

EAGLE MATERIALS INC  
Form 10-Q  
February 05, 2008

**Table of Contents**

**United States**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-Q**  
**QUARTERLY REPORT**  
**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the Quarterly Period Ended**  
**December 31, 2007**  
**Commission File Number 1-12984**  
**Eagle Materials Inc.**  
**Delaware**  
(State of Incorporation)  
**75-2520779**  
(I.R.S. Employer Identification No.)  
**3811 Turtle Creek Blvd., Suite 1100, Dallas, Texas 75219**  
(Address of principal executive offices)  
**(214) 432-2000**  
(Registrant's telephone number)

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

Yes  No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes  No

As of January 31, 2008, the number of outstanding shares of common stock was:

<b>Class</b>	<b>Outstanding Shares</b>
Common Stock, \$.01 Par Value	43,388,143

**Eagle Materials Inc. and Subsidiaries**  
**Form 10-Q**  
**December 31, 2007**  
**Table of Contents**

	<b>Page</b>
<b>PART I. FINANCIAL INFORMATION (unaudited)</b>	
<b>Item 1.</b> Consolidated Financial Statements	
<u>Consolidated Statements of Earnings for the Three and Nine Months Ended December 31, 2007 and 2006</u>	1
<u>Consolidated Balance Sheets as of December 31, 2007 and March 31, 2007</u>	2
<u>Consolidated Statements of Cash Flows for the Nine Months Ended December 31, 2007 and 2006</u>	3
<u>Notes to Unaudited Consolidated Financial Statements</u>	4
<b>Item 2.</b> <u>Management's Discussion and Analysis of Results of Operations and Financial Condition</u>	16
<b>Item 3.</b> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
<b>Item 4.</b> <u>Controls and Procedures</u>	28
<b><u>PART II. OTHER INFORMATION</u></b>	
<b>Item</b>	
<b>1A.</b> <u>Risk Factors</u>	29
<b>Item 2.</b> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
<b>Item 6.</b> <u>Exhibits</u>	32
<b><u>SIGNATURES</u></b>	33
<u>Certification of CEO Pursuant to Section 302</u>	
<u>Certification of CFO Pursuant to Section 302</u>	
<u>Certification of CEO Pursuant to Section 906</u>	
<u>Certification of CFO Pursuant to Section 906</u>	

---

**Table of Contents**

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

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2007	2006	2007	2006
<b>REVENUES</b>				
Gypsum Wallboard	\$ 73,371	\$ 114,411	\$ 266,761	\$ 399,685
Cement	57,697	56,408	204,069	194,793
Paperboard	19,433	18,632	61,947	56,948
Concrete and Aggregates	22,148	24,245	70,434	75,433
Other, net	356	483	1,494	3,762
	173,005	214,179	604,705	730,621
<b>COSTS AND EXPENSES</b>				
Gypsum Wallboard	66,493	72,834	217,463	235,315
Cement	40,951	47,360	138,846	145,819
Paperboard	14,337	13,641	46,715	42,501
Concrete and Aggregates	19,013	19,926	59,148	62,327
Corporate General and Administrative	4,300	5,622	14,393	15,034
Interest Expense, net	5,811	1,041	13,666	3,920
	150,905	160,424	490,231	504,916
<b>EQUITY IN EARNINGS OF UNCONSOLIDATED JOINT VENTURE</b>				
	9,854	7,596	25,304	24,594
<b>EARNINGS BEFORE INCOME TAXES</b>				
Income Taxes	31,954	61,351	139,778	250,299
	9,579	20,434	43,922	84,195
<b>NET EARNINGS</b>				
	\$ 22,375	\$ 40,917	\$ 95,856	\$ 166,104
<b>EARNINGS PER SHARE:</b>				
Basic	\$ 0.51	\$ 0.85	\$ 2.07	\$ 3.36
Diluted	\$ 0.50	\$ 0.83	\$ 2.05	\$ 3.31
<b>AVERAGE SHARES OUTSTANDING:</b>				
Basic	44,019,262	48,354,882	46,227,109	49,415,067
Diluted	44,596,051	49,011,353	46,834,390	50,117,681

**CASH DIVIDENDS PER SHARE:**                    \$     0.20     \$     0.175     \$     0.60     \$     0.525

*See notes to unaudited consolidated financial statements.*

1

---

**Table of Contents**

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

	December 31, 2007 (unaudited)	March 31, 2007
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 65,820	\$ 17,215
Accounts and Notes Receivable	53,217	77,486
Inventories	85,998	78,908
Total Current Assets	205,035	173,609
Property, Plant and Equipment	1,059,235	986,821
Less: Accumulated Depreciation	(362,460)	(333,641)
Property, Plant and Equipment, net	696,775	653,180
Notes Receivable	7,546	8,270
Investment in Joint Venture	39,166	43,862
Goodwill and Intangible Assets	69,740	70,218
Other Assets	104,304	22,271
	\$ 1,122,566	\$ 971,410
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities		
Accounts Payable	\$ 41,303	\$ 52,359
Federal Income Taxes Payable	6,047	
Accrued Liabilities	57,273	55,665
Total Current Liabilities	104,623	108,024
Long-term Debt	400,000	200,000
Deferred Income Taxes	183,219	117,340
Stockholders Equity		
Preferred Stock, Par Value \$0.01; Authorized 5,000,000 Shares; None Issued		
Common Stock, Par Value \$0.01; Authorized 100,000,000 Shares; Issued and Outstanding 44,034,925 and 47,909,103 Shares, respectively	440	479
Capital in Excess of Par Value		
Accumulated Other Comprehensive Losses	(850)	(850)
Retained Earnings	435,134	546,417
Total Stockholders Equity	434,724	546,046
	\$ 1,122,566	\$ 971,410

*See notes to the unaudited consolidated financial statements.*

**Table of Contents**

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

	For the Nine Months Ended December 31,	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Earnings	\$ 95,856	\$ 166,104
Adjustments to Reconcile Net Earnings to Net Cash Provided By Operating Activities, Net of Effects of Non-Cash Activity		
Depreciation, Depletion and Amortization	32,354	29,681
Deferred Income Tax Benefit	(6,777)	(4,054)
Stock Compensation Expense	4,814	4,207
Equity in Earnings of Unconsolidated Joint Venture	(25,304)	(24,594)
Excess Tax Benefits from Share Based Payment Arrangements	(1,235)	(1,969)
Distributions from Joint Venture	30,000	9,749
Changes in Operating Assets and Liabilities:		
Accounts and Notes Receivable	24,993	16,133
Inventories	(7,090)	1,136
Accounts Payable and Accrued Liabilities	(23,706)	(2,003)
Other Assets	(901)	703
Income Taxes Payable	(21,499)	12,473
Net Cash Provided by Operating Activities	101,505	207,566
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Property, Plant and Equipment Additions	(75,937)	(102,342)
Net Cash Used in Investing Activities	(75,937)	(102,342)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in Long-term Debt	200,000	
Dividends Paid to Stockholders	(26,793)	(26,210)
Purchase and Retirement of Common Stock	(153,445)	(75,522)
Proceeds from Stock Option Exercises	2,040	1,570
Excess Tax Benefits from Share Based Payment Arrangements	1,235	1,969
Net Cash Provided by (Used in) Financing Activities	23,037	(98,193)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	48,605	7,031
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	17,215	54,766
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$ 65,820	\$ 61,797





**Table of Contents**

**Eagle Materials Inc. and Subsidiaries**  
**Notes to Unaudited Consolidated Financial Statements**  
**December 31, 2007**

**(A) BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements as of and for the three and nine month periods ended December 31, 2007, include the accounts of Eagle Materials Inc. and its majority owned subsidiaries ( "EXP", the Company, or we ) and have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on May 29, 2007.

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

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

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

**Long-Term Compensation Plans**

*Options.* The Company granted a target number of stock options during June 2007 to certain employees (the Fiscal 2008 Employee Stock Option Grant ) that may be earned, in whole or in part, if certain performance conditions are satisfied. The Fiscal 2008 Employee Stock Option Grant is intended to be a single award covering the next three years, and will vest over a seven year period depending upon the achievement of specified levels of earnings per share and operating earnings. Options are vested as they are earned, and any options not earned at the end of the seven year period will be forfeited. These stock options were valued at the grant date using the Black-Scholes option pricing model. In August 2007, we granted options to members of the Board of Directors. Such options vested immediately, and can be exercised from the date of grant until their expiration at the end of seven years. The weighted-average assumptions used in the Black-Scholes model to value the option awards in fiscal 2008 are as follows: annual dividend rate of 2.0%, expected volatility of 32%, risk free interest rate of 4.7% and expected life of 5.5 years. We are expensing the fair value of the Fiscal 2008 Employee Stock Option Grant over its expected life, as adjusted for expected forfeitures, and expensed the options issued to the Board of Directors at the time of issuance.

We expensed approximately \$1.1 million and \$4.5 million for the three and nine month periods ended December 31, 2007, respectively, as compared to \$1.2 million and \$3.1 million expensed for the three and nine month periods ended December 31, 2006, respectively. At December 31, 2007, there was approximately \$16.0 million of unrecognized compensation cost related to outstanding stock options which is expected to be recognized over a weighted-average period of 5.7 years.

**Table of Contents**

The following table represents stock option activity for the nine months ended December 31, 2007:

	Number of Shares	Weighted- Average Exercise Price
Outstanding Options at Beginning of Period	1,636,852	\$ 19.07
Granted	1,457,148	\$ 47.12
Exercised	(128,667)	\$ 15.86
Cancelled	(25,920)	\$ 34.11
Outstanding Options at End of Period	2,939,413	\$ 32.98
Options Exercisable at End of Period	1,370,460	\$ 18.04
Weighted-Average Fair Value of Options Granted during the Period	\$ 14.38	

The following table summarizes information about stock options outstanding at December 31, 2007:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted -Average Remaining Contractual Life	Weighted - Average Exercise Price	Number of Shares	Weighted - Average Exercise Price
\$6.80 \$8.15	299,933	2.89	\$ 7.41	292,918	\$ 7.39
\$9.57 \$10.54	190,867	1.95	\$ 10.27	188,101	\$ 10.27
\$11.04 \$13.43	405,546	4.69	\$ 12.28	378,763	\$ 12.27
\$21.52 \$29.08	361,060	5.70	\$ 25.44	302,852	\$ 24.95
\$34.09 \$40.78	255,670	4.99	\$ 38.44	191,140	\$ 38.55
\$47.53 \$62.83	1,426,337	6.58	\$ 48.20	16,686	\$ 62.83
	2,939,413	5.39	\$ 32.98	1,370,460	\$ 18.04

At December 31, 2007, the aggregate intrinsic value of options outstanding was \$7.4 million. The aggregate intrinsic value of exercisable options at that date was approximately \$23.9 million. The total intrinsic value of options exercised during the nine month period ended December 31, 2007 was approximately \$4.0 million.

*Restricted Stock Units.* The Company granted restricted stock units ( RSU s ) to employees and directors during fiscal years 2006 and 2007. The value of the RSU s granted to employees is being amortized over a three year period, while the value of the RSU s granted to directors is being amortized over a period not to exceed ten years. Expense related to RSU s was approximately \$198,000 and \$455,000 for the three and nine month periods ended December 31, 2007, as compared to \$356,000 and \$1,055,000 for the three and nine month periods ended December 31, 2006, respectively. At December 31, 2007, there was approximately \$1.0 million of unearned compensation from restricted stock units that will be recognized over a weighted-average period of 4.2 years.

Shares available for future stock option and restricted stock unit grants under existing plans were 1,193,030 at December 31, 2007.

**Table of Contents****(C) PENSION AND EMPLOYEE BENEFIT PLANS**

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

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

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2007	2006	2007	2006
	(dollars in thousands)		(dollars in thousands)	
Service Cost - Benefits Earned during the Period	\$ 133	\$ 124	\$ 399	\$ 372
Interest Cost of Benefit Obligations	225	192	675	576
Expected Return on Plan Assets	(280)	(211)	(840)	(633)
Recognized Net Actuarial Loss	33	60	99	180
Amortization of Prior-Service Cost	37	35	111	105
Net Periodic Pension Cost	\$ 148	\$ 200	\$ 444	\$ 600

**(D) STOCKHOLDERS' EQUITY**

A summary of changes in stockholders' equity follows:

	For the Nine Months Ended December 31, 2007 (dollars in thousands)
<b>Common Stock</b>	
Balance at Beginning of Period	\$ 479
Stock Option Exercises	1
Share Repurchases	(40)
Balance at End of Period	440
<b>Capital in Excess of Par Value</b>	
Balance at Beginning of Period	
Share-Based Activity	6,049
Stock Option Exercises	2,039
Share Repurchases	(8,088)
Balance at End of Period	
<b>Retained Earnings</b>	
Balance at Beginning of Period	546,417
Dividends Declared to Stockholders	(27,221)
Cumulative Effect of the Adoption of FIN 48 (Note N)	(34,601)
Share Repurchases	(145,317)

Net Earnings	95,856
Balance at End of Period	435,134
<b>Accumulated Other Comprehensive Losses</b>	
Balance at Beginning of Period	(850)
Balance at End of Period	(850)
<b>Total Stockholders Equity</b>	\$ 434,724

We repurchased 4,006,300 shares at an average price of \$38.30 during the nine month period ended December 31, 2007, as compared to our repurchase of 2,156,800 shares at an average price of \$35.02 during the nine month period ended December 31, 2006. We repurchased 316,700 shares at an average price of \$35.92 during the three months ended December 31, 2007. Additionally, we purchased 772,200 shares at an

**Table of Contents**

average price of \$30.38 during January 2008. After considering the shares purchased during January 2008, there are 717,300 shares remaining under the current repurchase authorization.

**(E) CASH FLOW INFORMATION SUPPLEMENTAL**

Cash payments made for interest were \$15.4 million and \$11.4 million for the nine months ended December 31, 2007 and 2006, respectively. Net payments made for federal and state income taxes during the nine months ended December 31, 2007 and 2006, were \$69.5 and \$75.4 million, respectively. The payments made during the nine month period ended December 31, 2007 includes approximately \$33.3 million related to an exam by the Internal Revenue Service, which is discussed in Footnote (K) of the Unaudited Consolidated Financial Statements.

**(F) COMPREHENSIVE INCOME**

Comprehensive income for the three month periods ended December 31, 2007 and 2006 was identical to net income for the same periods.

As of December 31, 2007, the Company has an accumulated other comprehensive loss of \$0.8 million, in connection with recognizing the difference between the fair value of the pension assets and the projected benefit obligation.

**(G) INVENTORIES**

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

	As of	
	December 31, 2007	March 31, 2007
	(dollars in thousands)	
Raw Materials and Material-in-Progress	\$ 20,562	\$ 22,286
Gypsum Wallboard	6,670	6,378
Finished Cement	9,942	12,640
Paperboard	4,735	5,321
Aggregates	10,213	3,392
Repair Parts and Supplies	30,355	25,300
Fuel and Coal	3,521	3,591
	\$ 85,998	\$ 78,908

**(H) ACCRUED EXPENSES**

Included in accrued expenses are approximately \$13.3 million and \$19.8 million of accrued incentive compensation and \$7.5 million and \$4.0 million of accrued interest at December 31, 2007 and March 31, 2007, respectively.

**Table of Contents****(I) COMPUTATION OF EARNINGS PER SHARE**

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

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2007	2006	2007	2006
Weighted-Average Shares of Common Stock Outstanding	44,019,262	48,354,882	46,227,109	49,415,067
Common Equivalent Shares:				
Assumed Exercise of Outstanding Dilutive Options	1,321,978	1,604,967	1,373,658	1,621,639
Less Shares Repurchased from Proceeds of Assumed Exercised Options	(813,437)	(1,018,219)	(832,392)	(989,804)
Restricted Shares	68,242	69,723	66,015	70,779
Weighted-Average Common and Common Equivalent Shares Outstanding	44,596,051	49,011,353	46,834,390	50,117,681