EAGLE MATERIALS INC
Form 10-Q
February 06, 2009
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United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

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

For the Quarterly Period Ended

December 31, 2008

Commission File Number 1-12984

Eagle Materials Inc.

Delaware

(State of Incorporation)

75-2520779

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

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

(Address of principal executive offices)

(214) 432-2000

(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 x No ¨

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

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

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

As of February 5, 2009, the number of outstanding shares of common stock was:

Class	Outstanding Shares
Common Stock, $.01 Par Value	43,554,826

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Eagle Materials Inc. and Subsidiaries

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December 31, 2008

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Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Earnings

(dollars in thousands, except share data)

(unaudited)

	For the Three Months Ended December 31, 2008	For the Three Months Ended December 31, 2007	For the Nine Months Ended December 31, 2008	For the Nine Months Ended December 31, 2007
REVENUES				
Gypsum Wallboard	$ 61,393	$ 73,371	$ 217,374	$ 266,761
Cement	45,874	57,697	161,955	204,069
Paperboard	15,555	19,433	55,710	61,947
Concrete and Aggregates	14,901	22,148	54,682	70,434
Other, net	106	356	3,845	1,494
	137,829	173,005	493,566	604,705
COSTS AND EXPENSES				
Gypsum Wallboard	58,593	66,493	221,302	217,463
Cement	32,544	40,951	115,642	138,846
Paperboard	11,517	14,217	43,615	48,692
Concrete and Aggregates	14,495	19,013	50,801	59,148
Corporate General and Administrative	5,140	4,300	14,110	14,393
Interest Expense, net	7,671	5,811	23,791	13,666
	129,960	150,785	469,261	492,208
EQUITY IN EARNINGS OF UNCONSOLIDATED JOINT VENTURE	8,681	9,854	25,421	25,304
EARNINGS BEFORE INCOME TAXES	16,550	32,074	49,726	137,801
Income Taxes	5,291	9,615	14,992	43,279
NET EARNINGS	$ 11,259	$ 22,459	$ 34,734	$ 94,522
EARNINGS PER SHARE:				
Basic	$ 0.26	$ 0.51	$ 0.80	$ 2.07
Diluted	$ 0.26	$ 0.50	$ 0.79	$ 2.05
AVERAGE SHARES OUTSTANDING:				
Basic	43,517,844	44,019,262	43,473,363	46,227,109
Diluted	43,826,789	44,596,051	43,869,479	46,834,390
CASH DIVIDENDS PER SHARE:	$ 0.10	$ 0.20	$ 0.50	$ 0.60

See notes to unaudited consolidated financial statements.

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Eagle Materials Inc. and Subsidiaries

Consolidated Balance Sheets

(dollars in thousands)

	December 31, 2008 (unaudited)	March 31, 2008
ASSETS		
Current Assets -		
Cash and Cash Equivalents	$ 47,824	$ 18,960
Accounts and Notes Receivable	50,614	62,949
Inventories	102,246	98,717
Total Current Assets	200,684	180,626
Property, Plant and Equipment -	1,086,826	1,079,742
Less: Accumulated Depreciation	(407,514)	(374,186)
Property, Plant and Equipment, net	679,312	705,556
Notes Receivable	6,828	7,286
Investment in Joint Venture	38,016	40,095
Goodwill and Intangible Assets	152,971	153,449
Other Assets	27,115	27,835
	$ 1,104,926	$ 1,114,847
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities -		
Accounts Payable	$ 25,140	$ 50,961
Federal Income Taxes Payable	2,470	
Accrued Liabilities	46,909	56,315
Total Current Liabilities	74,519	107,276
Long-term Debt	400,000	400,000
Other Long-term Liabilities	88,521	84,342
Deferred Income Taxes	116,648	117,542
Total Liabilities	679,688	709,160
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 43,548,826 and 43,430,297 Shares, respectively	435	434
Capital in Excess of Par Value	6,576	
Accumulated Other Comprehensive Losses	(1,368)	(1,368)
Retained Earnings	419,595	406,621
Total Stockholders Equity	425,238	405,687
	$ 1,104,926	$ 1,114,847

See notes to the unaudited consolidated financial statements.

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Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(unaudited dollars in thousands)

	For the Nine Months Ended December 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Earnings	$ 34,734	$ 95,856
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities -		
Depreciation, Depletion and Amortization	38,533	32,354
Gain on Sale of Property, Plant and Equipment	(2,596)	
Deferred Income Tax Provision	(1,827)	(6,777)
Stock Compensation Expense	4,839	4,814
Equity in Earnings of Unconsolidated Joint Venture	(25,421)	(25,304)
Excess Tax Benefits from Share Based Payment Arrangements	(603)	(1,235)
Distributions from Joint Venture	27,500	30,000
Changes in Operating Assets and Liabilities:		
Accounts and Notes Receivable	12,793	24,993
Inventories	(3,529)	(7,090)
Accounts Payable and Accrued Liabilities	(25,788)	(23,706)
Other Assets	(1,434)	(901)
Income Taxes Payable	4,862	(21,499)
Net Cash Provided by Operating Activities	62,063	101,505
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, Plant and Equipment Additions	(12,846)	(75,937)
Proceeds from Sale of Property, Plant and Equipment	3,996	
Net Cash Used in Investing Activities	(8,850)	(75,937)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Long-term Debt		200,000
Dividends Paid to Stockholders	(26,087)	(26,793)
Purchase and Retirement of Common Stock		(153,445)
Proceeds from Stock Option Exercises	1,135	2,040
Excess Tax Benefits from Share Based Payment Arrangements	603	1,235
Net Cash (Used in) Provided by Financing Activities	(24,349)	23,037
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,864	48,605
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	18,960	17,215
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 47,824	$ 65,820

See notes to the unaudited consolidated financial statements.

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Eagle Materials Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

December 31, 2008

(A) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements as of and for the three and nine month periods ended December 31, 2008, 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 29, 2008.

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.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure certain financial instruments and other eligible items at fair value when the items are not otherwise currently required to be measured at fair value. Under SFAS 159, the decision to measure items at fair value is made at specified election dates on an irrevocable instrument-by-instrument basis. We adopted SFAS 159 on April 1, 2008 and decided not to elect the fair value option.

(B) SHARE-BASED EMPLOYEE COMPENSATION

Long-Term Compensation Plans

Options. We granted a target number of stock options during June 2007 to certain individuals (the Fiscal 2008 Stock Option Grant) that may be earned, in whole or in part, if certain performance conditions are satisfied. The Fiscal 2008 Stock Option Grant will vest over a seven year period depending upon the achievement of specified levels of earnings per share and operating earnings. Options are vested as they are earned, and any options not earned at the end of the seven year period will be forfeited. These stock options were valued at the grant date using the Black-Scholes option pricing model. Certain other employees that were not included in the original grant were granted options under the Fiscal 2008 Stock Option Grant during the first quarter of fiscal 2009. These awards vest identically to the original grant, and expire on the same day as the original grants. The weighted-average assumptions used in the Black-Scholes model to value the option awards in fiscal 2009 are as follows: annual dividend rate of 2.0%, expected volatility of 36%, risk free interest rate of 3.3% and expected life of 6.0 years. We are expensing the fair value of the options granted in fiscal 2009 over a five year period, as adjusted for expected forfeitures.

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In July 2008, we granted options to members of the Board of Directors (the Fiscal 2009 Board of Directors Grant). Options granted under the Fiscal 2009 Board of Directors Grant vested immediately, and can be exercised from the date of grant until their expiration at the end of seven years. In August 2008, the Compensation Committee of the Board of Directors approved an incentive equity award to certain individuals that may be earned, in whole or in part, if certain performance conditions are satisfied (the Fiscal 2009 Stock Option Grant). The Fiscal 2009 Stock Option Grant is structured to provide short-term incentives to address the changed circumstances in the economy and our business since the issuance of the Fiscal 2008 Stock Option Grant. The performance and vesting criteria for the Fiscal 2009 Stock Option Grant is based on the achievement of specified levels of earnings before interest, taxes, depreciation and amortization, as well as achievement of certain safety metrics for the nine month period ending March 31, 2009. The options have a term of seven years, and are vested as earned. Any awards not earned at March 31, 2009 will be forfeited. These stock options were valued at the grant date using the Black-Scholes option pricing model. The weighted-average assumptions used in the Black-Scholes model to value the option awards granted in fiscal 2009 are as follows: annual dividend rate of 2.0%, expected volatility of 36%, risk free interest rate of 3.4% and expected life of 6.0 years. We are expensing the fair value of the Fiscal 2009 Stock Option Grant over a nine month period, as adjusted for expected forfeitures.

Stock option expense for all outstanding stock option awards totaled approximately $1.7 million and $3.9 million for the three and nine month periods ended December 31, 2008, respectively, as compared to $1.1 million and $4.5 million expensed for the three and nine month periods ended December 31, 2007, respectively. At December 31, 2008, there was approximately $8.6 million of unrecognized compensation cost related to outstanding stock options which is expected to be recognized over a weighted-average period of 5.3 years.

The following table represents stock option activity for the nine month period ended December 31, 2008:

	Number of Shares	Weighted-Average Exercise Price
Outstanding Options at Beginning of Period	2,787,047	$ 34.26
Granted	912,910	$ 27.84
Exercised	(104,241)	$ 11.01
Cancelled		
Outstanding Options at End of Period	3,595,716	$ 33.30
Options Exercisable at End of Period	1,387,945	
Weighted-Average Fair Value of Options Granted during the Period	$ 9.07	

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The following table summarizes information about stock options outstanding at December 31, 2008:

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Number of Shares Outstanding	Weighted - Average Remaining Contractual Life	Weighted - Average Exercise Price	Number of Shares Outstanding	Weighted - Average Exercise Price
$ 6.80 - $ 8.15	237,215	1.99	$ 7.57	237,215	$ 7.57
$ 9.57 - $ 13.43	411,524	3.80	$ 12.05	411,524	$ 12.05
$ 21.52 - $ 29.08	1,103,970	6.01	$ 26.08	492,970	$ 25.33
$ 34.09 - $ 40.78	416,670	4.65	$ 37.06	209,870	$ 38.50
$ 47.53 - $ 62.83	1,426,337	5.58	$ 48.20	36,366	$ 61.77
	3,595,716	5.16	$ 33.30	1,387,945	$ 21.30

At December 31, 2008, both the outstanding options and exercisable options did not have any intrinsic value. The total intrinsic value of options exercised during the three and nine month periods ended December 31, 2008 was approximately $0.1 million and $1.7 million, respectively.

Restricted Stock Units. As part of the Fiscal 2009 Stock Option Grant, the same employees receiving options also received restricted stock units (RSUs). The vesting criteria for the RSUs are similar to those criteria for the Fiscal 2009 Stock Option Grant, and any RSUs earned will become vested one year from the date of issuance. Any RSUs not vested will be forfeited. The RSUs are being expensed over a one year period, less expected forfeitures. The value of RSUs granted in previous years is being amortized over a three year period for grants to employees and a period not to exceed ten years for grants to directors. Expense related to RSUs was approximately $0.4 million and $0.8 million for the three and nine month periods ended December 31, 2008, respectively, as compared to $0.2 million and $0.5 million for the three and nine month periods ended December 31, 2007, respectively.

At December 31, 2008, there was approximately $1.5 million of unearned compensation from restricted stock units that will be recognized over a weighted-average period of 2.2 years.

Restricted Stock. We granted 15,000 shares of restricted stock to an employee on June 10, 2008. The restricted stock was valued at approximately $0.5 million, based on the closing price of the stock on the date of the grant. The restrictions lapse in annual increments over a seven year period, with the expense recognized ratably over a seven year period.

Shares available for future stock option and restricted stock unit grants under existing plans were 265,120 at December 31, 2008.

(C) PENSION AND EMPLOYEE BENEFIT PLANS

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

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

	For the Three Months Ended December 31, 2008 (dollars in thousands)	For the Three Months Ended December 31, 2007 (dollars in thousands)	For the Nine Months ended December 31, 2008 (dollars in thousands)	For the Nine Months ended December 31, 2007 (dollars in thousands)
Service Cost Benefits Earned during the Period	$ 140	$ 133	$ 419	$ 399
Interest Cost of Benefit Obligations	250	225	751	675
Expected Return on Plan Assets	(280)	(280)	(839)	(840)
Recognized Net Actuarial Loss	77	33	230	99
Amortization of Prior-Service Cost	36	37	108	111
Net Periodic Pension Cost	$ 223	$ 148	$ 669	$ 444

(D) STOCKHOLDERS EQUITY

A summary of changes in stockholders equity follows:

	For the Nine Months Ended December 31, 2008 (dollars in thousands)
Common Stock	
Balance at Beginning of Period	$ 434
Stock Option Exercises	1
Balance at End of Period	435
Capital in Excess of Par Value	
Balance at Beginning of Period	
Share-Based Activity	1,737
Stock Option Exercises	4,839
Balance at End of Period	6,576
Retained Earnings	
Balance at Beginning of Period	406,621
Dividends Declared to Stockholders	(21,760)
Net Earnings	34,734
Balance at End of Period	419,595
Accumulated Other Comprehensive Losses	
Balance at Beginning of Period	(1,368)
Balance at End of Period	(1,368)

Total Stockholders Equity	$	425,238

There were no share repurchases during the three month period ended December 31, 2008. As of December 31, 2008, we have authorization to purchase an additional 717,300 shares.

(E) CASH FLOW INFORMATION - SUPPLEMENTAL

Cash payments made for interest were $24.4 million and $15.4 million for nine month periods ended December 31, 2008 and 2007, respectively. Net payments made for federal and state income taxes during the nine month periods ended December 31, 2008 and 2007, were $13.1 and $69.5 million, respectively. The payments made during the nine month period ended December 31, 2007 include approximately $33.3 million related to an exam by the Internal Revenue Service, which is discussed in Footnote (L) of the Unaudited Consolidated Financial Statements.

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(F) COMPREHENSIVE INCOME

Comprehensive income for the three and nine month periods ended December 31, 2008 and 2007 was identical to net income for the same periods.

As of December 31, 2008, we had an accumulated other comprehensive loss of $1.4 million, in connection with recognizing the difference between the fair value of the pension assets and the projected benefit obligation.

(G) INVENTORIES

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

	As of	
	December 31, 2008	March 31, 2008
	(dollars in thousands)	
Raw Materials and Material-in-Progress	$ 27,994	$ 27,212
Gypsum Wallboard	8,859	6,823
Finished Cement	12,115	11,894
Paperboard	4,988	5,677
Aggregates	10,460	11,229
Repair Parts and Supplies	35,379	32,233
Fuel and Coal	2,451	3,649
	$ 102,246	$ 98,717

(H) COMPUTATION OF EARNINGS PER SHARE

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

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2008	2007	2008	2007
Weighted-Average Shares of Common Stock Outstanding	43,517,844	44,019,262	43,473,363	46,227,109
Common Equivalent Shares:				
Assumed Exercise of Outstanding Dilutive Options	651,489	1,321,978	900,131	1,373,658
Less Shares Repurchased from Assumed Proceeds of Assumed Exercised Options	(447,291)	(813,431)	(594,346)	(832,392)
Restricted Shares	104,747	68,242	90,331	66,015
Weighted-Average Common and Common Equivalent Shares Outstanding	43,826,789	44,596,051	43,869,479	46,834,390
Shares Excluded Due to Anti-dilution effects	2,946,977	1,632,043	2,360,392	1,382,866

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(I) ACCRUED EXPENSES

Accrued expenses consist of the following:

	As of	
	December 31, 2008	**March 31, 2008**
	(dollars in thousands)	
Payroll and Incentive Compensation	$ 10,397	$ 15,372
Benefits	13,141	10,979
Interest	4,521	10,391
Insurance	5,794	5,673
Other	13,056	13,900
	$ 46,909	$ 56,315

(J) CREDIT FACILITIES

On February 5, 2009, we accepted for repurchase $93.0 million in aggregate principal amount of our Series 2007A Senior Notes for $88.3 million, plus accrued interest of $2.0 million, and $7.0 million in aggregate principal amount of our Series 2005A Senor Notes for $6.7 million, plus accrued interest of $0.1 million. The purchase of the Senior Notes was funded through borrowings under our Bank Credit Facility. The following table reflects the composition of our long-term debt after the purchase of the Senior Notes.

Long-term debt consists of the following:

		As of	
	Subsequent to Repurchase	**December 31, 2008**	**March 31, 2008**
		(dollars in thousands)	
Bank Credit Facility	$ 95,000	$	$
Senior Notes	300,000	400,000	400,000
	$ 395,000	$ 400,000	$ 400,000

Bank Credit Facility -

We entered into a $350.0 million credit facility on December 16, 2004. On June 30, 2006, we amended the Bank Credit Facility (the Bank Credit Facility) to extend the expiration date from December 2009 to June 2011, and to reduce the borrowing rates and commitment fees. All outstanding obligations under the Bank Credit Facility are due and payable on the expiration date. Borrowings under the Bank Credit Facility are guaranteed by all major operating subsidiaries of the Company. Outstanding principal amounts on the Bank Credit Facility bear interest at a variable rate equal to LIBOR plus an agreed margin (ranging from 55 to 150 basis points), which is to be established quarterly based upon the Company s ratio of consolidated EBITDA, (defined as earnings before interest, taxes, depreciation and amortization) to its consolidated gross indebtedness. 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. Borrowings under the Bank Credit Facility are subject to acceleration upon the occurrence of customary events of default described more fully in the Bank Credit Facility.

The Bank Credit Facility has a $25 million letter of credit facility. Under the letter of credit facility, the Company pays a fee at a per annum rate equal to the applicable margin for Eurodollar loans in effect from time to time plus a one-time letter of credit fee in an amount equal to 0.125% of the initial stated amount. At December 31, 2008, we had $7.0 million of letters of credit outstanding.

Subsequent to our purchase of $100 million of Senior Notes discussed above, the Company has $248.0 million of borrowings available under the Bank Credit Facility. Under the Bank Credit Facility, we are required to adhere to certain financial and other covenants, including covenants relating to the Company s interest coverage ratio and consolidated funded indebtedness ratio.

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. Subsequent to our purchase of $7.0 million in aggregate principal amount of these notes during February 2009, the amounts outstanding for 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	$ 77.2 million	November 15, 2017	5.48%

Interest for each tranche of Notes is payable semi-annually on May 15th and November 15th 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. Subsequent to our purchase of $93.0 million in aggregate principal amount of these notes during February 2009, the amounts outstanding for 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 2nd and October 2nd 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 December 31, 2008.

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.

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(K) 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: Gypsum Wallboard, Cement, Recycled Paperboard, and Concrete and Aggregates, with Gypsum Wallboard and Cement being our principal lines of business. These operations are conducted in the United States and include the mining of gypsum and the manufacture and sale of gypsum wallboard, 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 manufacture and sale of recycled paperboard to the gypsum wallboard industry and other paperboard converters and 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.

We operate five gypsum wallboard plants, two gypsum wallboard reload centers, a gypsum wallboard distribution center, four cement plants, eleven cement distribution terminals, 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 United States. 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 organizes the segments within the Company for making operating decisions and assessing performance.

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

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2008	2007	2008	2007
	(dollars in thousands)		(dollars in thousands)	
Revenues -				
Gypsum Wallboard	$ 61,393	$ 73,371	$ 217,374	$ 266,761
Cement	71,411	85,818	243,461	284,049
Paperboard	25,864	32,091	94,464	102,000
Concrete and Aggregates	15,139	22,370	55,416	71,336
Other, net	106	356	3,845	1,494
Sub-total	173,913	214,006	614,560	725,640
Less: Intersegment Revenues	(12,129)	(15,311)	(44,921)	(48,217)
Less: Joint Venture Revenues	(23,955)	(25,690)	(76,073)	(72,718)
Net Revenues	$ 137,829	$ 173,005	$ 493,566	$ 604,705

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2008	2007	2008	2007
	(dollars in thousands)		(dollars in thousands)	
Intersegment Revenues -				
Cement	$ 1,582	$ 2,431	$ 5,433	$ 7,262
Paperboard	10,309	12,658	38,754	40,053
Concrete and Aggregates	238	222	734	902
	$ 12,129	$ 15,311	$ 44,921	$ 48,217
Cement Sales Volume (M Tons) -				
Wholly owned Operations	461	571	1,601	2,079
Joint Venture	240	279	765	792
	701	850	2,366	2,821

	For the Three Months Ended December 31, 2008	2007	For the Nine Months Ended December 31, 2008	2007
	(dollars in thousands)		(dollars in thousands)	
Operating Earnings (Loss)-				
Gypsum Wallboard	$ 2,800	$ 6,878	$ (3,928)	$ 49,298
Cement	22,011	26,600	71,734	90,527
Paperboard	4,038	5,216	12,095	13,255
Concrete and Aggregates	406	3,135	3,881	11,286
Other, net	106	356	3,845	1,494
Sub-total	29,361	42,185	87,627	165,860
Corporate General and Administrative	(5,140)	(4,300)	(14,110)	(14,393)
Earnings Before Interest and Income Taxes	24,221	37,885	73,517	153,467
Interest Expense, net	(7,671)	(5,811)	(23,791)	(13,666)
Earnings Before Income Taxes	$ 16,550	$ 32,074	$ 49,726	$ 137,801
Cement Operating Earnings -				
Wholly owned Operations	$ 13,330	$ 16,746	$ 46,313	$ 65,223
Joint Venture	8,681	9,854	25,421	25,304
	$ 22,011	$ 26,600	$ 71,734	$ 90,527
Capital Expenditures [(1)] -				
Gypsum Wallboard	$ 562	$ 9,487	$ 3,554	$ 60,489
Cement	1,114	3,424	7,787	11,366
Paperboard	130	485	528	1,382
Concrete and Aggregates		417	965	2,543
Other	5	34	12	157
	$ 1,811	$ 13,847	$ 12,846	$ 75,937
Depreciation, Depletion and Amortization [(1)] -				
Gypsum Wallboard	$ 5,669	$ 4,233	$ 17,342	$ 12,594
Cement	3,497	3,257	10,621	9,675
Paperboard	2,276	2,180	6,805	6,418
Concrete and Aggregates	1,067	1,026	3,081	3,020
Other, net	230	223	684	647
	$ 12,739	$ 10,919	$ 38,533	$ 32,354

	As of December 31, 2008	March 31, 2008
	(dollars in thousands)	
Identifiable Assets [(1)] -		
Gypsum Wallboard	$ 492,891	$ 516,706
Cement	320,143	320,869
Paperboard	161,034	174,071

Concrete and Aggregates	57,508	62,410
Corporate and Other	73,350	40,791
	$ 1,104,926	$ 1,114,847

(1) Basis conforms with equity method accounting.

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Segment operating earnings, including the proportionately consolidated 50% interest in the revenues and expenses of the Joint Venture, represent revenues, less direct operating expenses, segment depreciation, and segment selling, general and administrative expenses. Corporate assets consist primarily of cash and cash equivalents, general office assets, miscellaneous other assets and unrecognized tax benefits. See Footnote (L) of the Unaudited Consolidated Financial Statements for additional information. The segment breakdown of goodwill is as follows:

	As of	
	December 31, 2008	March 31, 2008
	(dollars in thousands)	
Gypsum Wallboard	$ 116,618	$ 116,618
Cement	8,359	8,359
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 December 31, 2008 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 2009, 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 our 50% interest in those amounts):

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2008	2007	2008	2007
	(dollars in thousands)		(dollars in thousands)	
Revenues	$ 44,899	$ 49,835	$ 144,693	$ 140,326
Gross Margin	$ 18,400	$ 21,096	$ 54,611	$ 54,452
Earnings Before Income Taxes	$ 17,361	$ 19,708	$ 50,842	$ 50,608

	As of	
	December 31, 2008	March 31, 2008
	(dollars in thousands)	
Current Assets	$ 48,105	$ 47,632
Non-Current Assets	$ 41,944	$ 45,964
Current Liabilities	$ 16,252	$ 14,369

(L) COMMITMENTS AND CONTINGENCIES

We have certain deductible limits under our workers compensation and liability insurance policies for which reserves are established based on the undiscounted estimated costs of known and anticipated claims. We have entered into standby letter of credit agreements relating to workers compensation and auto and general liability self-insurance. At December 31, 2008, we had contingent liabilities under these outstanding letters of credit of approximately $7.0 million.

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

	As of and For the Three Months Ended December 31,		As of and For the Nine Months Ended December 31,	
	2008	2007	2008	2007
	(dollars in thousands)		(dollars in thousands)	
Accrual Balances at Beginning of Period	$ 5,528	$ 5,927	$ 5,673	$ 5,582
Insurance Expense Accrued	905	740	2,633	2,512
Payments	(639)	(698)	(2,512)	(2,125)
Accrual Balance at End of Period	$ 5,794	$ 5,969	$ 5,794	$ 5,969

In the ordinary course of business, we execute contracts involving indemnifications 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 we 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.

The Internal Revenue Service (the IRS) completed the examination of our federal income tax returns for the fiscal years ended March 31, 2001, 2002, and 2003. The IRS issued an Exam Report and Notice of Proposed Adjustment on November 9, 2007, 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).

If sustained, the adjustment proposed by the IRS would result in additional federal income taxes owed by us of approximately $27.6 million, plus penalties of $5.7 million and applicable interest. Moreover, for taxable years subsequent to fiscal 2003, we also claimed depreciation deductions with respect to the Republic Assets, as originally recorded. If challenged on the same basis as set forth in the Notice of Proposed Adjustment, additional federal income taxes of approximately $37.0 million, plus applicable interest and possible civil penalties of approximately $24.1, could be asserted by the IRS for those periods. Also, additional state income taxes, interest, and civil penalties of approximately $17.1 million would be owed by us for the fiscal years under exam and subsequent taxable years if the IRS position is sustained. The IRS examination of federal income tax returns for fiscal years ended March 31, 2004, 2005 and 2006 is currently in process.

We paid the IRS a deposit of approximately $45.8 million during November 2007, which is comprised of $27.6 million in federal income taxes, $5.7 million for penalties and $12.5 million for interest, to avoid additional imposition of the large corporate tax underpayment interest rates. In the event we reach a settlement with the IRS through the appeals process or in the courts, we will reverse any accrued interest and penalties in excess of the settlement through the consolidated Statement of Earnings.

On December 7, 2007 we filed an administrative appeal of the IRS s proposed adjustments and on December 17, 2008 the initial appeal hearing was held in Dallas, the outcome of which is still pending. We believe we have a substantive basis for our tax position and if the appeal is not successful, we intend to resort to the courts for a final determination. At this time, we are unable to predict with certainty the ultimate outcome or how much of the amounts paid for tax, interest and penalty to the IRS will be recovered, if any.

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We are currently contingently liable for performance under $7.7 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.

(M) NET INTEREST EXPENSE

The following components are included in interest expense, net:

	For the Three Months Ended December 31, 2008	For the Three Months Ended December 31, 2007	For the Nine Months Ended December 31, 2008	For the Nine Months Ended December 31, 2007
	(dollars in thousands)		(dollars in thousands)	
Interest (Income)	$ (141)	$ (686)	$ (219)	$ (875)
Interest Expense	5,811	5,990	18,610	12,799
Interest Expense IRS	1,876	2,329	5,025	6,195
Other Expenses	125	115	375	335
Interest Capitalized		(1,937)		(4,788)
Interest Expense, net	$ 7,671	$ 5,811	$ 23,791	$ 13,666

Interest income includes interest on investments of excess cash and interest on notes receivable. Components of interest expense include interest associated with the Senior Notes, the Bank Credit Facility and commitment fees based on the unused portion of the Bank Credit Facility. Interest expense IRS includes interest accrued on our unrecognized tax benefits in accordance with FASB Interpretation Number 48, Accounting for Uncertainty in Income Taxes . Other expenses include amortization of debt issuance costs and bank credit facility costs. Interest capitalized during the three and nine month periods ended December 31, 2007 related to the construction of a new wallboard facility by American Gypsum Company, which was completed in December 2007.

(N) 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 month period ended December 31, 2008 was 32.0%. The effective tax rate for the nine month period ended December 31, 2008 was 30.2%, which is also the estimated overall tax rate for the full fiscal year 2009.

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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 December 31, 2008 and 2007, 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. 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. The cost of fuel and power used in our manufacturing facilities is anticipated to trend upwards in the future.

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.

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RESULTS OF OPERATIONS

Consolidated Results

The following tables report by line of business the revenues and operating earnings discussed in our operating segments:

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2008	2007	2008	2007
	(dollars in thousands)		(dollars in thousands)	
REVENUES				
Gypsum Wallboard	$ 61,393	$ 73,371	$ 217,374	$ 266,761
Cement [1]	71,411	85,818	243,461	284,049
Paperboard	25,864	32,091	94,464	102,000
Concrete and Aggregates	15,139	22,370	55,416	71,336
Other, net	106	356	3,845	1,494
Sub-total	173,913	214,006	614,560	725,640
Less: Intersegment Revenues	(12,129)	(15,311)	(44,921)	(48,217)
Less Joint Venture Revenues	(23,955)	(25,690)	(76,073)	(72,718)
Total	$ 137,829	$ 173,005	$ 493,566	$ 604,705

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2008	2007	2008	2007
	(dollars in thousands)		(dollars in thousands)	
OPERATING EARNINGS [2]				
Gypsum Wallboard	$ 2,800	$ 6,878	$ (3,928)	$ 49,298
Cement [1]	22,011	26,600	71,734	90,527
Paperboard	4,038	5,096	12,095	15,232
Concrete and Aggregates	406	3,135		