

EAGLE MATERIALS INC  
Form 10-Q  
August 05, 2011  
[Table of Contents](#)

**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  
June 30, 2011**

**Commission File Number 1-12984**

**Eagle Materials Inc.**

**Delaware**

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(State of Incorporation)

75-2520779

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

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

(Address of principal executive offices)

(214) 432-2000

(Registrant's telephone number)

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

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

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

Large accelerated filer  Accelerated filer

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

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

As of August 2, 2011, the number of outstanding shares of common stock was:

Class	Outstanding Shares
Common Stock, \$.01 Par Value	44,905,926

**Table of Contents**

**Eagle Materials Inc. and Subsidiaries**

**Form 10-Q**

**June 30, 2011**

**Table of Contents**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION (unaudited)</u></b>	
<b>Item 1.</b>	Consolidated Financial Statements
	<u>Consolidated Statements of Earnings for the Three Months Ended June 30, 2011 and 2010</u> 1
	<u>Consolidated Balance Sheets as of June 30, 2011 and March 31, 2011</u> 2
	<u>Consolidated Statements of Cash Flows for the Three Months Ended June 30, 2011 and 2010</u> 3
	<u>Notes to Unaudited Consolidated Financial Statements</u> 4
<b>Item 2.</b>	<u>Management's Discussion and Analysis of Results of Operations and Financial Condition</u> 17
<b>Item 3.</b>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 25
<b>Item 4.</b>	<u>Controls and Procedures</u> 25
<b><u>PART II. OTHER INFORMATION</u></b>	
<b>Item 1.</b>	<u>Legal Proceedings</u> 26
<b>Item 1A.</b>	<u>Risk Factors</u> 27
<b>Item 2.</b>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 32
<b>Item 5.</b>	<u>Other Information</u> 32
<b>Item 6.</b>	<u>Exhibits</u> 32
<b><u>SIGNATURES</u></b>	34

**Table of Contents****Eagle Materials Inc. and Subsidiaries**

## Consolidated Statements of Earnings

(dollars in thousands, except share and per share data)

(unaudited)

	For the Three Months Ended June 30,	
	2011	2010
Revenues	\$ 119,807	\$ 130,794
Cost of Goods Sold	112,434	114,363
Gross Profit	7,373	16,431
Equity in Earnings of Unconsolidated Joint Venture	5,448	6,512
Other Income (Expense)	(79)	717
Operating Earnings	12,742	23,660
Corporate General and Administrative Expense	(4,118)	(3,703)
Earnings before Interest and Income Taxes	8,624	19,957
Interest Expense, Net	(4,585)	(5,290)
Earnings before Income Taxes	4,039	14,667
Income Taxes	(982)	(4,140)
Net Earnings	\$ 3,057	\$ 10,527
<b>EARNINGS PER SHARE</b>		
Basic	\$ 0.07	\$ 0.24
Diluted	\$ 0.07	\$ 0.24
<b>AVERAGE SHARES OUTSTANDING</b>		
Basic	44,180,039	43,832,372
Diluted	44,709,262	44,222,884
<b>CASH DIVIDENDS PER SHARE</b>	\$ 0.10	\$ 0.10

*See notes to unaudited consolidated financial statements.*



**Table of Contents****Eagle Materials Inc. and Subsidiaries**

## Consolidated Balance Sheets

(dollars in thousands)

	June 30, 2011 (unaudited)	March 31, 2011
<b>ASSETS</b>		
Current Assets -		
Cash and Cash Equivalents	\$ 3,478	\$ 1,874
Accounts and Notes Receivable	54,192	43,855
Inventories	114,124	115,237
Income Tax Receivable	5,374	9,088
Prepaid and Other Assets	3,836	4,572
Total Current Assets	181,004	174,626
Property, Plant and Equipment -	1,119,346	1,112,058
Less: Accumulated Depreciation	(524,143)	(512,228)
Property, Plant and Equipment, net	595,203	599,830
Notes Receivable	5,139	5,326
Investment in Joint Venture	34,109	33,661
Goodwill and Intangible Assets	151,380	151,539
Other Assets	18,376	17,828
	\$ 985,211	\$ 982,810
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities -		
Accounts Payable	\$ 31,472	\$ 30,339
Accrued Liabilities	33,388	40,011
Total Current Liabilities	64,860	70,350
Long-term Debt	296,000	287,000
Other Long-term Liabilities	37,905	37,807
Deferred Income Taxes	127,689	128,089
Total Liabilities	526,454	523,246
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 44,906,232 and 44,447,428 Shares, respectively	449	444
Capital in Excess of Par Value	25,439	24,859
Accumulated Other Comprehensive Losses	(2,893)	(2,893)
Retained Earnings	435,762	437,154
Total Stockholders Equity	458,757	459,564

*See notes to the unaudited consolidated financial statements.*

**Table of Contents****Eagle Materials Inc. and Subsidiaries**

## Consolidated Statements of Cash Flows

(unaudited dollars in thousands)

	For the Three Months Ended June 30,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Earnings	\$ 3,057	\$ 10,527
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities -		
Gain on Sale of Property, Plant and Equipment		(485)
Depreciation, Depletion and Amortization	12,320	12,450
Deferred Income Tax Provision	(939)	(3,160)
Stock Compensation Expense	835	649
Excess Tax Benefits from Share Based Payment Arrangements	(30)	(259)
Equity in Earnings of Unconsolidated Joint Venture	(5,448)	(6,512)
Distributions from Joint Venture	5,000	7,250
Changes in Operating Assets and Liabilities:		
Accounts and Notes Receivable	(10,150)	(3,468)
Inventories	1,113	(634)
Accounts Payable and Accrued Liabilities	(8,315)	(7,088)
Other Assets	1,866	507
Income Taxes Payable	1,832	5,841
<b>Net Cash Provided by Operating Activities</b>	<b>1,141</b>	<b>15,618</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Property, Plant and Equipment	(3,812)	(3,240)
Proceeds from Sale of Property, Plant and Equipment		600
<b>Net Cash Used in Investing Activities</b>	<b>(3,812)</b>	<b>(2,640)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (Decrease) in Bank Credit Facility	9,000	7,000
Repayment of Senior Notes		(15,000)
Dividends Paid to Stockholders	(4,526)	(4,381)
Proceeds from Stock Option Exercises	128	725
Shares Redeemed to Settle Employee Taxes on RSUs	(357)	
Excess Tax Benefits from Share Based Payment Arrangements	30	259
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>4,275</b>	<b>(11,397)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,604</b>	<b>1,581</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>1,874</b>	<b>1,416</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 3,478</b>	<b>\$ 2,997</b>

*See notes to the unaudited consolidated financial statements.*





**Table of Contents**

**Eagle Materials Inc. and Subsidiaries**

**Notes to Unaudited Consolidated Financial Statements**

**June 30, 2011**

**(A) BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements as of and for the three month period ended June 30, 2011 include the accounts of Eagle Materials Inc. and its majority owned subsidiaries (the Company, us or we) and have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on May 26, 2011.

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

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

We have changed the presentation of our income statement to more closely reflect the format used by other registrants in our industry. This change resulted in disclosure of consolidated revenues and cost of sales instead of by segment, and has included such subtotals as Earnings before Interest and Taxes and Earnings before Taxes, which are also consistent with the presentation of those of our competitors. Additionally, certain prior period reclassifications have been made to conform to the current period presentation.

We evaluated all events or transactions that occurred after June 30, 2011 through the filing of these financial statements.

**Recent Accounting Pronouncements**

There are no recent accounting pronouncements that we expect will materially impact our financial statements during the current fiscal year.

**(B) CASH FLOW INFORMATION - SUPPLEMENTAL**

Cash payments made for interest were \$8.6 million for both of the three months ended June 30, 2011 and 2010. Net payments made for federal and state income taxes during the three months ended June 30, 2011 and 2010, were \$0.2 and \$1.4 million, respectively.

**(C) COMPREHENSIVE INCOME**

Comprehensive income for the three month periods ended June 30, 2011 and 2010 was identical to net income for the same periods.

**Table of Contents**

As of June 30, 2011, we had an accumulated other comprehensive loss of \$2.9 million, in connection with recognizing the difference between the fair value of the pension assets and the projected benefit obligation.

**(D) ACCOUNTS AND NOTES RECEIVABLE**

Accounts and notes receivable have been shown net of the allowance for doubtful accounts of \$4.8 million and \$4.6 million at June 30, 2011 and March 31, 2011, 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 \$6.3 million at June 30, 2011, of which approximately \$1.2 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 the prime rate plus 1.5%. Remaining unpaid amounts, plus accrued interest, mature on various dates between 2011 and 2017. The notes are collateralized by certain assets of the borrowers, namely property and equipment and are generally payable monthly. We monitor the credit risk of each borrower by focusing on the timeliness of payments, review of credit history and credit metrics and interaction with the borrowers. At June 30, 2011, approximately \$0.6 million of our allowance for doubtful accounts is related to our notes receivable.

**(E) STOCKHOLDERS' EQUITY**

A summary of changes in stockholders' equity follows:

	For the Three Months Ended June 30, 2011 (dollars in thousands)	
<b>Common Stock</b>		
Balance at Beginning of Period	\$	444
Issuance of Restricted Stock		4
Stock Option Exercises		1
<b>Balance at End of Period</b>		<b>449</b>
<b>Capital in Excess of Par Value</b>		
Balance at Beginning of Period		24,859
Stock Compensation Expense		835
Shares Redeemed to Settle Employee Taxes		(357)
Stock Option Exercises		102
<b>Balance at End of Period</b>		<b>25,439</b>
<b>Retained Earnings</b>		
Balance at Beginning of Period		437,154
Dividends Declared to Stockholders		(4,449)
Net Earnings		3,057
<b>Balance at End of Period</b>		<b>435,762</b>

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**Accumulated Other Comprehensive Losses**

Balance at Beginning of Period (2,893)

Balance at End of Period (2,893)

**Total Stockholders Equity** \$ 458,757

There were no open market share repurchases during the three month period ended June 30, 2011. As of June 30, 2011, we have authorization to purchase an additional 717,300 shares.

**Table of Contents****(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	
	June 30, 2011	March 31, 2011
	(dollars in thousands)	
Raw Materials and Material-in-Progress	\$ 36,215	\$ 35,118
Finished Cement	9,518	11,540
Gypsum Wallboard	6,280	6,347
Aggregates	12,636	12,419
Paperboard	3,796	5,274
Repair Parts and Supplies	41,343	41,659
Fuel and Coal	4,336	2,880
	\$ 114,124	\$ 115,237

**(G) ACCRUED EXPENSES**

Accrued expenses consist of the following:

	As of	
	June 30, 2011	March 31, 2011
	(dollars in thousands)	
Payroll and Incentive Compensation	\$ 5,103	\$ 7,712
Benefits	7,908	7,988
Interest	2,902	7,003
Insurance	6,264	6,639
Property Taxes	4,427	4,033
Other	6,784	6,636
	\$ 33,388	\$ 40,011

**(H) SHARE-BASED EMPLOYEE COMPENSATION**

On January 8, 2004, our stockholders approved a new incentive plan (the Plan) that combined and amended the two previously existing stock option plans. In August 2009, our shareholders approved an amendment to the Plan which, among other things, increased the number of shares available for award under the Plan by 3 million shares. Under the terms of the Plan, we can issue equity awards, including stock options, restricted stock units (RSUs), restricted stock and stock appreciation rights (collectively, the Equity Awards) to employees of the Company and members of the Board of Directors. The Compensation Committee of our Board of Directors specifies the terms for grants of Equity Awards under the Plan.

*Long-Term Compensation Plans -*

*Options.* In June 2011, the Compensation Committee of the Board of Directors approved an incentive equity award of an aggregate of 352,829 stock options pursuant to the Plan to certain individuals that vest ratably over a three year period (the Fiscal 2012 Stock Option Grant). The options have a term of ten years from the date of grant. These stock options were valued at the grant date using the Black-Scholes option pricing

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model. The weighted-average assumptions used in the Black-Scholes model to value the option awards in fiscal 2012 are as follows:

	Fiscal 2012
Dividend Yield	2.0%
Expected Volatility	41.9%
Risk Free Interest Rate	2.5%
Expected Life	8.0 years

**Table of Contents**

Stock option expense for all outstanding stock option awards totaled approximately \$0.3 million and \$0.4 million for the three month periods ended June 30, 2011 and 2010, respectively. At June 30, 2011, there was approximately \$5.7 million of unrecognized compensation cost related to outstanding stock options, net of estimated forfeitures, which is expected to be recognized over a weighted-average period of 3.3 years.

The following table represents stock option activity for the quarter ended June 30, 2011:

	Number of Shares	Weighted- Average Exercise Price
Outstanding Options at Beginning of Period	3,323,786	\$ 35.60
Granted	352,829	\$ 27.53
Exercised	(8,751)	\$ 14.60
Cancelled	(49,912)	\$ 31.19
<b>Outstanding Options at End of Period</b>	<b>3,617,952</b>	<b>\$ 34.93</b>
Options Exercisable at End of Period	1,776,227	
<b>Weighted-Average Fair Value of Options Granted during the Period</b>	<b>\$ 10.72</b>	

The following table summarizes information about stock options outstanding at June 30, 2011:

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Number of Shares Outstanding	Weighted - Average Remaining Contractual Life	Weighted - Average Exercise Price	Number of Shares Outstanding	Weighted - Average Exercise Price
\$ 11.56 - \$ 13.43	321,552	1.50	\$ 12.34	321,552	\$ 12.34
\$ 21.52 - \$ 29.08	1,573,045	5.74	\$ 27.16	1,117,495	\$ 26.79
\$ 34.09 - \$ 40.78	310,670	2.42	\$ 37.87	269,370	\$ 38.05
\$ 47.53 - \$ 62.83	1,412,685	3.03	\$ 48.06	67,810	\$ 58.46
	<b>3,617,952</b>	<b>4.02</b>	<b>\$ 34.93</b>	<b>1,776,227</b>	<b>\$ 27.09</b>

At June 30, 2011, there was no aggregate intrinsic value for outstanding options. The aggregate intrinsic value of exercisable options at that date was approximately \$1.5 million. The total intrinsic value of options exercised during the three month period ended June 30, 2011 was approximately \$0.1 million.

*Restricted Stock Units.* Expense related to RSUs was approximately \$0.3 million and \$0.1 million for the three-month periods ended June 30, 2011 and 2010, respectively. At June 30, 2011, there was approximately \$3.0 million of unearned compensation from RSUs, net of estimated forfeitures, which will be recognized over a weighted-average period of 1.9 years.

**Table of Contents**

*Restricted Stock.* In June 2011, the Compensation Committee also approved the granting of an aggregate of 412,164 shares of restricted stock to certain key employees at both the corporate and subsidiary level that will be earned if our ten year average return on invested capital exceeds 12% at March 31, 2012. If this criterion is not met, all of the shares will be forfeited. If the criterion is met, restrictions on the shares will lapse ratably over five years, with the first fifth lapsing immediately, and the remaining restrictions lapsing on March 31, 2013 through 2016. The value of the restricted shares, net of estimated forfeitures, is being expensed over a five year period. Expense related to restricted shares was \$0.3 million and \$0.2 million for the three-month period ended June 30, 2011 and 2010, respectively. At June 30, 2011, there was approximately \$17.1 million of unearned compensation from restricted stock, net of estimated forfeitures, which will be recognized over a weighted-average period of 6.7 years.

The number of shares available for future stock option, restricted stock unit, stock appreciation right and restricted stock grants under the Plan was 1,853,611 at June 30, 2011.

**(I) COMPUTATION OF EARNINGS PER SHARE**

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

	For the Three Months Ended June 30,	
	2011	2010
Weighted-Average Shares of Common Stock Outstanding	44,180,039	43,832,372
Common Equivalent Shares:		
Assumed Exercise of Outstanding Dilutive Options	1,265,517	1,657,584
Less Shares Repurchased from Assumed Proceeds of Assumed Exercised Options	(1,088,803)	(1,342,920)
Restricted Shares	352,509	75,848
Weighted-Average Common and Common Equivalent Shares Outstanding	44,709,262	44,222,884

At June 30, 2011 and 2010, 2,205,352 and 1,981,871 stock options, respectively, were excluded from the diluted earnings per share calculation, as their effect was anti-dilutive.

**(J) PENSION AND EMPLOYEE BENEFIT PLANS**

We sponsor several defined benefit and defined contribution pension plans which together cover substantially all our employees. Benefits paid under the defined benefit plans covering certain hourly employees are based on years of service and the employee's qualifying compensation over the last few years of employment.

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

	For the Three Months Ended June 30,	
	2011	2010
	(dollars in thousands)	
Service Cost	\$ 139	\$ 135
Benefits Earned during the Period		
Interest Cost of Benefit Obligations	265	256
Expected Return on Plan Assets	(291)	(206)



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Recognized Net Actuarial Loss	86	194
Amortization of Prior-Service Cost	20	32
Net Periodic Pension Cost	\$ 219	\$ 411

**Table of Contents****(K) INCOME TAXES**

Income taxes for the interim period presented have been included in the accompanying financial statements on the basis of an estimated annual effective tax rate. In addition to the amount of tax resulting from applying the estimated annual effective tax rate to pre-tax income, we will, when appropriate, include certain items treated as discrete events to arrive at an estimated overall tax amount. The effective tax rate for the three months ended June 30, 2011 was approximately 24%.

**(L) LONG-TERM DEBT**

Long-term debt consists of the following:

	As of	
	June 30, 2011	March 31, 2011
	(dollars in thousands)	
Bank Credit Facility	\$ 11,000	\$ 2,000
Senior Notes	285,000	285,000
<b>Long-term Debt</b>	<b>\$ 296,000</b>	<b>\$ 287,000</b>

*Bank Credit Facility -*

On December 16, 2010, we amended our existing credit facility, modifying certain financial and other covenants and extending the maturity date to 2015. The principal balance of the existing facility was repaid, and replaced with a new \$300.0 million credit agreement (the Bank Credit Facility). The Bank Credit Facility expires on December 16, 2015. Borrowings under the Bank Credit Facility are guaranteed by all major operating subsidiaries of the Company. At the option of the Company, outstanding principal amounts on the Bank Credit Facility bear interest at a variable rate equal to (i) LIBOR, plus an agreed margin (ranging from 100 to 225 basis points), which is to be established quarterly based upon the Company's ratio of consolidated EBITDA, which is defined as earnings before interest, taxes, depreciation and amortization, to its consolidated indebtedness, or (ii) an alternative base rate which is the higher of (a) the prime rate or (b) the federal funds rate plus 1/2%, per annum plus an agreed margin (ranging from 0 to 125 basis points). Interest payments are payable monthly or at the end of the LIBOR advance periods, which can be up to a period of six months at the option of the Company. The Bank Credit Facility contains customary covenants that restrict our ability to incur additional debt, encumber our assets, sell assets, make or enter into certain investments, loans or guaranties and enter into sale and leaseback arrangements. The Bank Credit Facility also requires us to maintain a consolidated funded indebtedness ratio (consolidated indebtedness to consolidated earnings before interest, taxes, depreciation, amortization and other non-cash deductions) of 3.5 or less and an interest coverage ratio (consolidated earnings before interest, taxes, depreciation, amortization and other non-cash deductions to interest expense) of at least 2.5. The Bank Credit Facility also limits our ability to make certain restricted payments, such as paying cash dividends; however, there are several exceptions to this restriction, including: (i) the Company may pay cash dividends in an aggregate amount of up to \$50.0 million each fiscal year; and (ii) the Company may make restricted payments not otherwise permitted so long as no default would result therefrom and our consolidated funded indebtedness ratio does not exceed 3.0.

The Bank Credit Facility has a \$50.0 million letter of credit facility. Under the letter of credit facility, the Company pays a fee at a per annum rate equal to the applicable margin for Eurodollar loans in effect from time to time plus a one-time letter of credit fee in an amount equal to 0.125% of the initial stated amount. At June 30, 2011, we had \$10.2 million of letters of credit outstanding. We currently have \$278.8 million of borrowings available under the Bank Credit Facility at June 30, 2011.

**Table of Contents***Senior Notes -*

We entered into a Note Purchase Agreement on November 15, 2005 (the 2005 Note Purchase Agreement) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2005A Senior Notes (the Series 2005A Senior Notes) in a private placement transaction. The Series 2005A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in three tranches on November 15, 2005. Since entering into the 2005 Note Purchase Agreement, we have repurchased \$22 million in principal of the Series 2005A Senior Notes during prior periods. Following these repurchases, the amounts outstanding for each of the three tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche A	\$ 38.6 million	November 15, 2012	5.25%
Tranche B	\$ 77.2 million	November 15, 2015	5.38%
Tranche C	\$ 62.2 million	November 15, 2017	5.48%

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

We entered into an additional Note Purchase Agreement on October 2, 2007 (the 2007 Note Purchase Agreement) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2007A Senior Notes (the Series 2007A Senior Notes) in a private placement transaction. The Series 2007A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in four tranches on October 2, 2007. Since entering into the 2007 Note Purchase Agreement, we have repurchased \$93 million in principal of the Series 2007A Senior Notes during prior periods. Following the repurchase, the amounts outstanding for each of the four tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche A	\$ 9.5 million	October 2, 2014	6.08%
Tranche B	\$ 11.0 million	October 2, 2016	6.27%
Tranche C	\$ 50.0 million	October 2, 2017	6.36%
Tranche D	\$ 36.5 million	October 2, 2019	6.48%

Interest for each tranche of Notes is payable semi-annually on April 2 and October 2 of each year until all principal is paid for the respective tranche.

Our obligations under the 2005 Note Purchase Agreement and the 2007 Note Purchase Agreement (collectively referred to as the Note Purchase Agreements) and the Series 2005A Senior Notes and the Series 2007A Senior Notes (collectively referred to as the Senior Notes) are equal in right of payment with all other senior, unsecured debt of the Company, including our debt under the Bank Credit Facility. The Note Purchase Agreements contain customary restrictive covenants, including covenants that place limits on our ability to encumber our assets, to incur additional debt, to sell assets, or to merge or consolidate with third parties, as well as certain cross covenants with the Bank Credit Facility. We were in compliance with all financial ratios and covenants at June 30, 2011.

Pursuant to a Subsidiary Guaranty Agreement, substantially all of our subsidiaries have guaranteed the punctual payment of all principal, interest, and Make-Whole Amounts (as defined in the Note Purchase Agreements) on the Senior Notes and the other payment and performance obligations of the Company contained in the Senior Notes and in the Note Purchase Agreements. We are permitted, at our option and without penalty, to prepay from time to time at least 10% of the original aggregate principal amount of the Senior Notes at 100% of the principal amount to be prepaid, together with interest accrued on such amount to be prepaid to the date of payment, plus a Make-Whole Amount. The Make-Whole Amount is computed by discounting the remaining scheduled payments of interest and principal of the Senior Notes being prepaid at a discount rate equal to the sum of 50 basis points and the yield to maturity of U.S. treasury securities having a maturity equal to the remaining average life of the Senior Notes being prepaid.

**Table of Contents****(M) INTEREST EXPENSE**

The following components are included in interest expense, net:

	For the Three Months Ended June 30,	
	2011	2010
	(dollars in thousands)	
Interest (Income)	\$ (1)	\$ (2)
Interest Expense	4,475	4,454
Interest Expense Income Taxes		780
Other Expenses	111	58
Interest Expense, net	\$ 4,585	\$ 5,290

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

Interest expense Income Taxes relates to interest accrued on our unrecognized tax benefits, primarily related to the Republic Asset Acquisition. During fiscal 2011, we paid or applied cash deposits as payments to the IRS and filed amended state tax returns and made payments for the tax years 2001 through 2006.

**(N) SEGMENT INFORMATION**

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

We operate in four business segments: Cement, Gypsum Wallboard, Recycled Paperboard, and Concrete and Aggregates, with Gypsum Wallboard and Cement being our principal lines of business. These operations are conducted in the U.S. and include the mining of limestone and the manufacture, production, distribution and sale of Portland cement (a basic construction material which is the essential binding ingredient in concrete), the mining of gypsum and the manufacture and sale of gypsum wallboard, the manufacture and sale of recycled paperboard to the gypsum wallboard industry and other paperboard converters, the sale of readymix concrete and the mining and sale of aggregates (crushed stone, sand and gravel). These products are used primarily in commercial and residential construction, public construction projects and projects to build, expand and repair roads and highways.

As further discussed below, we operate four cement plants, eleven cement distribution terminals, five gypsum wallboard plants, including the plant temporarily idled in Bernalillo, N.M., a gypsum wallboard distribution center, a recycled paperboard mill, nine readymix concrete batch plant locations and two aggregates processing plant locations. The principal markets for our cement products are Texas, northern Illinois (including Chicago), the Rocky Mountains, northern Nevada, and northern California. Gypsum wallboard and recycled paperboard are distributed throughout the continental U.S. Concrete and aggregates are sold to local readymix producers and paving contractors in the Austin, Texas area and northern California.

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

**Table of Contents**

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

	For the Three Months Ended June 30,	
	2011	2010
	(dollars in thousands)	
<b>Revenues -</b>		
Cement	\$ 60,144	\$ 62,462
Gypsum Wallboard	51,342	58,200
Paperboard	28,676	28,724
Concrete and Aggregates	11,900	11,323
Sub-total	152,062	160,709
Less: Intersegment Revenues	(10,861)	(11,075)
Net Revenues, including Joint Venture	141,201	149,634
Less: Joint Venture	(21,394)	(18,840)
Net Revenues	\$ 119,807	\$ 130,794

	For the Three Months Ended June 30,	
	2011	2010
	(dollars in thousands)	
<b>Intersegment Revenues -</b>		
Cement	\$ 1,039	\$ 992
Paperboard	9,682	9,963
Concrete and Aggregates	140	120
	\$ 10,861	\$ 11,075
<b>Cement Sales Volume (M Tons) -</b>		
Wholly owned Operations	449	498
Joint Venture	225	204
	674	702

**Table of Contents**

	For the Three Months Ended June 30,	
	2011	2010
(dollars in thousands)		
Operating Earnings -		
Cement	\$ 8,788	\$ 13,633
Gypsum Wallboard	1,238	5,201
Paperboard	3,030	3,794
Concrete and Aggregates	(235)	315
Other, net	(79)	717
Sub-total	12,742	23,660
Corporate General and Administrative	(4,118)	(3,703)
Earnings Before Interest and Income Taxes	8,624	19,957
Interest Expense, net	(4,585)	(5,290)
Earnings Before Income Taxes	\$ 4,039	\$ 14,667
Cement Operating Earnings -		
Wholly owned Operations	\$ 3,340	\$ 7,121
Joint Venture	5,448	6,512
	\$ 8,788	\$ 13,633
Capital Expenditures <sup>(1)</sup> -		
Cement	\$ 2,120	\$ 2,119
Gypsum Wallboard	1,313	120
Paperboard	118	57
Concrete and Aggregates	212	920
Corporate Other	49	24
	\$ 3,812	\$ 3,240
Depreciation, Depletion and Amortization <sup>(1)</sup> -		
Cement	\$ 3,730	\$ 3,734
Gypsum Wallboard	5,217	5,466
Paperboard	2,125	2,259
Concrete and Aggregates	1,061	841
Other, net	187	150
	\$ 12,320	\$ 12,450
Identifiable Assets <sup>(1)</sup> -		
Cement	\$ 311,686	\$ 304,693
Gypsum Wallboard	442,692	443,174
Paperboard	143,337	144,434
Concrete and Aggregates	53,461	51,797
Corporate and Other	34,035	38,712

(1) Basis conforms with equity method accounting.

**Table of Contents**

Segment operating earnings, including the proportionately consolidated 50% interest in the revenues and expenses of the Joint Venture, represent revenues, less direct operating expenses, segment depreciation, and segment selling, general and administrative expenses. During the three month period ended June 30, 2011, we reversed an accrual recorded in a prior period, which resulted in a \$3.0 million increase in our gypsum wallboard segment operating earnings. Corporate assets consist primarily of cash and cash equivalents, general office assets, miscellaneous other assets and unrecognized tax benefits. The segment breakdown of goodwill is as follows:

	As of	
	June 30, 2011	March 31, 2011
	(dollars in thousands)	
Cement	\$ 8,359	\$ 8,359
Gypsum Wallboard	116,618	116,618
Paperboard	7,538	7,538
	\$ 132,515	\$ 132,515

We perform our annual test of impairment on goodwill during the fourth quarter of our fiscal year. Due to the decline in operating earnings of the gypsum wallboard segment during the last year, and continuing into this year, we have performed an impairment test at the end of the first quarter for the gypsum wallboard assets and goodwill, noting that there was no impairment at this time. We will continue to test for any potential impairment on a quarterly basis throughout fiscal year 2012, or until conditions in the wallboard industry improve enough for us to determine that an impairment loss is not likely to occur.

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

	For the Three Months Ended June 30,	
	2011	2010
	(dollars in thousands)	
Revenues	\$ 38,170	\$ 34,038
Gross Margin	\$ 11,888	\$ 14,120
Earnings Before Income Taxes	\$ 10,897	\$ 13,023

	As of	
	June 30, 2011	March 31, 2011
	(dollars in thousands)	
Current Assets	\$ 45,136	\$ 42,541
Non-Current Assets	\$ 35,742	\$ 33,457
Current Liabilities	\$ 14,203	\$ 10,296

**(O) COMMITMENTS AND CONTINGENCIES**

We have certain deductible limits under our workers' compensation and liability insurance policies for which reserves are established based on the undiscounted estimated costs of known and anticipated claims. We have entered into standby letter of credit agreements relating to workers' compensation and auto and general liability self-insurance. At June 30, 2011, we had contingent liabilities under these outstanding letters of credit of approximately \$10.2 million.





**Table of Contents**

The following table compares insurance accruals and payments for our operations:

	As of and for the Three Months Ended June 30,	
	2011	2010
	(dollars in thousands)	
Accrual Balances at Beginning of Period	\$ 6,639	\$ 6,384
Insurance Expense Accrued	966	754
Payments	(1,341)	(690)
Accrual Balance at End of Period	\$ 6,264	\$ 6,448

In the ordinary course of business, we execute contracts involving indemnifications that are standard in the industry and indemnifications specific to a transaction such as sale of a business. These indemnifications might include claims relating to any of the following: environmental and tax matters; intellectual property rights; governmental regulations and employment-related matters; customer, supplier, and other commercial contractual relationships; construction contracts and financial matters. While the maximum amount to which the Company may be exposed under such agreements cannot be estimated, it is the opinion of management that these indemnifications are not expected to have a material adverse effect on our consolidated financial position or results of operations. We currently have no outstanding guarantees.

We are currently contingently liable for performance under \$10.1 million in performance bonds required by certain states and municipalities, and their related agencies. The bonds are principally for certain reclamation obligations and mining permits. We have indemnified the underwriting insurance company against any exposure under the performance bonds. In our past experience, no material claims have been made against these financial instruments.

We have various litigation, commitments and contingencies in the ordinary course of business. Management believes that none of the litigation in which it or any subsidiary is currently involved is likely to have a material adverse effect on our consolidated financial condition or results of operations.

The Internal Revenue Service (the "IRS") completed the examination of our federal income tax returns for all of the fiscal years ended March 31, 2001 through 2006. The IRS issued Exam Reports and Notices of Proposed Adjustment on November 9, 2007 for the examination of the 2001, 2002 and 2003 tax years, and on February 5, 2010 for the examination of the 2004, 2005 and 2006 tax years, in which it proposes to deny certain depreciation deductions claimed by us with respect to assets acquired by us from Republic Group LLC in November 2000 (the "Republic Assets"). The examination of our federal income tax return for fiscal years ended March 31, 2007 through March 31, 2011 is currently in progress.

In June 2010, we received a Notice of Deficiency ("Notice") of \$71.5 million of taxes and penalties for the fiscal years ended March 31, 2001 through 2006, inclusive, related to the IRS audit of the Republic Asset Acquisition. The Notice was in substantial agreement with our financial accruals; including interest. The total amount related to the Notice, including interest, was approximately \$98.7 million, of which \$75 million had previously been deposited with the IRS. We deposited the remaining \$23.7 million with the IRS in July 2010 and asked the IRS to apply all \$98.7 million of deposits to the payment of the tax, penalties and interest. Subsequent review of the IRS interest billing produced a refund of \$0.8 million reducing the net outlay to \$97.9 million. Refund claims were filed with the IRS in October 2010 to recover all \$97.9 million, plus interest, and we filed a lawsuit in May 2011 in Federal District Court to recover the requested refunds.

**Table of Contents**

In the event we reach a settlement through negotiation or in the courts, we will reverse any accrued interest and penalties in excess of the negotiated settlement through the Consolidated Statement of Earnings. At this time, we are unable to predict with certainty the ultimate outcome or how much of the amounts paid for tax, interest, and penalties to the IRS and state taxing authorities will be recovered, if any.

**(P) FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of our long-term debt has been estimated based upon our current incremental borrowing rates for similar types of borrowing arrangements. The fair value of our Senior Notes at June 30, 2011 is as follows:

	Fair Value (dollars in thousands)
Series 2005A Tranche A	\$ 39,758
Series 2005A Tranche B	82,372
Series 2005A Tranche C	65,388
Series 2007A Tranche A	10,284
Series 2007A Tranche B	12,073
Series 2007A Tranche C	54,750
Series 2007A Tranche D	39,603

The carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term maturities of these assets and liabilities. The fair value of our Bank Credit Facility also approximates its carrying value at June 30, 2011.

**Table of Contents****Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition****EXECUTIVE SUMMARY**

Eagle Materials Inc. is a diversified producer of basic building products used in residential, industrial, commercial and infrastructure construction. Information presented for the three month periods ended June 30, 2011 and 2010, respectively, reflects the Company's four business segments, consisting of Gypsum Wallboard, Cement, Recycled Paperboard and Concrete and Aggregates. Certain information for each of Concrete and Aggregates is broken out separately in the segment discussions.

We operate in cyclical commodity businesses that are directly related to the overall construction environment. Our operations, depending on each business segment, range from local in nature to national businesses. We have operations in a variety of geographic markets, which subject us to the economic conditions in each such geographic market as well as the national market. General economic downturns or localized downturns in the regions where we have operations could have a material adverse effect on our business, financial condition and results of operations. Our Wallboard and Paperboard operations are more national in scope and shipments are made throughout the continental U.S. Our cement companies are located in geographic areas west of the Mississippi river and the Chicago, Illinois metropolitan area. Due to the low value-to-weight ratio of cement, cement is usually shipped within a 150 mile radius of the plants by truck and up to 400 miles by rail; though the rising price of diesel fuel may further restrict the truck shipping radius. Concrete and aggregates are even more regional as those operations serve the areas immediately surrounding Austin, Texas and north of Sacramento, California. Cement, concrete and aggregates demand may fluctuate more widely because local and regional markets and economies may be more sensitive to changes than the national markets.

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

**RESULTS OF OPERATIONS****Consolidated Results**

	For the Three Months Ended June 30,		Change
	2011	2010	
	(In thousands except per share)		
Revenues <sup>(1)</sup>	\$ 152,062	\$ 160,709	(5%)
Operating Costs <sup>(1)</sup>	(139,241)	(137,766)	1%
Other Income (Expense), net	(79)	717	(111%)
Operating Earnings	12,742	23,660	(46%)
Corporate General and Administrative	(4,118)	(3,703)	11%
Interest Expense, net	(4,585)	(5,290)	(13%)
Earnings Before Income Taxes	4,039	14,667	(72%)
Income Taxes	(982)	(4,140)	(76%)
Net Earnings	\$ 3,057	\$ 10,527	(71%)
Diluted Earnings per Share	\$ 0.07	\$ 0.24	(71%)

<sup>(1)</sup> Total of wholly-owned subsidiaries and proportionately consolidated 50% interest in the Joint Venture's results.



## **Table of Contents**

**Net Revenues.** The decrease in revenues during the first quarter of fiscal 2012 as compared to the first quarter of fiscal 2011 was primarily due to the decrease in revenues from our cement and gypsum wallboard segments, which are our largest two segments, offset slightly by an increase in revenues from our concrete and aggregates segment. The decreases in revenues from our gypsum wallboard and cement segments during the quarter ended June 30, 2011 as compared to the similar quarter in 2010 were due primarily to a decline in sales volumes; however, our gypsum wallboard segment also had a decline in average net selling price as compared to the prior year period.

**Operating Costs.** Operating costs increased during the three month period ended June 30, 2011, as compared to the similar period in 2010, primarily due to increased operating expenses in our cement and recycled paperboard segments, offset slightly by a decline in operating expenses in our gypsum wallboard segment. Our cement segment had the largest increase in operating costs during the three month period ended June 30, 2011, as compared to 2010, primarily due to the increase in the cost of parts supplies and services, fuel and power.

**Other Income (Expense).** Included in operating earnings are other income (expense), which consists of a variety of items that are non-segment operating in nature and includes non-inventoried aggregates income, gypsum wallboard distribution center income, asset sales and other miscellaneous income and cost items.

**Operating Earnings.** Operating earnings decreased 46% to \$12.7 million for the quarter ended June 30, 2011, as compared to the three month period ended June 30, 2010, primarily due to a decrease in revenues, coupled with increased operating costs, as described above. The increase in operating costs was offset by the reversal of a \$3.0 million accrual for repairs, which related to a prior period. During the quarter, we determined that these repairs were no longer considered necessary so the entire accrual was reversed.

**Corporate General and Administrative.** Corporate general and administrative expense increased by 11% during the first quarter of fiscal 2012, as compared to the similar quarter in 2011. The increase in corporate general and administrative expense is due primarily to increased stock compensation expense, primarily related to the timing of the fiscal 2011 stock compensation grants.

**Interest Expense, Net.** Net interest expense decreased 13% to \$4.6 million for the first quarter of fiscal 2011, as compared to \$5.3 million for the first quarter of fiscal 2011. The decrease in expense is related primarily to lower interest on our unrecognized tax benefits, due to payments made to the IRS during fiscal 2011.

**Income Taxes.** The estimated effective tax rate for fiscal 2012 is 24% at June 30, 2011, as compared to 28% at June 30, 2010. The expected tax rate for the full fiscal year 2012 is also estimated to be 24%, as compared to an effective tax rate of 26% for fiscal 2011.

**Net Earnings and Diluted Earnings per Share.** Net earnings of \$3.1 million decreased 71% from net earnings of \$10.5 million for last year's same quarter. Diluted earnings per share of \$0.07 were 71% less than the \$0.24 for last year's same quarter.

**Table of Contents**

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

	For the Three Months Ended June 30,		Percentage Change
	2011 (In thousands except per unit)	2010	
<b>Revenues <sup>(1)</sup></b>			
Cement <sup>(2)</sup>	\$ 60,144	\$ 62,462	(4%)
Gypsum Wallboard	51,342	58,200	(12%)
Recycled Paperboard	28,676	28,724	
Concrete and Aggregates	11,900	11,323	5%
<b>Gross Revenues</b>	<b>\$ 152,062</b>	<b>\$ 160,709</b>	<b>(5%)</b>
<b>Sales Volume</b>			
Cement (M Tons) <sup>(2)</sup>	674	702	(4%)
Gypsum Wallboard (MMSF)	412	454	(9%)
Recycled Paperboard (M Tons)	57	59	(3%)
Concrete (M Yards)	136	117	16%
Aggregates (M Tons)	612	627	(2%)
<b>Average Net Sales Prices <sup>(3)</sup></b>			
Cement <sup>(2)</sup>	\$ 81.25	\$ 81.39	
Gypsum Wallboard	90.03	98.15	(8%)
Recycled Paperboard	505.61	481.47	5%
Concrete	61.04	63.99	(5%)
Aggregates	5.88	6.05	(3%)
<b>Operating Earnings</b>			
Cement <sup>(2)</sup>	\$ 8,788	\$ 13,633	(36%)
Gypsum Wallboard	1,238	5,201	(76%)
Recycled Paperboard	3,030	3,794	(20%)
Concrete and Aggregates	(235)	315	(175%)
Other, net	(79)	717	(111%)
<b>Net Operating Earnings</b>	<b>\$ 12,742</b>	<b>\$ 23,660</b>	<b>(46%)</b>

(1) Gross revenue, before freight and delivery costs.

(2) Includes proportionate share of our Joint Venture.

(3) Net of freight and delivery costs.

**Cement Operations.** Revenues decreased during the three month period ended June 30, 2011, as compared to the similar period in 2010, primarily due to decreased sales volumes with the decrease in sales volumes primarily related to our Illinois market. Average sales prices were relatively flat in all markets during the three months ended June 30, 2011, as compared to 2010. Operating earnings declined during the first quarter of fiscal 2012, as compared to fiscal first quarter 2012 primarily due to the decline in sales volume, as well as increased operating expenses, namely parts, supplies and outside services, fuel and electricity.

**Gypsum Wallboard Operations.** The decline in revenues during the three month period ended June 30, 2011, as compared to 2010, is due primarily to declines in both average sales price and sales volume. The decrease in the average net sales price during the first quarter of fiscal 2012 is partially due to increased transportation costs coupled with increased competition in the marketplace. Operating earnings for gypsum wallboard declined during the first quarter of fiscal 2012, as compared to fiscal 2011, primarily due to reduced sales volume and average sales prices, as well as increased operating expenses, principally in natural gas, paper and other raw materials. Operating earnings were also positively impacted by the reversal of a \$3.0 million accrual which related to a prior period.





## **Table of Contents**

**Recycled Paperboard Operations.** During the first quarter of fiscal 2012, the average sales price increased 5%, while sales volume declined approximately 3%, resulting in net revenues being relatively flat during the quarter ended June 30, 2011, as compared to the similar quarter in 2010. The increase in the average selling price per ton during the three month period ended June 30, 2011, as compared to the similar period in 2010, is due to increased sales price on all products and a slight increase in the percentage of higher priced gypsum paper sold, from 43% in the first quarter of fiscal 2011 to 46% in the first quarter of fiscal 2012. Despite net revenues remaining relatively flat, operating earnings decreased 20% in the first quarter of fiscal 2012, as compared to fiscal 2011, primarily due to the elevated cost of recycled fiber as well as increases in the cost of direct operating supplies, including machine clothing and repair and maintenance costs.

**Concrete and Aggregates Operations.** The increase in revenue during the first quarter of fiscal 2012, as compared to fiscal 2011, was primarily due to the increase in concrete sales volumes, offset slightly by decreased aggregates sales volume and decreased average selling prices for both concrete and aggregates. Although concrete sales volumes increased during the quarter ended June 30, 2011, the average sales price declined 5% during the quarter, primarily due to increased competitiveness in our markets. The decline in aggregate volume is due to the depressed levels of infrastructure spending in both markets. The decrease in average sales prices was the primary reason for the decline in operating earnings during the first quarter of fiscal 2012, as compared to the first quarter of fiscal 2011.

## **GENERAL OUTLOOK**

Calendar 2011 continues to be a very difficult year economically in the United States, particularly in the building materials and construction products businesses. Commercial and residential construction activity remains at cyclic low levels and infrastructure spending has been less than anticipated. Although we anticipate the administration will continue to address the current economic crisis during calendar 2011, current budget issues most likely will limit whatever assistance is proposed. There can be no assurance as to the actual impact that these or any other actions will have on our business, financial condition or results of operations. Many of the states that comprise our markets are also experiencing budget deficits, and have reduced infrastructure spending in response to these shortfalls. We do not expect a significant increase in government spending for infrastructure in calendar 2011.

Cement demand in all U.S. regions continues to be impacted by reduced residential housing construction, continued weakness in the commercial construction market and expanded state government budget deficits, which are expected to limit cement consumption during calendar 2011. Cement consumption in the U.S. declined during calendar year 2010, as compared to calendar year 2009, and we anticipate cement consumption for calendar 2011 to be flat with cement consumption during calendar 2010.

We anticipate concrete and aggregate sales prices and sales volumes will remain at historically low levels as demand for residential and infrastructure projects in both of our markets is expected to remain soft.

The U.S. wallboard industry continues to be adversely impacted by the current downturn in the residential and commercial construction markets, which has resulted in the industry operating at a utilization rate of approximately 50%. Low volumes and low capacity utilization continue to negatively impact gypsum wallboard pricing and profitability. We do not anticipate wallboard demand to improve significantly during remainder of calendar 2011.

In response to the continued uncertainty of gypsum wallboard paper demand, our recycled paperboard segment continues to exercise sales opportunities in several other markets to enable our paper operation to maximize its operating earnings. Fiber prices remain elevated, significantly impacting the cost of manufacturing and product margins. Natural gas costs are expected to remain relatively constant during the remainder of fiscal year 2012. Electricity costs are expected to increase in fiscal 2012.

**Table of Contents****CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to adopt accounting policies and make significant judgments and estimates to develop amounts reflected and disclosed in the financial statements. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a thorough process to review the application of our accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare our financial statements. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information.

Information regarding our Critical Accounting Policies and Estimates can be found in our Annual Report. The four critical accounting policies that we believe either require the use of the most judgment, or the selection or application of alternative accounting policies, and are material to our financial statements, are those relating to long-lived assets, goodwill, environmental liabilities and accounts receivable. Management has discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of our Board of Directors and with our independent registered public accounting firm. In addition, Note (A) to the financial statements in our Annual Report contains a summary of our significant accounting policies.

**Recent Accounting Pronouncements**

Refer to Note (A) in the Notes to Consolidated Financial Statements of this Form 10-Q for information regarding recently issued accounting pronouncements that may affect our financial statements.

**LIQUIDITY AND CAPITAL RESOURCES*****Cash Flow.***

The following table provides a summary of our cash flows:

	For the Three Months Ended June 30,	
	2011	2010
	(dollars in thousands)	
Net Cash Provided by Operating Activities	\$ 1,141	\$ 15,618
Investing Activities:		
Additions to Property, Plant and Equipment	(3,812)	(3,240)
Proceeds from Sale of Property, Plant and Equipment		600
Net Cash Used in Investing Activities	(3,812)	(2,640)
Financing Activities:		
Excess Tax Benefits from Share Based Payment Arrangements	30	259
Increase in Notes Payable	9,000	7,000
Dividends Paid	(4,526)	(4,381)
Repayment of Senior Notes		(15,000)
Shares Repurchased to Settle Employee Taxes on RSUs	(357)	
Proceeds from Stock Option Exercises	128	725
Net Cash Provided by (Used in) Financing Activities	4,275	(11,397)
Net Increase in Cash	\$ 1,604	\$ 1,581

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Cash flow from operating activities decreased by approximately \$14.5 million during the three month period ended June 30, 2011, as compared to the similar period in 2010, primarily due to a \$7.5 million decrease in net earnings and a decrease of approximately \$2.3 million in distributions from our

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**Table of Contents**

joint venture. Use of cash from changes in operating assets and liabilities increased during the three months ended June 30, 2011, as compared to the similar period in 2010, primarily due to the increase in accounts and notes receivable.

Net cash used in investing activities during the three month period ended June 30, 2011 was consistent with the similar period in 2010. We expect capital expenditures for the full year of fiscal 2012 to be consistent with capital expenditures during fiscal 2011.

In June 2010, we received a Notice of Deficiency ( Notice ) of \$71.5 million of taxes and penalties for the fiscal years ended March 31, 2001 through 2006, inclusive, related to the IRS audit of the Republic Asset Acquisition. The Notice was in substantial agreement with our financial accruals, including interest. The total amount related to the Notice, including interest, was approximately \$98.7 million, of which \$75 million had previously been deposited with the IRS. We deposited the remaining \$23.7 million with the IRS in July 2010 and asked the IRS to apply all \$98.7 million of deposits to the payment of the tax, penalties and interest. Subsequent review of the IRS interest billing produced a refund of \$0.8 million reducing the net outlay to \$97.9 million. Refund claims were filed with the IRS in October 2010 to recover all \$97.9 million, plus interest, and we have filed a lawsuit in Federal District Court to recover the requested refunds. See Footnote (O) of the Unaudited Consolidated Financial Statements for additional information.

Net cash provided by financing activities was \$3.3 million during the three month period ended June 30, 2011, as compared to net cash used in financing activities of \$11.4 million during the three month period ended June 30, 2010. The increase in cash provided by financing activities is primarily due to the \$15.0 million repayment of Senior Notes during the three months ended June 30, 2010. Our debt-to-capitalization ratio and net-debt-to-capitalization ratio declined to 39.2% and 38.9%, respectively, at June 30, 2011, as compared to 38.4% and 38.3%, respectively, at March 31, 2011.

Working capital increased to \$116.1 million at June 30, 2011, compared to \$104.3 million at March 31, 2011, primarily due to increased accounts and notes receivable and decreased accrued expenses. We do not have any material contractual obligations related to long-term capital projects at June 30, 2011. We were in compliance at June 30, 2011 with all the terms and covenants of our credit agreements.

Given the relative weakness in the gypsum wallboard earnings over the last year and during the first quarter of this year, we determined it was necessary to perform an impairment test on the assets and goodwill of the gypsum wallboard segment. That impairment test was similar to the annual impairment test we perform each year during the first quarter of each calendar year. We estimated the fair value of the gypsum wallboard reporting unit using the income method, which consisted of estimating future earnings and cash flows, and discounting these to a single present value, which was compared to the carrying value. Based upon the above analysis, we noted that there was no impairment at this time. We will continue to assess the potential impairment throughout fiscal year 2012, or until conditions in the wallboard industry improve enough for us to determine that impairment loss is not likely to occur.

***Debt Financing Activities.***

***Bank Credit Facility -***

On December 16, 2010, we amended our existing credit facility, modifying certain financial and other covenants and extending the maturity date to 2015. The principal balance of the existing facility was repaid, and replaced with a new \$300.0 million credit agreement ( the Bank Credit Facility ). The Bank Credit Facility expires on December 16, 2015. Borrowings under the Bank Credit Facility are guaranteed by all major operating subsidiaries of the Company. At the option of the Company, outstanding principal amounts on the Bank Credit Facility bear interest at a variable rate equal to (i) LIBOR, plus an agreed margin (ranging from 100 to 225 basis points), which is to be established quarterly based upon the Company's ratio of consolidated EBITDA, which is defined as earnings before

**Table of Contents**

interest, taxes, depreciation and amortization, to its consolidated indebtedness, or (ii) an alternative base rate which is the higher of (a) the prime rate or (b) the federal funds rate plus  $\frac{1}{2}\%$ , per annum plus an agreed margin (ranging from 0 to 125 basis points). Interest payments are payable monthly or at the end of the LIBOR advance periods, which can be up to a period of six months at the option of the Company. The Bank Credit Facility contains customary covenants that restrict our ability to incur additional debt, encumber our assets, sell assets, make or enter into certain investments, loans or guaranties and enter into sale and leaseback arrangements. The Bank Credit Facility also requires us to maintain a consolidated funded indebtedness ratio (consolidated indebtedness to consolidated earnings before interest, taxes, depreciation, amortization and other non-cash deductions) of 3.5 or less and an interest coverage ratio (consolidated earnings before interest, taxes, depreciation, amortization and other non-cash deductions to interest expense) of at least 2.5. The Bank Credit Facility also limits our ability to make certain restricted payments, such as paying cash dividends; however, there are several exceptions to this restriction, including: (i) the Company may pay cash dividends in an aggregate amount of up to \$50.0 million each fiscal year; and (ii) the Company may make restricted payments not otherwise permitted so long as no default would result therefrom and our consolidated funded indebtedness ratio does not exceed 3.0.

The Bank Credit Facility has a \$50.0 million letter of credit facility. Under the letter of credit facility, the Company pays a fee at a per annum rate equal to the applicable margin for Eurodollar loans in effect from time to time plus a one-time letter of credit fee in an amount equal to 0.125% of the initial stated amount. At June 30, 2011, we had \$10.2 million of letters of credit outstanding. We currently have \$278.8 million of borrowings available under the Bank Credit Facility at June 30, 2011.

*Senior Notes*

We entered into a Note Purchase Agreement on November 15, 2005 (the 2005 Note Purchase Agreement) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2005A Senior Notes (the Series 2005A Senior Notes) in a private placement transaction. The Series 2005A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in three tranches on November 15, 2005. Since entering into the 2005 Note Purchase Agreement, we have repurchased \$22 million in principal of the Series 2005A Senior Notes. Following these repurchases, the amounts outstanding for each of the three tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche A	\$ 38.6 million	November 15, 2012	5.25%
Tranche B	\$ 77.2 million	November 15, 2015	5.38%
Tranche C	\$ 62.2 million	November 15, 2017	5.48%

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

We entered into an additional Note Purchase Agreement on October 2, 2007 (the 2007 Note Purchase Agreement) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2007A Senior Notes (the Series 2007A Senior Notes) in a private placement transaction. The Series 2007A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in four tranches on October 2, 2007. Since entering into the 2007 Note Purchase Agreement, we have repurchased \$93 million in principal of the Series 2007A Senior Notes. Following the repurchase, the amounts outstanding for each of the four tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche A	\$ 9.5 million	October 2, 2014	6.08%
Tranche B	\$ 11.0 million	October 2, 2016	6.27%
Tranche C	\$ 50.0 million	October 2, 2017	6.36%
Tranche D	\$ 36.5 million	October 2, 2019	6.48%

## **Table of Contents**

Interest for each tranche of Notes is payable semi-annually on April 2 and October 2 of each year until all principal is paid for the respective tranche.

Our obligations under the 2005 Note Purchase Agreement and the 2007 Note Purchase Agreement (collectively referred to as the Note Purchase Agreements ) and the Series 2005A Senior Notes and the Series 2007A Senior Notes (collectively referred to as the Senior Notes ) are equal in right of payment with all other senior, unsecured debt of the Company, including our debt under the Bank Credit Facility. The Note Purchase Agreements contain customary restrictive covenants, including covenants that place limits on our ability to encumber our assets, to incur additional debt, to sell assets, or to merge or consolidate with third parties, as well as certain cross covenants with the Bank Credit Facility.

Other than the Bank Credit Facility, we have no other source of committed external financing in place. In the event the Bank Credit Facility was terminated, no assurance can be given as to our ability to secure a new source of financing. Consequently, if any balance were outstanding on the Bank Credit Facility at the time of termination, and an alternative source of financing could not be secured; it would have a material adverse impact on us. None of our debt is rated by the rating agencies.

We do not have any off balance sheet debt, except for approximately \$12.0 million of operating leases, which have an average remaining term of approximately fifteen years. Also, we have no outstanding debt guarantees. We have available under the Bank Credit Facility a \$25 million Letter of Credit Facility. At June 30, 2011, we had \$10.2 million of letters of credit outstanding that renew annually. We are contingently liable for performance under \$10.1 million in performance bonds relating primarily to our mining operations.

We believe that our cash flow from operations and available borrowings under our Bank Credit Facility should be sufficient to meet our currently anticipated operating needs, capital expenditures and dividend and debt service requirements for at least the next twelve months. However, our future liquidity and capital requirements may vary depending on a number of factors, including market conditions in the construction industry, our ability to maintain compliance with covenants in our Bank Credit Facility, the level of competition and general and economic factors beyond our control. These and other developments could reduce our cash flow or require that we seek additional sources of funding. We cannot predict what effect these factors will have on our future liquidity.

### ***Cash used for Share Repurchases.***

We did not repurchase any of our shares during the three month period ended June 30, 2011. As of June 30, 2011, we had a remaining authorization to purchase 717,300 shares. Share repurchases may be made from time-to-time in the open market or in privately negotiated transactions. The timing and amount of any repurchases of shares will be determined by the Company's management, based on its evaluation of market and economic conditions and other factors.

### ***Dividends.***

Dividends paid were \$4.5 million and \$4.4 million for the three months ended June 30, 2011 and 2010, respectively. Each quarterly dividend payment is subject to review and approval by our Board of Directors, who will continue to evaluate our dividend payment amount on a quarterly basis.

**Table of Contents****Capital Expenditures.**

The following table compares capital expenditures:

	For the Three Months Ended June 30,	
	2011	2010
	(dollars in thousands)	
Land and Quarries	\$ 13	\$
Plants	2,408	2,800
Buildings, Machinery and Equipment	1,391	440
 Total Capital Expenditures	 \$ 3,812	 \$ 3,240

For fiscal 2012, we expect capital expenditures of approximately \$15.0 to \$20.0 million. Historically, we have financed such expenditures with cash from operations and borrowings under our revolving credit facility.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risks related to fluctuations in interest rates on our Bank Credit Facility. From time-to-time we have utilized derivative instruments, including interest rate swaps, in conjunction with our overall strategy to manage the debt outstanding that is subject to changes in interest rates. At June 30, 2011, outstanding borrowings under the Bank Credit Facility totaled \$11.0 million. At present, we do not utilize derivative financial instruments.

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

**Item 4. Controls and Procedures**

We have established a system of disclosure controls and procedures that are designed to ensure that information relating to the Company, which is required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 ( Exchange Act ), is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, in a timely fashion. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) was performed as of the end of the period covered by this quarterly report. This evaluation was performed under the supervision and with the participation of management, including our CEO and CFO. Based upon that evaluation, our CEO and CFO have concluded that these disclosure controls and procedures were effective.

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**Table of Contents**

**Part II. Other Information**

**ITEM 1. LEGAL PROCEEDINGS**

We are a party to certain ordinary legal proceedings incidental to our business. In general, although the outcome of litigation is inherently uncertain, we believe that all of the pending litigation proceedings in which the Company or any subsidiary are currently involved are likely to be resolved without having a material adverse effect on our consolidated financial condition or operations.

As previously reported, the Internal Revenue Service (the "IRS") completed the examination of our federal income tax returns for all of the fiscal years ended March 31, 2001 through 2006. The IRS issued Exam Reports and Notices of Proposed Adjustment on November 9, 2007 for the examination of the 2001, 2002 and 2003 tax years, and on February 5, 2010 for the examination of the 2004, 2005 and 2006 fiscal years, in which it proposed to deny certain depreciation deductions claimed by us with respect to assets acquired by us from Republic Group LLC in November 2000. We paid a deposit to the IRS of approximately \$45.8 million during November 2007 for the years ended March 31, 2001, 2002 and 2003, which was comprised of \$27.6 million in federal income taxes, \$5.7 million for penalties and \$12.5 million for interest. During March 2010, we paid the IRS an additional deposit of \$29.3 million for the years ended March 31, 2004, 2005 and 2006, which is comprised of \$18.1 million in federal income taxes, \$3.7 million for penalties and \$7.5 million for interest. These deposits were made to avoid imposition of the large corporate tax underpayment interest rates. On June 29, 2010 we received a Notice of Deficiency (commonly referred to as a "90 day letter") and shortly thereafter converted the previously made deposits to tax, penalty and interest paid. On May 4, 2011 we filed a lawsuit in Federal District Court to recover the \$97.9 million of taxes, penalties and interest ultimately paid. See Note (O) of the Notes to the Consolidated Financial Statements for more information.

On October 5, 2010, Region IX of the U.S. Environmental Protection Agency ("EPA") issued a Notice of Violation and Finding of Violation ("NOV") alleging violations by our subsidiary, Nevada Cement Company ("NCC"), of the Clean Air Act ("CAA"). NCC had previously responded to an EPA request for information pursuant to Section 114 of the CAA. The NOV alleges that NCC made certain physical changes to its facility in the 1990s without first obtaining permits as required by the Prevention of Significant Deterioration requirements and Title V permit requirements of the CAA. The EPA also alleges that NCC has failed to submit to EPA since 2002 certain reports as required by the National Emissions Standard for Hazardous Air Pollutants General Provisions and the Portland Cement Manufacturing Industry Standards. The NOV states that the EPA may seek penalties although it does not propose or assess any specific level of penalties or specify what relief the EPA will seek for the alleged violations. NCC believes it has substantial meritorious defenses to the allegations in the NOV. NCC met with the EPA in December 2010 to present its defenses and is working to negotiate a resolution of the NOV with the EPA. If a negotiated settlement cannot be reached, NCC intends to vigorously defend these matters in any enforcement action that may be pursued by EPA. As a part of a settlement, or should NCC fail in its defense in any enforcement action, NCC could be required to make substantial capital expenditures to modify its facility and incur increased operating costs. NCC could also be required to pay significant civil penalties. If litigation regarding this matter occurs, it could take many years to resolve the underlying issues alleged in the NOV. We are currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon our financial position or results of operations. Another of our subsidiaries, Mountain Cement Company, has also responded to a separate Section 114 information request letter from EPA under the CAA seeking information similar to the request previously received by NCC.



## **Table of Contents**

### **ITEM 1A. RISK FACTORS**

*We are affected by the level of demand in the construction industry, which is currently experiencing a significant downturn.*

Demand for our products is directly related to the level of activity in the construction industry, which includes residential, commercial and infrastructure construction. In particular, the downturn in residential construction and commercial construction has impacted, and will likely continue to adversely impact, our wallboard business. The residential construction industry is currently in the midst of a significant downturn. A similar downturn has occurred in commercial construction as well. Furthermore, activity in the infrastructure construction business is directly related to the amount of government funding available for such projects, which is very limited in light of the budget constraints being experienced by federal, state and local governments. Any decrease in the amount of government funds available for such projects or any decrease in construction activity in general (including a continued weakness in residential construction or commercial construction) could have a material adverse effect on our business, financial condition and results of operations.

*Our business is seasonal in nature, and this causes our quarterly results to vary significantly.*

A majority of our business is seasonal with peak revenues and profits occurring primarily in the months of April through November when the weather in our markets is more favorable to construction activity. Quarterly results have varied significantly in the past and are likely to vary significantly from quarter to quarter in the future. Such variations could have a negative impact on the price of our common stock.

*We are subject to the risk of unfavorable weather conditions during peak construction periods and other unexpected operational difficulties.*

Because a majority of our business is seasonal, unfavorable weather conditions and other unexpected operational difficulties during peak construction periods could adversely affect operating income and cash flow and could have a disproportionate impact on our results of operations for the full year.

*Our customers participate in cyclical industries, which are subject to industry downturns.*

A majority of our revenues are from customers who are in industries and businesses that are cyclical in nature and subject to changes in general economic conditions, including the current economic recession. In addition, since our operations are in a variety of geographic markets, our businesses are subject to the economic conditions in each such geographic market. General economic downturns or localized downturns in the regions where we have operations, including the current and any future downturns in the residential or commercial construction industries, generally have an adverse effect on demand for our products. Furthermore, additions to the production capacity of industry participants, particularly in the gypsum wallboard industry, have created an imbalance between supply and demand, which could continue to adversely affect the prices at which we sell our products and adversely affect the collectability of our receivables. In general, any further downturns in the industries to which we sell our products or any further increases in capacity in the gypsum wallboard, paperboard and cement industries could have a material adverse effect on our business, financial condition and results of operations.

*Volatility and disruption of financial markets could affect access to credit.*

Difficult economic conditions can cause a contraction in the availability, and increase the cost, of credit in the marketplace. This could potentially reduce the sources of liquidity for the Company and our customers.

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**Table of Contents**

*Our operations and our customers are subject to extensive governmental regulation, which can be costly and burdensome.*

Our operations and those of our customers are subject to and affected by federal, state and local laws and regulations with respect to such matters as land usage, street and highway usage, noise level and health and safety and environmental matters. In many instances, various certificates, permits or licenses are required in order for us or our customers to conduct business or for construction and related operations. Although we believe that we are in compliance in all material respects with regulatory requirements, there can be no assurance that we will not incur material costs or liabilities in connection with regulatory requirements or that demand for our products will not be adversely affected by regulatory issues affecting our customers. In addition, future developments, such as the discovery of new facts or conditions, new or stricter laws or regulations (including without limitation, climate change legislation described below), or stricter interpretations of existing laws or regulations, may impose new liabilities on us, require additional investment by us or prevent us from opening or expanding plants or facilities, any of which could have a material adverse effect on our financial condition or results of operations.

Legislative and regulatory measures to address emissions of Green House Gasses ( GHG s) are in various phases of discussions or implementation at the international, national, regional and state levels. In addition, the EPA has taken steps that would result in the regulation of GHGs as pollutants under the Clean Air Act. On September 22, 2009, the EPA issued a Mandatory Reporting of Greenhouse Gases final rule, which took effect December 29, 2009. This rule establishes a new 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. In addition, on December 15, 2009, the EPA published a final rule finding that emissions of GHGs from automobiles endanger public health and welfare and it proposed a rule to limit GHG emissions from automobiles. This rule, according to the EPA, will trigger construction and operating permit requirements for large stationary sources, including cement plants. In a final rule issued on May 13, 2010, known as EPA s Tailoring Rule, any modification or expansion of our existing plants (or construction of a new plant) after January 1, 2011 that triggers New Source Review ( NSR ) requirements for non-GHG emissions will also trigger NSR for GHG if our proposed GHG emissions exceed 75,000 tons per year. This would require the permitting of, and evaluation of potential controls for, GHG emissions. Effective July 1, 2011, any modification or expansion of our existing plants that results in an increase of our GHG emissions in excess of 75,000 tons per year, or construction of a new plant with the potential to emit 100,000 tons per year, will require NSR permitting and the implementation best available control technology for GHG emissions. These limitations on emissions of GHGs from our equipment or operations could require us to incur costs to reduce such emissions and could ultimately affect our operations and our ability to obtain air permits for new or modified facilities.

The potential consequences of GHG emission reduction measures for our operations are potentially significant because (1) the cement manufacturing process requires the combustion of large amounts of fuel, (2) in our cement manufacturing process, the production of carbon dioxide is a byproduct of the calcination process, whereby carbon dioxide is removed from calcium carbonate to produce calcium oxide, and (3) our gypsum wallboard manufacturing process combusts a significant amount of fossil fuel, especially natural gas. At this time, it is not possible to accurately estimate how laws or regulations addressing GHG emissions would impact our business. 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 the gypsum wallboard manufacturing industry and a material adverse effect on us and our results of operations.

On, September 9, 2010, the EPA finalized the National Emissions Standards for Hazardous Air Pollutants, or NESHAP, for Portland cement plants ( PC MACT ). The PC MACT will require a significant reduction in emissions of certain hazardous air pollutants from Portland cement kilns. The PC MACT sets limits on mercury emissions from existing Portland cement kilns and increases the stringency of emission limits for new kilns. The PC MACT also sets emission limits for total hydrocarbons, particulate matter and sulfur dioxide from cement kilns of all sizes and would reduce hydrochloric acid

## **Table of Contents**

emissions from kilns that are large emitters. The PC MACT takes full effect in 2013, although there is an opportunity for a one-year delay under certain circumstances. This rule will materially increase capital costs and costs of production for the Company and the industry as a whole.

In 2010 the EPA released proposed regulations to address the storage and disposal of coal combustion products, which include fly ash and flue gas desulfurization gypsum ( synthetic gypsum ). We use synthetic gypsum in wallboard manufactured at our Georgetown, SC plant. In its release, the EPA is proposing two alternative regulations. Under one proposal, the EPA would characterize coal combustion products destined for disposal as a special waste under Subtitle C of the RCRA, which is the Subtitle that regulates hazardous wastes. However, under this proposal, beneficial encapsulated use of coal combustion products, including synthetic gypsum, would continue to be exempt under the Bevill Amendment and not warrant regulation. Under the other proposal, the EPA would continue to regulate coal combustion products under Subtitle D of RCRA, which regulates solid wastes that are not hazardous wastes. The EPA has emphasized that it does not wish to discourage the beneficial reuse of coal combustion products under either of its two proposals. It is not possible to accurately predict the regulations that will be ultimately adopted. However, it is possible that EPA s rulemaking could affect our business, financial condition and results of operations, depending on how any such regulation affects our costs or the demand for our products utilizing synthetic gypsum.

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

The products sold by us are commodities and competition among manufacturers is based largely on price. Prices are often subject to material changes in response to relatively minor fluctuations in supply and demand, general economic conditions and other market conditions beyond our control. Increases in the industry s production capacity for products such as gypsum wallboard or cement or increases in cement imports tend to create an oversupply of such products and negatively impact product prices. There can be no assurance that prices for products sold by us will not decline in the future or that such declines will not have a material adverse effect on our business, financial condition and results of operations.

### ***Increases in interest rates could adversely affect demand for our products, which would have an adverse effect on our results of operations.***

Our business is significantly affected by the movement of interest rates. Interest rates have a direct impact on the level of residential, commercial and infrastructure construction activity. Higher interest rates could result in decreased demand for our products, which would have a material adverse effect on our business and results of operations. In addition, increases in interest rates could result in higher interest expense related to borrowings under our credit facilities.

### ***Our results of operations are subject to significant changes in the cost and availability of fuel, energy and other raw materials.***

Major cost components in each of our businesses are the costs of fuel, energy and raw materials. Significant increases in the costs of fuel, energy or raw materials or substantial decreases in their availability could materially and adversely affect our sales and operating profits. Prices for fuel, energy or raw materials used in connection with our businesses could change significantly in a short period of time for reasons outside our control. Prices for fuel and electrical power, which are significant components of the costs associated with our gypsum wallboard and cement businesses, have fluctuated significantly in recent years and are expected to increase in the future. In the event of large or rapid increases in prices, we may not be able to pass the increases through to our customers in full, which would reduce our operating margin.

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**Table of Contents**

***We may become subject to significant clean-up, remediation and other liabilities under applicable environmental laws.***

Our operations are subject to state, federal and local environmental laws and regulations, which impose liability for cleanup or remediation of environmental pollution and hazardous waste arising from past acts. These laws and regulations also require pollution control and prevention, site restoration and operating permits and/or approvals to conduct certain of our operations. Certain of our operations may from time-to-time involve the use of substances that are classified as toxic or hazardous substances within the meaning of these laws and regulations. Additionally, any future laws or regulations addressing greenhouse gas emissions would likely have a negative impact on our business or results of operations, either through the imposition of raw material or production limitations, fuel-use or carbon taxes or emission limitations or reductions. We are unable to estimate accurately the impact on our business or results of operations of any such law or regulation at this time. Risk of environmental liability (including the incurrence of fines, penalties or other sanctions or litigation liability) is inherent in the operation of our businesses. As a result, it is possible that environmental liabilities and compliance with environmental regulations could have a material adverse effect on our operations in the future. See Item 1. Business Industry Segment Information Environmental Matters for more information on our regulatory and environmental matters.

***Significant changes in the cost and availability of transportation could adversely affect our business, financial condition and results of operations.***

Some of the raw materials used in our manufacturing processes, such as coal or coke, are transported to our facilities by truck or rail. In addition, the transportation costs associated with the delivery of our wallboard products are a significant portion of the variable cost of our gypsum wallboard segment. Significant increases in the cost of fuel or energy can result in material increases in the cost of transportation which could materially and adversely affect our operating profits. In addition, reductions in the availability of certain modes of transportation such as rail or trucking could limit our ability to deliver product and therefore materially and adversely affect our operating profits.

***Our debt agreements contain restrictive covenants and require us to meet certain financial ratios and tests, which limit our flexibility and could give rise to a default if we are unable to remain in compliance.***

Our amended and restated credit agreement and the note purchase agreements governing our senior notes contain, among other things, covenants that limit our ability to finance future operations or capital needs or to engage in other business activities, including our ability to:

Incur additional indebtedness;

Sell assets or make other fundamental changes;

Engage in mergers and acquisitions;

Pay dividends and make other restricted payments;

Make investments, loans, advances or guarantees;

Encumber the assets of the Company and its restricted subsidiaries;

Enter into transactions with our affiliates.

In addition, these agreements require us to meet and maintain certain financial ratios and tests, which may require that we take action to reduce our debt or to act in a manner contrary to our business objectives. Events beyond our control, including the severity and duration of the current industry downturn and changes in general business and economic conditions, may impair our ability to comply with these covenants or meet those financial ratios and tests. A breach of any of these covenants or failure to maintain the required ratios and meet the required tests may

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result in an event of default under those agreements. This may allow the lenders under those agreements to declare all amounts outstanding thereunder to be immediately due and payable, terminate any commitments to extend further credit to us

## **Table of Contents**

and pursue other remedies available to them under the applicable agreements. If this occurs, our indebtedness may be accelerated and we may not be able to refinance the accelerated indebtedness on favorable terms, or at all, or repay the accelerated indebtedness.

### ***Our production facilities may experience unexpected equipment failures, catastrophic events and scheduled maintenance.***

Interruptions in our production capabilities may cause our productivity and results of operations to decline significantly during the affected period. Our manufacturing processes are dependent upon critical pieces of equipment. Such equipment may, on occasion, be out of service as a result of unanticipated events such as fires, explosions, violent weather conditions or unexpected operational difficulties. We also have periodic scheduled shut-downs to perform maintenance on our facilities. Any significant interruption in production capability may require us to make significant capital expenditures to remedy problems or damage as well as cause us to lose revenue due to lost production time, which could have a material adverse effect on our results of operations and financial condition.

### ***Pension assets and costs associated with employee benefit plans generally are affected by economic and market conditions.***

The current economic environment could negatively impact the fair value of pension assets, which could increase future funding requirements to our pension trusts. More generally, our costs are significantly affected by expenses related to our employee benefit plans. The recognition of costs and liabilities associated with these plans for financial reporting purposes is affected by assumptions made by management and used by actuaries engaged by us to calculate the projected and accumulated benefit obligations and the annual expense recognized for these plans. Economic and market factors and conditions could affect any of these assumptions and may affect our estimated and actual employee benefit plan costs and our results of operations.

### ***Inflation and increases in interest rates could adversely affect our business and demand for our products, which would have an adverse effect on our results of operations.***

Our business is significantly affected by the movement of interest rates. Interest rates have a direct impact on the level of residential, commercial and infrastructure construction activity by impacting the cost of borrowed funds to builders. Higher interest rates could result in decreased demand for our products, which would have a material adverse effect on our business and results of operations. In addition, increases in interest rates could result in higher interest expense related to borrowings under our credit facilities. Inflation can result in higher interest rates. With inflation, the costs of capital increase, and the purchasing power of our cash resources can decline. Current or future efforts by the government to stimulate the economy may increase the risk of significant inflation and its direct and indirect adverse impact on our business and results of operations.

### ***This report includes various forward-looking statements, which are not facts or guarantees of future performance and which are subject to significant risks and uncertainties.***

This report and other materials we have filed or will file with the SEC, as well as information included in oral statements or other written statements made or to be made by us, contain or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. You can identify these statements by the fact that they do not relate to matters of a strictly factual or historical nature and generally discuss or relate to forecasts, estimates or other expectations regarding future events. Generally, the words believe, expect, intend, estimate, anticipate, project, may, could, might, will and similar expressions identify forward-looking statements, including statements related to expected operating and performing results, planned transactions, plans and objectives of management, future developments or conditions in the industries in which we participate, including future prices for our products, audits and legal proceedings to which we are a party and other trends, developments and uncertainties that may affect our business in the future.

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## **Table of Contents**

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

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

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

The disclosure required under this Item is included in Item 1. of this Quarterly Report on Form 10-Q under the heading "Cash Used for Share Repurchase" and is incorporated herein by reference.

### **Item 5. Other Information**

Section 1503 of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires companies that are operators (as such term is defined in the Federal Mine Safety and Health Act of 1977 (the Mine Act)) to disclose certain mine safety information in each periodic report to the Commission. The disclosures required by Section 1503 are included in Exhibit 99.1 to this Form 10-Q.

### **Item 6. Exhibits**

- 10.1 Eagle Materials Inc. Salaried Incentive Compensation Program for Fiscal Year 2012 (filed as Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission (the Commission) on June 23, 2011, and incorporated herein by reference).<sup>(1)</sup>
- 10.2 Eagle Materials Inc. Cement Companies Salaried Incentive Compensation Program for Fiscal Year 2012 (filed as Exhibit 10.2 to the Current Report on Form 8-K filed with the Commission on June 23, 2011, and incorporated herein by reference).<sup>(1)</sup>
- 10.3 Eagle Materials Inc. Concrete and Aggregates Companies Salaried Incentive Compensation Program for Fiscal Year 2012 (filed as Exhibit 10.3 to the Current Report on Form 8-K filed with the Commission on June 23, 2011, and incorporated herein by reference).<sup>(1)</sup>
- 10.4 Eagle Materials Inc. Special Situation Program for Fiscal Year 2012 (filed as Exhibit 10.4 to the Current Report on Form 8-K filed with the Commission on June 23, 2011, and incorporated herein by reference).<sup>(1)</sup>
- 12.1\* Computation of Ratio of Earnings to Fixed Charges.

**Table of Contents**

- 31.1\* Certification of the Chief Executive Officer of Eagle Materials Inc. pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934, as amended.
- 31.2\* Certification of the Chief Financial Officer of Eagle Materials Inc. pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934, as amended.
- 32.1\* Certification of the Chief Executive Officer of Eagle Materials Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification of the Chief Financial Officer of Eagle Materials Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1\* Mine Safety Disclosure
- 101 The following information from our Quarterly Report on Form 10-Q for the first quarter of fiscal 2011, filed with the SEC on August 5, 2011, formatted in Extensible Business Reporting Language ( XBRL ): (i) the consolidated income statements for the three month periods ended June 30, 2011 and June 30, 2010, (ii) the consolidated balance sheets at June 30, 2011 and March 31, 2011, (iii) the consolidated statements of cash flows for the three months ended June 30, 2011 and June 30, 2010, and (iv) the notes to the consolidated financial statements (tagged as blocks of text).<sup>(2)</sup>

\* Filed herewith.

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

<sup>(2)</sup> Pursuant to Rule 406T of Regulation S-T, these interactive files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.



**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	EAGLE MATERIALS INC. Registrant
August 5, 2011	/s/ STEVEN R. ROWLEY Steven R. Rowley  President and Chief Executive Officer  (principal executive officer)
August 5, 2011	/s/ D. CRAIG KESLER D. Craig Kesler  Executive Vice President Finance and Administration and Chief Financial Officer  (principal financial officer)
August 5, 2011	/s/ WILLIAM R. DEVLIN William R. Devlin  Senior Vice President Controller and Chief Accounting Officer  (principal accounting officer)