EAGLE MATERIALS INC
Form 10-K
June 02, 2006

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**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**FORM 10-K**
**ANNUAL REPORT**
**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the Fiscal Year Ended**
**March 31, 2006**
**Commission File No. 1-12984**
**EAGLE MATERIALS INC.**
(Exact name of registrant as specified in its charter)
**Delaware**
(State of Incorporation)
**75-2520779**
(I.R.S. Employer Identification No.)
**3811 Turtle Creek Blvd, Suite 1100, Dallas, Texas 75219**
(Address of principal executive offices)
**(214) 432-2000**
(Registrant s telephone number)
**Securities registered pursuant to Section 12(b) of the Act:**

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

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

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

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

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 þ NO o

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

The aggregate market value of the voting stock held by nonaffiliates of the Company at September 30, 2005 (the last business day of the registrants most recently completed second fiscal quarter) was approximately $2.107 billion.

As of May 31, 2006, the number of outstanding shares of common stock was:

| Class | Outstanding Shares |
|---|---|
| Common Stock, $.01 Par Value | 50,406,400 |

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy statement for the Annual Meeting of Stockholders of Eagle Materials Inc. to be held on July 27, 2006 are incorporated by reference in Part III of this Report.

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# PART I

## ITEM 1. BUSINESS

## OVERVIEW

Eagle Materials Inc. (the Company or EXP which may be referred to as we or us ) is a manufacturer of basic building materials including gypsum wallboard, cement, gypsum and non-gypsum paperboard and concrete and aggregates. We were founded in 1963 as a building materials subsidiary of Centex Corporation ( Centex ). We operated as a public company under the name Centex Construction Products, Inc. from April 1994 to January 30, 2004. Centex completed a tax free distribution of its shares to its shareholders on January 30, 2004 (the Spin-off ), and, as a result, we are no longer affiliated with Centex. Today, our primary businesses are the manufacture and distribution of gypsum wallboard and the manufacture and sale of cement. Gypsum wallboard is distributed throughout the U.S. with particular emphasis in the geographic markets nearest to our production facilities. We sell cement throughout the western U.S. and for the twentieth consecutive year we have sold 100% of our cement production capacity. At March 31, 2006 we operated four gypsum wallboard plants (five lines), four cement plants (six kilns, one of which belongs to our joint venture company), one gypsum paperboard plant, eight concrete batching plants and two aggregates facilities.

Calendar 2005 represented a record year for the building materials business:

- A record high annual wallboard consumption of 36.2 billion square feet in calendar 2005, 5.6% higher than calendar 2004;
- Cement consumption for calendar 2005, also a record high, grew by 5.7% to 139.1 million short tons, with imports continuing to make up more than 25% of U.S. supply;
- Pricing improvements were reflected in all of our sectors in calendar 2005 and have been improving in the first four months of calendar 2006.

*Improving Productivity and Reducing Costs.* We are constantly maintaining, evaluating and making capital investments to improve the productivity and reduce the costs of our existing assets. Collectively, this process resulted in the following fiscal 2006 achievements:

- Record wallboard production and utilization;
- Cement plants operating at above rated design capacity and above industry average utilization; and
- A 15% increase in production over design capacity in our paperboard facility.

*Pursue Strategic Growth by Expansion or Acquisition Opportunities*. Strategic growth opportunities play a significant role at Eagle Materials. We continually focus on improving productivity and reducing costs of our existing operations; however, we also remain focused on improving our competitive position through expansion or acquisition. We look for opportunities that:

- Are in our core businesses of wallboard and cement;
- Expand our geographic footprint; or
- Improve our position as a low cost manufacturer.

During fiscal 2006, we began to actively pursue these strategic goals by:

*Expanding our Wallboard Operations.* On April 1, 2005, we announced the expansion of our wallboard operations with the construction of a new $150 million wallboard plant in Georgetown, South Carolina, which will utilize synthetic gypsum. The Company broke ground on the new facility in March 2006 and anticipates it being completed and operational late in calendar year 2007.

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*Expanding on Our Existing Asset Position in Our Cement Business:*

On January 10, 2005, we purchased the remaining 50% interest in the Illinois Cement Company Joint Venture for $72 million, and on March 10, 2005 we announced a $65 million expansion of the plant which will increase clinker capacity 70% to 1.0 million tons. The expansion is progressing as scheduled, and should be completed by December 2006 and fully operational by January 2007.

On January 25, 2006, we announced plans to expand and modernize our Mountain Cement Company plant and our Nevada Cement Company plant. The plans will expand the per plant production capacity of Mountain Cement Company and Nevada Cement Company to 1.0 million tons of clinker annually representing an increase in production of 60% and 100%, respectively. We anticipate investing a total of approximately $320 million for both projects, and expect that both will be completed by and operational in the fall of 2008.

Modernization and expansions of our cement plants will increase our total clinker capacity by 50% to 4.0 million tons per year and our total cement capacity to approximately 4.4 million tons per year by the end of calendar 2008.

At Eagle our future is clear and straightforward: to remain a low cost producer in each of the markets in which we compete by being disciplined and operationally focused. Our goal is to expand our geographic footprint through acquisition or expansion that provides increased profitability for our shareholders.

**INDUSTRY SEGMENT INFORMATION**

For management and financial reporting purposes, our businesses are separated into four segments: Gypsum Wallboard; Cement; Recycled Paperboard; and Concrete and Aggregates. A description of these business segments can be found on pages 4 - 14.

The following table presents revenues and earnings before interest and income taxes contributed by each of our industry segments during the periods indicated. We conduct one of our four cement plant operations through a joint venture, Texas Lehigh Cement Company LP, which is located in Buda, Texas. The Company owns a 50% interest in the joint venture and accounts for its interest using the equity method of accounting. However, for segment reporting purposes, we proportionately consolidate our 50% share of the cement joint venture s revenues and operating earnings, which is consistent with the way management organizes the segments within the Company for making operating decisions and assessing performance. Prior to January 11, 2005, we reported our 50% interest in the Illinois Cement Company consistent with that of Texas Lehigh Cement Company. Consequently, the information presented below and for the remainder of this Form 10-K includes the 50% interest in Illinois Cement through January 10, 2005 (the date we acquired the other 50%) and our 100% interest in Illinois Cement for the period from January 11, 2005 through March 31, 2005, and for all of fiscal 2006. Identifiable assets, depreciation, depletion and amortization, and capital expenditures by segment are presented in Note (H) of the Notes to the Consolidated Financial Statements on pages 52 - 55.

| | For the Fiscal Years Ended March 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| | (dollars in millions) | | |
| Revenues: | | | |
| Gypsum Wallboard | $ 479.1 | $ 350.1 | $ 272.9 |
| Cement | 285.3 | 211.3 | 181.9 |
| Paperboard | 133.5 | 125.2 | 112.4 |
| Concrete and Aggregates | 89.8 | 70.8 | 63.1 |
| Other, net | 2.3 | 0.2 | 2.2 |
| Sub-total | 990.0 | 757.6 | 632.5 |
| Less: Intersegment Revenues | (65.1) | (58.8) | (53.6) |
| Less: Joint Ventures Revenues | (65.2) | (82.3) | (76.3) |

| | | | |
|---|---|---|---|
| Total Net Revenues | $ 859.7 | $ 616.5 | $ 502.6 |

| | For the Fiscal Years Ended March 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| | (dollars in millions) | | |
| Operating Earnings: | | | |
| Gypsum Wallboard | $ 154.2 | $ 81.6 | $ 35.6 |
| Cement | 78.3 | 57.6 | 50.5 |
| Paperboard | 20.1 | 25.4 | 20.9 |
| Concrete and Aggregates | 9.6 | 7.7 | 6.0 |
| Other, net | 1.5 | (0.7) | 2.2 |
| Sub-total | 263.7 | 171.6 | 115.2 |
| Corporate Overhead | (16.4) | (10.3) | (9.3) |
| Earnings Before Interest and Income Taxes | $ 247.3 | $ 161.3 | $ 105.9 |

Net revenues (net of joint venture and intersegment revenue, see Note (H) of the Notes to the Consolidated Financial Statements) for the past three years from each of our business segments, expressed as a percentage of total net revenues were as follows:

| | For the Fiscal Years Ended March 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Percentage of Total Net Revenues: | | | |
| Gypsum Wallboard | 55.8% | 56.8% | 54.3% |
| Cement | 24.9 | 20.4 | 20.4 |
| Paperboard | 8.9 | 11.5 | 12.6 |
| Concrete and Aggregates: | | | |
| Readymix Concrete | 6.5 | 6.8 | 8.0 |
| Aggregates | 3.9 | 4.5 | 4.3 |
| Sub-total | 10.4 | 11.3 | 12.3 |
| Other, net | | | 0.4 |
| Total Net Revenues | 100.0% | 100.0% | 100.0% |

## GYPSUM WALLBOARD OPERATIONS

***Company Operations.*** We own and operate four gypsum wallboard manufacturing facilities. There are four primary steps in the manufacturing process: (1) gypsum is mined and extracted from the ground; (2) the gypsum is then calcined and converted into plaster; (3) the plaster is mixed with various chemicals and water to produce a mixture known as slurry, which is inserted between two continuous sheets of recycled paperboard on a high-speed production line and allowed to harden; and (4) the sheets of gypsum wallboard are then cut to appropriate lengths, dried and bundled for sale. Gypsum wallboard is used to finish the interior walls and ceilings in residential, commercial and industrial construction.

The following table sets forth certain information regarding our plants:

| Location | Annual Gypsum Wallboard Capacity (MMSF)[1] | Estimated Minimum Gypsum Rock Reserves (years) | Estimated Gypsum Reserve (million tons) |
|---|---|---|---|
| Albuquerque, New Mexico | 430 | 50+[2][3] | 48[2] |
| Bernalillo, New Mexico | 495 | 50+[2][3] | 48[2] |
| Gypsum, Colorado | 690 | 26[4] | 16 |
| Duke, Oklahoma | 1,285 | 30[4][5] | 36 |
| Total | 2,900 | | |

(1) Million Square Feet ( MMSF ).

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

(3) Includes mining claims and leased reserves.

(4) Includes both owned and leased reserves.

(5) Additional reserves available.

Our gypsum wallboard production totaled 2,833 MMSF in fiscal 2006 and 2,572 MMSF in fiscal 2005. Total gypsum wallboard sales were 2,832 MMSF in fiscal 2006 and 2,547 MMSF in fiscal 2005. Total wallboard production as a percentage of rated capacity was 98% in fiscal 2006 and 93% in fiscal 2005. The Company operating rates were consistent with industry average capacity utilization in fiscal 2005 and operated at full capacity this past fiscal year because of record wallboard demand.

The Company broke ground in March 2006 on a new wallboard plant located in Georgetown, South Carolina. The plant is expected to be completed late in calendar year 2007 and, upon completion, will increase total rated annual capacity by 750 MMSF to 3,650 MMSF.

***Raw Materials and Fuel Supplies.*** We mine and extract natural gypsum rock, the principal raw material used in the manufacture of gypsum wallboard, from mines and quarries owned, leased or subject to mining claims owned by the Company and located near our plants. We do not presently use synthetic gypsum although we have a supply agreement with Santee Cooper, a South Carolina utility company, to utilize this material at our facility currently under construction in South Carolina. Two leases cover the New Mexico reserves; one with the Pueblo of Zia and the second with the State of New Mexico. The term of the Zia lease continues for so long as gypsum is produced in paying quantities, as defined therein. The term of the State lease continues for so long as annual lease payments are made. We do not anticipate any problems in continuing to extend the term of these leases for the foreseeable future. Gypsum ore reserves at the Gypsum, Colorado plant are contained within a total of 115 placer mines encompassing 2,300 acres. Mineral rights are held on an additional 108 unpatented mining claims where mineral rights can be developed upon completion of permitting requirements. We currently own land with over 23 million tons of gypsum in the area of Duke, Oklahoma, with an additional 13 million tons controlled through a lease agreement. Other gypsum deposits are located near the plant in Duke, which we believe may be obtained at reasonable costs when needed.

Through our modern low cost paperboard mill we manufacture sufficient quantities of paper necessary for our gypsum wallboard production. Paper is the largest cost component in the manufacture of gypsum wallboard currently representing approximately 32% of the production cost.

Our gypsum wallboard manufacturing operations use large quantities of natural gas and electrical power. A significant portion of the Company s natural gas requirements for our gypsum wallboard plants are currently provided by three gas producers under gas supply agreements expiring in March 2007 for Colorado, February 2007 for New Mexico, and October 2006 for Oklahoma. If the agreements are not renewed, we expect to be able to obtain our gas supplies from other suppliers at competitive prices. Electrical power is supplied to our New Mexico plants at standard industrial rates by a local utility. Our Albuquerque plant utilizes an interruptible power supply agreement, which may expose it to some production interruptions during periods of power curtailment. Power for the Gypsum, Colorado facility is generated at the facility by a cogeneration power plant. Currently the cogeneration power facility supplies power and waste hot gases for drying to the gypsum wallboard plant. We do not sell any power to third parties. Gas costs increased significantly in fiscal 2006 and are expected to level off during fiscal 2007. Gas costs currently represent approximately 21 % of the production costs.

***Sales and Distribution.*** The principal sources of demand for gypsum wallboard are (i) residential construction, (ii) repair and remodeling, (iii) non-residential construction, and (iv) other activities such as exports and manufactured housing, which the Company estimates accounted for approximately 51%, 29%, 18% and 2%, respectively, of calendar 2005 industry sales. While the gypsum wallboard industry remains highly cyclical, recent strong residential construction and growth in the repair and remodeling segment have overstated the impact of fluctuations in commercial construction increasing gypsum wallboard demand to record levels. Also, demand for wallboard can be seasonal and is generally greater from spring through the middle of autumn.

The percentage of gypsum wallboard shipments accounted for by new residential construction has declined in recent years; however, new residential construction remains the largest single source of gypsum wallboard demand. In recent years, demand has been favorably impacted by a shift toward more single-family detached housing within the new residential construction segment and by an increase in the size and volume of the average single-family detached home.

We estimate that the size of the total residential repair and remodel market grew to a record $275 billion in calendar 2005, up 15% from calendar 2004. Although data on commercial repair and remodel activity is not readily available, we believe that this segment has also grown significantly in recent years. The growth of the repair and remodeling market is primarily due to the aging of housing stock, remodeling of existing buildings and tenant turnover in commercial space. In addition, repair and remodeling activity has benefited from the fact that it has increasingly come to be viewed by homeowners, particularly in recessionary periods, as a low cost alternative to purchasing a new house.

We sell gypsum wallboard to numerous building materials dealers, gypsum wallboard specialty distributors, lumber yards, home center chains and other customers located throughout the United States. Two customers with multiple shipping locations accounted for approximately 11% and 10%, respectively, of our total gypsum wallboard sales during fiscal 2006. The loss of either of these customers could have a material adverse effect on our financial results.

Gypsum wallboard is sold on a delivered basis. Truck rates have generally been negotiated for the remainder of calendar year 2006; however, we are still subject to fuel surcharges from our carriers. Increases in fuel costs are difficult to pass on to the customers and could negatively impact our net revenues if significant or prolonged surcharges are implemented by the carriers.

Although gypsum wallboard is distributed principally in regional areas, the Company and certain other industry producers have the ability to ship gypsum wallboard by rail outside their usual regional distribution areas to regions where demand is strong. We own or lease 241 railcars for transporting gypsum wallboard. In addition, in order to facilitate distribution in certain strategic areas, we maintain a distribution center in Albuquerque, New Mexico and four reload yards in Arizona, California and Illinois. Our rail distribution capabilities permit us to reach customers in all states west of the Mississippi River and many eastern states. During fiscal 2006, approximately 30% of our sales volume of gypsum wallboard was transported by rail. Equipment availability for both rail and truck is expected to remain tight during fiscal 2007.

***Competition.*** There are eight manufacturers of gypsum wallboard in the U.S. operating a total of 77 plants. We estimate that the three largest producers USG Corporation, National Gypsum Company and Koch Industries account for approximately 65% of gypsum wallboard sales in the U.S. In general, a number of our competitors in the gypsum wallboard industry have greater financial, manufacturing, marketing and distribution resources than the Company. Furthermore, certain of our competitors operate vertically integrated gypsum wallboard distribution centers, which may provide them with certain marketing advantages over the Company.

Competition among gypsum wallboard producers is primarily on a regional basis and to a lesser extent on a national basis. Because of the commodity nature of the product, competition is based principally on price, which is highly sensitive to changes in supply and demand, and to a lesser extent, on product quality and customer service.

Currently, total U.S. gypsum wallboard production capacity is estimated at 37.0 billion square feet per year, a 33% increase from 1998. The Gypsum Association, an industry trade group, estimates that total calendar 2005 gypsum wallboard shipments by U.S. manufacturers were approximately 36.2 billion square feet, the highest level on record, resulting in average industry capacity utilization of approximately 98%.

***Capital Expenditures.*** Capital expenditures during fiscal 2006 for the gypsum wallboard segment amounted to $3.3 million; $5.8 million in fiscal 2005; and $8.2 million in fiscal 2004. Capital outlays in fiscal 2007 are estimated to be approximately $109.0 million due primarily to the construction of the plant in South Carolina with less than 1% of the estimated expenditures related to compliance with environmental regulations.

***Environmental Matters.*** The gypsum wallboard industry is subject to numerous federal, state and local laws and regulations pertaining to health, safety and the environment. Some of these laws, such as the federal Clean Air Act and the federal Clean Water Act (and analogous state laws) impose environmental permitting requirements and govern the nature and amount of emissions that may be generated when conducting particular operations. Some laws, such as the federal Comprehensive Environmental Response, Compensation, and Liability Act (and analogous state laws) impose obligations to clean up or remediate spills of hazardous materials into the environment. Other laws require us to reclaim certain land upon completion of extraction and mining operations in our quarries. None of the Company s gypsum wallboard operations are presently the subject of any local, state or federal environmental proceedings or inquiries. The Company does not, and has not, used asbestos in any of its gypsum wallboard products.

**CEMENT OPERATIONS**

***Company Operations***. Our cement production facilities are located in or near Buda, Texas; LaSalle, Illinois; Laramie, Wyoming; and Fernley, Nevada. The LaSalle, Illinois, Laramie, Wyoming and Fernley, Nevada facilities are wholly-owned. The Buda, Texas plant is owned by Texas Lehigh Cement Company LP, a limited partnership joint venture owned 50% by the Company and 50% by Lehigh Cement Company, a subsidiary of Heidelberg Cement AG. Our LaSalle, Illinois plant operates under the name Illinois Cement Company, the Laramie, Wyoming plant operates under the name of Mountain Cement Company and the Fernley, Nevada plant under the name of Nevada Cement Company.

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Cement is the basic binding agent for concrete, a primary construction material. Our modern cement plants utilize dry process technology and at present approximately 80% of our clinker capacity is from preheater or preheater/precalciner kilns. The following table sets forth certain information regarding these plants:

| Location | Rated Annual Clinker Capacity (M short tons)[1] | Manufacturing Process | Number of Kilns | Dedication Date | Estimated Minimum Limestone Reserves (Years) |
|---|---|---|---|---|---|
| Buda, TX[2] | 1,300 | Dry 4 Stage Preheater | 1 | 1978 | 50+[5] |
| | | Pre-calciner | | 1983 | |
| LaSalle, IL | 640 | Dry 4 Stage Preheater | 1 | 1974 | 36[5] |
| Laramie, WY | 640 | Dry 2 Stage Preheater | 1 | 1988 | 30[6] |
| | | Dry -Long Dry Kiln | 1 | 1996 | |
| Fernley, NV | 505 | Dry Long Dry Kiln | 1 | 1964 | 50+[6] |
| | | Dry - 1 Stage Preheater | 1 | 1969 | |
| Total Gross[3] | 3,085 | | | | |
| Total Net[3][4] | 2,435 | | | | |

(1) One short ton equals 2,000 pounds.

(2) The amounts shown represent 100% of plant capacity and production. This plant is owned by a separate partnership in which the Company has a 50% interest.

(3) Generally, a plant s cement grinding

production capacity is greater than its clinker production capacity.

(4) Net of partners 50% interest in the Buda, Texas plant.

(5) Owned reserves.

(6) Includes both owned and leased reserves.

The Company s net cement production, including its 50% share of the cement Joint Venture production, and conversion of purchased clinker, totaled 2.8 million tons in fiscal 2006 and 2.4 million tons in fiscal 2005. Total net cement sales, including the Company s 50% share of cement sales from the Joint Venture, were 3.20 million tons in fiscal 2006 and 2.75 million tons in fiscal 2005 as all four plants sold 100% of the product they produced. During the past two years, we imported and purchased cement from others to be resold. Purchased cement sales typically occur at lower gross profit margins. In fiscal 2006, 21.0% of the cement sold by us was acquired from outside sources, compared to 14.6% in fiscal 2005.

Cement production is capital-intensive and involves high initial fixed costs. The Company is currently completing an expansion of its Illinois Cement Company plant, and has announced plans to modernize and expand its Mountain Cement and Nevada Cement facilities. The Illinois Cement Company plant expansion is expected to be completed in December 2006, and be fully operational in January 2007. The projects at Mountain Cement Company and Nevada Cement Company are expected to be completed in late calendar year 2008. Upon completion of these projects, Illinois Cement Company, Mountain Cement Company and Nevada Cement Company each will have rated annual clinker capacity of 1.0 million tons, raising total capacity to 4.3 million tons, and net capacity to near 3.7 million tons. Additionally, each expanded and modernized plant will employ a 5 stage pre-heater, pre-calciner and one kiln in its manufacturing process.

***Raw Materials and Fuel Supplies.*** The principal raw material used in the production of portland cement is calcium carbonate in the form of limestone. Limestone is obtained principally through mining and extraction operations conducted at quarries owned or leased by the Company and located in close proximity to our plants. We believe that the estimated recoverable limestone reserves owned or leased by us will permit each of our plants to operate at our present production capacity for at least 25 years. Other raw materials used in substantially smaller quantities than limestone are sand, clay, iron ore and gypsum. These materials are readily available and can either be obtained from Company-owned or leased reserves or purchased from outside suppliers.

Our cement plants use coal and coke as their primary fuel, but are equipped to burn natural gas as an alternative. We have not used hazardous waste-derived fuels in our plants although our LaSalle, Illinois and Buda, Texas plants have been permitted to burn scrap tires as a substitute fuel. Electric power is also a major cost component in the manufacturing process and we have sought to diminish overall power costs by adopting interruptible power supply agreements. These agreements may expose us to some production interruptions during periods of power curtailment.

***Sales and Distribution.*** In the past, demand for cement has been cyclical, derived from the demand for concrete products which, in turn, is derived from demand for construction. However, recently construction spending and cement consumption have been more stable and growing, primarily because of increased public construction associated with transportation bills passed by Congress. The construction sector is also affected by the general condition of the economy as well as regional economic influences. Regional cement markets experience peaks and valleys correlated with regional construction cycles. Additionally, demand for cement is seasonal, particularly in northern states where inclement weather affects construction activity. Sales are generally greater from spring through the middle of autumn than during the remainder of the year. The impact on the Company of regional construction cycles may be mitigated to some degree by our geographic diversification.

The following table sets forth certain information regarding the geographic area served by each of our cement plants and the location of our distribution terminals in each area. We have a total of 10 cement storage and distribution terminals that are strategically located to extend the sales areas of our plants.

| Plant Location | Principal Geographic Areas | Distribution Terminals |
|---|---|---|
| Buda, Texas | Texas and western Louisiana | Corpus Christi, Texas<br>Houston, Texas<br>Orange, Texas<br>Roanoke (Ft. Worth), Texas<br>Waco, Texas |
| LaSalle, Illinois | Illinois and southern Wisconsin | Hartland, Wisconsin |
| Laramie, Wyoming | Wyoming, Utah, Colorado and western Nebraska | Salt Lake City, Utah<br>Denver, Colorado<br>North Platte, Nebraska |
| Fernley, Nevada | Northern Nevada and northern California | Sacramento, California |

Cement is distributed directly to our customers by common carriers and customer pickups from plants or distribution terminals. We transport cement principally by rail to our storage and distribution terminals. No single customer accounted for 10% or more of our cement sales during fiscal 2006. Sales are made on the basis of competitive prices in each area. As is customary in the industry, the Company does not typically enter into long-term sales contracts, except with respect to major construction projects and oil service company contracts.

***Competition.*** The cement industry is extremely competitive as a result of multiple domestic suppliers and the importation of foreign cement through various terminal operations. Competition among producers and suppliers of cement is based primarily on price, with consistency of quality and service to customers being important but of lesser significance. Price competition among individual producers and suppliers of cement within a geographic area is intense because of the fungible nature of the product. Because of cement s low value-to-weight ratio, the relative cost of transporting cement on land is high and limits the geographic area in which each company can market its products economically. Therefore, the U.S. cement industry is fragmented into regional geographic areas rather than a single national selling area. No single cement company has a

distribution of plants extensive enough to serve all geographic areas, so profitability is sensitive to shifts in the balance between regional supply and demand.

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

The U.S. Government and the Government of Mexico have entered into an agreement providing for the elimination of the antidumping duties imposed by the U.S. on cement imported from Mexico. The agreement provides for a three year transition period during which the volume of Mexican cement imported into the southern tier of the U.S. will be limited to approximately 3 million metric tons per year and the antidumping duty imposed on Mexican cement will be set at $3 per ton. This is not expected to impact cement prices in the short term as the Portland Cement Association ( PCA ) estimates that the current industry wide domestic production capacity is 25% short of domestic consumption.

The PCA estimates that imports represented approximately 25% of cement used in the U.S. during calendar 2005 as compared with approximately 21% in 2004 and 20% in 2003.

***Capital Expenditures.*** Capital expenditures during fiscal 2006 amounted to $48.2 million compared with $8.5 million and $1.8 million in fiscal 2005 and 2004, respectively, not including capital expenditures associated with the joint venture. The increase in fiscal 2006 is due primarily to the expansion of our Illinois Cement Company facility, which is expected to be completed during fiscal 2007. Capital outlays in fiscal 2007 are estimated to be approximately $35.8 million. Approximately 10% of the estimated fiscal 2007 total is related to compliance with environmental regulations.

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

Four environmental issues involving the cement manufacturing industry deserve special mention. The first issue involves cement kiln dust or CKD. The federal Environmental Protection Agency, or EPA, has been evaluating the regulatory status of CKD under the federal Resource Conservation and Recovery Act ( RCRA ) for a number of years. In 1999, the EPA proposed a rule that would allow states to regulate properly-managed CKD as a non-hazardous waste under state laws and regulations governing solid waste. In contrast, CKD that was not properly managed would be treated as a hazardous waste under RCRA. In 2002, the EPA confirmed its intention to exempt properly-managed CKD from the hazardous waste requirements of RCRA. The agency announced that it would collect additional data over the next three to five years to determine if the states regulation of CKD is effective, which may lead the EPA to withdraw its 1999 proposal to treat any CKD as a hazardous waste. Final action implementing the 2002 announcement is expected to occur in August 2007.

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

A second industry environmental issue involves the historical disposal of refractory brick containing chromium. Such refractory brick was formerly used widely in the cement industry to line cement kilns. The Company currently does not use refractory containing chromium and crushes spent refractory brick, and then uses it as raw feed in the kiln.

A third industry environmental issue involves the potential regulation of greenhouse gases from cement plants. Carbon dioxide is a greenhouse gas that many scientists and others believe contributes to the warming of the Earth s atmosphere. Although no restrictions have yet been imposed under U.S. federal laws, it is possible that cement plants may be targeted because of the large amounts of carbon dioxide generated during the manufacturing process. Any imposition of raw materials or production limitations or fuel-use or carbon taxes could have a significant impact on the cement manufacturing industry.

Fourth, the U.S. EPA has promulgated regulations for certain toxic air pollutants including standards for portland cement manufacturing. The maximum attainable control technology standards require cement plants to test for certain pollutants and meet certain emission and operating standards. Management has no reason to believe, however, that these standards have placed the Company at a competitive disadvantage.

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

**RECYCLED PAPERBOARD OPERATIONS**

***Company Operations.*** Our recycled paperboard manufacturing operation is located in Lawton, Oklahoma and was acquired in November 2000 along with certain other related assets that were sold or closed in fiscal 2002 and 2003.

All of our paper products are manufactured from 100% recovered (recycled) paper fiber. Products manufactured primarily include the facing and backside paper used in the manufacture of gypsum wallboard; other recycled paperboard grades used by manufacturers of consumer packaging (e.g. corrugated medium and linerboard); and industrial paperboard products (e.g. angle board, tube and core board) are also produced for diversity and mill optimization.

***The Mill.*** The mill is designed to manufacture gypsum-grade recycled paperboard utilizing various modern technologies that produces recycled paperboard that is up to 20% lighter than that currently generally available in the U.S., but with similar strength characteristics. Because gypsum-grade recycled paperboard generally is sold on the basis of surface area, manufacturing lighter paper potentially translates into higher profit margins per ton for the recycled paperboard manufacturer. Lighter recycled paperboard also reduces drying costs associated with the production of gypsum wallboard and reduces inbound and outbound freight costs of both recycled paperboard and gypsum wallboard. In addition to producing a product that is more attractive to customers, our lighter weight, better quality recycled paperboard reduces production and transportation costs at our gypsum wallboard plants.

***Manufacturing Process.*** Recycled paperboard is manufactured in a continuous process during which reclaimed paper fiber is mixed with water and pulped to separate the individual fibers. This mixture is passed through a series of filters and cleaners to remove all of the undesirable materials (e.g. tapes, glass, staples, glues, waxes) from the recovered fiber to produce slurry. The slurry is then diluted to a very low concentration and is then applied to a series of traveling wire screens through a mechanical distribution system. The paper machine is designed so that four individual webs of paper are combined to form one multi-ply sheet of paperboard. The excess water from this process is allowed to be drained through the wire mesh fabric and is continuously recycled for additional paper making. The multi-ply paper mat is then mechanically pressed, steam dried and trimmed to specific customer size and packaging requirements. The finished product is wound in roll form weighing approximately 2.5 tons and containing 2.2 miles of paper. It is made specifically to customer quality specifications.

***Raw Materials.*** The principal raw materials are recovered paper fiber (in other words, wastepaper), water and specialty paper chemicals. Several different types of recovered fiber (e.g. newspaper, grocery store boxes, etc.) are formulated together to give the desired paperboard qualities. Recovered paper fiber is currently purchased from several sources, with 44% currently being under contractual commitments.

We believe that adequate supplies of recovered paper fiber will continue to be available from generators and wholesalers located within a 400-mile radius of the mill. One third of all purchased fiber is supplied by rail. Recovered paper fiber is a commodity bought, sold and traded under the guidelines of the Institute of Scrap Recycling Industries, Inc. (ISRI). Monthly pricing is established in several industry publications based on location. Prices are subject to fluctuations based on supply, demand and export. The current outlook for fiscal 2007 is for wastepaper prices to increase moderately during the first half of the fiscal year and stabilize for the remainder of the fiscal year. Current customer contracts include price escalators to compensate for changes in raw material prices.

Chemicals, including size, retention aids, bactericides and strength aids, used by the Company in its recycled paperboard operations are environmentally friendly and are readily available from several manufacturers at competitive prices.

The manufacture of recycled paperboard involves the use of large volumes of water both in the production process and for cooling purposes. The mill uses water provided under an agreement with the City of Lawton, Oklahoma municipal services. The term of the agreement with the City of Lawton, Oklahoma is fifteen years (commencing in calendar 1999) with two automatic five-year extensions unless the Company notifies the City in writing at least six months prior to the expiration of the term or extended term. Although adequate sources of water have historically been available, an extended period of general water shortages, legal curtailment of any mill s current water sources or uses, or deterioration of the current quality of water could adversely affect the mill s operations and limit its production capacity.

Electricity, natural gas and other utilities are available to the mill either at contracted rates or at standard industrial rates in adequate supplies, subject to standard industrial curtailment provisions. If periods of natural gas curtailment or unfavorable pricing occur, the Lawton mill is equipped to use fuel oil as an alternative fuel. The mill has a four year contract for natural gas transportation.

Paperboard mills are generally large consumers of natural gas. During fiscal 2006, natural gas pricing significantly increased; however, prices are expected to level off during fiscal 2007. If natural gas prices continue to increase, they are expected to negatively impact fiscal 2007 production costs and operating earnings. The mill is subject to an electricity supply agreement with Public Service of Oklahoma and because of the power company s large dependence on natural gas our power rates have dramatically increased this past year.

***Sales and Distribution.*** Our manufactured recycled paperboard products are sold primarily to gypsum wallboard manufacturers. During fiscal 2006, approximately 40% of the recycled paperboard manufactured and shipped by the mill was consumed by the Company s gypsum wallboard manufacturing operations, 40% was sold to St. Gobain pursuant to a paper supply contract (the St. Gobain Agreement ) and approximately 20% was shipped to other gypsum wallboard manufacturers and containerboard manufacturers. Originally, the St. Gobain Agreement was entered into by Republic Paperboard and James Hardie Gypsum Inc.; however, subsequent to the agreement, James Hardie s North American gypsum wallboard operations were acquired by BPB Gypsum, whose operations were purchased during fiscal 2006 by St. Gobain. The St. Gobain Agreement is a long-term paper supply contract with sales to St. Gobain made at a defined base price determined at the time of execution of the St. Gobain Agreement. This defined price is subject to adjustment based on changes in the major variable costs of production of recycled paperboard. Under this agreement, the mill is obligated to sell and St. Gobain is obligated to purchase at least 95% (plus or minus 5%) of the gypsum-grade recycled paperboard requirements of three of St. Gobain s plants. The loss of St. Gobain as a customer or a termination or reduction of its production of gypsum wallboard, unless replaced by a commercially similar arrangement, could have a material adverse effect on the Company.

***Competition.*** When selling the portion of our production not under long term contract or not consumed by our gypsum wallboard manufacturing operations, we compete with approximately nine other manufacturers of gypsum-grade paperboard, six of which have gypsum wallboard manufacturing operations. During periods of peak demand for gypsum wallboard, the demand for recycled paperboard typically matches or exceeds the productive capacities of the gypsum-grade paperboard producers. During periods of reduced demand for gypsum wallboard, the demand for recycled paperboard falls, and selling prices may decrease on open market tonnage. Production sold outside of the gypsum paperboard industry is generally at lower margins.

Price, quality and timeliness of deliveries are the principal methods of competition among gypsum paperboard producers. The location of our mill allows us to serve a variety of markets, including several gypsum wallboard plants in the mid-west, southeast, southwest and western U.S.

***Environmental Matters.*** Prior to November 2000, the Company s now closed Commerce City, Colorado paper mill (the Commerce City Mill ) had investigated the presence of subsurface petroleum hydrocarbons at the mill site and had retained an environmental consultant who concluded that fuel oil, jet fuel, and gasoline additives had migrated in the subsurface of the property from an adjacent property. As a result of an additional subsequent investigation by the Commerce City Mill, new environmental conditions were uncovered that appear to stem from underground storage tank use on the mill site. The Commerce City Mill and a former owner of the Commerce City Mill have entered into a participation agreement with the Division of Oil and Public Safety of the Colorado Department of Labor and Employment (the Oil Division ) to respond to those conditions that appear to stem from historical underground storage tank use. Under the participation agreement, the Commerce City mill will pay 25% (with the former owner paying 75%) of the costs associated with the investigation and remediation efforts approved by both parties. The Company and the former owner have each approved and submitted to the Oil Division a Corrective Action Plan (the CAP ) for the removal of the subsurface petroleum hydrocarbon at the Commerce City Mill. The CAP was approved by the Oil Inspection Section in calendar 2002. It is estimated that this CAP will cost approximately $2.5 million and take approximately eight years to complete. Under the participation agreement, the Company will pay 25% (or approximately $625,000, of which a portion has been paid and the remainder is fully accrued) of such estimated costs. There can be no assurance, however, that the actual costs of remediation will not exceed these estimates.

***Capital Expenditures.*** Capital expenditures during fiscal 2006 for the paperboard operations were $4.9 million, $4.5 million in fiscal 2005 and $1.3 million in fiscal 2004. Capital expenditures for fiscal 2007 have been estimated at approximately $7.6 million. This increase is due to completion of projects started in fiscal 2006 related to equipment upgrades and plant automation. None of the estimated fiscal 2007 capital outlays are related to compliance with environmental regulations.

**CONCRETE AND AGGREGATES OPERATIONS**

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

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

We produce and distribute readymix concrete from company owned sites north of Sacramento, California and in Austin, Texas. The following table sets forth certain information regarding these operations:

| Location | Number of Plants | Number of Trucks |
|---|---|---|
| Northern California | 3 | 43 |
| Austin, Texas | 5 | 80 |
| Total | 8 | 123 |

The Austin, Texas market, which is our largest concrete market, was negatively impacted by the market conditions affecting technology companies that began in 2000; however, there has been improvement in both pricing and demand during fiscal 2006. Our net readymix concrete sales were 883,000 cubic yards in fiscal 2006 and 769,000 cubic yards in fiscal 2005. We anticipate adding an additional plant in our Austin market during fiscal 2007.

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

| Location | Types of Aggregates | Estimated Annual Production Capacity (Thousand tons) | Estimated Minimum Reserves (Years) |
|---|---|---|---|
| Northern California | Sand and Gravel | 3,500 | 100+(1) |
| Austin, Texas | Limestone | 2,500 | 60(2) |
| Total | | 6,000 | |

(1) Owned reserves through various subsidiaries.

(2) Leased reserves.

The Company s total net aggregate sales were 5.7 million tons in fiscal 2006 and 5.2 million tons in fiscal 2005. Total aggregates production was 5.8 million tons for fiscal 2006 and 5.4 million for fiscal 2005. A portion of the Company s total aggregates production is used internally by the Company s readymix concrete operations.

***Raw Materials.*** The Company supplies approximately 100% and 50% of its cement requirements for its Austin and northern California concrete operations, respectively. The Company supplies approximately 34% and 52%, respectively, of its aggregates requirements for its Austin and northern California concrete operations. The Company obtains the balance of its cement and aggregates requirements from multiple sources in each of these areas.

We mine and extract limestone and sand and gravel, the principal raw materials used in the production of aggregates, from quarries owned or leased by the Company and located near its plants. The northern California quarry is estimated to contain over one billion tons of sand and gravel reserves. The Austin, Texas quarry is covered by a lease which expires in 2060. Based on its current production capacity, the Company estimates its northern California and Austin, Texas quarries contain over 100 years and approximately 60 years of reserves, respectively.

***Sales and Distribution.*** Demand for readymix concrete and aggregates largely depends on local levels of construction activity. The construction sector is subject to weather conditions, the availability of financing at reasonable rates and overall fluctuations in local economies, and therefore tends to be cyclical. We sell readymix concrete to numerous contractors and other customers in each plant s selling area. Our batch plants in Austin and northern California are strategically located to serve each selling area. Concrete is delivered from the batch plants by trucks owned by the Company.

We sell aggregates to building contractors and other customers engaged in a wide variety of construction activities. Aggregates are delivered from our aggregate plants by common carriers and customer pick-up. One customer accounted for approximately 10% of our concrete sales, and another customer accounted for approximately 10% of our aggregate sales during fiscal 2006. Presently we are attempting to secure a rail link from our principal aggregates deposit north of Sacramento, California to extended markets in northern California.

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

Both concrete and aggregates are commodity products. Each type of aggregate is sold in competition with other types of aggregates and in competition with other producers of the same type of aggregates. Accordingly, competition in both the concrete and aggregates businesses is based principally on price and, to a lesser extent, on product quality and customer service.

***Capital Expenditures.*** Capital expenditures during fiscal 2006 amounted to $11.1 million for the concrete and aggregates segment compared with $3.5 million and $1.0 million in fiscal 2005 and 2004, respectively. The increase in capital expenditures in fiscal 2006 relates primarily to the acquisition of a dredge at our northern California operation which began production during the fiscal year. Capital outlays in fiscal 2007 are estimated to be approximately $10.0 million. Approximately 10% of the estimated fiscal 2007 capital expenditures are related to compliance with environmental regulations.

***Environmental Matters.*** The concrete and aggregates industry is subject to environmental regulations similar to those governing our cement operations. None of our concrete or aggregates operations are presently the subject of any local, state or federal environmental proceeding or inquiries.

## EMPLOYEES

As of March 31, 2006, we had approximately 1,600 employees.

As of March 31, 2006, we had approximately 400 employees employed under collective bargaining agreements and various supplemental agreements with local unions.

## WHERE YOU CAN FIND MORE INFORMATION

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports available free of charge through the investor relations page of our website, located at *www.eaglematerials.com* as soon as reasonably practicable after they are filed with or furnished to the SEC. Alternatively, you may contact our investor relations department directly at (214) 432-2000 or by writing to Eagle Materials Inc., Investor Relations, 3811 Turtle Creek Blvd., Suite 1100, Dallas, Texas 75219.

## ITEM 1A. RISK FACTORS

These statements involve known and unknown risks and uncertainties that may cause the Company s actual results to be materially different from planned or expected results. Those risks and uncertainties include, but are not limited to:

***Levels of construction spending.*** Demand for the Company s products is directly related to the level of activity in the construction industry, which includes residential, commercial and infrastructure construction. Furthermore, activity in the infrastructure construction business is directly related to the amount of government funding available for such projects. Any decrease in the amount of government funds available for such projects or any decrease in construction activity in general, including continued slow down of home building activity, could have a material adverse effect on the Company s financial condition and results of operations.

***Interest rates.*** The Company s business is significantly affected by the movement of interest rates. Interest rates have a direct impact on the level of residential, commercial and infrastructure construction activity put in place. Higher interest rates could have a material adverse effect on our business and results of operations. In addition, increases in interest rates could result in higher interest expense related to the Company s borrowings under its credit facilities.

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

***Significant changes in the cost of, and the availability of, fuel, energy and other raw materials.*** Significant increases in the cost of fuel, energy or raw materials used in connection with our businesses or substantial decreases in their availability could materially and adversely affect our sales and operating profits. Major cost components in each of our businesses are the cost of fuel, energy and raw materials. Prices for fuel, energy or raw materials used in connection with our businesses could change significantly in a short period of time for reasons outside our control. In the event of large or rapid increases in prices, we may not be able to pass the increases through to our customers in full, which would reduce our operating margin.

***The seasonal nature of the Company s business.*** A majority of our business is seasonal with peak revenues and profits occurring primarily in the months of April through November. Quarterly results have varied significantly in the past and are likely to vary significantly from quarter to quarter in the future. Such variations could have a negative impact on the price of the Company s common stock.

***National and regional economic conditions.*** A majority of our revenues are from customers who are in industries and businesses that are cyclical in nature and subject to changes in general economic conditions. In addition, since operations occur in a variety of geographic markets, our businesses are subject to the economic conditions in each such geographic market. General economic downturns or localized downturns in the regions where we have operations, including any downturns in the construction industry or increases in capacity in the gypsum wallboard, paperboard and cement industries, could have a material adverse effect on our business, financial condition and results of operations.

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

***Competition from new or existing competitors or the ability to successfully penetrate new markets.*** The construction products industry is highly competitive. If we are unable to keep our products competitively priced, our sales could be reduced materially. Also, we may experience increased competition from companies offering products based on new processes that are more efficient or result in improvements in product performance, which could put us at a disadvantage and cause us to lose customers and sales volume. Our failure to continue to compete effectively could have a material adverse effect on our business, financial condition and results of operations.

***Environmental liabilities.*** Our operations are subject to state, federal and local environmental laws and regulations, which impose liability for cleanup or remediation of environmental pollution and hazardous waste arising from past acts; and require pollution control and prevention, site restoration and operating permits and/or approvals to conduct certain of its operations. Certain of our operations may from time-to-time involve the use of substances that are classified as toxic or hazardous substances within the meaning of these laws and regulations. Risk of environmental liability is inherent in the operation of our businesses. As a result, it is possible that environmental liabilities could have a material adverse effect on the Company in the future.

***Compliance with governmental regulations.*** Our operations and our customers are subject to and affected by federal, state and local laws and regulations with respect to land usage, street and highway usage, noise level and health and safety and environmental matters. In many instances, various permits are required for construction and related operations. Although management believes that we are in compliance in all material respects with regulatory requirements, there can be no assurance that the Company will not incur material costs or liabilities in connection with regulatory requirements or that demand for its products will be affected by regulatory issues affecting its customers.

***Events that may disrupt the U.S. or world economy.*** Future terrorist attacks, the ensuing U.S. military and other responsive actions, could have a significant adverse effect on the general economic, market and political conditions, which in turn could have material adverse effect on the Company s business.

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

In general, the Company is subject to the risks and uncertainties of the construction industry and of doing business in the U.S. The forward-looking statements are made as of the date of this report, and the Company undertakes no obligation to update them, whether as a result of new information, future events or otherwise.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

There are no unresolved staff comments.

**ITEM 2. PROPERTIES**

We operate cement plants, quarries and related facilities at Buda, Texas; LaSalle, Illinois; Fernley, Nevada and Laramie, Wyoming. The Buda plant is owned by a partnership in which EXP has a 50% interest. Our principal aggregate plants and quarries are located in the Austin, Texas area and Marysville, California. In addition, we operate gypsum wallboard plants in Albuquerque and nearby Bernalillo, New Mexico, Gypsum, Colorado and Duke, Oklahoma. We produce recycled paperboard at Lawton, Oklahoma. None of our facilities are pledged as security for any debts.

See Item 1. Business on pages 1-14 of this Report for additional information relating to the Company s properties.

**ITEM 3. LEGAL PROCEEDINGS**

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

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

### STOCK PRICES AND DIVIDENDS

On April 11, 2006, the shareholders of the Company voted to eliminate our dual class capital structure by exchanging each share of our outstanding Common Stock and Class B Common Stock into a new class of common stock. Accordingly, all stock information has been retroactively restated as if the combination had taken place as of the earliest period presented. As of May 24, 2006 there were approximately 2,852 holders of record of our Common Stock which trades on the New York Stock Exchange under the symbol EXP.

The following table sets forth the high and low closing prices for our Common Stock as reported on the New York Stock Exchange for the periods indicated, as well as dividends paid during these periods:

| | Fiscal Year Ended March 31, 2006 | | | Fiscal Year Ended March 31, 2005 | | |
|---|---|---|---|---|---|---|
| Quarter ended: | High | Low | Dividends | High | Low | Dividends |
| June 30, 2005 | $31.41 | $24.19 | $0.10 | $24.04 | $19.04 | $0.10 |
| September 30, 2005 | $40.26 | $30.13 | $0.10 | $23.98 | $19.85 | $0.10 |
| December 31, 2005 | $41.52 | $31.62 | $0.10 | $29.02 | $20.89 | $0.10 |
| March 31, 2006 (1) | $63.76 | $37.76 | $0.10 | $28.95 | $25.33 | $0.10 |

(1) Quarterly dividend increased 75% to $0.175 per quarter payable in April 2006.

We currently expect that quarterly cash dividends comparable to the $0.175 per share quarterly dividend will continue to be paid throughout fiscal 2007.

### SHARE REPURCHASES

The Company s Board of Directors has approved the repurchase of a cumulative total of 26,453,805 shares of the Company s Common Stock for repurchase since the Company became publicly held in April 1994. On January 24, 2006, the Board of Directors authorized the Company to repurchase up to an additional 2,749,563 shares, for a total authorization of 3,000,000 currently outstanding. The Company repurchased 4,547,163 shares, 1,986,600 shares and 175,500 shares of Common Stock at a cost of $165.3 million, $43.8 million and $3.1 million in the years ended March 31, 2006, 2005 and 2004, respectively.

The total number of shares purchased in the table below represents shares of Common Stock repurchased pursuant to the Board of Directors authorization dated November 29, 1998, as amended July 28, 2004 and January 24, 2006. Share repurchases may be made from time-to-time in the open market or in privately negotiated transactions. The timing and amount of any repurchases of shares will be determined by Company management, based on its evaluation of market and economic conditions and other factors.

Purchases of the Company s Common Stock during the quarter ended March 31, 2006 were as follows:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| January 1 through January 31, 2006 | 139,200 | $40.92 | | |
| February 1 through February 28, 2006 | | | | |
| March 1 through March 31, 2006 | | | | |
| Quarter 4 Totals | 139,200 | $40.92 | 139,200 | 3,000,000 |

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The equity compensation plan information set for in Part III, Item 12 of this Form 10-K is hereby incorporated by reference into this Part II, Item 5.

**ITEM 6. SELECTED FINANCIAL DATA**

**SUMMARY OF SELECTED FINANCIAL DATA[1]**

(amounts in thousands, except per share data)

| | For the Fiscal Years Ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Revenues | $859,702 | $616,541 | $502,622 | $429,178 | $395,188 |
| Earnings Before Income Taxes | 241,066 | 158,089 | 102,123 | 86,613 | 59,699 |
| Net Earnings | 160,984 | 106,687 | 66,901 | 57,606 | 39,706 |
| Diluted Earnings Per Share | 3.02 | 1.91 | 1.19 | 1.04 | 0.72 |
| Cash Dividends Per Share | 0.40 | 0.40 | 2.15(2) | 0.07 | 0.07 |
| Total Assets | 888,916 | 780,001 | 692,975 | 706,355 | 737,323 |
| Total Debt | 200,000 | 84,800 | 82,880 | 80,927 | 182,380 |
| Stockholders Equity | 464,738 | 485,368 | 439,022(2) | 479,611 | 427,832 |
| Book Value Per Share At Year End | $ 9.24 | $ 8.88 | $ 7.80 | $ 8.70 | $ 7.77 |
| Average Diluted Shares Outstanding | 53,330 | 55,884 | 56,208 | 55,572 | 55,383 |

(1) The Financial Highlights should be read in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements for matters that affect the comparability of the information presented above.

(2) Includes a special one-time $2.00 per share ($112.9 million total) dividend paid in connection with the Spin-off from Centex Corporation.

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## ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## EXECUTIVE SUMMARY

Strong residential construction and a recovering commercial construction demand in all of our markets helped to set record fiscal 2006 sales volume, revenues and earnings per share. Demand in all of our markets was strong as we reported increased sales volume in each of our segments for the fiscal year ended March 31, 2006. The majority of our earnings improvement was in the Gypsum Wallboard and Cement operations. Fiscal 2006 revenues increased 39% to $859.7 million, net earnings were up 51% to $161.0 million and diluted earnings per share were up 58% to $3.02.

Gypsum Wallboard sales volume was up 11% and represented record volume for the Company due to record industry demand while operating earnings increased 89% due to a 27% increase in average sales price. Fiscal 2006 was the 20th consecutive sold-out year for our cement operations. Cement sales volume increased 16%, and operating earnings increased 36% from last year due to higher average net sales prices offset primarily by the impact of increased purchased cement volumes and costs. Paperboard reported record sales volume, however operating earnings declined due to reduced sales price and increased production costs, mainly natural gas. Concrete and Aggregates operating earnings improved 24% over last fiscal year due primarily to a record sales volume in concrete. Corporate expenses increased $6.1 million due primarily to increased headcount and greater salary and benefit costs, including stock compensation.

Manufacturing costs in fiscal 2006 were negatively impacted by increased natural gas, coal, power, paper fiber and maintenance costs. Demand for energy related products continued at a high level and prices for these products are expected to level off in fiscal 2007. Ordinary maintenance costs are expected to remain flat in fiscal 2007, although there will be some additional maintenance costs related to the completion of the Illinois Cement expansion project.

We operate in cyclical commodity businesses. Downturns in overall economic activity usually have a significant adverse effect on these businesses due to decreased demand and reduced pricing. Recently, wallboard demand has been favorably impacted by strong residential construction. Recent increases in interest rates are expected to bring a reduction in new residential construction activity; however, commercial and industrial activity, which are showing signs of improvement, may help to offset reduced demand in the residential construction sector if interest rates continue to increase. Cement demand continues to be positively impacted by a strong national highway funding program. The funds allocated by Congress in the new highway bill exceed the prior highway funding program.

Strong demand from new housing and residential remodeling resulted in record wallboard consumption for calendar 2005. According to the Gypsum Association, national wallboard consumption of 36.2 billion square feet for calendar 2005, the highest level on record, was up 5.6% from last year s consumption. Industry utilization rates have been at the 95%+ level, resulting in a 27% increase in our net wallboard pricing for fiscal 2006. We implemented price increases in April, June, September and, December 2005 and March 2006.

U.S. cement consumption continues to be strong. Total U.S. cement shipments of approximately 139 million short tons for calendar 2005 were a record high and were 5.7% above calendar 2004. Cement imports for calendar 2005 were 37 million short tons, 23% above last year s imports. The U.S. Cement Industry has been sold out for the last 11 years as a result of a domestic capacity deficit. Current U.S. demand requires imports of over 25% to supplement domestic capacity. The U.S. Cement Industry is anticipating a tight supply of imported cement this year due to high freight rates and increasing consumption in world markets. Cement pricing has increased 17% over prior year, the second straight year of price increases, reversing a slight decline over the prior three years. We implemented cumulative price increases of between $10.00 and $20.00 per ton in all our markets during fiscal 2006.

Our recycled paperboard mill continued operational improvements and is now producing at 150% above its original design capacity.

The Company conducts one of its cement operations through a joint venture, Texas Lehigh Cement Company LP, which is located in Buda, Texas (the Joint Venture ). The Company owns a 50% interest in the joint venture and accounts for its interest under the equity method of accounting. However, for purposes of the Cement segment information presented, the Company proportionately consolidates its 50% share of the Joint Venture s revenues and operating earnings, which is the way management organizes the segments within the Company for making operating decisions and assessing performance. See Note (H) of the Notes to the Consolidated Financial Statements for additional segment information.

**RESULTS OF OPERATIONS**

**Fiscal Year 2006 Compared to Fiscal Year 2005**

***Consolidated Results.*** Consolidated net revenues for fiscal 2006 were up 39% from fiscal 2005 driven by higher sales prices and volumes in all segments, especially Gypsum Wallboard and Cement. Fiscal 2006 operating earnings of $263.8 million were up 54% from $171.7 million last fiscal year mainly due to increased Gypsum Wallboard and Cement operating earnings.

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

| | Revenues For the Fiscal Years Ended March 31, | | Operating Earnings[1] For the Fiscal Years Ended March 31, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | (dollars in thousands) | | (dollars in thousands) | |
| Gypsum Wallboard | $ 479,134 | $ 350,101 | $ 154,227 | $ 81,616 |
| Cement | 285,289 | 211,343 | 78,311 | 57,616 |
| Paperboard | 133,482 | 125,184 | 20,087 | 25,406 |
| Concrete & Aggregates | 89,778 | 70,786 | 9,613 | 7,742 |
| Other, net | 2,279 | 193 | 1,539 | (721) |
| Sub-total | 989,962 | 757,607 | $ 263,777 | $ 171,659 |
| Less: Intersegment Revenues | (65,096) | (58,812) | | |
| Less: Joint Venture Revenues | (65,164) | (82,254) | | |
| Total | $ 859,702 | $ 616,541 | | |

(1) Prior to Corporate General and Administrative

and interest
expense.

***Corporate Overhead.*** Corporate general and administrative expenses for fiscal 2006 were $16.4 million compared to $10.3 million for last fiscal year. The increase was primarily the result of increased headcount and higher compensation and benefit costs, including the expensing of employee stock compensation in accordance with a change in accounting standards.

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

***Net Interest Expense.*** Net interest expense of $6.3 million for fiscal 2006 increased $3.1 million from fiscal 2005 due to increased borrowings.

***Income Taxes.*** The effective tax rate for fiscal 2006 increased to 33.2% from 32.5% primarily due to an increase in state income tax expense partially offset by a revision of certain estimates utilized by the Company for permanent items included within the corporate tax filings and the new domestic production activities deduction.

***Net Income.*** As a result of the foregoing, pre-tax earnings of $241.1 million were 52% above fiscal 2005 pre-tax earnings of $158.1 million. Fiscal 2006 net earnings of $161.0 million increased 51% from net earnings of $106.7 million in fiscal 2005. Diluted earnings per share in fiscal 2006 of $3.02 were 58% higher than the $1.91 for fiscal 2005.

**GYPSUM WALLBOARD OPERATIONS**

| | For the Fiscal Years Ended March 31, 2006 | 2005 | Percentage Change |
|---|---|---|---|
| | (dollars in thousands) | | |
| Gross Revenues, as reported | $ 479,134 | $ 350,101 | 37% |
| Freight and Delivery Costs billed to customers | (89,374) | (73,140) | 22% |
| Net Revenues | $ 389,760 | $ 276,961 | 41% |
| Sales Volume (MMSF) | 2,832 | 2,547 | 11% |
| Average Net Sales Price [1] | $ 137.65 | $ 108.74 | 27% |
| Unit Costs | $ 83.17 | $ 76.70 | 8% |
| Operating Margin | $ 54.48 | $ 32.04 | 70% |
| Operating Earnings | $ 154,227 | $ 81,616 | 89% |
| Freight per MSF | $ 31.57 | $ 28.72 | 10% |

(1) Net of freight per MSF.

Revenues: Price increases throughout the year and record Company wallboard shipments positively impacted revenues for fiscal 2006 as compared to fiscal 2005. Pricing has continued to strengthen as consumption was at an all-time high resulting in the near full capacity utilization of the U.S. wallboard industry. Our sales volume of 2,832 MMSF represents a record for the Company as the Company operated at full capacity.

Operating Margins: Operating margins were impacted by increasing paper costs and transportation costs for raw materials, as well as natural gas costs which increased 43% in fiscal 2006 as compared to fiscal 2005. On a per unit basis, freight costs, which are deducted to determine average net sales price, have increased 10% from fiscal 2005. Operating earnings for fiscal 2006 represented the highest earnings in Company history.

Outlook: Throughout fiscal 2006 industry utilization rates averaged about 95% and as a result pricing has remained strong in all of the markets we serve. We implemented a 10% price increase in late March 2006, which helped us achieve an average net sales price of approximately $165.00 during April 2006. Demand remains strong with supply being currently allocated. Single family residential housing is expected to decline during fiscal 2007 at an estimated rate of 5% to 10%; however we anticipate that commercial construction and repair and remodel demand will remain strong. Expected capacity additions during fiscal 2007 are not expected to be significant; therefore industry utilization, even with the anticipated decline in single family residential housing, is expected to remain high.

**CEMENT OPERATIONS**

| | For the Fiscal Years Ended March 31, 2006 | 2005 | Percentage Change |
|---|---|---|---|
| | (dollars in thousands) | | |
| Gross Revenues, including intersegment | $ 285,289 | $ 211,343 | 35% |
| Freight and Delivery Costs billed to customers | (19,212) | (16,499) | 16% |
| Net Revenues | $ 266,077 | $ 194,844 | 37% |
| Sales Volume (M Tons) | 3,200 | 2,753 | 16% |
| Average Net Sales Price | $ 83.15 | $ 70.77 | 17% |
| Unit Costs (including imports and purchased cement) | $ 58.68 | $ 49.84 | 18% |
| Operating Margin | $ 24.47 | $ 20.93 | 17% |
| Operating Earnings | $ 78,311 | $ 57,616 | 36% |

Revenues: Price increases were implemented throughout the fiscal year, which resulted in a 17% increase in average sales prices for fiscal 2006 as compared to fiscal 2005. Sales volume was greater due to our purchase of the remaining 50% interest in Illinois Cement Company during January 2005, which resulted in our consolidating all of the sales revenue from Illinois in fiscal 2006, and only 50% for the majority of fiscal 2005. Additionally, consumption was at an all-time high due to several favorable market factors, such as increased construction spending and very favorable weather conditions in our markets.

Operating Margins: Operating margins increased during fiscal 2006 as compared to fiscal 2005, primarily due to increased sales prices. The increases in sales prices were slightly offset by increased volumes of low margin purchased cement, which increased to 675,000 tons in fiscal 2006 from 402,000 tons in fiscal 2005, an increase of 68%. Additionally, fuel and energy costs increased 20% over the prior year period due primarily to increased cost of petroleum coke and coal and electricity.

Outlook: U.S. cement consumption remains strong as a result of strong federal and state infrastructure projects, strong housing activity and a recovering commercial construction market. The passage of the $286.4 billion, six-year federal highway transportation bill SAFETEA LU in July of 2005 represents a 40% increase over the previous TEA 21 bill and is anticipated to further strengthen the long-term demand for cement in the U.S. The U.S. Government and the Government of Mexico have entered into an agreement providing for the elimination of the antidumping duties imposed by the U.S. on cement imported from Mexico. The agreement provides for a three year transition period during which the volume of Mexican cement imported into the southern tier of the U.S. will be limited to 3 million metric tons per year and the antidumping duty imposed on Mexican cement will be set at $3 per ton. This is not expected to impact cement prices in the short term as the Portland Cement Association estimates that the current industry wide domestic production capacity is 25% short of domestic consumption. Additionally the major Mexican cement producers also own a much larger percentage of US domestic production than previously when dumping occurred. In the near term, we expect U.S.

cement pricing to remain stable or increase due to strong domestic consumption, increasing world demand and historically high international freight costs for imported cement. The Company has sold 100% of its production for the last 20 years and anticipates selling all of its fiscal 2007 production.

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**RECYCLED PAPERBOARD OPERATIONS**

| | For the Fiscal Years Ended March 31, 2006 | 2005 | Percentage Change |
|---|---|---|---|
| | (dollars in thousands) | | |
| Gross Revenues, including intersegment | $ 133,482 | $ 125,184 | 7% |
| Freight and Delivery Costs billed to customers | (2,587) | (3,048) | -15% |
| Net Revenues | $ 130,895 | $ 122,136 | 7% |
| Sales Volume (M Tons) | 289 | 268 | 8% |
| Average Net Sales Price | $ 452.63 | $ 455.73 | -1% |
| Unit Costs | $ 383.12 | $ 360.93 | 6% |
| Operating Margin | $ 69.51 | $ 94.99 | -27% |
| Operating Earnings | $ 20,087 | $ 25,406 | -21% |

Revenues: Paperboard achieved price increases in gypsum paper, primarily as a result of previously established price escalators in its contracts; however, prices declined for trims, containerboard and B grade, which made up a larger percentage of total sales in fiscal 2006 compared to fiscal 2005. Due to the change in sales mix, average sales price declined slightly in fiscal 2006 as compared to fiscal 2005. Total sales volume increased 8% due to a 16,000 ton increase in non-gypsum paperboard and higher sales to our wallboard division. Paperboard sales to our wallboard division were 114,000 tons at $57.5 million compared to 109,000 tons at $54.1 million for last year.

Operating Margins: Our operating margin per ton was adversely impacted by increased sales of lower margin containerboard and B grade paper during fiscal 2006 as compared to fiscal 2005. Additionally, operating margins were adversely impacted by increased natural gas, electricity and repair costs, offset positively by reduced recovered fiber costs.

Outlook: As a result of strong market demand, capital improvements and improved operating efficiency, our paperboard mill is currently producing at 150% of its original design capacity. While we anticipate continued strong demand for our products over the next six to twelve months, continued increases in natural gas and electricity costs over the next six months may adversely affect operating earnings.

**CONCRETE AND AGGREGATES OPERATIONS**

| | For the Fiscal Years Ended March 31, 2006 | 2005 | Percentage Change |
|---|---|---|---|
| | (dollars in thousands) | | |
| **CONCRETE** | | | |
| Gross Revenues | $ 55,269 | 42,228 | 31% |
| Sales Volume (M Yards) | 883 | 769 | 15% |
| Average Net Sales Price | $ 62.61 | $ 54.92 | 14% |
| Unit Costs | $ 55.37 | $ 51.01 | 9% |
| Operating Margin | $ 7.24 | $ 3.91 | 85% |
| Operating Earnings | $ 6,395 | $ 3,007 | 113% |
| **AGGREGATES** | | | |
| Gross Revenues, including intersegment | $ 34,509 | $ 28,558 | 21% |
| Freight & Delivery Cost billed to customers | (831) | (1,071) | -22% |
| Net Revenues | $ 33,678 | $ 27,487 | 23% |
| Sales Volume (M Tons) | 5,714 | 5,196 | 10% |
| Average Net Sales Price | $ 5.89 | $ 5.29 | 11% |
| Unit Costs | $ 5.33 | $ 4.38 | 22% |
| Operating Margin | $ 0.56 | $ 0.91 | -38% |
| Operating Earnings | $ 3,218 | $ 4,735 | -32% |

Revenues: Revenues increased in for both concrete and aggregates during fiscal 2006 due to increases in sales prices and volumes due to strong construction activity in both the Austin, Texas and Sacramento, California markets. Aggregate pricing in Austin has increased by 18% during fiscal 2006 from fiscal 2005.

Operating Margins: Increases in operating margins for concrete are due primarily to increased sales prices in fiscal 2006 as compared to fiscal 2005, partially offset by increased raw materials (cement and aggregates) and delivery costs. Operating margins for aggregates declined for fiscal 2006 as compared to fiscal 2005, primarily due to significantly higher mobile equipment maintenance costs, as well as the timing of other plant maintenance projects.

Outlook: Concrete pricing in the Austin, Texas market increased during fiscal 2006 as a result of increased construction activity in the region in both the commercial and residential sectors. We expect improved pricing in the Austin, Texas market and continued strong pricing in the northern California market in fiscal 2007.

Aggregates pricing in the Sacramento area is expected to continue to remain strong in the near term due primarily to demand outpacing capacity. Aggregates pricing in the Austin, Texas market is anticipated to increase moderately over the near term due to increased levels of construction activity in the Austin area and a changing mix in the products sold.

### Fiscal Year 2005 Compared to Fiscal Year 2004

***Consolidated Results.*** Consolidated net revenues for fiscal 2005 were up 23% from fiscal 2004 driven by higher sales prices and volumes in all segments, especially Gypsum Wallboard and Cement. Fiscal 2005 operating earnings of $171.7 million were up 49% from $115.2 million last fiscal year mainly due to increased Gypsum Wallboard and Cement operating earnings.

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

| | Revenues For the Fiscal Years Ended March 31, | | Operating Earnings[1] For the Fiscal Years Ended March 31 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | (dollars in thousands) | | (dollars in thousands) | |
| Gypsum Wallboard | $ 350,101 | $ 272,924 | $ 81,616 | $ 35,604 |
| Cement | 211,343 | 181,846 | 57,616 | 50,450 |
| Paperboard | 125,184 | 112,366 | 25,406 | 20,942 |
| Concrete & Aggregates | 70,786 | 63,117 | 7,742 | 5,971 |
| Other, net | 193 | 2,242 | (721) | 2,242 |
| Sub-total | 757,607 | 632,495 | $ 171,659 | $ 115,209 |
| Less: Intersegment Revenues | (58,812) | (53,567) | | |
| Less: Joint Venture Revenues | (82,254) | (76,306) | | |
| Total | $ 616,541 | $ 502,622 | | |

(1) Prior to Corporate General and Administrative and interest expense.

***Corporate Overhead.*** Corporate general and administrative expenses for fiscal 2005 were $10.3 million compared to $9.3 million for last fiscal year. The increase was primarily the result of increased consulting expenses, higher compensation and benefit costs and costs associated with Sarbanes Oxley, partially offset by the absence of $2.5 million in direct expenses related to the spin-off transaction included in fiscal 2004.

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

***Net Interest Expense.*** Net interest expense of $3.3 million for fiscal 2005 declined $0.6 million from fiscal 2004 due to lower debt balances and reduced borrowing costs.

***Income Taxes.*** The effective tax rate for fiscal 2005 declined to 32.5% from 33.9% primarily due to legal, advisory and consultant costs incurred in fiscal 2004 related to the spin-off transaction which were not deductible for tax purposes and, a current year state tax benefit of $2.3 million as a result of a lower effective state tax rate applied to our anticipated state deferred tax balances.

***Net Income.*** As a result of the foregoing, pre-tax earnings of $158.1 million were 55% above fiscal 2004 pre-tax earnings of $102.1 million. Fiscal 2005 net earnings of $106.7 million increased 59% from net earnings of $66.9 million in fiscal 2004. Diluted earnings per share in fiscal 2005 of $1.91 were 61% higher than the $1.19 for fiscal 2004.

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## GYPSUM WALLBOARD OPERATIONS

| | For the Fiscal Years Ended March 31, 2005 | 2004 | Percentage Change |
|---|---|---|---|
| | (dollars in thousands) | | |
| Gross Revenues, as reported | $ 350,101 | $ 272,924 | 28% |
| Freight and Delivery Costs billed to customers | (73,140) | (60,977) | 20% |
| Net Revenues | $ 276,961 | $ 211,947 | 31% |
| Sales Volume (MMSF) | 2,547 | 2,437 | 5% |
| Average Net Sales Price [1] | $ 108.74 | $ 86.97 | 25% |
| Unit Costs | $ 76.70 | $ 72.36 | 6% |
| Operating Margin | $ 32.04 | $ 14.61 | 119% |
| Operating Earnings | $ 81,616 | $ 35,604 | 129% |
| Freight per MSF | $ 28.72 | $ 25.02 | 15% |

(1) Net of freight per MSF.

Revenues: Price increases throughout the year and record Company wallboard shipments positively impacted revenues for fiscal 2005 as compared to prior year. Pricing strengthened as a result of record demand resulting in the near full capacity utilization of the U.S. wallboard industry. Our sales volume of 2,547 MMSF represented a record for the Company.

Operating Margins: Operating margins were impacted by increasing transportation costs, natural gas and paper costs. On a per unit basis, freight costs, which are deducted to determine average net sales price, increased 15% compared to fiscal 2004. Operating earnings represented the second highest earnings in Company history.

Outlook: Strong demand from new housing resulted in record wallboard consumption for calendar 2004. According to the Gypsum Association, calendar 2004 national wallboard consumption of 34.2 billion square feet was up 8% from last year s same period.

Throughout fiscal 2005 industry utilization rates trended upward in excess of 92% and as a result, pricing firmed up in all of the markets we serve. We implemented a 10% price increase in late April 2005 in all of the markets we serve and another 15% price increase was announced in May 2005 to be implemented in July of 2005. Wallboard pricing, however, has historically softened during the winter season due to lower levels of construction activity.

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**CEMENT OPERATIONS**

| | For the Fiscal Years Ended March 31, 2005 | 2004 | Percentage Change |
|---|---|---|---|
| | (dollars in thousands) | | |
| Gross Revenues, including intersegment | $ 211,343 | $ 181,846 | 16% |
| Freight and Delivery Costs billed to customers | (16,499) | (15,608) | 6% |
| Net Revenues | $ 194,844 | $ 166,238 | 17% |
| Sales Volume (M Tons) | 2,753 | 2,518 | 9% |
| Average Net Sales Price | $ 70.77 | $ 66.02 | 7% |
| Unit Costs (including imports and purchased cement) | $ 49.84 | $ 45.98 | 8% |
| Operating Margin | $ 20.93 | $ 20.04 | 4% |
| Operating Earnings | $ 57,616 | $ 50,450 | 14% |

Revenues: Price increases were implemented during the first and fourth quarters of fiscal 2005 in the majority of our markets resulting in record average sales prices for the Company. Additionally, fiscal 2005 sales volume was a record high due to high levels of construction activity and favorable weather conditions in our markets. The tight supply of cement in these markets resulted in sold out conditions at all of our plants for fiscal 2005.

Operating Margins: We continue to utilize purchased cement to supplement our production capacities in certain markets that we serve. Purchased cement tons were 402,000 tons in fiscal 2005 versus 219,000 tons in the prior year and impacted current year average cost per ton by $1.87 per ton. Fuel and power costs increased 9% over the prior year period due primarily to increased cost of petroleum coke and coal.

Outlook: U.S. cement consumption was strong as a result of strong housing activity, a recovering commercial construction market and federal and state infrastructure projects. U.S. cement pricing increased due to strong domestic consumption, increasing world consumption and high international freight costs for imported cement. Total U.S. shipments of 132 million short tons for calendar 2004, were 4% above the same period in calendar 2003. Cement imports for calendar 2004, were 30 million short tons or 17.5% above last year s imports. The Company has been sold out for the last 19 years and it is estimated that current industry-wide domestic production capacity is 20% short of domestic consumption.

**RECYCLED PAPERBOARD OPERATIONS**

| | For the Fiscal Years Ended March 31, 2005 | 2004 | Percentage Change |
|---|---|---|---|
| | (dollars in thousands) | | |
| Gross Revenues, including intersegment | $ 125,184 | $ 112,366 | 11% |
| Freight and Delivery Costs billed to customers | (3,048) | (2,355) | 29% |
| Net Revenues | $ 122,136 | $ 110,011 | 11% |
| Sales Volume (M Tons) | 268 | 264 | 2% |
| Average Net Sales Price | $ 455.73 | $ 416.71 | 9% |
| Unit Costs | $ 360.93 | $ 337.38 | 7% |
| Operating Margin | $ 94.99 | $ 79.33 | 19% |
| Operating Earnings | $ 25,406 | $ 20,942 | 21% |

Revenues: Paperboard achieved price increases in each of the products it sells, primarily as a result of previously established contract escalators associated with the price of the waste paper. Paperboard sales to our wallboard division were 109 thousand tons at $54.1 million compared to 107 thousand tons at $49.3 million for last year.

Operating Margins: Cost-of-sales per ton was impacted primarily by higher recovered fiber costs of $20.00 per ton, higher fuel costs of $2.80 per ton, higher chemical costs of $3.50 per ton and higher inbound freight costs of $5.00 per ton, offset positively by the mix of products sold and lower returns and allowances.

Outlook: As a result of strong market demand, capital improvements and improved operating efficiency, our paperboard mill is currently producing at 125% of its original design capacity, and we anticipate continued strong demand for our products over the next twelve months. However, announced recycled container board production expansion could place upward price pressure on recovered fiber as supply tightens.

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**CONCRETE AND AGGREGATES OPERATIONS**

| | For the Fiscal Years Ended March 31, 2005 | 2004 | Percentage Change |
|---|---|---|---|
| | (dollars in thousands) | | |
| **CONCRETE** | | | |
| Gross Revenues | $ 42,228 | $ 40,226 | 5% |
| Sales Volume (M Yards) | 769 | 762 | 1% |
| Average Net Sales Price | $ 54.92 | $ 52.79 | 4% |
| Unit Costs | $ 51.01 | $ 48.87 | 4% |
| Operating Margin | $ 3.91 | $ 3.92 | |
| Operating Earnings | $ 3,007 | $ 2,987 | 1% |
| **AGGREGATES** | | | |
| Gross Revenues, including intersegment | $ 28,558 | $ 22,891 | 25% |
| Freight and Delivery Costs billed to customers | (1,071) | (558) | 92% |
| Net Revenues | $ 27,487 | $ 22,333 | 23% |
| Sales Volume (M Tons) | 5,196 | 4,228 | 23% |
| Average Net Sales Price | $ 5.29 | $ 5.24 | 1% |
| Unit Costs | $ 4.38 | $ 4.53 | (3%) |
| Operating Margin | $ 0.91 | $ 0.71 | 28% |
| Operating Earnings | $ 4,735 | $ 2,984 | 59% |

Revenues: Concrete revenues were impacted primarily by increased average sales prices of $4.74 per cubic yard in the northern California market and $1.94 per cubic yard in the Austin, Texas market versus the prior year, offset by decreased volumes in the northern California market. We recorded record volumes throughout fiscal 2005; driven by the northern California market where demand outpaced supply. Pricing strengthened in northern California and was up 7% as compared to the prior year. Aggregates volumes for the Austin, Texas market increased 39% versus the prior year period due to higher sales of road base. Sales of road base were at lower prices than washed aggregates products and therefore negatively impacted the average Texas sales price of aggregates by 6% versus the prior year.

Operating Margins: Concrete margins were negatively impacted by increased raw materials (cement and aggregates) and delivery costs. In both of our markets the majority of such costs were passed through to customers via price increases reflected above. Costs were impacted negatively by higher contract mining costs and higher maintenance costs versus last year. Aggregates costs per ton remained essentially flat due to fixed costs being spread over larger sales volumes.

Outlook: While concrete pricing in the Austin, Texas market increased slightly, pricing was below the national average and well below pricing in the northern California market. We expect this trend to continue for the next twelve months. Additionally, we expect continued stable pricing in the northern California market. We expect that aggregates pricing in the northern California area will continue to strengthen due primarily to demand outpacing capacity. Aggregates pricing in the Austin, Texas market increased moderately in fiscal 2005 due to increased levels of construction activity in the Austin area and a changing mix in the products sold.

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## CRITICAL ACCOUNTING POLICIES

Certain of our critical accounting policies require the use of judgment in their application or require estimates of inherently uncertain matters. Although our accounting policies are in compliance with generally accepted accounting principles, a change in the facts and circumstances of the underlying transactions could significantly change the application of the accounting policies and the resulting financial statement impact. Listed below are those policies that we believe are critical and require the use of complex judgment in their application.

***Impairment of Long-Lived Assets.*** We assess long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. These evaluations for impairment are significantly impacted by estimates of revenues, costs and expenses and other factors. If these assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

***Goodwill.*** Pursuant to SFAS No. 142 Goodwill and Other Intangible Assets, goodwill is no longer subject to amortization. Rather, goodwill is subject to at least an annual assessment for impairment by applying a fair-value-based test. We have elected to test for goodwill impairment in the first quarter of each calendar year. The goodwill impairment test is a two-step process, which requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of each reporting unit based on a discounted cash flow model using revenues and profit forecasts and comparing those estimated fair values with the carrying value; a second step is performed to compute the amount of the impairment by determining a implied fair value of goodwill. Similar to the review for impairment of other long-lived assets, evaluations for impairment are significantly impacted by estimates of future prices for our products, capital needs, economic trends and other factors.

***Environmental Liabilities.*** Our operations are subject to state, federal and local environmental laws and regulations, which impose liability for cleanup or remediation of environmental pollution and hazardous waste arising from past acts and require pollution control and prevention, site restoration and operating permits and/or approvals to conduct certain of its operations. We record environmental accruals when it is probable that a reasonably estimable liability has been incurred. Environmental remediation accruals are based on internal studies and estimates, including shared financial liability with third parties. Environmental expenditures that extend the life, increase the capacity, improve the safety or efficiency of assets or mitigate or prevent future environmental contamination may be capitalized. Other environmental costs are expensed when incurred.

***Estimation of Reserves and Valuation Allowances.*** We evaluate the collectibility of accounts receivable based on a combination of factors. In circumstances when we are aware of a specific customer s inability to meet its financial obligation to the Company, the balance in the reserve for doubtful accounts is evaluated, and if determined to be deficient, a specific amount will be added to the reserve. For all other customers, the reserve for doubtful accounts is determined by the length of time the receivables are past due or the status of the customer s financial condition.

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## LIQUIDITY AND CAPITAL RESOURCES

***Liquidity.***

The following table provides a summary of our cash flows:

| | For the Fiscal Years Ended March 31, | |
|---|---|---|
| | 2006 | 2005 |
| | (dollars in thousands) | |
| Net Cash Provided by Operating Activities: | $ 188,246 | $ 157,202 |
| Investing Activities: | | |
| Acquisition of Illinois Cement 50% Interest | | (72,000) |
| Capital Expenditures and Other Investing Activities, net | (72,929) | (20,991) |
| Net Cash Used in Investing Activities | (72,929) | (92,991) |
| Financing Activities: | | |
| Excess Tax Benefits | 1,662 | |
| Addition to Note Payable | | 6,700 |
| Addition to (Reduction in) Long-term Debt, net | 115,200 | (4,780) |
| Retirement of Common Stock | (165,335) | (43,754) |
| Dividends Paid | (21,312) | (22,203) |
| Proceeds from Stock Option Exercises | 2,013 | 3,511 |
| Net Cash Used in Financing Activities | (67,772) | (60,526) |
| Net Increase in Cash | $ 47,545 | $ 3,685 |

The $31.0 million increase in cash flows from operating activities for fiscal 2006 was largely attributable to increased earnings. This increase was offset by the change in working capital, primarily the increase in accounts receivable.

Working capital at March 31, 2006 was $112.0 million compared to $19.8 million at March 31, 2005. The increase resulted primarily from a reduction of $30.8 million in notes payable and an increase of $43.9 million in cash related to the senior note borrowing during fiscal 2006. The remaining difference was due primarily to the $23.1 million increase in accounts and notes receivable.

Total debt increased from $84.8 million at March 31, 2005, to $200.0 million at March 31, 2006 due to the Senior Note borrowing. Debt-to-capitalization at March 31, 2006, was 30.1% compared to 14.9% at March 31, 2005.

Based on our financial condition and results of operations as of and for the year ended March 31, 2006, along with the projected net earnings for fiscal 2007, we believe that our internally generated cash flow coupled with funds available under various credit facilities will enable us to provide adequately for our current operations, dividends, capital expenditures and future growth through the end of fiscal 2007. The Company was in compliance at March 31, 2006 and during the fiscal year ended March 31, 2006, with all the terms and covenants of its credit agreements and expects to be in compliance during the next 12 months.

Cash and cash equivalents totaled $54.8 million at March 31, 2006, compared to $7.2 million at March 31, 2005.

***Debt Financing Activities.***

On December 16, 2004, we amended our existing credit facility to increase the facility amount from $250 million to $350 million, modified certain financial and other covenants and extended the maturity date to 2009 (the Bank Credit Facility ). The Bank Credit Facility expires on December 16, 2009, at which time all outstanding borrowings are due. The 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 87.5 to 162.5 basis points), which is to be established quarterly based upon the Company s ratio of consolidated EBITDA to its consolidated indebtedness; or (ii) an alternate 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 25 to 100 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. Under the Bank Credit Facility, we are required to adhere to a number of financial and other covenants, including covenants relating to the Company s interest coverage ratio and consolidated funded indebtedness ratio. At March 31, 2006 the Company had $342.1 million of borrowings available under the Bank Credit Facility.

On November 15, 2005, we entered into a Note Purchase Agreement (the Note Purchase Agreement ) related to our sale of $200 million of senior, unsecured notes, designated as Series 2005A Senior Notes (the Senior Notes ) in a private placement transaction. The Senior Notes are guaranteed by substantially all of the Company s subsidiaries. The Senior Notes were sold at par on November 15, 2005 and were issued in three tranches, as follows:

| | Principal | Maturity Date | Interest Rate |
|---|---|---|---|
| Tranche A | $40,000 | November 15, 2012 | 5.25% |
| Tranche B | $80,000 | November 15, 2015 | 5.38% |
| Tranche C | $80,000 | November 15, 2017 | 5.48% |

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

Our obligations under the Note Purchase Agreement and 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 Agreement contains 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.

The Company paid all outstanding amounts and terminated its trade receivables securitization facility (the Receivables Securitization Facility ) in December 2005. The Receivables Securitization Facility had been fully consolidated on the accompanying consolidated balance sheets prior to cancellation.

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

The Company does not have any off balance sheet debt except for operating leases. Other than the Receivables Securitization Facility, which was terminated in December 2005, the Company did not have any other transactions, arrangements or relationships with special purpose entities. Also, the Company has no outstanding debt guarantees. The Company has available under the Bank Credit Facility a $25 million Letter of Credit Facility. At March 31, 2006, the Company had $7.9 million of letters of credit outstanding that renew annually. We are contingently liable for performance under $6.9 million in performance bonds relating primarily to our mining operations.

***Cash used for Share Repurchases and Stock Repurchase Program***

See table under Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities on pages 18 and 19.

On January 26, 2006, we announced that our Board of Directors authorized the repurchase of an additional 2,749,563 shares of common stock, raising our repurchase authorization to approximately 3,000,000

shares, which remain available at March 31, 2006. Share repurchases may be made from time-to-time in the open market or in privately negotiated transactions. The timing and amount of any repurchases of shares will be determined by the Company s management, based on its evaluation of market and economic conditions and other factors.

***Dividends.***

Dividends paid in fiscal years 2006 and 2005 were $21.3 million and $22.2 million, respectively. Each quarterly dividend payment is subject to review and approval by our Board of Directors, and we will continue to evaluate our dividend payment amount on an ongoing basis. During January 2006 we announced an increase in our annual dividend from $0.40 to $0.70 per share, beginning with the April 2006 dividend payment.

***Capital Expenditures.***

The following table compares capital expenditures:

| | For the Fiscal Years Ended Ended March 31, | |
|---|---|---|
| | 2006 | 2005 |
| | (dollars in thousands) | |
| Land and Quarries | $ 2,067 | $ 2,671 |
| Plants | 56,376 | 15,059 |
| Buildings, Machinery and Equipment | 14,486 | 4,643 |
| Total Capital Expenditures | $ 72,929 | $ 22,373 |

Historically, we have financed such expenditures with cash from operations and borrowings under our revolving credit facility. We expect to make capital expenditures of approximately $160.0 million during fiscal 2007. The increase in capital spending is due primarily to our beginning construction on the wallboard plant in South Carolina.

***Contractual Obligations.***

The Company has certain contractual obligations covering manufacturing, transportation and certain other facilities and equipment. Future payments due, aggregated by type of contractual obligation are set forth as follows:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| | (dollars in thousands) | | | | |
| Contractual Obligations: | | | | | |
| Long-term Debt/Note Payable | $ 200,000 | $ | $ | $ | $ 200,000 |
| Operating Leases | 9,032 | 2,008 | 2,549 | 1,003 | 3,472 |
| Purchase Obligations | 47,339 | 37,985 | 9,354 | | |
| Total | $ 256,371 | $ 39,993 | $ 11,903 | $ 1,003 | $ 203,472 |

Purchase obligations are non-cancelable agreements to purchase coal and natural gas, to pay royalty amounts and capital expenditure commitments. The Company expects to sign a contract during fiscal 2007 relating to the construction of the wallboard plant in Georgetown, South Carolina.

Based on our current estimates, we do not anticipate making any additional contributions to our defined benefit plans for fiscal year 2007.

### *Inflation and Changing Prices*

Inflation has not been a significant factor in the U.S. economy as the rate of increase has moderated during the last several years. The Consumer Price Index rose approximately 3.4% in calendar 2005, 3.3% in 2004, and 1.9% in 2003. Prices of materials and services, with the exception of power, natural gas, coal, coke, and transportation freight have remained relatively stable over the three-year period. During fiscal 2006, the Consumer Price Index for energy and transportation rose approximately 17.1% and 4.8%, respectively. Strict cost control and improved productivity have minimized the impact of inflation on our operations, as has the ability to recover increasing costs by obtaining higher sales prices. The ability to increase sales prices to cover future increases varies with the level of activity in the construction industry, the number, size, and strength of competitors and the availability of products to supply a local market.

## GENERAL OUTLOOK

See outlook within Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations on pages 20-30.

## RECENT ACCOUNTING PRONOUNCEMENTS

See Footnote (A) to the Consolidated Financial Statements on page 41.

## FORWARD-LOOKING STATEMENTS

Certain sections of this report including Management s Discussion and Analysis of Results of Operations and Financial Condition contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Litigation Reform Act of 1995. Forward-looking statements may be identified by the context of the statement and generally arise when the Company is discussing its beliefs, estimates or expectations. We specifically disclaim any duty to update any of the information set forth in this report, including any forward-looking statements. Forward looking statements are made based on management s current expectations and beliefs concerning future events and, therefore, involve a number of risks and uncertainties. Management cautions that forward-looking statements are not guarantees, and our actual results could differ materially from those expressed or implied in the forward looking statements. See Item 1A for a more detailed discussion of specific risks and uncertainties.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks related to fluctuations in interest rates on our Bank Credit Facility. From time-to-time we have utilized derivative instruments, including interest rate swaps, in conjunction with our overall strategy to manage the debt outstanding that is subject to changes in interest rates. At March 31, 2006 there were no outstanding borrowings under the Bank Credit Facility. Presently, we do not utilize derivative financial instruments.

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

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**
**Financial Information**

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**Eagle Materials Inc. and Subsidiaries**
**Consolidated Statements of Earnings**
(dollars in thousands, except per share data)

| | For the Years Ended March 31, 2006 | 2005 | 2004 |
|---|---|---|---|
| **REVENUES** | | | |
| Gypsum Wallboard | $ 479,134 | $ 350,101 | $ 272,924 |
| Cement | 213,980 | 125,480 | 102,250 |
| Paperboard | 75,935 | 71,076 | 63,110 |
| Concrete and Aggregates | 88,374 | 69,691 | 62,096 |
| Other, net | 2,279 | 193 | 2,242 |
| | 859,702 | 616,541 | 502,622 |
| **COSTS AND EXPENSES** | | | |
| Gypsum Wallboard | 324,907 | 268,484 | 237,320 |
| Cement | 162,586 | 94,785 | 75,711 |
| Paperboard | 55,848 | 45,671 | 42,168 |
| Concrete and Aggregates | 78,761 | 61,949 | 56,125 |
| Other, net | 740 | 914 | |
| Corporate General and Administrative | 16,370 | 10,280 | 9,272 |
| Interest Expense, net | 6,341 | 3,290 | 3,814 |
| | 645,553 | 485,373 | 424,410 |
| **EQUITY IN EARNINGS OF UNCONSOLIDATED JOINT VENTURES** | 26,917 | 26,921 | 23,911 |
| **EARNINGS BEFORE INCOME TAXES** | 241,066 | 158,089 | 102,123 |
| Income Taxes | 80,082 | 51,402 | 35,222 |
| **NET EARNINGS** | $ 160,984 | $ 106,687 | $ 66,901 |
| **EARNINGS PER SHARE** | | | |
| Basic | $ 3.06 | $ 1.93 | $ 1.20 |
| Diluted | $ 3.02 | $ 1.91 | $ 1.19 |
| **DIVIDENDS PER SHARE** | $ 0.40 | $ 0.40 | $ 2.15 |

*See notes to consolidated financial statements.*

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**Eagle Materials Inc. and Subsidiaries**
**Consolidated Balance Sheets**
(dollars in thousands)

| | March 31, 2006 | March 31, 2005 |
|---|---|---|
| **ASSETS** | | |
| Current Assets - | | |
| Cash and Cash Equivalents | $ 54,766 | $ 7,221 |
| Accounts and Notes Receivable, net | 94,061 | 70,952 |
| Inventories | 67,799 | 63,482 |
| Total Current Assets | 216,626 | 141,655 |
| Property, Plant and Equipment - | 856,227 | 788,447 |
| Less: Accumulated Depreciation | (298,665) | (264,088) |
| Property, Plant and Equipment, net | 557,562 | 524,359 |
| Investments in Joint Venture | 27,847 | 28,181 |
| Goodwill and Intangible Assets | 67,854 | 66,960 |
| Other Assets | 19,027 | 18,846 |
| | $ 888,916 | $ 780,001 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current Liabilities | | |
| Note Payable | $ | $ 30,800 |
| Accounts Payable | 51,562 | 40,687 |
| Accrued Liabilities | 53,137 | 50,382 |
| Total Current Liabilities | 104,699 | 121,869 |
| Long-term Debt | 200,000 | 54,000 |
| Deferred Income Taxes | 119,479 | 118,764 |
| 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 50,318,797 and 54,675,834 Shares, respectively. | 503 | 547 |
| Capital in Excess of Par Value | | |
| Accumulated Other Comprehensive Losses | (1,404) | (1,842) |
| Retained Earnings | 465,639 | 486,663 |
| Total Stockholders Equity | 464,738 | 485,368 |
| | $ 888,916 | $ 780,001 |

*See notes to consolidated financial statements.*

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**Eagle Materials Inc. and Subsidiaries**
**Consolidated Statements of Cash Flows**
(dollars in thousands)

| | For the Years Ended March 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net Earnings | $ 160,984 | $ 106,687 | $ 66,901 |
| Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities, Net of Effect of Non-Cash Activity - | | | |
| Depreciation, Depletion and Amortization | 38,599 | 34,496 | 33,022 |
| Deferred Income Tax Provision | 888 | 17,942 | 21,826 |
| Stock Compensation Expense | 2,820 | 1,470 | |
| Equity in Earnings of Unconsolidated Joint Ventures | (26,916) | (26,921) | (23,911) |
| Distributions from Joint Ventures | 27,250 | 30,917 | 26,149 |
| Excess Tax Benefits from Share Based Payment Arrangements | (1,662) | | |
| Changes in Operating Assets and Liabilities: | | | |
| Accounts and Notes Receivable | (23,109) | (12,483) | (12,028) |
| Inventories | (4,317) | (6,948) | 248 |
| Accounts Payable and Accrued Liabilities | 11,711 | 12,967 | 1,936 |
| Other Assets | 2,119 | 868 | (2,832) |
| Income Taxes Payable | (121) | (1,793) | 1,374 |
| Net Cash Provided by Operating Activities | 188,246 | 157,202 | 112,685 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to Property, Plant and Equipment | (72,929) | (22,373) | (12,427) |
| Proceeds from Asset Dispositions | | 1,382 | 740 |
| Purchase of Illinois Cement 50% J.V. Interest | | (72,000) | |
| Net Cash Used in Investing Activities | (72,929) | (92,991) | (11,687) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Excess Tax Benefits from Share Based Payment Arrangements | 1,662 | | |
| Proceeds from Note Payable, net | | 6,700 | 24,100 |
| Repayment of Note Payable | (30,800) | | (25,257) |
| Proceeds from Long-term Debt | 200,000 | 54,000 | 92,000 |
| Repayment of Long-term Debt | (54,000) | (58,780) | (88,380) |
| Redemption of Subordinated Debt | | | (510) |
| Dividends Paid to Stockholders | (21,312) | (22,203) | (116,580) |
| Retirement of Common Stock | (165,335) | (43,754) | (3,137) |
| Proceeds from Stock Option Exercises | 2,013 | 3,511 | 13,507 |
| Net Cash Used in Financing Activities | (67,772) | (60,526) | (104,257) |
| | 47,545 | 3,685 | (3,259) |

| | | | |
|---|---|---|---|
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | | |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | 7,221 | 3,536 | 6,795 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | $ 54,766 | $ 7,221 | $ 3,536 |

*See notes to consolidated financial statements.*

**Eagle Materials Inc. and Subsidiaries**
**Consolidated Statements of Stockholders Equity**
(dollars in thousands)

| | For the Years Ended March 31, 2006 | 2005 | 2004 |
|---|---|---|---|
| **Common Stock -** | | | |
| Balance at Beginning of Period | $ 547 | $ 564 | $ 552 |
| Retirement of Common Stock | (46) | (21) | |
| Stock Option Exercises | 2 | 4 | 12 |
| Balance at End of Period | 503 | 547 | 564 |
| **Capital In Excess of Par Value -** | | | |
| Balance at Beginning of Period | | 27,847 | 13,864 |
| Retirement of Common Stock | (7,361) | (33,606) | (3,137) |
| Share Based Activity | 5,348 | | |
| Stock Option Exercises | 2,013 | 5,759 | 17,120 |
| Balance at End of Period | | | 27,847 |
| **Retained Earnings -** | | | |
| Balance at Beginning of Period | 487,220 | 413,079 | 467,481 |
| Retirement of Common Stock | (157,928) | (10,506) | |
| Dividends to Stockholders | (24,637) | (22,040) | (121,303) |
| Net Earnings | 160,984 | 106,687 | 66,901 |
| Balance at End of Period | 465,639 | 487,220 | 413,079 |
| **Unamortized Restricted Stock -** | | | |
| Balance at Beginning of Period | (557) | (591) | |
| Transfer to Capital in Excess of Par Value | 548 | | |
| Issuance of Restricted Stock | | | (709) |
| Amortization | 9 | 34 | 118 |
| Balance at End of Period | | (557) | (591) |
| **Accumulated Other Comprehensive Losses -** | | | |
| Balance at Beginning of Period | (1,842) | (1,877) | (2,282) |
| Unrealized Gain on Hedging Instruments, net of tax | | | 579 |
| Minimum Pension Liability, net of tax | 438 | 35 | (174) |
| Balance at End of Period | (1,404) | (1,842) | (1,877) |
| **Total Stockholders Equity** | $ 464,738 | $ 485,368 | $ 439,022 |

*See notes to consolidated financial statements.*

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**Eagle Materials Inc. and Subsidiaries**
**Notes to Consolidated Financial Statements**
(dollars in thousands, except per share data)

## (A) Significant Accounting Policies

*Basis of Presentation*

The consolidated financial statements include the accounts of Eagle Materials Inc. and its majority-owned subsidiaries ( EXP or the Company ), which may be referred to as our , we or us . All intercompany balances and transactions have been eliminated. EXP is a holding company whose assets consist of its investments in its subsidiaries, joint ventures, intercompany balances and holdings of cash and cash equivalents. The businesses of the consolidated group are conducted through EXP s subsidiaries. The Company conducts one of its cement plant operations through a joint venture, Texas Lehigh Cement Company L.P., which is located in Buda, Texas (the Joint Venture ). Investments in Joint Ventures and affiliated companies owned 50% or less are accounted for using the equity method of accounting. The Equity in Earnings of Unconsolidated Joint Ventures has been included for the same period as the Company s March 31 year end. As discussed further in Note (I) the Company completed the purchase of the other 50% of Illinois Cement Company on January 10, 2005 and amounts reflected herein include the operational results of Illinois Cement Company from that date forward.

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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.

*Cash and Cash Equivalents*

Cash equivalents include short-term, highly liquid investments with original maturities of three months or less, and are recorded at cost, which approximates market value.

*Accounts and Notes Receivable*

Accounts and notes receivable have been shown net of the allowance for doubtful accounts of $3.3 million and $3.6 million at March 31, 2006 and 2005, respectively. The Company performs ongoing credit evaluations of its customers financial condition and generally requires no collateral from its customers. The allowance for non-collection of receivables is based upon analysis of economic trends in the construction industry, detailed analysis of the expected collectibility of accounts receivable that are past due and the expected collectibility of overall receivables. The Company has no significant credit risk concentration among its diversified customer base.

Notes receivable at March 31, 2006 are collectible primarily over three years. The weighted-average interest rate at March 31, 2006 and 2005 was 4.5% and 7.8%, respectively.

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*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:

| | March 31, 2006 | March 31, 2005 |
|---|---|---|
| | (dollars in thousands) | |
| Raw Materials and Materials-in-Progress | $ 15,494 | $ 16,073 |
| Gypsum Wallboard | 6,621 | 8,668 |
| Finished Cement | 10,978 | 5,680 |
| Aggregates | 3,536 | 3,651 |
| Paperboard | 5,579 | 5,401 |
| Repair Parts and Supplies | 23,962 | 22,414 |
| Fuel and Coal | 1,629 | 1,595 |
| | $ 67,799 | $ 63,482 |

*Property, Plant and Equipment*

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized and depreciated. Repairs and maintenance are expensed as incurred. Depreciation is provided on a straight-line basis over the estimated useful lives of depreciable assets. Depreciation expense was $37.3 million, $33.7 million and $31.5 million for the years ended March 31, 2006, 2005 and 2004, respectively. Raw material deposits are depleted as such deposits are extracted for production utilizing the units-of-production method. Costs and accumulated depreciation applicable to assets retired or sold are eliminated from the accounts and any resulting gains or losses are recognized at such time. The estimated lives of the related assets are as follows:

| | |
|---|---|
| Plants | 20 to 30 years |
| Buildings | 20 to 40 years |
| Machinery and Equipment | 3 to 20 years |

The Company periodically evaluates whether current events or circumstances indicate that the carrying value of its depreciable assets may not be recoverable. At March 31, 2006 and 2005, management believes no events or circumstances indicate that the carrying value may not be recoverable.

*Impairment or Disposal of Long-Lived Assets*

The Company evaluates the recoverability of its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. Such evaluations for impairment are significantly impacted by estimates of future prices for the Company s products, capital needs, economic trends in the construction sector and other factors. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Assets to be disposed of by sale are reflected at the lower of their carrying amount or fair value less cost to sell.

*Goodwill and Intangible Assets*

*Goodwill.* Pursuant to SFAS No. 142 Goodwill and Other Intangible Assets, goodwill is no longer subject to amortization. Rather, goodwill is subject to at least an annual assessment for impairment by applying a fair-value-based test. We have elected to test for goodwill impairment in the first quarter of each calendar year. The goodwill impairment test is a two-step process, which requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of each reporting unit based on a discounted cash flow model using revenues and profit forecasts and comparing those estimated fair values with the carrying value; a second step is performed, if necessary, to compute the amount of the impairment by determining an implied fair value of goodwill. Similar to the review for impairment of other long-lived assets, evaluations for impairment are significantly impacted by estimates of future prices for our products, capital needs, economic trends and other factors.

| | | March 31, 2006 | | |
|---|---|---|---|---|
| | Amortization Period | Cost | Accumulated Amortization | Net |
| | | (dollars in thousands) | | |
| Intangible Assets Subject to Amortization: | | | | |
| Customer contracts | 15 years | $ 1,300 | $ (463) | $ 837 |
| Permits | 40 years | 22,000 | (630) | 21,370 |
| Goodwill | | 45,647 | | 45,647 |
| Total intangible assets and goodwill | | $ 68,947 | $ (1,093) | $ 67,854 |

| | | March 31, 2005 | | |
|---|---|---|---|---|
| | Amortization Period | Cost | Accumulated Amortization | Net |
| | | (dollars in thousands) | | |
| Intangible Assets Subject to Amortization: | | | | |
| Customer contracts | 15 years | $ 1,300 | $ (376) | $ 924 |
| Permits | 40 years | 22,000 | (80) | 21,920 |
| Goodwill | | 44,116 | | 44,116 |
| Total intangible assets and goodwill | | $ 67,416 | $ (456) | $ 66,960 |

Amortization expense of intangibles for the years ended March 31, 2006, 2005 and 2004 was $637,000, $167,000 and $87,000, respectively.

*Other Assets*

Other assets are primarily composed of prepaid assets, loan fees and financing costs, other deferred expenses, and deposits.

*Income Taxes*

The Company provides for deferred taxes on the differences between the financial reporting basis and tax basis of assets and liabilities using existing tax laws and rates. Additionally, as applicable we recognize future tax benefits such as operating loss carry forwards, to the extent that realization of such benefits is more likely than not.

*Stock Repurchases*

The Company s Board of Directors has approved a cumulative total of 26,453,805 shares for repurchase. There are approximately 3,000,000 shares remaining under the Company s current repurchase authorization at March 31, 2006. The Company repurchased and retired 4,547,163, 1,986,600 and 175,500

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shares of Common Stock at a cost of $165.3 million, $43.8 million and $3.1 million during the years ended March 31, 2006, 2005 and 2004, respectively.

*Revenue Recognition*

Revenue from the sale of cement, gypsum wallboard, paperboard, concrete and aggregates is recognized when title and ownership are transferred upon shipment to the customer. Fees for shipping and handling are recorded as revenue, while costs incurred for shipping and handling are recorded as expenses.

The Company classifies its freight revenue as sales and freight costs as cost of goods sold, respectively. Approximately $112.0 million, $85.9 million and $72.3 million were classified as cost of goods sold in the years ended March 31, 2006, 2005 and 2004, respectively.

*Comprehensive Income/Losses*

A summary of comprehensive income for the fiscal years ended March 31, 2006, 2005 and 2004 is presented below:

| | For the Years Ended March 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| | (dollars in thousands) | | |
| Net Earnings | $ 160,984 | $ 106,687 | $ 66,901 |
| Other Comprehensive Income (Loss), net of tax: | | | |
| Unrealized Gain on Hedging Instruments | | | 579 |
| Minimum Pension Liability Adjustments | 438 | 35 | (174) |
| Comprehensive Income | $ 161,422 | $ 106,722 | $ 67,306 |

The unrealized gain on hedging instruments represents the deferral in other comprehensive earnings of the unrealized loss on swap agreements designated as cash flow hedges. During fiscal 2004, the Company had an interest rate swap agreement with a bank for a total notional amount of $55.0 million. This interest rate swap agreement expired on August 28, 2003 resulting in the reversal of the comprehensive loss recorded at March 31, 2003, and such amounts were reclassified to earnings. The accounting for interest rate swaps and other derivative financial instruments is discussed in Note (P). The unrealized gains and losses, net of tax, are excluded from earnings and reported in a separate component of stockholders equity as Accumulated Other Comprehensive Losses.

As of March 31, 2006, the Company has an accumulated other comprehensive loss of $1.4 million net of income taxes of $0.8 million, in connection with recognizing a minimum pension liability. The minimum pension liability relates to the accumulated benefit obligation in excess of the fair value of plan assets of the defined benefit retirement plans discussed in Note (N).

*Statements of Consolidated Earnings Supplemental Disclosures*

Selling, general and administrative expenses of the operating units are included in costs and expenses of each segment. Corporate general and administrative expenses include administration, financial, legal, employee benefits and other corporate activities not allocated to the segment and are shown separately in the statements of consolidated earnings. Total selling, general and administrative expenses for each of the periods are summarized as follows:

| | For the Years Ended March 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| | (dollars in thousands) | | |
| Operating Units Selling G&A | $ 37,698 | $ 30,414 | $ 23,383 |
| Corporate G&A | 16,370 | 10,280 | 9,272 |
| | $ 54,068 | $ 40,694 | $ 32,655 |

Corporate G&A includes stock compensation expense. See Note (K) for more information.

Maintenance and repair expenses are included in each segment s costs and expenses. The Company incurred $58.5 million, $40.9 million and $38.9 million in the years ended March 31, 2006, 2005 and 2004, respectively.

Other net revenues include lease and rental income, asset sale income, non-inventoried aggregates sales income, distribution center income and trucking income as well as other miscellaneous revenue items and costs which have not been allocated to a business segment.

*Statements of Consolidated Cash Flows Supplemental Disclosures*

Interest payments made during the years ended March 31, 2006, 2005 and 2004 were $4.0 million, $2.4 million and $2.7 million, respectively.

The Company made net payments of $76.7 million, $32.4 million and $10.3 million for federal and state income taxes in the years ended March 31, 2006, 2005 and 2004, respectively.

*Earnings Per Share*

| | For the Years Ended March 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Weighted-Average Shares of Common Stock Outstanding | 52,599,080 | 55,241,025 | 55,753,197 |
| Common Equivalent Shares: | | | |
| Assumed Exercise of Outstanding Dilutive Options | 1,816,865 | 1,755,357 | 2,088,306 |
| Less Shares Repurchased from Proceeds of Assumed Exercised Options[1] | (1,142,793) | (1,127,793) | (1,633,308) |
| Restricted Shares | 57,152 | 14,685 | 909 |
| Weighted-Average Common and Common Equivalent Shares Outstanding | 53,330,304 | 55,883,274 | 56,209,104 |

(1) Includes unearned compensation related to outstanding stock options.

There were 65,000 shares of stock at an average price of $42.85 that were excluded from the computation of diluted earnings per share for the year ended March 31, 2004. There were no anti-dilutive options for the years ended March 31, 2006 and 2005.

*Accounting For Stock-Based Compensation*

*Share Based Payments.* Effective April 1, 2005, the Company adopted SFAS 123R, Share-Based Payment utilizing the modified prospective approach. Under the modified prospective approach, SFAS 123R applies to new awards and to awards that were outstanding on April 1, 2005 and are subsequently modified or cancelled. Compensation expense for outstanding awards for which the requisite service had not been rendered as of April 1, 2005, is recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes previously under SFAS 123 Accounting for Stock-Based Compensation. Prior periods were not restated to reflect the impact of adopting the new standard.

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Prior to the adoption of SFAS 123R the Company accounted for employee stock options using the intrinsic value method of accounting prescribed by APB Opinion 25, Accounting for Stock Issued to Employees, as allowed by SFAS 123.

In accordance with SFAS No. 123, as amended by SFAS No. 148, the Company discloses compensation cost based on the estimated fair value at the date of grant. For disclosure purposes employee stock options are valued at the grant date using the Black-Scholes option-pricing model and compensation expense is recognized ratably over the vesting period. The weighted-average assumptions used in the Black-Scholes model to value the option awards in fiscal 2005 and 2004, respectively, are as follows: dividend yield of 1.2% and 0.50%; expected volatility of 26.5% and 31.7%; risk-free interest rates of 5.5% and 3.2%; and expected lives of 10 years for 2005 and 2004 grants.

If the Company had recognized compensation expense for the stock options plans based on the fair value at the grant dates for awards, pro forma net earnings would be as follows:

| | For the Years Ended March 31, | |
|---|---|---|
| | 2005 | 2004 |
| | (dollars in thousands) | |
| **Net Earnings -** | | |
| As reported | $ 106,687 | $ 66,901 |
| Add stock-based employee compensation included in the determination of net income as reported, net of tax | 1,091 | 77 |
| Deduct fair value of stock-based employee compensation, net of tax | (3,334) | (402) |
| Pro forma | $ 104,444 | $ 66,576 |
| **Basic Earnings Per Share -** | | |
| As reported | $ 1.93 | $ 1.20 |
| Pro forma | $ 1.89 | $ 1.19 |
| **Diluted Earnings Per Share -** | | |
| As reported | $ 1.91 | $ 1.19 |
| Pro forma | $ 1.87 | $ 1.18 |

Prior to adopting SFAS 123(R), all tax benefits of deductions resulting from the exercise of nonqualified stock options were presented as operating cash flows (reflected in income taxes payable). SFAS 123(R) requires the cash flows resulting from excess tax benefits be classified as cash flows provided by financing activities. As a result of adopting FAS 123(R), excess tax benefits have been classified as cash flows provided by financing activities.

*New Accounting Standards*

*Inventory Costs.* In November 2004, the FASB issued SFAS No. 151, Inventory Costs , an amendment of APB No. 43, Chapter 4. The amendments made by SFAS No. 151 require that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) be recognized as current-period charges and that the allocation of fixed production overheads to inventory be based on the normal capacity of production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, or fiscal 2007 for the Company. The Company has evaluated the impact associated with the adoption of SFAS No. 151 and believes that the adoption will not have a material impact on our financial position and results of operations.

*SFAS No. 109-1*. In December 2004, the FASB issued FASB Staff Position ( FSP ) SFAS No. 109-1 Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004. This FSP, which became effective upon issuance, provides that the tax deduction for income with respect to qualified domestic production activities, as part of the American Jobs Creation Act of 2004 that was enacted on October 22, 2004, will be treated as a special deduction as described in SFAS No. 109. As a result, this deduction has no effect on our deferred tax assets and liabilities existing at the date of enactment. Instead, the impact of this deduction, which was effective January 1, 2005, will be reported in the period or periods in which the deduction is claimed on our income tax returns.

*EITF 04-6*. During March 2005 the Emerging Issues Task Force reached a consensus that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of inventory produced during the period such costs are incurred. The consensus is effective for the Company beginning April 1, 2006, and application of the Issue is not expected to have a material impact on our financial position and results of operations.

*Reclassifications -*

Certain prior year balances have been reclassified to be consistent with the fiscal 2006 presentation.

**(B) Stock Reclassification**

On April 11, 2006, the shareholders of the Company voted to eliminate our dual class capital structure by exchanging each share of our outstanding Common Stock and Class B Common Stock into a new class of common stock. Accordingly, all stock information has been retroactively restated as if the combination had taken place as of the earliest period presented.

**(C) Stock Split**

On January 24, 2006, the Board of Directors declared a 3-for-1 stock split in the form of a 200% stock dividend on the Company s Common Stock and its Class B Common Stock. The stock dividend was distributed on February 24, 2006 to stockholders of record on February 10, 2006. All share and per share information, including dividends, for the years ended March 31, 2006, 2005 and 2004 has been retroactively adjusted for this split.

**(D) Spin-Off by Centex Corporation**

In January 2004, the Company and Centex Corporation ( Centex ) completed a series of transactions that resulted in the spin-off by Centex of its entire equity interest in the Company (the Spin-off ). As a result of the Spin-off, the Company is no longer affiliated with Centex.

On January 29, 2004, in connection with the Spin-off, the Company paid a special one-time cash dividend of $2.00 per share ($112.9 million total) to the holders of record of its common stock (including Centex) as of January 13, 2004. The Company used borrowings under its credit facility and cash on hand to fund the special dividend, and, consequently, immediately after payment of the dividend, the Company s debt was $92.0 million.

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**(E) Property, Plant and Equipment**

Cost by major category and accumulated depreciation are summarized as follows:

| | March 31, 2006 | March 31, 2005 |
|---|---|---|
| | (dollars in thousands) | |
| Land and Quarries | $ 56,327 | $ 53,941 |
| Plants | 734,853 | 710,394 |
| Buildings, Machinery and Equipment | 31,813 | 24,112 |
| Construction in Progress | 33,234 | |
| | 856,227 | 788,447 |
| Accumulated Depreciation | (298,665) | (264,088) |
| | $ 557,562 | $ 524,359 |

Construction in progress relates primarily to our expansion of the Illinois Cement Company facility. The expansion is expected to be completed during November 2006, and require additional capital expenditures of approximately $25.8 million.

**(F) Indebtedness**

Notes Payable and Long-term Debt is set forth below:

| | March 31, 2006 | March 31, 2005 |
|---|---|---|
| | (dollars in thousands) | |
| Senior Notes | $ 200,000 | $ |
| Bank Debt, Due December 2009, Unsecured | | 54,000 |
| Less Current Maturities | | |
| Total Long-term Debt | $ 200,000 | $ 54,000 |
| Receivables Securitization Facility | | 30,800 |
| Total Notes Payable | $ | $ 30,800 |

The weighted-average interest rate of Senior Notes during fiscal 2006, and at March 31, 2006 was 5.4%.

The weighted-average interest rate of bank debt borrowings during fiscal 2006, 2005 and 2004 was 4.2%, 2.9% and 2.3%, respectively. The interest rate on the bank debt was 0% at March 31, 2006 and 3.8% at March 31, 2005.

The weighted-average interest rate of the note payable borrowings during fiscal 2006, 2005 and 2004 was 3.9%, 2.2% and 1.4%, respectively. The interest rate on note payable debt was 0% and 1.5% at March 31, 2006 and 2005, respectively. The amount of accounts receivable pledged under the receivables securitization program at March 31, 2005 was $62.4 million.

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Maturities of long-term debt during the next five fiscal years are as follows:

| | |
|---|---|
| 2007 | $ |
| 2008 | |
| 2009 | |
| 2010 | |
| 2011 | |
| Thereafter | $ 200,000 |
| Total | $ 200,000 |

*Senior Notes -*

On November 15, 2005, we entered into a Note Purchase Agreement (the Note Purchase Agreement ) related to our sale of $200 million of senior, unsecured notes, designated as Series 2005A Senior Notes (the Senior Notes ) in a private placement transaction. The Senior Notes are guaranteed by substantially all of the Company s subsidiaries. The Senior Notes were sold at par on November 15, 2005 and were issued in three tranches, as follows:

| | Principal | Maturity Date | Interest Rate |
|---|---|---|---|
| Tranche A | $ 40,000 | November 15, 2012 | 5.25% |
| Tranche B | $ 80,000 | November 15, 2015 | 5.38% |
| Tranche C | $ 80,000 | November 15, 2017 | 5.48% |

Interest for each tranche of Senior Notes is payable semi-annually on the 15$^{th}$ day of May and the 15$^{th}$ day of November of each year until all principal is paid for the respective tranche.

Our obligations under the Note Purchase Agreement and 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 Agreement contains 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. The Company was in compliance with all financial ratios and tests at March 31, 2006 and throughout the fiscal year.

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 Agreement) on the Senior Notes and the other payment and performance obligations of the Company contained in the Senior Notes and in the Note Purchase Agreement. We are permitted, at our option, 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.

*Bank Debt -*

On December 16, 2004, the Company amended its existing credit facility to increase the facility amount from $250 million to $350 million, modified certain financial and other covenants and extended the maturity date to 2009 (the Bank Credit Facility ). The Bank Credit Facility expires on December 16, 2009, at which time all borrowings outstanding are due. The 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 87.5 to 162.5 basis points), which is to be established quarterly based upon the Company s ratio of consolidated EBITDA to its consolidated indebtedness; or (ii) an alternate 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 25 to 100 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. Under the Bank Credit Facility, we are required to adhere to a number of financial and other covenants, including covenants relating to the Company s interest coverage ratio and consolidated funded indebtedness ratio. The Company was in compliance with all financial ratios and tests at March 31, 2006 and throughout the fiscal year. At March 31, 2006 the Company had $342.1 million of borrowings available under the Bank Credit Facility.

The 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 March 31, 2006, the Company had $7.9 million of letters of credit outstanding.

Prior to December 15, 2004, the Company maintained a $250 million credit agreement (the Prior Credit Facility ) with a scheduled maturity of December 18, 2006. The borrowings under the Prior Credit Facility were guaranteed by all major operating subsidiaries of the Company. At the option of the Company, outstanding principal amounts on the Prior Credit Facility bore interest at a variable rate equal to: (i) LIBOR, plus an agreed margin (ranging from 125 to 200 basis points), which is to be established quarterly based upon the Company s ratio of consolidated EBITDA to its consolidated indebtedness; or (ii) an alternate 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 25 to 100 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. Under the Prior Credit Facility, the Company was required to adhere to a number of financial and other covenants, including covenants relating to the Company s interest coverage ratio, consolidated funded indebtedness ratio and minimum tangible net worth.

*Receivables Securitization Facility*

On February 20, 2004, the Company entered into a $50 million trade receivable securitization facility (the Receivables Securitization Facility ), which was funded through the issuance of commercial paper and backed by a 364-day committed bank liquidity arrangement. The Receivables Securitization Facility had a termination date of February 20, 2007, subject to a 364-day bank commitment. The Receivables Securitization Facility was fully consolidated on the balance sheet. Subsidiary company receivables were sold on a revolving basis first to the Company and then to a wholly owned special purpose bankruptcy remote entity of the Company. This entity pledged the receivables as security for advances under the facility. The purpose of the Receivables Securitization Facility was to obtain financing at a lower interest rate by pledging accounts receivable. The Company terminated the Receivables Securitization Facility on December 9, 2005.

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### (G) Income Taxes

The provision for income taxes includes the following components:

| | For the Years Ended March 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| | (dollars in thousands) | | |
| Current Provision - | | | |
| Federal | $ 73,341 | $ 31,178 | $ 12,549 |
| State | 5,853 | 2,282 | 847 |
| | 79,194 | 33,460 | 13,396 |
| Deferred Provision - | | | |