EAGLE MATERIALS INC
Form 10-Q
November 04, 2011
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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**

**September 30, 2011**

**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 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 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 November 2, 2011, the number of outstanding shares of common stock was:

| Class | Outstanding Shares |
|---|---|
| Common Stock, $.01 Par Value | 44,899,310 |

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**Eagle Materials Inc. and Subsidiaries**

**Form 10-Q**

**September 30, 2011**

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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 September 30, 2011 | For the Three Months Ended September 30, 2010 | For the Six Months Ended September 30, 2011 | For the Six Months Ended September 30, 2010 |
|---|---|---|---|---|
| Revenues | $ 134,819 | $ 132,135 | $ 254,626 | $ 262,929 |
| Cost of Goods Sold | 126,102 | 118,586 | 238,536 | 232,949 |
| Gross Profit | 8,717 | 13,549 | 16,090 | 29,980 |
| Equity in Earnings of Unconsolidated Joint Venture | 7,936 | 4,160 | 13,384 | 10,672 |
| Other Income | 115 | 175 | 36 | 892 |
| Operating Earnings | 16,768 | 17,884 | 29,510 | 41,544 |
| Corporate General and Administrative | (4,472) | (4,415) | (8,590) | (8,118) |
| Earnings Before Interest and Taxes | 12,296 | 13,469 | 20,920 | 33,426 |
| Interest Expense, Net | (4,557) | (3,148) | (9,142) | (8,438) |
| Earnings Before Income Taxes | 7,739 | 10,321 | 11,778 | 24,988 |
| Income Tax Expense | (1,714) | (691) | (2,696) | (4,831) |
| Net Earnings | $ 6,025 | $ 9,630 | $ 9,082 | $ 20,157 |
| **EARNINGS PER SHARE:** | | | | |
| Basic | $ 0.14 | $ 0.22 | $ 0.21 | $ 0.46 |
| Diluted | $ 0.14 | $ 0.22 | $ 0.20 | $ 0.46 |
| **AVERAGE SHARES OUTSTANDING:** | | | | |
| Basic | 44,200,291 | 43,855,326 | 44,190,220 | 43,843,912 |
| Diluted | 44,325,277 | 44,169,251 | 44,433,809 | 44,200,303 |
| **CASH DIVIDENDS PER SHARE:** | $ 0.10 | $ 0.10 | $ 0.20 | $ 0.20 |

*See notes to unaudited consolidated financial statements.*

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**Eagle Materials Inc. and Subsidiaries**

Consolidated Balance Sheets

(dollars in thousands)

| | September 30, 2011 (unaudited) | March 31, 2011 |
|---|---|---|
| **ASSETS** | | |
| Current Assets - | | |
| Cash and Cash Equivalents | $ 10,692 | $ 1,874 |
| Accounts and Notes Receivable | 64,447 | 43,855 |
| Inventories | 108,156 | 115,237 |
| Income Tax Receivable | 6,688 | 9,088 |
| Prepaid and Other Assets | 2,856 | 4,572 |
| Total Current Assets | 192,839 | 174,626 |
| Property, Plant and Equipment - | 1,122,895 | 1,112,058 |
| Less: Accumulated Depreciation | (536,057) | (512,228) |
| Property, Plant and Equipment, net | 586,838 | 599,830 |
| Notes Receivable | 5,005 | 5,326 |
| Investment in Joint Venture | 35,545 | 33,661 |
| Goodwill and Intangible Assets | 151,221 | 151,539 |
| Other Assets | 18,685 | 17,828 |
| | $ 990,133 | $ 982,810 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current Liabilities - | | |
| Accounts Payable | $ 35,285 | $ 30,339 |
| Accrued Liabilities | 42,939 | 40,011 |
| Total Current Liabilities | 78,224 | 70,350 |
| Long-term Debt | 285,000 | 287,000 |
| Other Long-term Liabilities | 38,097 | 37,807 |
| Deferred Income Taxes | 127,077 | 128,089 |
| Total Liabilities | 528,398 | 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 44,899,310 and 44,447,428 Shares, respectively | 449 | 444 |
| Capital in Excess of Par Value | 26,882 | 24,859 |
| Accumulated Other Comprehensive Losses | (2,893) | (2,893) |
| Retained Earnings | 437,297 | 437,154 |
| Total Stockholders Equity | 461,735 | 459,564 |

| | | |
|---|---|---|
| | $ 990,133 | $ 982,810 |

*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 Six Months Ended September 30, 2011 | 2010 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Earnings | $ 9,082 | $ 20,157 |
| Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities - | | |
| Depreciation, Depletion and Amortization | 24,683 | 24,839 |
| Gain on Sale of Property, Plant and Equipment | | (485) |
| Deferred Income Tax Provision | (1,012) | 4,157 |
| Stock Compensation Expense | 2,293 | 2,061 |
| Excess Tax Benefits from Share Based Payment Arrangements | (30) | (375) |
| Equity in Earnings of Unconsolidated Joint Venture | (13,384) | (10,672) |
| Distributions from Joint Venture | 11,500 | 14,250 |
| Changes in Operating Assets and Liabilities: | | |
| Accounts and Notes Receivable | (20,271) | (4,294) |
| Inventories | 7,081 | 2,919 |
| Accounts Payable and Accrued Liabilities | 2,677 | 971 |
| Other Assets | 2,402 | (1,864) |
| Income Taxes Payable | 2,523 | (24,701) |
| Net Cash Provided by Operating Activities | 27,544 | 26,963 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Property, Plant and Equipment Additions | (7,516) | (5,467) |
| Proceeds from Sale of Property, Plant and Equipment | | 600 |
| Net Cash Used in Investing Activities | 7,516 | (4,867) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Increase (Decrease) in Bank Credit Facility | (2,000) | 7,000 |
| Repayment of Senior Notes | | (15,000) |
| Dividends Paid to Stockholders | (8,975) | (8,797) |
| Proceeds from Stock Option Exercises | 128 | 911 |
| Shares Redeemed to Settle Employee Taxes on Stock Compensation | (393) | |
| Excess Tax Benefits from Share Based Payment Arrangements | 30 | 375 |
| Net Cash Used in Financing Activities | (11,210) | (15,511) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 8,818 | 6,585 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | 1,874 | 1,416 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | $ 10,692 | $ 8,001 |

*See notes to the unaudited consolidated financial statements.*

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**Eagle Materials Inc. and Subsidiaries**

**Notes to Unaudited Consolidated Financial Statements**

**September 30, 2011**

**(A) BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements as of and for the three and six month periods ended September 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 evaluated all events or transactions that occurred after September 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 $8.9 million and $9.0 million for the six months ended September 30, 2011 and 2010, respectively. Net payments made for federal and state income taxes during the six months ended September 30, 2011 and 2010, were $1.2 million and $33.5 million, respectively.

**(C) COMPREHENSIVE INCOME**

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

As of September 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.

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**(D) ACCOUNTS AND NOTES RECEIVABLE**

Accounts and notes receivable have been shown net of the allowance for doubtful accounts of $5.0 million and $4.6 million at September 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 $6.2 million at September 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 September 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 Six Months Ended September 30, 2011 (dollars in thousands) |
|---|---|---|
| **Common Stock** | | |
| Balance at Beginning of Period | $ | 444 |
| Stock Option Exercises | | 5 |
| Balance at End of Period | $ | 449 |
| **Capital in Excess of Par Value** | | |
| Balance at Beginning of Period | | 24,859 |
| Stock Compensation Expense | | 2,293 |
| Shares Redeemed to Settle Employee Taxes | | (393) |
| Stock Option Exercises | | 123 |
| Balance at End of Period | | 26,882 |
| **Retained Earnings** | | |
| Balance at Beginning of Period | | 437,154 |
| Dividends Declared to Stockholders | | (8,939) |
| Net Earnings | | 9,082 |
| Balance at End of Period | | 437,297 |
| **Accumulated Other Comprehensive Loss -** | | |
| Balance at Beginning of Period | | (2,893) |
| Balance at End of Period | | (2,893) |
| **Total Stockholders Equity** | $ | 461,735 |

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

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**(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 | |
|---|---|---|
| | September 30, 2011 | March 31, 2011 |
| | (dollars in thousands) | |
| Raw Materials and Material-in-Progress | $ 37,567 | $ 35,118 |
| Finished Cement | 7,191 | 11,540 |
| Gypsum Wallboard | 6,573 | 6,347 |
| Aggregates | 11,797 | 12,419 |
| Paperboard | 2,090 | 5,274 |
| Repair Parts and Supplies | 39,486 | 41,659 |
| Fuel and Coal | 3,452 | 2,880 |
| | $ 108,156 | $ 115,237 |

**(G) ACCRUED EXPENSES**

Accrued expenses consist of the following:

| | As of | |
|---|---|---|
| | September 30, 2011 | March 31, 2011 |
| | (dollars in thousands) | |
| Payroll and Incentive Compensation | $ 6,546 | $ 7,712 |
| Benefits | 8,036 | 7,988 |
| Interest | 7,003 | 7,003 |
| Insurance | 6,294 | 6,639 |
| Property Taxes | 5,507 | 4,033 |
| Other | 9,553 | 6,636 |
| | $ 42,939 | $ 40,011 |

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

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

| | For the Three Months Ended September 30, | | For the Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Weighted-Average Shares of Common Stock Outstanding | 44,200,291 | 43,855,326 | 44,190,220 | 43,843,912 |
| Common Equivalent Shares: | | | | |
| Assumed Exercise of Outstanding Dilutive Options | 330,646 | 653,322 | 798,081 | 1,155,453 |

| | | | | |
|---|---|---|---|---|
| Less: Shares Repurchased from Assumed Proceeds of Assumed Exercised Options | (224,231) | (444,133) | (656,517) | (893,527) |
| Restricted Shares | 18,571 | 104,736 | 102,025 | 94,465 |
| Weighted-Average Common and Common Equivalent Shares Outstanding | 44,325,277 | 44,169,251 | 44,433,809 | 44,200,303 |
| Shares Excluded Due to Anti-dilution Effects | 3,340,271 | 2,942,059 | 2,772,812 | 2,392,784 |

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**(I) 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 September 30, | | For the Six Months ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (dollars in thousands) | | (dollars in thousands) | |
| Service Cost Benefits Earned During the Period | $ 139 | $ 135 | $ 278 | $ 270 |
| Interest Cost of Benefit Obligations | 265 | 256 | 530 | 512 |
| Expected Return on Plan Assets | (291) | (206) | (582) | (412) |
| Recognized Net Actuarial Loss | 86 | 194 | 172 | 388 |
| Amortization of Prior-Service Cost | 20 | 32 | 40 | 64 |
| Net Periodic Pension Cost | $ 219 | $ 411 | $ 438 | $ 822 |

**(J) 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 six months ended September 30, 2011 was approximately 23%.

**(K) 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 Employee Stock Option Grant ). The options have a term of ten years from the date of grant. In August 2011, we granted 121,295 options to members of the Board of Directors (the Fiscal 2012 Board of Directors Grant ). Options granted under the Fiscal 2012 Board of Directors Grant vested immediately, and can be exercised from the date of grant until their expiration at the end of ten years. The Fiscal 2012 Employee Stock Option Grant and Fiscal 2012 Board of Directors Grant were both valued at the grant date using the Black-Scholes option pricing model.

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

| | |
|---|---|
| Dividend Yield | 2.0% |
| Expected Volatility | 41.9% |
| Risk Free Interest Rate | 2.5% |
| Expected Life | 8.0 years |

Stock option expense for all outstanding stock option awards totaled approximately $0.3 million and $0.6 million for the three and six month periods ended September 30, 2011, respectively, and $0.4 million and $1.2 million for the three and six month periods ended September 30, 2010, respectively. The expense for the three month period ended September 30, 2011 reflects a credit of $1.3 million resulting from our updated assessment of future satisfaction of performance conditions associated with certain stock option grants. At September 30, 2011, there was approximately $4.7 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 2.5 years.

The following table represents stock option activity for the six month period ended September 30, 2011:

| | Number of Shares | Weighted-Average Exercise Price |
|---|---|---|
| Outstanding Options at Beginning of Period | 3,323,786 | $ 35.60 |
| Granted | 474,124 | $ 26.41 |
| Exercised | (8,751) | $ 14.60 |
| Cancelled | (65,279) | $ 34.61 |
| Outstanding Options at End of Period | 3,723,880 | $ 34.50 |
| Options Exercisable at End of Period | 1,913,049 | |
| Weighted-Average Fair Value of Options Granted during the Period | $ 10.29 | |

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

| | 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 |
| $ 11.56 - $ 13.43 | 321,552 | 1.25 | $ 12.34 | 321,552 | $ 12.34 |
| $ 23.17 - $ 30.74 | 1,693,473 | 5.81 | $ 26.88 | 1,243,917 | $ 26.44 |
| $ 34.09 - $ 40.78 | 310,170 | 2.17 | $ 37.88 | 279,770 | $ 38.04 |
| $ 47.53 - $ 62.83 | 1,398,685 | 2.78 | $ 48.06 | 67,810 | $ 58.46 |
| | 3,723,880 | 3.97 | $ 34.50 | 1,913,049 | $ 26.90 |

At September 30, 2011, there was no aggregate intrinsic value for both outstanding and exercisable options. The total intrinsic value of options exercised during the six month period ended September 30, 2011 was approximately $0.1 million.

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*Restricted Stock Units.* Expense related to RSUs was approximately $0.4 million and $0.7 million for the three and six month periods ended September 30, 2011, respectively, and $0.2 million and $0.3 million for the three and six month periods ended September 30, 2010, respectively. At September 30, 2011, there was approximately $2.6 million of unearned compensation from RSUs, net of estimated forfeitures, which will be recognized over a weighted-average period of 1.7 years.

*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 $0.8 million and $1.1 million for the three and six month periods ended September 30, 2011, respectively, and $0.3 million and $0.5 million for the three and six month periods ended September 30, 2010, respectively. At September 30, 2011, there was approximately $16.3 million of unearned compensation from restricted stock, net of estimated forfeitures, which will be recognized over a weighted-average period of 5.5 years.

The number of shares available for future grants of stock options, restricted stock units, stock appreciation rights and restricted stock under the Plan was 1,732,614 at September 30, 2011.

**(L) LONG-TERM DEBT**

Long-term debt consists of the following:

| | As of | |
|---|---|---|
| | September 30, 2011 | March 31, 2011 |
| | (dollars in thousands) | |
| Bank Credit Facility | $ | $ 2,000 |
| Senior Notes | 285,000 | 285,000 |
| Long-term Debt | $ 285,000 | $ 287,000 |

*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

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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 September 30, 2011, we had $10.2 million of letters of credit outstanding. We had $289.8 million of borrowings available under the Bank Credit Facility at September 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 $22.0 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 $93.0 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 September 30, 2011.

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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.

On August 31, 2011, we entered into an Uncommitted Master Shelf Agreement (the Shelf Agreement ) with John Hancock Life Insurance Company (U.S.A.) ( Hancock ). The Shelf Agreement provides the terms under which the Company may offer up to $75 million of its senior unsecured notes for purchase by Hancock or Hancock s affiliates that become bound by the Shelf Agreement (collectively, Purchasers ). The Shelf Agreement does not obligate the Company to sell, or the Purchasers to buy, any such notes, and has a term of two years. We have not sold any notes pursuant to the Shelf Agreement as of September 30, 2011.

**(M) 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 September 30, 2011, we had contingent liabilities under these outstanding letters of credit of approximately $10.2 million.

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

| | As of and For the Three Months Ended September 30, | | As of and For the Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (dollars in thousands) | | (dollars in thousands) | |
| Accrual Balances at Beginning of Period | $ 6,264 | $ 6,448 | $ 6,639 | $ 6,384 |
| Insurance Expense Accrued | 187 | 792 | 1,153 | 1,546 |
| Payments | (157) | (394) | (1,498) | (1,084) |
| Accrual Balance at End of Period | $ 6,294 | $ 6,846 | $ 6,294 | $ 6,846 |

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 $10.3 million in performance bonds required by certain states and municipalities, and their related agencies. The bonds are principally for certain reclamation obligations and mining permits. We have indemnified the underwriting insurance company against any exposure under the performance bonds. In our past experience, no material claims have been made against these financial instruments.

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. On May 4, 2011 we filed a lawsuit in Federal District Court to recover the $97.9 million of taxes, penalties and interest paid to the IRS.

In the event we reach a settlement through negotiation or in the courts, we will reverse any amounts in excess of the 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.

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.

**(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.

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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.

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 September 30, | | For the Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (dollars in thousands) | | (dollars in thousands) | |
| Revenues - | | | | |
| Cement | $ 72,554 | $ 67,813 | $ 132,698 | $ 130,275 |
| Gypsum Wallboard | 50,981 | 50,314 | 102,323 | 108,514 |
| Paperboard | 31,737 | 29,204 | 60,413 | 57,928 |
| Concrete and Aggregates | 13,882 | 12,940 | 25,782 | 24,263 |
| Sub-total | 169,154 | 160,271 | 321,216 | 320,980 |
| Less: Intersegment Revenues | (11,875) | (10,208) | (22,736) | (21,283) |
| Net Revenues, including Joint Venture | 157,279 | 150,063 | 298,480 | 299,697 |
| Less: Joint Venture | (22,460) | (17,928) | (43,854) | (36,768) |
| Net Revenues | $ 134,819 | $ 132,135 | $ 254,626 | $ 262,929 |

| | For the Three Months Ended September 30, | | For the Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (dollars in thousands) | | (dollars in thousands) | |
| Intersegment Revenues - | | | | |
| Cement | $ 1,202 | $ 1,164 | $ 2,241 | $ 2,156 |
| Paperboard | 10,452 | 8,857 | 20,134 | 18,820 |
| Concrete and Aggregates | 221 | 187 | 361 | 307 |
| | $ 11,875 | $ 10,208 | $ 22,736 | $ 21,283 |
| Cement Sales Volume (M Tons) - | | | | |
| Wholly owned Operations | 588 | 576 | 1,037 | 1,074 |
| Joint Venture | 229 | 199 | 454 | 403 |
| | 817 | 775 | 1,491 | 1,477 |

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| | For the Three Months Ended September 30, | | For the Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (dollars in thousands) | | (dollars in thousands) | |
| Operating Earnings - | | | | |
| Cement | $ 15,111 | $ 12,127 | $ 23,899 | $ 25,760 |
| Gypsum Wallboard | (2,540) | 1,295 | (1,302) | 6,496 |
| Paperboard | 4,038 | 3,833 | 7,068 | 7,627 |
| Concrete and Aggregates | 44 | 454 | (191) | 769 |
| Other, net | 115 | 175 | 36 | 892 |
| Sub-total | 16,768 | 17,884 | 29,510 | 41,544 |
| Corporate General and Administrative | (4,472) | (4,415) | (8,590) | (8,118) |
| Earnings Before Interest and Income Taxes | 12,296 | 13,469 | 20,920 | 33,426 |
| Interest Expense, net | (4,557) | (3,148) | (9,142) | (8,438) |
| Earnings Before Income Taxes | $ 7,739 | $ 10,321 | $ 11,778 | $ 24,988 |
| Cement Operating Earnings - | | | | |
| Wholly owned Operations | $ 7,175 | $ 7,967 | $ 10,515 | $ 15,088 |
| Joint Venture | 7,936 | 4,160 | 13,384 | 10,672 |
| | $ 15,111 | $ 12,127 | $ 23,899 | $ 25,760 |
| Capital Expenditures [(1)] - | | | | |
| Cement | $ 2,088 | $ 1,160 | $ 4,208 | $ 3,279 |
| Gypsum Wallboard | 701 | 435 | 2,014 | 555 |
| Paperboard | 104 | | 222 | 57 |
| Concrete and Aggregates | 811 | 577 | 1,023 | 1,497 |
| Other | | 55 | 49 | 79 |
| | $ 3,704 | $ 2,227 | $ 7,516 | $ 5,467 |
| Depreciation, Depletion and Amortization [(1)] - | | | | |
| Cement | $ 3,703 | $ 3,606 | $ 7,433 | $ 7,340 |
| Gypsum Wallboard | 5,267 | 5,456 | 10,484 | 10,922 |
| Paperboard | 2,127 | 2,260 | 4,252 | 4,519 |
| Concrete and Aggregates | 1,063 | 939 | 2,124 | 1,780 |
| Other, net | 203 | 128 | 390 | 278 |
| | $ 12,363 | $ 12,389 | $ 24,683 | $ 24,839 |

| | As of | |
|---|---|---|
| | September 30, 2011 | March 31, 2011 |
| | (dollars in thousands) | |
| Identifiable Assets [(1)] - | | |
| Cement | $ 316,091 | $ 304,693 |
| Gypsum Wallboard | 436,024 | 443,174 |
| Paperboard | 141,563 | 144,434 |
| Concrete and Aggregates | 54,048 | 51,797 |

| | | |
|---|---|---|
| Corporate and Other | 42,407 | 38,712 |
| | $ 990,133 | $ 982,810 |

(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. During the fiscal quarter 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 September 30, 2011 | As of 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 and second quarters 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 our 50% interest in those amounts):

| | For the Three Months Ended September 30, | | For the Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (dollars in thousands) | | (dollars in thousands) | |
| Revenues | $ 38,786 | $ 31,468 | $ 76,263 | $ 64,701 |
| Gross Margin | $ 17,063 | $ 9,242 | $ 28,951 | $ 23,361 |
| Earnings Before Income Taxes | $ 15,871 | $ 8,321 | $ 26,768 | $ 21,344 |

| | As of September 30, 2011 | As of March 31, 2011 |
|---|---|---|
| | (dollars in thousands) | |
| Current Assets | $ 45,369 | $ 42,541 |
| Non-Current Assets | $ 39,495 | $ 33,457 |
| Current Liabilities | $ 15,252 | $ 10,296 |

During the six month period ended September 30, 2011, we provided approximately $10.0 million to our Joint Venture for its capital needs.

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**(O) 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 September 30, 2011 is as follows:

| | Fair Value (dollars in thousands) |
|---|---|
| Series 2005A Tranche A | $ 39,353 |
| Series 2005A Tranche B | 81,562 |
| Series 2005A Tranche C | 65,232 |
| Series 2007A Tranche A | 10,113 |
| Series 2007A Tranche B | 12,004 |
| Series 2007A Tranche C | 54,400 |
| Series 2007A Tranche D | 39,730 |

The carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable and accrued liabilities approximate their fair values at September 30, 2011 due to the short-term maturities of these assets and liabilities.

**(P) INTEREST EXPENSE**

The following components are included in interest expense, net:

| | For the Three Months Ended September 30, (dollars in thousands) | | For the Six Months Ended September 30, (dollars in thousands) | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Interest (Income) | $ (1) | $ (2) | $ (2) | $ (4) |
| Interest Expense | 4,440 | 4,444 | 8,915 | 8,898 |
| Interest Expense (Income) Income Taxes | | (1,326) | | (546) |
| Other Expenses | 118 | 32 | 229 | 90 |
| Interest Expense, net | $ 4,557 | $ 3,148 | $ 9,142 | $ 8,438 |

Interest income includes interest on investments of excess cash. 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. 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. During the quarter ended September 30, 2010, 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, which resulted in an adjustment of previously accrued interest expense of approximately $1.5 million.

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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 and six month periods ended September 30, 2011 and 2010, respectively, reflects the Company s four business segments, consisting of Cement, Gypsum Wallboard, 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 generally have a material adverse effect on our business, financial condition and results of operations. 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 price of diesel fuel may impact 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. Our Wallboard and Paperboard operations are more national in scope and shipments are made throughout the continental U.S.

We continue to pursue opportunities in businesses that are naturally adjacent to our existing core businesses and would allow us to leverage our core competencies, existing infrastructure and customer relationships. We expect that the entry into any such new businesses would require capital expenditures and the investment of management time and other resources, and would be subject to the risks associated with any new venture of this type.

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**

| | For the Three Months Ended September 30, 2011 | 2010 | Change | For the Six Months Ended September 30, 2011 | 2010 | Change |
|---|---|---|---|---|---|---|
| | (In thousands except per share) | | | (In thousands except per share) | | |
| Revenues [1] | $ 169,154 | $ 160,271 | 6% | $ 321,216 | $ 320,980 | |
| Operating Costs [1] | (152,501) | (142,562) | 7% | (291,742) | (280,328) | 4% |
| Other Income, net | 115 | 175 | (34%) | 36 | 892 | (96%) |
| Operating Earnings | 16,768 | 17,884 | (6%) | 29,510 | 41,544 | (29%) |
| Corporate General and Administrative | (4,472) | (4,415) | 1% | (8,590) | (8,118) | 6% |
| Interest Expense, net | (4,557) | (3,148) | 45% | (9,142) | (8,438) | 8% |
| Earnings Before Income Taxes | 7,739 | 10,321 | (25%) | 11,778 | 24,988 | (53%) |
| Income Tax Expense | (1,714) | (691) | 148% | (2,696) | (4,831) | (44%) |
| Net Earnings | $ 6,025 | $ 9,630 | (37%) | $ 9,082 | $ 20,157 | (55%) |
| Diluted Earnings per Share | $ 0.14 | $ 0.22 | (36%) | $ 0.20 | $ 0.46 | (57%) |

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

***Net Revenues.*** Net revenues increased by 6% for the three month period ended September 30, 2011, compared to the similar period in 2010. The increase, during the three month period ended September 30, 2011, was due primarily to increases in sales volume for all of our businesses except recycled paperboard and aggregates, coupled with increased average sales prices for cement and recycled paperboard. Net revenues for the six months ended September 30, 2011 were relatively flat compared to the revenues in the six month period ended September 30, 2010. Despite revenues being relatively flat, revenues actually increased for all of our businesses except gypsum wallboard, which declined 6%. Sales volume and average sales price increased for our cement business and average sales prices increased for our paperboard and aggregates businesses, but declined for our other businesses. The decreased sales volumes and average net sales price in our gypsum wallboard segment is related to the continued downturn in the residential and commercial construction sectors, which have been disproportionately impacted by the decline in overall economic activity in the U.S. over the last two years.

***Operating Costs.*** Operating costs increased 7% and 4% for the three and six month periods ended September 30, 2011, respectively, compared to the similar periods in 2010. Increased sales volumes and fiber costs are the primary reasons for the increase in operating expenses for the quarter ended September 30, 2011. Operating expenses increased for the six months ended September 30, 2011, primarily due to increased parts, supplies, and services, fuel, power and increased fiber expense, partially offset by lower sales volumes.

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

***Operating Earnings.*** Operating earnings decreased by 6% and 29% during the three and six month periods ended September 30, 2011, respectively, compared to 2010. The decrease in operating revenues during the three months ended September 30, 2011, compared to the similar period in 2010, was primarily due to lower operating earnings in our gypsum wallboard and aggregates segments, partially offset by increased operating earnings in our cement segment. Operating earnings declined for the six months ended September 30, 2011, compared to the similar period in 2010, primarily due to relatively flat revenues, coupled with increased operating costs, primarily in our gypsum wallboard segment.

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***Corporate General and Administrative.*** Corporate general and administrative expenses increased 1% and 6% for the three and six month periods ended September 30, 2011, respectively, compared to the similar periods in 2010. The increase in corporate general and administrative expenses is due primarily to increased stock compensation expenses, partially offset by lower incentive compensation and benefits costs due to lower operating earnings and improved overhead efficiency.

***Interest Expense, Net.*** Net interest expense increased 45% and 8% during the three and six month periods ended September 30, 2011, respectively, compared to similar periods in 2010. The increase in interest expense during fiscal 2012, compared to fiscal 2011, is due to payments made to the IRS related to the Republic Asset Acquisition during the first six months of fiscal 2011 (See Footnote (P) to the Unaudited Consolidated Financial Statements for more details). These payments, as charged by the IRS, included interest that was less than interest accrued by the Company, resulting in a credit to interest expense during the quarter ended September 30, 2010. Interest expense on our debt was relatively flat for the three and six months ended September 30, 2011, compared to the similar three and six month periods in 2010.

***Income Taxes.*** The effective tax rate for the six month period ended September 30, 2011 was approximately 23% compared to approximately 19% for the six month period ended September 30, 2010. The effective tax rate during fiscal 2011 was positively impacted by the deduction of interest and state taxes related to the payment of taxes to the IRS and state authorities for fiscal years 2001 through 2006. The expected tax rate for the full fiscal year is expected to be 23%, compared to 26% for fiscal 2011.

***Net Earnings and Diluted Earnings per Share.*** Net earnings for the quarter ended September 30, 2011 of $6.0 million decreased 37% from last year s net earnings of $9.6 million; while net earnings of $9.1 million for the six month period ended September 30, 2011 decreased 55% from last year s net earnings of $20.2 million. Diluted earnings per share for the three and six month periods ended September 30, 2011 were $0.14 and $0.20, respectively, compared to $0.22 and $0.46 for the three and six month periods ended September 30, 2010, respectively.

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

| | For the Three Months Ended September 30, 2011 | 2010 | Percentage Change | For the Six Months Ended September 30, 2011 | 2010 | Percentage Change |
|---|---|---|---|---|---|---|
| | (In thousands except per unit) | | | (In thousands except per unit) | | |
| Revenues [1] | | | | | | |
| Cement [2] | $ 72,554 | $ 67,813 | 7% | $ 132,698 | $ 130,275 | 2% |
| Gypsum Wallboard | 50,981 | 50,314 | 1% | 102,323 | 108,514 | (6%) |
| Recycled Paperboard | 31,737 | 29,204 | 9% | 60,413 | 57,928 | 4% |
| Concrete and Aggregates | 13,882 | 12,940 | 7% | 25,782 | 24,263 | 6% |
| Gross Revenues | $ 169,154 | $ 160,271 | 6% | $ 321,216 | $ 320,980 | |
| Sales Volume | | | | | | |
| Cement (M Tons) [2] | 817 | 775 | 5% | 1,491 | 1,477 | 1% |
| Gypsum Wallboard (MMSF) | 403 | 397 | 2% | 815 | 851 | (4%) |
| Recycled Paperboard (M Tons) | 60 | 62 | (3%) | 117 | 121 | (3%) |
| Concrete (M Yards) | 144 | 123 | 17% | 280 | 240 | 17% |
| Aggregates (M Tons) | 771 | 794 | (3%) | 1,383 | 1,421 | (3%) |
| Average Net Sales Prices [3] | | | | | | |
| Cement [2] | $ 81.23 | $ 80.03 | 1% | $ 81.24 | $ 80.67 | 1% |
| Gypsum Wallboard | 92.09 | 96.08 | (4%) | 91.05 | 97.18 | (6%) |
| Recycled Paperboard | 524.20 | 474.29 | 11% | 515.21 | 477.82 | 8% |
| Concrete | 64.33 | 67.01 | (4%) | 62.73 | 65.54 | (4 |