

EAGLE MATERIALS INC  
Form 10-Q  
January 31, 2018

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

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

For the Quarterly Period Ended

December 31, 2017

Commission File Number 1-12984

Eagle Materials Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

75-2520779

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

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

(Address of principal executive offices)

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(214) 432-2000

(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

As of January 29, 2018, the number of outstanding shares of common stock was:

Class	Outstanding Shares
Common Stock, \$.01 Par Value	48,668,850

Eagle Materials Inc. and Subsidiaries

Form 10-Q

December 31, 2017

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Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Earnings

(dollars in thousands, except share data)

(unaudited)

	For the Three Months		For the Nine Months	
	Ended December 31, 2017	2016	Ended December 31, 2017	2016
Revenues	\$359,371	\$302,395	\$1,101,807	\$932,557
Cost of Goods Sold	264,805	215,015	824,428	682,012
Gross Profit	94,566	87,380	277,379	250,545
Equity in Earnings of Unconsolidated Joint Venture	11,372	11,244	33,203	31,371
Corporate General and Administrative Expense	(9,883 )	(9,166 )	(29,383 )	(27,831 )
Legal Settlement	(39,098 )	—	(39,098 )	—
Other Non-Operating Income	1,084	429	2,728	2,008
Interest Expense, Net	(6,653 )	(6,198 )	(21,592 )	(15,755 )
Earnings Before Income Taxes	51,388	83,689	223,237	240,338
Income Tax Expense	49,992	(27,302 )	(3,613 )	(78,370 )
Net Earnings	\$101,380	\$56,387	\$219,624	\$161,968
<b>EARNINGS PER SHARE:</b>				
Basic	\$2.10	\$1.18	\$4.56	\$3.38
Diluted	\$2.08	\$1.17	\$4.52	\$3.35
<b>AVERAGE SHARES OUTSTANDING:</b>				
Basic	48,221,093	47,881,662	48,132,276	47,901,369
Diluted	48,757,762	48,297,748	48,641,430	48,340,326
<b>CASH DIVIDENDS PER SHARE:</b>	\$0.10	\$0.10	\$0.30	\$0.30

See notes to unaudited consolidated financial statements.

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Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Comprehensive Earnings

(unaudited – dollars in thousands)

	For the Three Months		For the Nine Months	
	Ended December 31,		Ended December 31,	
	2017	2016	2017	2016
Net Earnings	\$101,380	\$56,387	\$219,624	\$161,968
Change in Funded Status of Defined Benefit Plans:				
Amortization of Net Actuarial Loss	314	500	942	1,500
Tax Expense	(117 )	(188 )	(351 )	(564 )
Comprehensive Earnings	\$101,577	\$56,699	\$220,215	\$162,904





See notes to unaudited consolidated financial statements.

## Eagle Materials Inc. and Subsidiaries

## Consolidated Balance Sheets

(dollars in thousands)

	December 31, 2017 (unaudited)	March 31, 2017
<b>ASSETS</b>		
Current Assets -		
Cash and Cash Equivalents	\$21,676	\$6,561
Accounts and Notes Receivable	143,662	136,313
Inventories	239,628	252,846
Prepaid and Other Assets	20,378	4,904
Total Current Assets	425,344	400,624
Property, Plant and Equipment -	2,547,430	2,439,438
Less: Accumulated Depreciation	(972,706 )	(892,601 )
Property, Plant and Equipment, net	1,574,724	1,546,837
Notes Receivable	296	815
Investment in Joint Venture	55,337	48,620
Goodwill and Intangible Assets, net	240,145	235,505
Other Assets	12,197	14,723
	\$2,308,043	\$2,247,124
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities -		
Accounts Payable	\$73,203	\$92,193
Accrued Liabilities	101,432	55,379
Income Tax Payable	—	733
Current Portion of Long-term Debt	—	81,214
Total Current Liabilities	174,635	229,519
Long-term Debt	565,755	605,253
Other Long-term Liabilities	35,112	42,878
Deferred Income Taxes	116,352	166,024
Total Liabilities	891,854	1,043,674
Stockholders' Equity -		
Preferred Stock, Par Value \$0.01; Authorized 5,000,000 Shares; None Issued	—	—
Common Stock, Par Value \$0.01; Authorized 100,000,000 Shares; Issued and		
Outstanding 48,664,650 and 48,453,268 Shares, respectively	487	485
Capital in Excess of Par Value	156,834	149,014
Accumulated Other Comprehensive Losses	(6,805 )	(7,396 )
Retained Earnings	1,265,673	1,061,347
Total Stockholders' Equity	1,416,189	1,203,450
	\$2,308,043	\$2,247,124

See notes to the unaudited consolidated financial statements.

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Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(unaudited – dollars in thousands)

	For the Nine Months Ended	
	December 31, 2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Earnings	\$219,624	\$161,968
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities -		
Depreciation, Depletion and Amortization	87,903	67,894
Inventory Adjustment to Net Realizable Value	—	8,492
Deferred Income Tax Provision	(50,023 )	2,751
Stock Compensation Expense	10,890	9,067
Excess Tax Benefits from Share Based Payment Arrangements	—	(8,546 )
Equity in Earnings of Unconsolidated Joint Venture	(33,203 )	(31,371 )
Distributions from Joint Venture	26,500	33,250
Changes in Operating Assets and Liabilities:		
Accounts and Notes Receivable	(4,718 )	6,613
Inventories	13,417	12,320
Accounts Payable and Accrued Liabilities	17,372	6,633
Other Assets	(11,889 )	413
Income Taxes Payable	(733 )	19,384
Net Cash Provided by Operating Activities	275,140	288,868
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Property, Plant and Equipment Additions	(83,698 )	(34,043 )
Acquisition Spending	(36,761 )	—
Net Cash Used in Investing Activities	(120,459)	(34,043 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in Credit Facility	(40,000 )	(382,000)
Repayment of Senior Notes	(81,214 )	(8,000 )
Issuance of Long-term Debt	—	350,000
Payment of Debt Issuance Costs	—	(6,637 )
Dividends Paid to Stockholders	(14,571 )	(14,500 )
Shares Redeemed to Settle Employee Taxes on Stock Compensation	(2,607 )	(3,084 )
Purchase and Retirement of Common Stock	(24,903 )	(60,013 )
Proceeds from Stock Option Exercises	23,729	20,137
Excess Tax Benefits from Share Based Payment Arrangements	—	8,546
Net Cash Used in Financing Activities	(139,566)	(95,551 )
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>15,115</b>	<b>159,274</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>6,561</b>	<b>5,391</b>

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$21,676	\$164,665
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See notes to the unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

December 31, 2017

#### (A) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements as of and for the three and nine month periods ended December 31, 2017 include the accounts of Eagle Materials Inc. (“Eagle” or “Parent”) and its majority-owned subsidiaries (collectively, the “Company”, “us” or “we”) and have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on May 24, 2017.

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

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

#### Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”), issued Accounting Standards Update (“ASU”) 2016-09, “Improvements to Employee Share-Based Payment Accounting,” which provides for simplification of certain aspects of employee share-based payment accounting, including income taxes, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted ASU 2016-09 on April 1, 2017. The new standard provides for changes to accounting for stock compensation including 1) excess tax benefits and tax deficiencies related to share based payment awards will be recognized as income tax benefit or expense in the reporting period in which they occur; 2) excess tax benefits will be classified as an operating activity in the statement of cash flow; 3) the option to elect to estimate forfeitures or account for them when they occur; and 4) an increase in the tax withholding requirements threshold to qualify for equity classification. The primary impact of adoption was the recognition of excess tax benefits for our stock awards in the provision for income taxes rather than additional paid-in capital. As provided by the new standard, the Company changed its method of accounting for forfeitures, and will now recognize forfeitures as they occur, which resulted in an approximately \$0.7 million reduction to retained earnings. Additional amendments to the accounting for income taxes and minimum statutory withholding tax requirements had no impact to retained earnings.

Adoption of the new standard resulted in the recognition of excess tax benefits in our provision for income taxes rather than paid-in capital of \$2.5 million for the nine months ended December 31, 2017. The presentation of excess tax benefits on stock-based compensation was adopted prospectively within the unaudited Condensed Consolidated

Statements of Cash Flows. The presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact on any of the periods presented on the unaudited Condensed Consolidated Statements of Cash Flows as the Company has historically presented them as a financing activity.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)," and requires entities to

recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard will be effective for us in the first quarter of fiscal 2019. We will adopt the new standard using the modified retrospective approach, which requires the standard be applied only to the most current period presented, with the cumulative effect of initially applying the standard recognized at the date of initial application. We performed an evaluation of all segments and do not expect the adoption of this standard to materially impact our consolidated financial statements, but we are still evaluating the impact on our financial statement disclosures.

In March 2017, the FASB issued ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”, which revises the accounting for periodic pension and postretirement expense. This ASU requires net periodic benefit cost, with the exception of service cost, to be presented retrospectively as nonoperating expense. Service cost will remain a component of cost of goods sold and represent the only cost of pension and postretirement expense eligible for capitalization. We will adopt the standard on April 1, 2018 using the retrospective method for presentation of service cost and other components in the income statement. We will prospectively adopt the requirement to limit the capitalization of benefit cost to the service cost component. The impact of adopting this standard will be a reduction to cost of goods sold and an increase in other expense. Had we adopted this standard on April 1, 2017, our gross profit for the nine months ended December 31, 2017 would have increased by approximately \$0.3 million, and other income would have decreased by \$0.3 million.

In February 2016, the FASB issued ASU 2016-02, “Leases”, which supersedes existing lease guidance to require lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases and to disclose additional quantitative and qualitative information about leasing arrangements. The standard will be effective for us in the first quarter of fiscal 2020, and we will adopt using the modified retrospective approach. We are currently assessing the impact of the ASU on our consolidated financial statements and disclosures, as well as our internal lease accounting processes.

## (B) ACQUISITION

### Fairborn Acquisition

On February 10, 2017, we completed the acquisition (the “Fairborn Acquisition”) of certain assets of CEMEX Construction Materials Atlantic, LLC (the “Seller”). The assets acquired by the Company in the Fairborn Acquisition include a cement plant located in Fairborn, Ohio, a cement distribution terminal located in Columbus, Ohio, and certain other related assets.

**Purchase Price:** The purchase price (the “Fairborn Purchase Price”) of the Fairborn Acquisition was approximately \$400.5 million. We funded the payment of the Fairborn Purchase Price at closing and expenses incurred in connection with the Fairborn Acquisition through a combination of cash on hand and borrowings under our bank credit facility.

**Recording of assets acquired and liabilities assumed:** The transaction has been accounted for using the acquisition method of accounting which requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The Company engaged a third-party to perform a valuation to support the Company’s preliminary estimate of the fair value of certain assets acquired in the Fairborn Acquisition.

During the quarter ended December 31, 2017, we completed our mine plan, enabling us to finalize the asset retirement obligation at the date of purchase. Based on the updated mine plan, the asset retirement obligation and corresponding asset was revised to approximately \$2.8 million from \$4.0 million.





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

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

	As of
	February
Purchase price allocation at acquisition date (in thousands)	10, 2017
Inventories	\$11,106
Property and Equipment	314,897
Intangible Assets	10,000
Other Assets	2,820
Asset Retirement Obligation	(2,820 )
Total Net Assets	336,003
Goodwill	64,485
Total Purchase Price	\$400,488

Goodwill represents the excess purchase price over the fair values of assets acquired and liabilities assumed. The goodwill was generated by the availability of co-product sales and the opportunity associated with the expansion of our cement business to the eastern region of the United States. All of the goodwill generated by the transaction will be deductible for income tax purposes.

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

	Weighted	Estimated
	Average	Fair
	Life	Value
Customer Relationships	15	9,000
Permits	40	1,000
Total Intangible Assets		\$ 10,000

Actual and pro forma impact of the Fairborn Acquisition: The following table presents the net sales and operating earnings related to the Fairborn Acquisition that have been included in our consolidated statement of earnings for the three and nine months ended December 31, 2017:

	For the	For the
	Three	Nine
	Months	Months

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	Ended December 31, 2017	Ended December 31, 2017
	(dollars in thousands)	
Revenues	\$21,699	\$ 69,120
Operating Earnings	\$6,547	\$ 20,380

Operating earnings shown above for the nine months ended December 31, 2017 have been impacted by approximately \$11.2 million and \$0.6 million related to depreciation and amortization and the recording of acquired inventory at fair value, respectively.

The unaudited pro forma results presented below include the effects of the Fairborn Acquisition as if it had been consummated as of April 1, 2016. The pro forma results include the amortization associated with an estimate for acquired intangible assets and interest expense associated with debt used to fund the Fairborn Acquisition and depreciation from the fair value adjustments for property and equipment. To better reflect the combined operating results, material nonrecurring charges directly related to the Fairborn Acquisition of approximately \$5.5 million have been excluded from pro forma net income for fiscal 2017.

	For the Three Months	For the Nine Months
	Ended December 31, 2016	Ended December 31, 2016
	(dollars in thousands)	
Revenues	\$321,378	\$998,910
Net Income	\$58,294	\$169,631
Earnings per share – basic	\$1.22	\$3.54
Earnings per share - diluted	\$1.21	\$3.51

The pro forma results do not include any anticipated synergies or other expected benefits of the Fairborn Acquisition. Accordingly, the unaudited pro forma results are not necessarily indicative of either future results of operations or results that might have been achieved had the Fairborn Acquisition been consummated as of April 1, 2016.

#### Wildcat Acquisition

On July 27, 2017, we acquired all of the outstanding equity interests in Wildcat Minerals LLC (the “Wildcat Acquisition”). Wildcat Minerals LLC operates transload facilities serving the oil and gas industry in several oil and gas basins across the United States. The purchase price (the “Purchase Price”) of the Wildcat Acquisition was approximately \$36.8 million, subject to adjustments for working capital and other customary post-closing adjustments. The Purchase Price was allocated as follows: approximately \$3.1 million to current assets, \$28.3 million to property and equipment, \$1.4 million to intangible and other assets, \$2.8 million to current liabilities and \$6.8 million to goodwill. The Purchase Price and expenses incurred in connection with the Wildcat Acquisition were funded through operating cash flow and borrowings under our bank credit facility. Assets related to the Wildcat Acquisition will be included in the Corporate and Other segment in our segment reporting.

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

Cash payments made for interest were \$19.8 million and \$10.7 million for the nine months ended December 31, 2017 and 2016, respectively. Net payments made for federal and state income taxes during the nine months ended December 31, 2017 and 2016, were \$68.8 million and \$55.6 million, respectively.

#### (D) ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable have been shown net of the allowance for doubtful accounts of \$11.1 million and \$10.7 million at December 31, 2017 and March 31, 2017, respectively. We perform ongoing credit evaluations of our customers' financial condition and generally require no collateral from our customers. The allowance for non-collection of receivables is based upon analysis of economic trends in the construction industry, detailed analysis of the expected collectability of accounts receivable that are past due and the expected collectability of overall receivables. We have no significant credit risk concentration among our diversified customer base.

We had notes receivable totaling approximately \$2.6 million at December 31, 2017, of which approximately \$2.3 million has been classified as current and presented with accounts receivable on the balance sheet. We lend funds to certain companies in the ordinary course of business, and the notes bear interest, on average, at LIBOR plus 3.5%. Remaining unpaid amounts, plus accrued interest, mature in fiscal 2018 and 2021. The notes are collateralized by certain assets of the borrowers, namely property and equipment, and are generally payable

monthly. We monitor the credit risk of each borrower by focusing on the timeliness of payments, review of credit history and credit metrics and interaction with the borrowers.

#### (E) STOCKHOLDERS' EQUITY

A summary of changes in stockholders' equity follows:

	For the Nine Months
	Ended December 31, 2017 (dollars in thousands)
<b>Common Stock –</b>	
Balance at Beginning of Period	\$ 485
Issuance of Restricted Stock	1
Purchase and Retirement of Common Stock	(1 )
Stock Option Exercises	2
Balance at End of Period	487
<b>Capital in Excess of Par Value –</b>	
Balance at Beginning of Period	149,014
Stock Compensation Expense	10,890
Cumulative Impact of the Adoption of ASU 2016-09	713
Shares Redeemed to Settle Employee Taxes	(2,607 )
Stock Option Exercises	23,726
Purchase and Retirement of Common Stock	(24,902 )
Balance at End of Period	156,834
<b>Retained Earnings –</b>	
Balance at Beginning of Period	1,061,347
Dividends Declared to Stockholders	(14,585 )
Cumulative Impact of the Adoption of ASU 2016-09	(713 )
Net Earnings	219,624
Balance at End of Period	1,265,673
<b>Accumulated Other Comprehensive Loss -</b>	
Balance at Beginning of Period	(7,396 )
Change in Funded Status of Pension Plan, net of tax	591
Balance at End of Period	(6,805 )
<b>Total Stockholders' Equity</b>	<b>\$ 1,416,189</b>

During the nine months ended December 31, 2017, we repurchased 272,772 shares at an average price of \$91.31. As of December 31, 2017, we have authorization to purchase an additional 4,544,428 shares.



**(F) INVENTORIES**

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

	As of	
	December	March
	31,	31,
	2017	2017
	(dollars in thousands)	
Raw Materials and Material-in-Progress	\$ 107,340	\$ 122,736
Finished Cement	24,313	24,428
Gypsum Wallboard	8,305	7,951
Paperboard	7,467	8,635
Frac Sand	2,345	2,907
Aggregates	7,268	7,686
Repair Parts and Supplies	76,741	73,732
Fuel and Coal	5,849	4,771
	\$ 239,628	\$ 252,846

**(G) ACCRUED EXPENSES**

Accrued expenses consist of the following:

	As of	
	December	March
	31,	31,
	2017	2017
	(dollars in thousands)	
Payroll and Incentive Compensation	\$ 26,001	\$ 22,850
Benefits	14,204	11,503
Interest	7,196	5,992
Property Taxes	3,817	4,759
Power and Fuel	1,800	1,536
Sales and Use Tax	486	2,459
Legal Settlement	39,098	—
Other Legal	2,770	944
Acquisition Related Expenses	—	350



Other	6,060	4,986
	\$101,432	\$55,379

(H) Share-BASED EMPLOYEE COMPENSATION

On August 7, 2013, our stockholders approved the Eagle Materials Inc. Amended and Restated Incentive Plan (the “Plan”), which increased the shares we are authorized to issue as awards by 3,000,000 (1,500,000 of which may be stock awards). Under the terms of the Plan, we can issue equity awards, including stock options, restricted stock units (“RSUs”), restricted stock and stock appreciation rights to employees of the Company and members of the Board of Directors. Awards that were already outstanding prior to the approval of the Plan on August 7, 2013 remain outstanding. The Compensation Committee of our Board of Directors specifies the terms for grants of equity awards under the Plan.

Long-Term Compensation Plans -

Options. In May 2017, the Compensation Committee approved the granting of an aggregate of 58,055 performance vesting stock options pursuant to the Plan to certain officers and key employees that will be earned if certain performance conditions are satisfied (the “Fiscal 2018 Employee Performance Stock Option Grant”). The performance criterion for the Fiscal 2018 Employee Performance Stock Option Grant is based upon the

achievement of certain levels of return on equity (as defined in the option agreements), ranging from 11.0% to 18.0%, for the fiscal year ending March 31, 2018. All stock options will be earned if the return on equity is 18.0% or greater, and the percentage of shares earned will be reduced proportionately to approximately 66.7% if the return on equity is 11.0%. If the Company does not achieve a return on equity of at least 11.0%, all stock options granted will be forfeited. Following any such reduction, restrictions on the earned stock options will lapse ratably over four years, with the first fourth lapsing promptly following the determination date, and the remaining restrictions lapsing on March 31, 2019 through 2021. The stock options have a term of ten years from the date of grant. The Compensation Committee also approved the granting of 48,379 time vesting stock options to the same officers and key employees, which vest ratably over four years (the “Fiscal 2018 Employee Time Vesting Stock Option Grant”). In August 2017, we granted 6,052 options to members of the Board of Directors (the “Fiscal 2018 Board of Directors Stock Option Grant”). Options granted under the Fiscal 2018 Board of Directors Stock Option Grant vest immediately and can be exercised from the date of grant until their expiration on the tenth anniversary of the date of the grant. The Fiscal 2018 Employee Performance Stock Option Grant, Fiscal 2018 Employee Time Vesting Stock Option Grant and Fiscal 2018 Board of Directors Stock Option Grant were valued at the grant date using the Black-Scholes option pricing model.

The weighted-average assumptions used in the Black-Scholes model to value the option awards in fiscal 2018 are as follows:

	Fiscal 2018
Dividend Yield	1.3%
Expected Volatility	36.3%
Risk Free Interest Rate	2.1%
Expected Life	6.0 years

Stock option expense for all outstanding stock option awards totaled approximately \$1.1 million and \$3.3 million for the three and nine months ended December 31, 2017, respectively and approximately \$1.2 million and \$4.2 million for the three and nine months ended December 31, 2016, respectively. At December 31, 2017, there was approximately \$7.8 million of unrecognized compensation cost related to outstanding stock options, which is expected to be recognized over a weighted-average period of 2.6 years.

The following table represents stock option activity for the nine months ended December 31, 2017:

	Number of Shares	Weighted- Average Exercise Price
Outstanding Options at Beginning of Period	1,323,379	\$ 66.07
Granted	119,986	\$ 100.20
Exercised	(441,691 )	\$ 59.97

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Cancelled	(16,742 )	\$ 78.05
Outstanding Options at End of Period		