal agencies, inc