EAGLE MATERIALS INC
Form 10-Q
October 27, 2015

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United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

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

For the Quarterly Period Ended

September 30, 2015

Commission File Number 1-12984

Eagle Materials Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

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, including area code)

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

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES x NO ¨

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

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

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

Yes ¨ No x

As of October 27, 2015, the number of outstanding shares of common stock was:

Class	Outstanding Shares
Common Stock, $.01 Par Value	50,046,652

Eagle Materials Inc. and Subsidiaries

Form 10-Q

September 30, 2015

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PART I. FINANCIAL INFORMATION (unaudited)

Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Earnings

(dollars in thousands, except share data)

(unaudited)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2015	2014	2015	2014
Revenues	$328,988	$284,808	$613,951	$551,059
Cost of Goods Sold	284,694	209,747	508,560	419,597
Gross Profit	44,294	75,061	105,391	131,462
Equity in Earnings of Unconsolidated Joint Venture	11,680	12,051	19,510	21,851
Corporate General and Administrative	(9,364)	(7,414)	(18,355)	(14,456)
Acquisition and Litigation Expense	-	(2,103)	-	(2,103)
Other Income	572	883	1,007	1,562
Interest Expense, Net	(4,342)	(3,901)	(8,828)	(7,953)
Earnings Before Income Taxes	42,840	74,577	98,725	130,363
Income Tax Expense	(13,021)	(24,258)	(31,144)	(42,334)
Net Earnings	$29,819	$50,319	$67,581	$88,029
EARNINGS PER SHARE:				
Basic	$0.60	$1.01	$1.36	$1.78
Diluted	$0.59	$1.00	$1.34	$1.75
AVERAGE SHARES OUTSTANDING:				
Basic	49,828,189	49,591,495	49,797,972	49,546,916
Diluted	50,470,151	50,427,286	50,460,947	50,357,914
CASH DIVIDENDS PER SHARE:	$0.10	$0.10	$0.20	$0.20

See notes to unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Comprehensive Earnings

(unaudited – dollars in thousands)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2015	2014	2015	2014
Net Earnings	$ 29,819	$ 50,319	$ 67,581	$ 88,029
Change in Funded Status of Defined Benefit Plans:				
Amortization of Net Actuarial Loss	508	163	1,016	326
Tax Expense	(188)	(57)	(376)	(114)
Comprehensive Earnings	$ 30,139	$ 50,425	$ 68,221	$ 88,241

See notes to unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries

Consolidated Balance Sheets

(dollars in thousands)

	September 30, 2015 (unaudited)	March 31, 2015
ASSETS		
Current Assets -		
Cash and Cash Equivalents	$6,348	$7,514
Accounts and Notes Receivable	154,959	113,577
Inventories	224,667	235,464
Prepaid and Other Assets	9,026	10,080
Total Current Assets	395,000	366,635
Property, Plant and Equipment -	2,041,242	1,962,215
Less: Accumulated Depreciation	(779,010)	(740,396)
Property, Plant and Equipment, net	1,262,232	1,221,819
Notes Receivable	2,760	2,847
Investment in Joint Venture	49,883	47,614
Goodwill and Intangible Assets	177,069	211,167
Other Assets	33,306	32,509
	$1,920,250	$1,882,591

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities -		
Accounts Payable	$70,584	$77,749
Accrued Liabilities	50,066	46,830
Income Taxes Payable	5,108	2,952
Current Portion of Long-term Debt	57,045	57,045
Total Current Liabilities	182,803	184,576
Long-term Debt	452,714	455,714
Other Long-term Liabilities	70,425	69,055
Deferred Income Taxes	144,617	162,653
Total Liabilities	850,559	871,998
Stockholders' Equity -		
Preferred Stock, Par Value $0.01; Authorized 5,000,000 Shares; None Issued	-	-
Common Stock, Par Value $0.01; Authorized 100,000,000 Shares; Issued and Outstanding 50,286,652 and 50,245,364 Shares, respectively	503	502
Capital in Excess of Par Value	273,372	272,441
Accumulated Other Comprehensive Losses	(11,428)	(12,067)
Retained Earnings	807,244	749,717

Total Stockholders’ Equity	1,069,691	1,010,593
	$1,920,250	$1,882,591

See notes to the unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(unaudited – dollars in thousands)

	For the Six Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Earnings	$67,581	$88,029
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities -		
Depreciation, Depletion and Amortization	49,034	34,864
Impairment of Intangible Assets	28,354	-
Deferred Income Tax Provision	(18,413)	(3,628)
Stock Compensation Expense	8,330	6,702
Excess Tax Benefits from Share Based Payment Arrangements	(2,494)	(3,195)
Equity in Earnings of Unconsolidated Joint Venture	(19,510)	(21,851)
Distributions from Joint Venture	17,250	19,375
Changes in Operating Assets and Liabilities:		
Accounts and Notes Receivable	(39,379)	(29,809)
Inventories	13,188	(3,615)
Accounts Payable and Accrued Liabilities	(1,536)	16,878
Other Assets	534	2,798
Income Taxes Payable	4,650	11,103
Net Cash Provided by Operating Activities	107,589	117,651
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, Plant and Equipment Additions	(55,869)	(40,039)
Acquisition Spending	(32,427)	-
Net Cash Used in Investing Activities	(88,296)	(40,039)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Credit Facility	(3,000)	(69,000)
Dividends Paid to Stockholders	(10,061)	(10,019)
Shares Redeemed to Settle Employee Taxes on Stock Compensation	(1,728)	(1,299)
Purchase and Retirement of Common Stock	(10,744)	-
Proceeds from Stock Option Exercises	2,580	4,092
Excess Tax Benefits from Share Based Payment Arrangements	2,494	3,195
Net Cash Used in Financing Activities	(20,459)	(73,031)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,166)	4,581
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,514	6,482

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$6,348	$11,063

See notes to the unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

September 30, 2015

(A) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements as of and for the three and six month periods ended September 30, 2015 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 22, 2015.

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

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers.” ASU 2014-09 supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605),” and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In July 2015, the FASB delayed the implementation of this standard by one year. The standard will now be effective for us in the first quarter of fiscal 2019, with early adoption not permitted. There are two transition methods available under the new standard, either modified or full retrospective. We are currently evaluating the impact of this ASU and have not yet selected a transition method.

In April 2015, the Financial Accounting Standards Board issued ASU 2015-03, “Interest-Imputation of Interest” (Subtopic 830-30). This Standard requires that discounts, premiums or debt issue costs related to borrowings be reported in the balance sheet as a direct reduction of the associated borrowing. The standard will be effective for us in the first quarter of fiscal 2017, and earlier application is permitted for financial statements that have not been previously issued. This impact of adopting this ASU is not expected to be material.

(B) GOODWILL AND INTANGIBLE ASSETS

Goodwill: We perform our annual test of impairment on goodwill during the fourth quarter of our fiscal year. If business conditions in the operating units containing goodwill change substantially during the fiscal year, and we are unable to conclude that an impairment loss is not likely to occur, we will perform impairment tests for those business units during our quarterly periods. At September 30, 2015, we determined that impairment losses are not likely to occur; therefore, no impairment tests were performed during the quarter.

Intangible Assets: Intangible assets are currently being amortized over their expected lives. During the three months ended September 30, 2015, the continued decline in oil prices during the summer of 2015 adversely impacted oil and gas drilling activity, leading to further reductions in demand and pricing for proppants. This reduction in demand adversely impacted performance under our customer contracts, resulting in the amendment of certain of these contracts. Based on the reduced demand for proppants and the executed and pending amendments to our customer contracts, we concluded that long-lived asset impairment indicators were present during the quarter ended September 30, 2015 for our customer contract intangible assets. We performed a recovery test to determine if any of the customer contract intangible assets related to our oil and gas proppants business unit were impaired at September 30, 2015. Based on our analysis of the undiscounted cash flows for each of our customer contract intangibles related to our oil and gas proppants business, we concluded that the carrying value of certain customer contract intangible assets exceeded the undiscounted cash flows for the related assets. For those contracts whose carrying value exceeded the undiscounted cash flows, we calculated the fair value of each contract using the weighted-average probable cash flows related to each contract (level 3 inputs), discounted using a weighted-average cost of capital ("WACC"). The WACC was determined from relevant market comparisons, and adjusted for specific risks. This analysis resulted in an impairment loss of approximately $28.4 million, which is included in cost of goods sold in the unaudited Consolidated Statement of Earnings for the three and six months ended September 30, 2015.

Intangible assets, including the impact of the impairment charge discussed above, consist of the following:

	Cost at September 30, 2015	Amortization for Six Months ended September 30, 2015	Impairment	Accumulated Amortization	Net
	(dollars in thousands)				
Goodwill and Intangible Assets:					
Customer Contracts and Relationships	$63,260	$ 7,656	$ 28,354	$ (42,004)	$21,256
Sales Contracts	2,500	312	-	(1,770)	$730
Permits	27,440	346	-	(6,242)	$21,198
Goodwill	133,885	-	-	-	$133,885
Total Goodwill and Intangible Assets	$227,085	$ 8,314	$ 28,354	$ (50,016)	$177,069

At September 30, 2015, approximately $16.2 million of Customer Contracts and Relationships was related to our oil and gas proppants business. Under the terms of one of the customer contracts, the customer prepaid $15.0 million for sand. At September 30, 2015, approximately $12.5 million of this prepaid is still available to the customer.

	March 31, 2015 Amortization Period	Cost	Accumulated Amortization	Net
	(dollars in thousands)			
Goodwill and Intangible Assets:				

Customer contracts and relationships	5-15 years	$62,060	$ (5,994)	$56,066
Sales contracts	4 years	2,500	(1,458)	1,042
Permits	40 years	27,440	(5,896)	