

EAGLE MATERIALS INC
Form 10-Q
August 08, 2012
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United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

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

For the Quarterly Period Ended

June 30, 2012

Commission File Number 1-12984

Eagle Materials Inc.

Delaware

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(State of Incorporation)

75-2520779

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

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

(Address of principal executive offices)

(214) 432-2000

(Registrant's telephone number)

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

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

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

Large accelerated filer Accelerated filer

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

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

As of August 3, 2012, the number of outstanding shares of common stock was:

Class	<u>Outstanding Shares</u>
Common Stock, \$.01 Par Value	45,381,794

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Eagle Materials Inc. and Subsidiaries

Form 10-Q

June 30, 2012

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Consolidated Statements of Earnings

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

(unaudited)

	For the Three Months Ended June 30,	
	2012	2011
Revenues	\$ 154,042	\$ 119,807
Cost of Goods Sold	131,145	115,434
Gross Profit	22,897	4,373
Equity in Earnings of Unconsolidated Joint Venture	6,468	5,448
Corporate General and Administrative Expense	(5,416)	(4,118)
Other Income (Expense)	(270)	(79)
Interest Expense, Net	(3,765)	(4,585)
Earnings before Income Taxes	19,914	1,039
Income Taxes	(5,936)	(232)
Net Earnings	\$ 13,978	\$ 807
EARNINGS PER SHARE		
Basic	\$ 0.31	\$ 0.02
Diluted	\$ 0.31	\$ 0.02
AVERAGE SHARES OUTSTANDING		
Basic	44,670,359	44,180,039
Diluted	45,078,734	44,709,262
CASH DIVIDENDS PER SHARE	\$ 0.10	\$ 0.10

See notes to unaudited consolidated financial statements.

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Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Comprehensive Earnings

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

(unaudited)

	For the Three Months Ended June 30,	
	2012	2011
Net Earnings	\$ 13,978	\$ 807
Change in Funded Status of Pension Plan, net of tax	116	
Comprehensive Earnings	\$ 14,094	\$ 807

See notes to unaudited consolidated financial statements.

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Consolidated Balance Sheets

(dollars in thousands)

	June 30, 2012 (unaudited)	March 31, 2012
ASSETS		
Current Assets -		
Cash and Cash Equivalents	\$ 3,707	\$ 6,481
Accounts and Notes Receivable	73,304	56,197
Inventories	114,441	123,606
Income Tax Receivable		1,133
Prepaid and Other Assets	3,366	4,424
Total Current Assets	194,818	191,841
Property, Plant and Equipment -	1,145,195	1,140,744
Less: Accumulated Depreciation	(572,351)	(560,236)
Property, Plant and Equipment, net	572,844	580,508
Notes Receivable	3,360	3,436
Investment in Joint Venture	39,407	38,939
Goodwill and Intangible Assets	150,743	150,902
Other Assets	19,224	19,519
	\$ 980,396	\$ 985,145
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities -		
Accounts Payable	\$ 34,517	\$ 38,747
Accrued Liabilities	30,275	33,619
Income Taxes Payable	8,192	
Current Portion of Long-term Debt	4,677	4,677
Total Current Liabilities	77,661	77,043
Long-term Debt	249,259	262,259
Other Long-term Liabilities	39,774	39,467
Deferred Income Taxes	129,760	133,865
Total Liabilities	496,454	512,634
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 45,362,170 and 45,269,493 Shares, respectively	454	453
Capital in Excess of Par Value	39,564	37,692
Accumulated Other Comprehensive Losses	(5,400)	(5,516)
Retained Earnings	449,324	439,882
Total Stockholders Equity	483,942	472,511

\$ 980,396 \$ 985,145

See notes to the unaudited consolidated financial statements.

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

Consolidated Statements of Cash Flows

(unaudited dollars in thousands)

	For the Three Months Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Earnings	\$ 13,978	\$ 807
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities -		
Depreciation, Depletion and Amortization	12,661	12,320
Deferred Income Tax Provision	(4,174)	(939)
Stock Compensation Expense	1,563	835
Excess Tax Benefits from Share Based Payment Arrangements	(21)	(30)
Equity in Earnings of Unconsolidated Joint Venture	(6,468)	(5,448)
Distributions from Joint Venture	6,000	5,000
Changes in Operating Assets and Liabilities:		
Accounts and Notes Receivable	(17,031)	(10,150)
Inventories	9,165	1,113
Accounts Payable and Accrued Liabilities	(6,911)	(5,315)
Other Assets	1,014	1,866
Income Taxes Payable	9,316	1,082
Net Cash Provided by Operating Activities	19,092	1,141
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(4,685)	(3,812)
Net Cash Used in Investing Activities	(4,685)	(3,812)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (Decrease) in Credit Facility	(13,000)	9,000
Dividends Paid to Stockholders	(4,521)	(4,526)
Proceeds from Stock Option Exercises	1,177	128
Shares Redeemed to Settle Employee Taxes on Restricted Shares	(858)	(357)
Excess Tax Benefits from Share Based Payment Arrangements	21	30
Net Cash Provided by (Used in) Financing Activities	(17,181)	4,275
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,774)	1,604
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,481	1,874
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 3,707	\$ 3,478

See notes to the unaudited consolidated financial statements.

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Eagle Materials Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

June 30, 2012

(A) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements as of and for the three month period ended June 30, 2012 include the accounts of Eagle Materials Inc. and its majority-owned subsidiaries (the Company, us or we) and have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on May 25, 2012.

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

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

Recent Accounting Pronouncements

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

(B) CASH FLOW INFORMATION SUPPLEMENTAL

Cash payments made for interest were \$6.4 and \$8.6 million for the three months periods ended June 30, 2012 and 2011, respectively. Net payments made for federal and state income taxes during the three months ended June 30, 2012 and 2011, were \$0.2 and \$1.4 million, respectively.

(C) ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable have been shown net of the allowance for doubtful accounts of \$5.0 million at both June 30, 2012 and March 31, 2012, respectively. We perform ongoing credit evaluations of our customers' financial condition and generally require no collateral from our customers. The allowance for non-collection of receivables is based upon analysis of economic trends in the construction industry, detailed analysis of the expected collectability of accounts receivable that are past due and the expected collectability of overall receivables. We have no significant credit risk concentration among our diversified customer base.

We had notes receivable totaling approximately \$4.3 million at June 30, 2012, of which approximately \$0.9 million has been classified as current and presented with accounts receivable on the balance sheet. We lend funds to certain companies in the ordinary course of business, and the notes bear interest, on average, at the prime rate plus 1.5%. Remaining unpaid amounts, plus accrued interest, mature on various dates between 2012 and 2017. The notes are collateralized by certain assets of the borrowers, namely property and equipment and are generally payable monthly. We monitor the credit risk of each borrower by focusing on the timeliness of payments, review of credit history and credit metrics and interaction with the borrowers. At June 30, 2012, approximately \$0.6 million of our allowance for doubtful accounts is related to our notes receivable.

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A summary of changes in stockholders equity follows:

	For the Three Months Ended June 30, 2012 (dollars in thousands)
Common Stock	
Balance at Beginning of Period	\$ 453
Stock Option Exercises	1
Balance at End of Period	454
Capital in Excess of Par Value	
Balance at Beginning of Period	37,692
Stock Compensation Expense	1,563
Shares Redeemed to Settle Employee Taxes	(858)
Stock Option Exercises	1,167
Balance at End of Period	39,564
Retained Earnings	
Balance at Beginning of Period	439,882
Dividends Declared to Stockholders	(4,536)
Net Earnings	13,978
Balance at End of Period	449,324
Accumulated Other Comprehensive Losses	
Balance at Beginning of Period, net of tax	(5,516)
Pension Plan Actuarial losses	116
Balance at End of Period, net of tax	(5,400)
Total Stockholders Equity	\$ 483,942

There were no open market share repurchases during the three month period ended June 30, 2012. As of June 30, 2012, we have authorization to purchase an additional 717,300 shares.

(E) INVENTORIES

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

	As of June 30, 2012	March 31, 2012
Raw Materials and Material-in-Progress	\$ 40,509	\$ 46,336

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Finished Cement	7,096	10,391
Gypsum Wallboard	5,895	6,215
Aggregates	14,109	14,155
Paperboard	2,371	2,443
Repair Parts and Supplies	39,882	40,352
Fuel and Coal	4,579	3,714
	\$ 114,441	\$ 123,606

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Accrued expenses consist of the following:

	As of	
	June 30, 2012	March 31, 2012
	(dollars in thousands)	
Payroll and Incentive Compensation	\$ 5,160	\$ 7,320
Benefits	9,089	8,583
Interest	2,049	4,904
Insurance	4,724	5,068
Property Taxes	4,380	3,865
Other	4,873	3,879
	\$ 30,275	\$ 33,619

(G) SHARE-BASED EMPLOYEE COMPENSATION

On January 8, 2004, our stockholders approved an incentive plan (the Plan) that combined and amended the two previously existing stock option plans. In August 2009, our shareholders approved an amendment to the Plan which, among other things, increased the number of shares available for award under the Plan by 3.0 million shares. Under the terms of the Plan, we can issue equity awards, including stock options, restricted stock units (RSUs), restricted stock and stock appreciation rights (collectively, the Equity Awards) to employees of the Company and members of the Board of Directors. The Compensation Committee of our Board of Directors specifies the terms for grants of Equity Awards under the Plan.

Long-Term Compensation Plans -

Options. In June 2012, the Compensation Committee of the Board of Directors approved an incentive equity award of an aggregate of 448,833 stock options pursuant to the Plan to certain individuals that vest ratably over a three year period (the Fiscal 2013 Employee Stock Option Grant). The options have a term of ten years from the date of grant. In June 2012, we granted 42,336 options to members of the Board of Directors (the Fiscal 2013 Board of Directors Grant). Options granted under the Fiscal 2013 Board of Directors Grant vest six months after issuance, in December 2012, and can be exercised from that date until their expiration at the end of ten years. The Fiscal 2013 Employee Stock Option Grant and Fiscal 2013 Board of Directors Grant were valued at the grant date using the Black-Scholes option pricing model.

The weighted-average assumptions used in the Black-Scholes model to value the option awards in fiscal 2013 are as follows:

	Fiscal 2012
Dividend Yield	2.0%
Expected Volatility	44.0%
Risk Free Interest Rate	1.3%
Expected Life	7.9 years

Stock option expense for all outstanding stock option awards totaled approximately \$0.5 million and \$0.3 million for the three month periods ended June 30, 2012 and 2011, respectively. At June 30, 2012, there was approximately \$9.7 million of unrecognized compensation cost related to outstanding stock options, net of estimated forfeitures, which is expected to be recognized over a weighted-average period of 2.6 years.

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The following table represents stock option activity for the quarter ended June 30, 2012:

	Number of Shares	Weighted- Average Exercise Price
Outstanding Options at Beginning of Period	3,241,322	\$ 36.11
Granted	531,179	\$ 33.66
Exercised	(42,131)	\$ 27.93
Cancelled	(42,278)	\$ 42.21
Outstanding Options at End of Period	3,688,092	\$ 35.78
Options Exercisable at End of Period	1,604,458	
Weighted-Average Fair Value of Options Granted during the Period	\$ 12.90	

The following table summarizes information about stock options outstanding at June 30, 2012:

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Number of Shares Outstanding	Average Remaining Contractual Life	Weighted - Average Exercise Price	Number of Shares Outstanding	Weighted - Average Exercise Price
\$ 11.56 \$ 11.76	88,536	0.87	\$ 11.74	88,536	\$ 11.74
\$ 23.17 \$ 30.74	1,482,846	5.52	\$ 26.68	1,204,091	\$ 26.37
\$ 33.08 \$ 40.78	801,849	7.00	\$ 35.13	253,970	\$ 37.97
\$ 47.53 \$ 62.83	1,314,861	2.03	\$ 48.05	57,861	\$ 59.44
	3,688,092	4.48	\$ 35.78	1,604,458	\$ 28.59

At June 30, 2012, the aggregate intrinsic value for outstanding options was \$5.8 million and the aggregate intrinsic value of exercisable options was \$14.0 million. The total intrinsic value of options exercised during the three month period ended June 30, 2012 was approximately \$0.3 million.

Restricted Stock Units. Expense related to RSUs was approximately \$0.4 million and \$0.3 million for the three month periods ended June 30, 2012 and 2011, respectively. At June 30, 2012, there was approximately \$1.3 million of unearned compensation from RSUs, net of estimated forfeitures, which will be recognized over a weighted-average period of 1.1 years.

Restricted Stock. In June 2012, the Compensation Committee also approved the granting of an aggregate of 57,443 shares of restricted stock to certain key employees at both the corporate and subsidiary level (the "Fiscal 2013 Employee Restricted Share Award") that will be earned if our ten year average return on equity exceeds 15% at March 31, 2013. If this criterion is not met, all of the shares will be forfeited. If the criterion is met, restrictions on the shares will lapse ratably over five years, with the first fifth lapsing immediately, and the remaining restrictions lapsing on March 31, 2014 through 2017. The value of the Fiscal 2013 Restricted Share Award, net of estimated forfeitures, is being expensed over a five year period. In June 2012, we granted 16,251 shares of restricted stock to members of the Board of Directors (the "Board of Directors Fiscal 2013 Restricted Stock Award"). Awards issued under the Board of Directors Fiscal 2013 Restricted Stock Award vest upon the retirement of each director, which occurs at the date of the annual shareholders meeting after the director reaches seventy-two years of age.

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Expense related to restricted shares was \$0.6 million and \$0.3 million for the three month period ended June 30, 2012 and 2011, respectively. At June 30, 2012, there was approximately \$15.3 million of unearned compensation from restricted stock, net of estimated forfeitures, which will be recognized over a weighted-average period of 4.7 years.

The number of shares available for future grants of stock options, restricted stock units, stock appreciation rights and restricted stock under the Plan was 1,340,269 at June 30, 2012.

(H) COMPUTATION OF EARNINGS PER SHARE

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

	For the Three Months Ended June 30,	
	2012	2011
Weighted-Average Shares of Common Stock Outstanding	44,670,359	44,180,039
Effect of Dilutive Shares:		
Assumed Exercise of Outstanding Dilutive Options	1,146,584	1,265,517
Less Shares Repurchased from Assumed Proceeds of Assumed Exercised Options	(954,464)	(1,088,803)
Restricted Shares	216,255	352,509
Weighted-Average Common and Common Equivalent Shares Outstanding	45,078,734	44,709,262

At June 30, 2012 and 2011, 2,318,124 and 2,205,352 stock options, respectively, were excluded from the diluted earnings per share calculation, as their effect was anti-dilutive.

(I) PENSION AND EMPLOYEE BENEFIT PLANS

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

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

	For the Three Months Ended June 30,	
	2012	2011
	(dollars in thousands)	
Service Cost - Benefits Earned during the Period	\$ 132	\$ 139
Interest Cost of Benefit Obligations	268	265
Expected Return on Plan Assets	(342)	(291)
Recognized Net Actuarial Loss	177	86
Amortization of Prior-Service Cost	14	20
Net Periodic Pension Cost	\$ 249	\$ 219

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Income taxes for the interim period presented have been included in the accompanying financial statements on the basis of an estimated annual effective tax rate. In addition to the amount of tax resulting from applying the estimated annual effective tax rate to pre-tax income, we will, when appropriate, include certain items treated as discrete events to arrive at an estimated overall tax amount. The effective tax rate for the three months ended June 30, 2012 was approximately 30%, which has increased from the prior year due to the reduction in the impact our depletion deduction caused by increased earnings in fiscal year 2013.

(K) LONG-TERM DEBT

Long-term debt consists of the following:

	As of	
	June 30, 2012	March 31, 2012
	(dollars in thousands)	
Credit Facility	\$ 57,000	\$ 70,000
Senior Notes	196,936	196,936
Total Debt	253,936	266,936
Less: Current Portion of Long-term Debt	(4,677)	(4,677)
Long-term Debt	\$ 249,259	\$ 262,259

Credit Facility -

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

The Credit Facility has a \$50.0 million letter of credit facility. Under the letter of credit facility, the Company pays a fee at a per annum rate equal to the applicable margin for Eurodollar loans in effect from time to time plus a one-time letter of credit fee in an amount equal to 0.125% of the initial stated amount. At June 30, 2012, we had \$9.0 million of letters of credit outstanding.

We had \$57.0 million of borrowings outstanding under the Credit Facility at June 30, 2012, and had \$234.0 million of unused borrowings under the Credit Facility at June 30, 2012; however, due to certain covenants contained in the Credit Facility, namely the requirement for our consolidated funded

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indebtedness ratio to remain at 3.50 to 1.0 or less, and other outstanding debt instruments, only approximately \$150.0 million in additional borrowings were available to us at June 30, 2012 without exceeding this ratio.

Senior Notes -

We entered into a Note Purchase Agreement on November 15, 2005 (the 2005 Note Purchase Agreement) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2005A Senior Notes (the Series 2005A Senior Notes) in a private placement transaction. The Series 2005A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in three tranches on November 15, 2005. Since entering the 2005 Note Purchase Agreement, we have repurchased \$81.1 million in principal of the Series 2005A Senior Notes. As of June 30, 2012, the amounts outstanding for each of the three tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche A	\$ 4.7 million	November 15, 2012	5.25%
Tranche B	\$ 57.0 million	November 15, 2015	5.38%
Tranche C	\$ 57.2 million	November 15, 2017	5.48%

Interest for each tranche of 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.

We entered into an additional Note Purchase Agreement on October 2, 2007 (the 2007 Note Purchase Agreement) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2007A Senior Notes (the Series 2007A Senior Notes) in a private placement transaction. The Series 2007A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in four tranches on October 2, 2007. Since entering into the 2007 Note Purchase Agreement, we have repurchased \$122.0 million in principal of the Series 2007A Senior Notes. As of June 30, 2012, the amounts outstanding for each of the four tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche A	\$ 9.5 million	October 2, 2014	6.08%
Tranche B	\$ 8.0 million	October 2, 2016	6.27%
Tranche C	\$ 24.0 million	October 2, 2017	6.36%
Tranche D	\$ 36.5 million	October 2, 2019	6.48%

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

Our obligations under the 2005 Note Purchase Agreement and the 2007 Note Purchase Agreement (collectively referred to as the Note Purchase Agreements) and the Series 2005A Senior Notes and the Series 2007A Senior Notes (collectively referred to as the Senior Notes) are equal in right of payment with all other senior, unsecured debt of the Company, including our debt under the Credit Facility. The Note Purchase Agreements contain customary restrictive covenants, including covenants that place limits on our ability to encumber our assets, to incur additional debt, to sell assets, or to merge or consolidate with third parties, as well as certain cross covenants with the Credit Facility. We were in compliance with all financial ratios and tests at June 30, 2012.

Pursuant to a Subsidiary Guaranty Agreement, substantially all of our subsidiaries have guaranteed the punctual payment of all principal, interest, and Make-Whole Amounts (as defined in the Note Purchase Agreements) on the Senior Notes and the other payment and performance obligations of the Company contained in the Senior Notes and in the Note Purchase Agreements. We are permitted, at our option and without penalty, to prepay from time to time at least 10% of the original aggregate principal amount of the Senior Notes at 100% of the principal amount to be prepaid, together with interest accrued on such amount to be prepaid to the date of payment, plus a Make-Whole Amount. The Make-

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Whole Amount is computed by discounting the remaining scheduled payments of interest and principal of the Senior Notes being prepaid at a discount rate equal to the sum of 50 basis points and the yield to maturity of U.S. treasury securities having a maturity equal to the remaining average life of the Senior Notes being prepaid.

On August 31, 2011, we entered into an Uncommitted Master Shelf Agreement (the Shelf Agreement) with John Hancock Life Insurance Company (U.S.A.) (Hancock). The Shelf Agreement provides the terms under which the Company may offer up to \$75 million of its senior unsecured notes for purchase by Hancock or Hancock's affiliates that become bound by the Shelf Agreement (collectively, Purchasers). The Shelf Agreement does not obligate the Company to sell, or the Purchasers to buy, any such notes, and has a term of two years. We have not sold any notes pursuant to the Shelf Agreement as of June 30, 2012.

(L) INTEREST EXPENSE

The following components are included in interest expense, net:

	For the Three Months Ended June 30,	
	2012	2011
	(dollars in thousands)	
Interest (Income)	\$ (1)	\$ (1)
Interest Expense	3,551	4,475
Interest Expense - Income Taxes	97	
Other Expenses	118	111
Interest Expense, net	\$ 3,765	\$ 4,585

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

Interest expense - Income Taxes relates to interest accrued on our unrecognized tax benefits, primarily related to the Republic Asset Acquisition. There was no expense recorded in the first quarter of fiscal 2012 as we were in the process of preparing amended state returns, of which several states offered amnesty for certain penalties and interest. Due to the expected amnesty relief, we did not incur any interest during the first quarter of fiscal 2012.

(M) SEGMENT INFORMATION

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

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

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	For the Three Months Ended June 30,	
	2012	2011
	(dollars in thousands)	
Operating Earnings -		
Cement	\$ 9,866	\$ 8,788
Gypsum Wallboard	14,022	(1,762)
Paperboard	5,276	3,030
Concrete and Aggregates	201	(235)
Other, net	(270)	(79)
Sub-total	29,095	9,742
Corporate General and Administrative	(5,416)	(4,118)
Earnings Before Interest and Income Taxes	23,679	5,624
Interest Expense, net	(3,765)	(4,585)
Earnings Before Income Taxes	\$ 19,914	\$ 1,039
Cement Operating Earnings -		
Wholly-owned Operations	\$ 3,398	\$ 3,340
Joint Venture	6,468	5,448
	\$ 9,866	\$ 8,788
Capital Expenditures -		
Cement	\$ 3,996	\$ 2,120
Gypsum Wallboard	196	1,313
Paperboard	221	118
Aggregates	235	73
Concrete	37	139
Corporate Other		49
	\$ 4,685	\$ 3,812
Depreciation, Depletion and Amortization		
Cement	\$ 3,809	\$ 3,730
Gypsum Wallboard	5,277	5,217
Paperboard	2,210	2,125
Aggregates	887	816
Concrete	268	245
Other, net	210	187
	\$ 12,661	\$ 12,320

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	As of	
	June 30, 2012	March 31, 2012
	(dollars in thousands)	
Identifiable Assets-		
Cement	\$ 319,051	\$ 313,559
Gypsum Wallboard	431,281	434,967
Paperboard	136,398	137,483
Aggregates	62,063	49,009
Concrete	12,740	12,031
Corporate and Other	18,863	38,096
	\$ 980,396	\$ 985,145

Segment operating earnings, including the proportionately consolidated 50% interest in the revenues and expenses of the Joint Venture, represent revenues, less direct operating expenses, segment depreciation, and segment selling, general and administrative expenses. Corporate assets consist primarily of cash and cash equivalents, general office assets, miscellaneous other assets and unrecognized tax benefits. The segment breakdown of goodwill is as follows:

	As of	
	June 30, 2012	March 31, 2012
	(dollars in thousands)	
Cement	\$ 8,359	\$ 8,359
Gypsum Wallboard	116,618	116,618
Paperboard	7,538	7,538
	\$ 132,515	\$ 132,515

We perform our annual test of impairment on goodwill during the fourth quarter of our fiscal year. Due to the decline in operating earnings of the gypsum wallboard segment from historic high in fiscal 2007, we began performing quarterly impairment tests of our goodwill during fiscal 2009. Based on our cash flows from our gypsum wallboard business for the first three months of fiscal 2013, and projections for the remainder of the year, we believe the conditions in the wallboard industry have improved sufficiently for us to determine that an impairment loss is not likely to occur; therefore no impairment test was performed during the quarter ended June 30, 2012. Unless the current outlook changes, we do not anticipate performing quarterly impairment tests for the quarters ended September 30, 2012 or December 31, 2012.

We temporarily idled our gypsum manufacturing facility in Bernalillo, N.M. beginning in December 2009, due to cyclical low gypsum wallboard demand. The carrying value of the Bernalillo plant and equipment at June 30, 2012 was \$3.3 million and \$3.7 million, respectively, and we continue to depreciate the assets over their estimated useful life. We currently have a strong market position in New Mexico, and our Albuquerque gypsum wallboard facility is operating at close to capacity. We plan on resuming manufacturing at the Bernalillo facility in the future when demand for our products improves. Costs of maintaining the facility during the idling are not significant, and the facility was generating positive cash flow prior to being idled; therefore, we have determined that the value of the plant and equipment is not impaired. We are not currently considering the permanent closure of the Bernalillo facility. Any decision to permanently close Bernalillo would be the result of future changes in the building materials industry in the southwest United States and Rocky Mountain region, including changes in the production capacity or operations of our competitors, demand for gypsum wallboard or general macro-economic conditions, which we do not foresee at the present time. If we were to permanently close the Bernalillo facility, or if our expectations as to its use changed such that we project the future undiscounted cash flows from its operations would be insufficient to recover its carrying value due to the factors described above, or for any other reason, we would recognize impairment at that time. All of our other wallboard facilities are currently generating positive cash flow from operations.

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

	For the Three Months Ended June 30,	
	2012	2011
	(dollars in thousands)	
Revenues	\$ 41,196	\$ 38,170
Gross Margin	\$ 13,908	\$ 11,888
Earnings Before Income Taxes	\$ 12,936	\$ 10,897

	As of	
	June 30, 2012	March 31, 2012
	(dollars in thousands)	
Current Assets	\$ 46,371	\$ 46,104
Non-Current Assets	\$ 44,133	\$ 44,105
Current Liabilities	\$ 14,952	\$ 15,719

(N) COMMITMENTS AND CONTINGENCIES

We have certain deductible limits under our workers' compensation and liability insurance policies for which reserves are established based on the undiscounted estimated costs of known and anticipated claims. We have entered into standby letter of credit agreements relating to workers' compensation and auto and general liability self-insurance. At June 30, 2012, we had contingent liabilities under these outstanding letters of credit of approximately \$9.0 million.

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

	As of and for the Three Months Ended June 30,	
	2012	2011
	(dollars in thousands)	
Accrual Balances at Beginning of Period	\$ 5,068	\$ 6,639
Insurance Expense Accrued	659	966
Payments	(1,003)	(1,341)
Accrual Balance at End of Period	\$ 4,724	\$ 6,264

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

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We are currently contingently liable for performance under \$9.5 million in performance bonds required by certain states and municipalities, and their related agencies. The bonds are principally for certain reclamation obligations and mining permits. We have indemnified the underwriting insurance company against any exposure under the performance bonds. In our past experience, no material claims have been made against these financial instruments.

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

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

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

At March 31, 2012, we were involved in a pending lawsuit in California state court which was filed by the same mining company which filed the arbitration proceeding described in the March 31, 2012 Form 10-K. This lawsuit was based on the same facts and circumstances which were subject to the adverse arbitration ruling in January 2012. The pending lawsuit was dismissed with prejudice during the quarter ended June 30, 2012, with no additional loss to the Company.

(O) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of our long-term debt has been estimated based upon our current incremental borrowing rates for similar types of borrowing arrangements. The fair value of our Senior Notes at June 30, 2012 is as follows:

	Fair Value (dollars in thousands)
Series 2005A Tranche A	\$ 4,730
Series 2005A Tranche B	58,756
Series 2005A Tranche C	58,410
Series 2007A Tranche A	9,935
Series 2007A Tranche B	8,533
Series 2007A Tranche C	25,500
Series 2007A Tranche D	38,818

The estimated fair value of our long-term debt was based on quoted prices of similar debt instruments with similar terms that are publicly traded (level 2 input). The carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term maturities of these assets and liabilities. The fair value of our Credit Facility also approximates its carrying value at June 30, 2012.

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Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

EXECUTIVE SUMMARY

Eagle Materials Inc. is a diversified producer of basic building products used in residential, industrial, commercial and infrastructure construction. Information presented for the three month periods ended June 30, 2012 and 2011, respectively, reflects the Company's four business segments, consisting of Cement, Gypsum Wallboard, Recycled Paperboard and Concrete and Aggregates. These operations are conducted in the U.S. and include the mining of limestone and the manufacture, production, distribution and sale of Portland cement (a basic construction material which is the essential binding ingredient in concrete), the mining of gypsum and the manufacture and sale of gypsum wallboard, the manufacture and sale of recycled paperboard to the gypsum wallboard industry and other paperboard converters, the sale of readymix concrete and the mining and sale of aggregates (crushed stone, sand and gravel). These products are used primarily in commercial and residential construction, public construction projects and projects to build, expand and repair roads and highways. Certain information for each of Concrete and Aggregates is broken out separately in the segment discussions.

Our businesses are cyclical commodity businesses that are directly related to the overall construction environment. Our operations, depending on each business segment, range from local in nature to national businesses. We have operations in a variety of geographic markets, which subject us to the economic conditions in each such geographic market as well as the national market. General economic downturns or localized downturns in the regions where we have operations generally have a material adverse effect on our business, financial condition and results of operations. Our Cement companies are located in geographic areas west of the Mississippi River and the Chicago, Illinois metropolitan area. Due to the low value-to-weight ratio of cement, cement is usually shipped within a 150 mile radius of the plants by truck and up to 300 miles by rail; though the price of diesel fuel may impact the truck shipping radius. Concrete and Aggregates are even more regional as those operations serve the areas immediately surrounding Austin, Texas and north of Sacramento, California. Cement, concrete and aggregates demand may fluctuate more widely because local and regional markets and economies may be more sensitive to changes than the national markets. Our Wallboard and Paperboard operations are more national in scope and shipments are made throughout the continental U.S.

We continue to pursue opportunities in businesses which are naturally adjacent to our existing core businesses and would allow us to leverage our core competencies and existing infrastructure and customer relationships. The entry into any such new businesses requires capital expenditures and the investment of management time and other resources, and is subject to the risks associated with any new business development. During fiscal 2012, we purchased land with mineral reserves in the Midwest for the purpose of developing a business for mining and processing of sand that could be used by oil services businesses and other industrial users. Our pursuit of this opportunity is progressing with a focus on permitting, plant design, logistics and market development. During fiscal 2013, as we continue to develop this business, we anticipate additional capital expenditures in the range of \$25 million to \$50 million. We will also continue to focus on growth through acquisitions or expansion of existing facilities that we believe provide an opportunity to realize an appropriate return on investment and increased profitability for our shareholders.

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

Table of Contents**RESULTS OF OPERATIONS****Consolidated Results**

	For the Three Months Ended		
	June 30,		
	2012	2011	Change
	(In thousands except per share)		
Revenues	\$ 154,042	\$ 119,807	29%
Cost of Goods Sold	(131,145)	(115,434)	14%
Gross Profit	22,897	4,373	424%
Equity in Earnings of Unconsolidated Joint Venture	6,468	5,448	19%
Corporate General and Administrative	(5,416)	(4,118)	32%
Other Income (Expense)	(270)	(79)	241%
Interest Expense, net	(3,765)	(4,585)	(18%)
Earnings Before Income Taxes	19,914	1,039	1817%
Income Taxes	(5,936)	(232)	2458%
Net Earnings	\$ 13,978	\$ 807	1632%
Diluted Earnings per Share	\$ 0.31	\$ 0.02	1450%

Revenues. Revenues were \$154.0 million and \$119.8 million during the quarter ended June 30, 2012 and 2011, respectively. The \$34.2 million increase in revenues during the three month period ended June 30, 2012, as compared to June 30, 2011, was primarily due to increased wallboard average net sales prices and increased sales volumes for all of our businesses. The impact of the increased net sales prices and sales volumes on revenues for the quarter ended June 30, 2012, as compared to June 30, 2011, was approximately \$13.9 million and \$20.3 million, respectively.

Cost of Goods Sold. Cost of goods sold was \$131.1 million and \$115.4 million during the quarter ended June 30, 2012 and 2011, respectively. The \$15.7 million increase in cost of goods sold was related primarily to an increase in volumes, which increased cost of sales by approximately \$10.4 million, and an increase in operating costs of approximately \$5.3 million. The increase in cost related to increased volumes was primarily related to our cement and gypsum wallboard businesses, which comprised approximately \$2.9 million and \$7.9 million, respectively. The increased operating costs in the first quarter of fiscal 2013, as compared to fiscal 2012, were approximately \$11.0 million, primarily in our wholly-owned cement businesses, related mostly to major maintenance and the associated reduced production at nearly all of our cement facilities of approximately \$8.0 million. These cost increases were partially offset by reduced costs of approximately \$4.0 million and \$1.8 million in our gypsum wallboard and paperboard businesses, respectively.

Gross Profit. Gross profit was \$22.9 million in the first quarter of fiscal 2013, as compared to \$4.4 million in the first quarter of fiscal 2012. The \$18.5 million increase was due primarily to increased average sales prices and increased sales volumes, partially offset by increased cost of goods sold related to the increased sales volumes, as noted above.

Equity in Earnings of Unconsolidated Joint Venture. Equity in earnings of our unconsolidated joint venture increased \$1.1 million, or 19%, for the three months ended June 30, 2012, as compared to the similar period in 2011. The increase is primarily due to a 10% increase in average net sales price. The impact of the increases in average net sales price on equity in earnings of unconsolidated joint venture during the three month period ended June 30, 2012 was approximately \$2.3 million, partially offset by increased cost of sales of approximately \$1.2 million. The increase in cost of sales was primarily due to increased operating costs of approximately \$0.6 million in purchased cement and \$0.7 million in maintenance.

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Corporate General and Administrative. Corporate general and administrative expenses were \$5.4 million in the first quarter of fiscal 2013, as compared to \$4.1 million in first quarter of fiscal 2012. The 32% increase in corporate general and administrative expenses is due primarily to an increase of approximately \$0.7 million of stock compensation expenses related to the issuance of restricted stock in June 2011 and an increase in legal and professional fees of approximately \$0.5 million, related to our lawsuit with the IRS.

Other Income (Expense). Other expense was \$0.3 million and \$0.1 million in the first quarter of fiscal 2013 and 2012, respectively, and consists of a variety of items that are non-segment operating in nature, including non-inventoried aggregates income, gypsum wallboard distribution center income, asset sales and other miscellaneous income and cost items.

Interest Expense, Net. Interest expense net, decreased 18% to \$3.8 million during the three month period ended June 30, 2012, from \$4.6 million for the three month period ended June 30, 2011. Interest expense from our Senior Notes and Credit Facility decreased approximately \$0.8 million during the first quarter of fiscal 2013, as compared to the first quarter of fiscal 2012, while interest expense related to our unrecognized tax benefit and amortization of debt issuance costs increased approximately \$0.1 million. The decrease in interest expense from our Senior Notes and Credit Facility related to lower outstanding balances during fiscal 2013, due to the repurchase of \$81.1 million in Senior Notes during December 2011. We anticipate a decline in total interest expense for fiscal 2013 as compared to fiscal 2012, as the current interest rate for our Credit Facility is less than the interest rate of our Senior Notes, and we anticipate continuing to reduce the amounts drawn under the Credit Facility throughout fiscal 2013. The increase in interest expense related to our unrecognized tax benefit of approximately \$0.1 million in the three month period ended June 30, 2012, as compared to June 30, 2011, is due primarily to our ability to participate in several state amnesty programs, which resulted in our not having any interest expense during the three month period ended June 30, 2011.

Earnings Before Income Taxes. Earnings before income taxes increased to \$19.9 million, during the first quarter of fiscal 2013, as compared to \$1.0 million in the first quarter of fiscal 2012, primarily due to an \$18.5 million increase in gross profit and a \$1.2 million increase in equity in earnings of unconsolidated joint venture, partially offset by a \$1.1 million increase in corporate general and administrative expenses.

Income Taxes. Income tax expense was \$5.9 million and \$0.2 million in the three month period ended June 30, 2012 and the similar period in 2011, respectively. The effective tax rate for fiscal 2013 increased to 30% from 22% in fiscal 2012. The increase in the effective tax rate is primarily attributable to an increase in earnings, taxable at statutory rates, partially offset by depletion and other allowable deductions in the first quarter of fiscal 2013, as compared to the similar quarter in the prior year.

Net Earnings and Diluted Earnings per Share. Net earnings were \$14.0 million and \$0.8 million for the three month periods ended June 30, 2012 and June 30, 2011, respectively. Diluted earnings per share were \$0.31 and \$0.02 for the three months ended June 30, 2012 and 2011, respectively.

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

	For the Three Months Ended June 30,		Percentage Change
	2012	2011	
(In thousands except per unit)			
Revenues ⁽¹⁾			
Cement ⁽²⁾	\$ 76,024	\$ 60,144	26%
Gypsum Wallboard	70,220	51,342	37%
Recycled Paperboard	30,329	28,676	6%
Concrete and Aggregates	12,877	11,900	8%
Gross Revenues	189,450	152,062	25%
Less: Intersegment Revenues	(11,701)	(10,861)	8%
Less: Joint Venture Revenues	(23,707)	(21,394)	11%
	\$ 154,042	\$ 119,807	29%
Sales Volume			
Cement (M Tons) ⁽²⁾	848	674	26%
Gypsum Wallboard (MMSF)	457	412	11%
Recycled Paperboard (M Tons)	60	57	5%
Concrete (M Yards)	137	136	1%
Aggregates (M Tons)	652	612	7%
Average Net Sales Prices ⁽³⁾			
Cement ⁽²⁾	\$ 81.06	\$ 81.25	
Gypsum Wallboard	118.70	90.03	32%
Recycled Paperboard	502.89	505.61	(1%)
Concrete	65.29	61.04	7%
Aggregates	5.98	5.88	2%
Operating Earnings			
Cement ⁽²⁾	\$ 9,866	\$ 8,788	12%
Gypsum Wallboard	14,022	(1,762)	895%
Recycled Paperboard	5,276	3,030	74%
Concrete and Aggregates	201	(235)	186%
Other, net	(270)	(79)	241%
Net Operating Earnings	\$ 29,095	\$ 9,742	198%

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

(2) Includes proportionate share of our Joint Venture.

(3) Net of freight and delivery costs.

Cement Operations. Cement revenues were \$76.0 million in the first quarter of fiscal 2013, which is a 26% increase over revenues of \$60.1 million in the first quarter of fiscal 2012. The increase in revenues during the first quarter of fiscal 2013, as compared to the similar quarter in fiscal 2012, is primarily due to a 26% increase in sales volumes. The increase in sales volumes positively impacted revenues by approximately \$14.6 million in the first quarter of fiscal 2013, as compared to the first quarter of fiscal 2012. This increase was due to increased construction activity in our Mountain region and increased participation in large construction projects in Illinois. The increase in sales volumes for our Illinois and Mountain markets during the first quarter of fiscal 2013, as compared to the first quarter of fiscal 2012, was also positively impacted by more favorable weather in the current year, as the weather in the first quarter of fiscal 2012 was unseasonably rainy, which adversely impacted demand.

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Operating earnings for the cement business increased to \$9.9 million from \$8.8 million for the first quarter of fiscal 2013 and 2012, respectively. The increase in operating earnings is due primarily to an increase in sales volumes, which positively impacted operating earnings by approximately \$9.4 million. The increase in sales volumes was nearly completely offset by increased operating costs during the three month period ended June 30, 2012, as compared to the similar period in 2011, primarily due to approximately \$8.0 million of increased major maintenance costs and the associated reduced production at nearly all of our production facilities.

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Gypsum Wallboard Operations. Sales revenues increased 37% to \$70.2 million in the first quarter of fiscal 2013, from \$51.3 million in the first quarter of fiscal 2012, primarily due to a 32% increase in the average net sales price and an 11% increase in sales volumes. The increase in the average net sales price and sales volumes positively impacted revenues by approximately \$13.4 million and \$5.5 million, respectively. The increase in average net sales price was due to the implementation of a price increase in January 2012. The increased sales volumes are primarily due to increased seasonal construction activity, as demand is generally greater in the spring and summer.

Operating earnings increased to \$14.0 million in the first quarter of fiscal 2013, from a loss of \$1.8 million in the first quarter of fiscal 2012, primarily due to the increase in average net sales prices, which positively impacted operating earnings by approximately \$13.4 million, and lower operating expenses, which positively impacted operating earnings by \$2.8 million, and were primarily related to the \$2.2 million reduction in energy costs. Despite low overall utilization of all but one of our operating facilities, fixed costs are not a significant part of the overall cost of wallboard; therefore, the low utilization of our facilities had a relatively minor impact on our operating results.

Recycled Paperboard Operations. Revenues increased 6% to \$30.3 million in the first quarter of fiscal 2013, from \$28.7 million in first quarter of fiscal 2012. The increase in net revenue during the first quarter of fiscal 2013 as compared to fiscal 2012 is due to the increase in sales volumes, partially offset by the decline in average net sales price. The increase in sales volume during the three month period ended June 30, 2012, as compared to the similar period in 2011, positively impacted revenues by approximately \$1.7 million.

Operating earnings increased to \$5.3 million in the first quarter of fiscal 2013, as compared to \$3.0 million in the first quarter of fiscal 2012, while gross margin increased to 17% in the first quarter of fiscal 2013, as compared to 11% in the first quarter of fiscal 2012. The increase in operating earnings and improvement in gross margin was due primarily to the decrease in operating costs, which positively impacted operating earnings by approximately \$2.2 million. The decrease in operating costs during the first quarter of fiscal 2013, as compared to the first quarter of fiscal 2012, was primarily related to decreases in OCC and energy of approximately \$0.9 million and \$0.6 million, respectively.

Concrete and Aggregates Operations. Concrete and aggregates revenues increased 8% to \$12.9 million in the first quarter of fiscal 2013, as compared to \$11.9 million in the first quarter of fiscal 2012. Concrete and aggregate price increases in fiscal 2013, as compared to fiscal 2012, positively impacted revenues by approximately \$0.6 million and \$0.1 million, respectively, while the impact of increased sales volumes in concrete and aggregates positively impacted revenues by \$0.1 million and \$0.2 million, respectively.

Operating earnings increased to a profit of \$0.2 million for the three month period ended June 30, 2012, as compared to a loss of \$0.2 million for the three month period ended June 30, 2011. Operating profit was positively impacted by increased average sales prices during the first quarter of fiscal 2013, as compared to fiscal 2012, which contributed \$0.6 million to operating earnings, partially offset by increased operating costs. Increased operating costs during the first quarter of fiscal 2013, as compared to the first quarter of fiscal 2012, were primarily related to increases in purchased materials of approximately \$0.2 million.

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GENERAL OUTLOOK

Construction activity for calendar 2012 is expected to be stronger than calendar 2011. Although commercial and residential construction activity remains at cyclic low levels and infrastructure spending has been impacted by state budget constraints, there are signs that the economy is beginning to improve. Although we do not expect a significant increase in spending for infrastructure in calendar 2012, we do expect spending in 2012 will exceed that of 2011.

While cement demand continues to be impacted by reduced residential housing construction, continued weakness in the commercial construction market and state government budget deficits, the severity of the impact is uneven among the different regions. We have seen more signs of recovery in our Texas and Mountain markets, primarily due to the strength of the energy business, than we have in our Nevada and Illinois markets. Cement consumption increased in calendar 2011 over calendar 2010, and may increase again in calendar 2012; however, these increases are expected to be regional rather than throughout the country as a whole.

We anticipate concrete and aggregate sales prices and sales volumes will remain near historically low levels in our northern California market, as demand for residential and infrastructure projects is expected to remain soft. We are starting to see a recovery of volume and price in our Austin, Texas market.

Demand for wallboard continues to be adversely impacted by the current downturn in the residential and commercial construction markets, which has resulted in the industry operating near a utilization rate of approximately 50%. We implemented a price increase in January 2012. This price increase was intended to offset input cost increases that have occurred over the last several years.

Our recycled paperboard segment continues to identify sales opportunities in each of its markets to enable our paper operation to maximize its operating earnings. Fiber prices, which are our largest operating cost, remained fairly consistent in fiscal 2012, as compared to fiscal 2011, but any increase in this cost will impact the cost of manufacturing and product margins. We anticipate the cost of electricity and natural gas will remain consistent throughout calendar 2012.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Table of Contents**Recent Accounting Pronouncements**

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

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

The following table provides a summary of our cash flows:

	For the Three Months Ended June 30,	
	2012	2011
	(dollars in thousands)	
Net Cash Provided by Operating Activities	\$ 19,092	\$ 1,141
Investing Activities:		
Additions to Property, Plant and Equipment	(4,685)	(3,812)
Net Cash Used in Investing Activities	(4,685)	(3,812)
Financing Activities:		
Excess Tax Benefits from Share Based Payment Arrangements	21	30
Increase (Decrease) in Notes Payable	(13,000)	9,000
Dividends Paid	(4,521)	(4,526)
Shares Repurchased to Settle Employee Taxes on RSUs	(858)	(357)
Proceeds from Stock Option Exercises	1,177	128
Net Cash Provided by (Used in) Financing Activities	(17,181)	4,275
Net Increase (Decrease) in Cash	\$ (2,774)	\$ 1,604

Cash flows from operating activities increased \$18.0 million to \$19.1 million during the three month period ended June 30, 2012, as compared to \$1.1 million during the similar period in 2011. This increase was largely attributable to increased net earnings of approximately \$13.2 million, and increases in cash flows from changes in operating assets and liabilities. Cash flows from operations were positively impacted during the first quarter of fiscal 2013 by a decrease in inventories of approximately \$9.2 million and an increase in income taxes payable of approximately \$9.3 million, partially offset by an increase of approximately \$17.0 million in accounts and notes receivable. During the three month period ended June 30, 2011, cash flows from operating activities were positively impacted by a decrease in inventories of approximately \$1.1 million, partially offset by an increase in accounts and notes receivable of approximately \$10.2 million.

Working capital increased to \$117.1 million at June 30, 2012, compared to \$114.8 million at March 31, 2012, primarily due to increased accounts and notes receivable and decreased accounts payable and accrued liabilities, partially offset by decreased inventories and increased income taxes payable. The increase in accounts receivable is primarily due to the increased sales, and is further explained below. The decrease in accounts payable is due to timing, while the decrease in accrued liabilities is due to the payment of semi-annual interest on both the Series 2005A and Series 2007A Senior notes during the quarter ended June 30, 2012, and the reduction in insurance payable due to the payment of certain workers compensation claims. The decrease in inventories relates primarily to our cement segment and is due to a combination of extended maintenance at certain of our plants and increased sales during the quarter ended June 30, 2012, as compared to the quarter ended March 31, 2012. The increase in income tax payable is primarily due to the increase in our projected annual tax rate and our increased earnings for the first quarter of fiscal 2013 as compared to fiscal 2012.

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The increase in accounts and notes receivable at June 30, 2012 as compared to March 31, 2012 is primarily due to the increase in revenues during the first quarter of fiscal 2013 as compared to the fourth quarter of fiscal 2012. This increase is primarily due to the increase in construction activity in the spring as compared to the winter, primarily due to the more favorable weather conditions. The increase in accounts receivable at June 30, 2012, as compared to March 31, 2012, was consistent with the increase in revenues during the same periods. As a percentage of quarterly sales generated in the quarter then ended, accounts receivable were 48% at both June 30, 2012 and March 31, 2012. Management measures the change in accounts receivable by monitoring the days sales outstanding on a monthly basis to determine if any deterioration has occurred in the collectability of the accounts receivable. No significant deterioration in the collectability of our accounts receivable was identified at June 30, 2012. Notes receivable are monitored on an individual basis, and no significant deterioration in the collectability of notes receivable was identified at June 30, 2012.

Our inventory balance at June 30, 2012 decreased approximately 7% from the inventory balance at March 31, 2012, with the vast majority of that decrease being in raw materials and materials in progress at our cement plants, and in finished cement. This decline was expected as we generally build cement inventories over the winter to meet our demand during the spring and summer; however, the reduction in inventory was also impacted by planned major maintenance outages at certain of our plants during the quarter ended June 30, 2012. The largest individual balance in our inventory is our repair parts. These parts are necessary given the size and complexity of our manufacturing plants, as well as the age of certain of our plants, which creates the need to stock a greater level of repair parts inventory. We believe all of these repair parts are necessary and we perform semi-annual analysis to identify obsolete parts. We have less than one year's sales of all product inventories, and our inventory has a low risk of obsolescence due to our products being basic construction materials.

In June 2010, we received a Notice of Deficiency (Notice) (commonly referred to as a 90 Day Letter) from the IRS claiming \$71.5 million of taxes and penalties for the fiscal years ended March 31, 2001 through 2006, inclusive, related to an IRS audit of the acquisition of certain Republic Assets. The Notice was in substantial agreement with our financial accruals including interest. The total amount related to the Notice, including interest, was approximately \$98.7 million, of which \$75 million had previously been deposited with the IRS. We deposited the remaining \$23.7 million with the IRS in July 2010 and asked the IRS to apply all \$98.7 million of deposits to the payment of the tax, penalties and interest. Subsequent review of the IRS interest billing produced a refund of \$0.8 million reducing the net outlay to \$97.9 million. Refund claims were filed with the IRS in October 2010 to recover all \$97.9 million, plus interest, and we have filed a lawsuit in Federal District Court to recover the requested refunds. See Note (N) of the Notes to Unaudited Consolidated Financial Statements.

Net cash used in investing activities during the three month period ended June 30, 2012 was approximately \$4.7 million, as compared to net cash used in investing activities of \$3.8 million during the similar period in 2011, an increase of \$0.9 million. The majority of the expenditures in the first quarter of both fiscal 2013 and fiscal 2012 relate to cost reduction projects and sustaining capital expenditures, of which we anticipate spending between \$15 million and \$20 million during fiscal year 2013.

Net cash used in financing activities increased to \$17.2 million during the three month period ended June 30, 2012, as compared to net cash provided of \$4.3 million during the similar period in 2011. This \$21.5 million increase in net cash used in financing activities is primarily due to the increase in net repayments of debt to \$13.0 million during the three month period ended June 30, 2012 from net borrowings of \$9.0 million during the three month period ended June 30, 2011. The increase in debt repayments is due primarily to management's electing to use our increased cash flows from operations to repay debt during the first quarter of fiscal 2013. Our debt-to-capitalization ratio and net-debt-to-capitalization ratio improved to 34.4% and 34.1%, respectively, at June 30, 2012, as compared to 36.1% and 35.5%, respectively, at March 31, 2012.

Table of Contents**Debt Financing Activities.***Credit Facility -*

On December 16, 2010, we entered into a \$300.0 million credit agreement (the Credit Facility) that expires on December 16, 2015. Borrowings under the Credit Facility are guaranteed by all major operating subsidiaries of the Company. At the option of the Company, outstanding principal amounts on the Credit Facility bear interest at a variable rate equal to (i) LIBOR, plus an agreed margin (ranging from 100 to 225 basis points), which is to be established quarterly based upon the Company's ratio of consolidated EBITDA, which is defined as earnings before interest, taxes, depreciation and amortization, to its consolidated indebtedness, or (ii) an alternative base rate which is the higher of (a) the prime rate or (b) the federal funds rate plus $\frac{1}{2}\%$, per annum plus an agreed margin (ranging from 0 to 125 basis points). Interest payments are payable monthly or at the end of the LIBOR advance periods, which can be up to a period of six months at the option of the Company. The Credit Facility contains customary covenants that restrict our ability to incur additional debt, encumber our assets, sell assets, make or enter into certain investments, loans or guaranties and enter into sale and leaseback arrangements. The Credit Facility also requires us to maintain a consolidated funded indebtedness ratio (consolidated indebtedness to consolidated earnings before interest, taxes, depreciation, amortization and other non-cash deductions) of 3.5 or less and an interest coverage ratio (consolidated earnings before interest, taxes, depreciation, amortization and other non-cash deductions to interest expense) of at least 2.5. The Credit Facility also limits our ability to make certain restricted payments, such as paying cash dividends; however, there are several exceptions to this restriction, including: (i) the Company may pay cash dividends in an aggregate amount of up to \$50.0 million each fiscal year; and (ii) the Company may make restricted payments not otherwise permitted so long as no default would result therefrom and our consolidated funded indebtedness ratio does not exceed 3.0. We had \$57.0 million of borrowings outstanding under the Credit Facility at June 30, 2012, and had \$234.0 million of unused borrowings under the Credit Facility at June 30, 2012; however, due to certain covenants contained in the Credit Facility, namely the requirement for our consolidated funded indebtedness ratio to remain at 3.50 to 1.0 or less, and other outstanding debt instruments, only approximately \$150.0 million in additional borrowings were available to us at June 30, 2012 without exceeding this ratio.

We entered into a Note Purchase Agreement on November 15, 2005 (the 2005 Note Purchase Agreement) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2005A Senior Notes (the Series 2005A Senior Notes) in a private placement transaction. The Series 2005A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in three tranches on November 15, 2005. Since entering the 2005 Note Purchase Agreement, we have repurchased \$81.1 million in principal of the Series 2005A Senior Notes. As of June 30, 2012, the amounts outstanding for each of the three tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche A	\$ 4.7 million	November 15, 2012	5.25%
Tranche B	\$ 57.0 million	November 15, 2015	5.38%
Tranche C	\$ 57.2 million	November 15, 2017	5.48%

Interest for each tranche of 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.

We entered into an additional Note Purchase Agreement on October 2, 2007 (the 2007 Note Purchase Agreement) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2007A Senior Notes (the Series 2007A Senior Notes) in a private placement transaction. The Series 2007A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in four tranches on October 2, 2007. Since entering into the 2007 Note Purchase Agreement, we have repurchased \$122.0 million in principal of the Series 2007A Senior Notes. As of June 30, 2012, the amounts outstanding for each of the four tranches are as follows:

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	Principal	Maturity Date	Interest Rate
Tranche A	\$ 9.5 million	October 2, 2014	6.08%
Tranche B	\$ 8.0 million	October 2, 2016	6.27%
Tranche C	\$ 24.0 million	October 2, 2017	6.36%
Tranche D	\$ 36.5 million	October 2, 2019	6.48%

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

Our obligations under the 2005 Note Purchase Agreement and the 2007 Note Purchase Agreement (collectively referred to as the Note Purchase Agreements) and the Series 2005A Senior Notes and the Series 2007A Senior Notes (collectively referred to as the Senior Notes) are equal in right of payment with all other senior, unsecured debt of the Company, including our debt under the Credit Facility. The Note Purchase Agreements contain customary restrictive covenants, including covenants that place limits on our ability to encumber our assets, to incur additional debt, to sell assets, or to merge or consolidate with third parties, as well as certain cross covenants with the Credit Facility. We were in compliance with all financial ratios and tests at June 30, 2012 and throughout the fiscal year.

On August 31, 2011, we entered into an Uncommitted Master Shelf Agreement (the Shelf Agreement) with John Hancock Life Insurance Company (U.S.A.) (Hancock). The Shelf Agreement provides the terms under which the Company may offer up to \$75 million of its senior unsecured notes for purchase by Hancock or Hancock's affiliates that become bound by the Shelf Agreement (collectively, Purchasers). The Shelf Agreement does not obligate the Company to sell, or the Purchasers to buy, any such notes, and has a term of two years. We have not sold any notes pursuant to the Shelf Agreement as of June 30, 2012.

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

We do not have any off balance sheet debt, except for approximately \$15.0 million of operating leases, which have an average remaining term of approximately fifteen years. Also, we have no outstanding debt guarantees. We have available under the Credit Facility a \$50 million Letter of Credit Facility. At June 30, 2012, we had \$9.0 million of letters of credit outstanding that renew annually. We are contingently liable for performance under \$9.5 million in performance bonds relating primarily to our mining operations.

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

Cash used for Share Repurchases.

We did not repurchase any of our shares during the three month period ended June 30, 2012. As of June 30, 2012, we had a remaining authorization to purchase 717,300 shares. Share repurchases may be made from time-to-time in the open market or in privately negotiated transactions. The timing and amount of any repurchases of shares will be determined by the Company's management, based on its evaluation of market and economic conditions and other factors.

Table of Contents**Dividends.**

Dividends paid were \$4.5 million for both the three months ended June 30, 2012 and 2011. Each quarterly dividend payment is subject to review and approval by our Board of Directors, who will continue to evaluate our dividend payment amount on a quarterly basis.

Capital Expenditures.

The following table compares capital expenditures:

	For the Three Months Ended June 30,	
	2012	2011
	(dollars in thousands)	
Land and Quarries	\$ 32	\$ 13
Plants	2,634	2,408
Buildings, Machinery and Equipment	2,019	1,391
Total Capital Expenditures	\$ 4,685	\$ 3,812

During fiscal 2012, we purchased land with mineral reserves in the Midwest for the purpose of developing a business for mining and processing of sand that could be used by oil services businesses and other industrial users. Our pursuit of this opportunity is progressing with a focus on permitting, plant design, logistics and market development. During fiscal 2013, we anticipate additional capital expenditures in the range of \$25.0 million to \$50.0 million. See Management's Discussion and Analysis of Financial Condition and Results of Operations Executive Summary on page 19 for more information.

Historically, annual maintenance capital expenditures have been approximately \$15.0 to \$20.0 million, which we anticipate will be similar for fiscal 2013. Total capital expenditures for fiscal 2013, including both the new business and maintenance capital expenditures, are expected to be approximately \$40.0 to \$70.0 million. Historically, we have financed such expenditures with cash from operations and borrowings under our revolving credit facility.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks related to fluctuations in interest rates on our 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. We have a \$300.0 million Credit Facility available at June 30, 2012, under which borrowings bear interest at a variable rate. A hypothetical 100 basis point increase in interest rates on the \$57.0 million of borrowings at June 30, 2012 would increase our interest expense by approximately \$0.6 million on an annual basis. At present, we do not utilize derivative financial instruments.

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

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Item 4. Controls and Procedures

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

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Part II. Other Information

ITEM 1. LEGAL PROCEEDINGS

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

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

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

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ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

Legislative and regulatory measures to address emissions of GHGs are in various phases of discussions or implementation at the international, national, regional and state levels. In addition, GHGs are now regulated as pollutants under the Clean Air Act. On September 22, 2009, the EPA issued a Mandatory Reporting of Greenhouse Gases final rule, which took effect December 29, 2009. This rule establishes a new comprehensive scheme requiring operators of stationary sources in the United States emitting more than established annual thresholds of GHGs to inventory and report their GHG emissions annually on a facility-by-facility basis. In addition, in a final rule issued on May 13, 2010, known as EPA's Tailoring Rule, any modification or expansion of our existing plants (or construction of a new plant) after January 1, 2011 that would trigger NSR requirements for non-GHG emissions would also trigger NSR for GHG if proposed GHG emissions from the plant exceed 75,000 tons or more per year. This would require the permitting of, and evaluation of potential controls for, GHG emissions. Effective July 1, 2011, any modification or expansion of our existing plants that results in an increase of our GHG emissions in excess of 75,000 tons per year, or construction of a new plant with the potential to emit 100,000 tons per year, will require NSR permitting and the implementation of best available control technology for GHG emissions. These limitations on emissions of GHGs from our equipment or operations could require us to incur costs to reduce such emissions and could ultimately affect our operations and our ability to obtain air permits for new or modified facilities.

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

On September 9, 2010, the EPA finalized National Emissions Standards for Hazardous Air Pollutants, or NESHAP, for Portland cement plants (PC MACT). The PC MACT will require a significant reduction in emissions of certain hazardous air pollutants from Portland cement kilns. The PC MACT sets limits on mercury emissions from existing Portland cement kilns and increases the stringency of emission limits for new kilns. The PC MACT also sets emission limits for total hydrocarbons, particulate matter (as a surrogate for metal pollutants) and acid gases from cement kilns of all sizes. The PC MACT is scheduled to take full effect in September 2013; however, as a result of a decision by the U.S. Court of Appeals for the District of Columbia Circuit in *Portland Cement Ass'n. v. EPA*, 655 F.3d 177 (D.C. Cir.) arising from industry challenges to the PC MACT, EPA has proposed a settlement agreement with industry petitioners in May 2012, under which the EPA would reconsider the PM limits,

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address other issues required by the D.C. Circuit's decision and consider extending the compliance date of the PC MACT to September 9, 2015. Under the settlement agreement EPA would promulgate any revisions to the PC MACT, including any extension to the compliance date, by December 2012. The PC MACT, both as originally promulgated and as it is expected to be revised, will materially increase capital costs and costs of production for the Company and the industry as a whole.

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

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

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

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

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

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

Our operations are subject to state, federal and local environmental laws and regulations, which impose liability for cleanup or remediation of environmental pollution and hazardous waste arising from past acts. These laws and regulations also require pollution control and prevention, site restoration and operating permits and/or approvals to conduct certain of our operations. Certain of our operations may from time-to-time involve the use of substances that are classified as toxic or hazardous substances within the meaning of these laws and regulations. Additionally, any future laws or regulations addressing greenhouse gas emissions would likely have a negative impact on our business or results of operations, either through the imposition of raw material or production limitations, fuel-use or carbon taxes or

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emission limitations or reductions. We are unable to estimate accurately the impact on our business or results of operations of any such law or regulation at this time. Risk of environmental liability (including the incurrence of fines, penalties or other sanctions or litigation liability) is inherent in the operation of our businesses. As a result, it is possible that environmental liabilities and compliance with environmental regulations could have a material adverse effect on our operations in the future. See Item 1. Business Industry Segment Information Environmental Matters for more information on our regulatory and environmental matters.

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

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

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

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

Incur additional indebtedness;

Sell assets or make other fundamental changes;

Engage in mergers and acquisitions;