

EAGLE MATERIALS INC  
Form 10-K  
May 26, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

**ANNUAL REPORT**

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

**For the Fiscal Year Ended**

**March 31, 2011**

**Commission File No. 1-12984**

**EAGLE MATERIALS INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State of Incorporation)

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75-2520779

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

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

(Address of principal executive offices)

(214) 432-2000

(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

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

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 Act). YES  NO

The aggregate market value of the voting stock held by nonaffiliates of the Company at September 30, 2010 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$998.1 million.

As of May 23, 2011, the number of outstanding shares of common stock was:

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Class	Outstanding Shares
Common Stock, \$.01 Par Value	44,491,938

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Annual Meeting of Stockholders of Eagle Materials Inc. to be held on August 4, 2011 are incorporated by reference in Part III of this Report.

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**PART I**

**ITEM 1. BUSINESS  
OVERVIEW**

Eagle Materials Inc. (the Company or EXP which may be referred to as we, our or us) was founded in 1963 as a building materials subsidiary of Centex Corporation (Centex), and we operated as a public company under the name Centex Construction Products, Inc. from April 1994 to January 30, 2004, at which time Centex completed a tax free distribution of its shares in EXP to its shareholders (the Spin-off). Since the date of the Spin-off, we have no longer been affiliated with Centex. Our primary businesses are the manufacture and distribution of gypsum wallboard and the manufacture and sale of cement. Gypsum wallboard is distributed throughout the U.S. with particular emphasis in the geographic markets nearest to our production facilities. We sell cement in four regional markets, including northern Nevada and California, the greater Chicago area, the Rocky Mountain region and Texas. Our gypsum wallboard business is supported by our recycled paperboard business, while our cement business is supported by our concrete and aggregates business. At March 31, 2011, we operated four cement plants (six kilns, one of which belongs to our joint venture company), four gypsum wallboard plants (five board lines), one recycled paperboard plant, nine concrete batching plants and two aggregates facilities. We have one gypsum wallboard plant, with one board line, which was temporarily idled beginning in December 2009, due to low demand.

Our products are commodities that are essential in the construction and renovation of houses, roads, bridges, commercial and industrial buildings and other, newer generation structures like wind farms. Demand for these products is generally cyclical and seasonal, depending on economic and geographic conditions. Our operations are geographically diverse, which subject us to the economic conditions in each such geographic market as well as the national construction market. General economic downturns or localized downturns in the regions where we have operations could have a material adverse effect on our business, financial condition and results of operations. Our gypsum wallboard and paperboard operations are more national in scope and shipments are made throughout the continental U.S., except for the northeast, and therefore are more impacted by national downturns. The markets of our cement companies are more regional due to the low value-to-weight ratio of cement, which generally limits shipments to a 150 mile radius of the plants by truck and up to 300 miles by rail. Concrete and aggregates are primarily local businesses that serve the areas immediately surrounding Austin, Texas and north of Sacramento, California. Cement, concrete and aggregates demand may fluctuate more widely than gypsum wallboard because local and regional markets and economies may be more sensitive to changes than the national market, as well as increased seasonal impact due to adverse weather.

While each of our segments has been impacted by the economic downturn, the impact has been different for each segment. Cement consumption in the United States remained relatively flat at 77.6 million short tons in calendar 2010 as compared to 77.8 million short tons in calendar 2009, with imports also remaining flat at 10% of total sales in calendar 2010, which is consistent with calendar 2009.

Gypsum wallboard has been negatively impacted by the decrease in new home starts throughout the United States, as well as the decline in commercial construction. Utilization of our gypsum wallboard manufacturing facilities was approximately 50% during fiscal year 2011, which also adversely impacted our recycled paperboard business. Recycled paperboard division earnings declined due to the decrease in sales of higher margin gypsum paper, coupled with the increase in the cost of recycled fiber and fiber freight. While we expect the residential housing market to improve slightly in fiscal 2012, we do not expect this improvement to materially increase industry utilization.

Our goal, through relentless and disciplined continuous improvement, is to be the lowest cost producer in each of the markets in which we compete. As such, we will continue to focus on reducing costs and improving our operations, recognizing that being the lowest cost producer is a key to our success. We will also continue to focus on expansion through acquisition or expansion of existing facilities that provide an appropriate return on investment and increased profitability for our shareholders.

**Table of Contents****INDUSTRY SEGMENT INFORMATION**

While our businesses are separated into four segments, these four segments are generally related to two businesses, and are therefore discussed as follows: Cement and Concrete and Aggregates, and Gypsum Wallboard and Recycled Paperboard. A description of these business segments can be found on pages 2-12.

We conduct one of our four cement plant operations through a joint venture, Texas Lehigh Cement Company LP, which is located in Buda, Texas. We own a 50% interest in the joint venture and account for our interest using the equity method of accounting. However, for segment reporting purposes, we proportionately consolidate our 50% share of the cement joint venture's revenues and operating earnings, which is consistent with the way management organizes the segments within the Company for making operating decisions and assessing performance. Revenues from external customers, operating earnings, identifiable assets, depreciation, depletion and amortization, and capital expenditures by segment are presented in Note (F) of the Notes to the Consolidated Financial Statements on pages 48-51.

**CEMENT, CONCRETE AND AGGREGATES OPERATIONS****Company Operations**

**Cement.** Our cement production facilities are located in or near Buda, Texas; LaSalle, Illinois; Laramie, Wyoming; and Fernley, Nevada. The LaSalle, Illinois, Laramie, Wyoming and Fernley, Nevada facilities are wholly-owned. The Buda, Texas plant is owned by Texas Lehigh Cement Company LP, a limited partnership joint venture owned 50% by us and 50% by Lehigh Cement Company LLC, a subsidiary of Heidelberg Cement AG. Our LaSalle, Illinois plant operates under the name of Illinois Cement Company; the Laramie, Wyoming plant operates under the name of Mountain Cement Company and the Fernley, Nevada plant operates under the name of Nevada Cement Company. During fiscal 2011, we withdrew our expansion permit and no longer plan to expand the Nevada cement plant.

Cement is the basic binding agent for concrete, a primary construction material. Our modern cement plants utilize dry process technology and at present approximately 85% of our clinker capacity is from preheater or preheater/pre-calciner kilns. The following table sets forth certain information regarding these plants:

Location	Rated Annual Clinker Capacity (M short tons) <sup>(1)</sup>	Manufacturing Process	Number of Kilns	Kiln Dedication Date	Estimated Minimum Limestone Reserves (Years)
Buda, TX <sup>(2)</sup>	1,300	Dry 4 Stage Preheater/ Pre-calciner	1	1983	50+ <sup>(5)</sup>
LaSalle, IL	1,000	Dry 5 Stage Preheater/ Pre-calciner	1	2006	33 <sup>(5)</sup>
Laramie, WY	650	Dry 2 Stage Preheater	1	1988	50+ <sup>(6)</sup>
Fernley, NV	505	Dry Long Dry Kiln Dry Long Dry Kiln Dry 1 Stage Preheater	1 1	1996 1964 1969	50+ <sup>(6)</sup>
Total Gross <sup>(3)</sup>	3,455				
Total Net <sup>(4)</sup>	2,805				

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- (1) One short ton equals 2,000 pounds.
- (2) The amount shown represents 100% of plant capacity and production. This plant is owned by a separate limited partnership in which the Company has a 50% interest.
- (3) Generally, a plant's cement grinding production capacity is greater than its clinker production capacity.
- (4) Net of partner's 50% interest in the Buda, Texas plant.
- (5) Owned reserves.
- (6) Includes both owned and leased reserves.

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Our net cement production, including our 50% share of the cement Joint Venture production, totaled 2.3 million tons in fiscal 2011 and 2.4 million tons in fiscal 2010. Total net cement sales, including our 50% share of cement sales from the Joint Venture, were 2.5 million tons in both fiscal 2011 and fiscal 2010. The Joint Venture also owns a minority interest in an import terminal in Houston, Texas and can purchase up to 495,000 short tons annually from the cement terminal.

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

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

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

Location	Number of Plants	Number of Trucks
Northern California	3	42
Austin, Texas	6	83
<b>Total</b>	<b>9</b>	<b>125</b>

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

Location	Types of Aggregates	Estimated Annual Production Capacity (Thousand tons)	Estimated Minimum Reserves (Years)
Northern California	Sand and Gravel	4,000	100+ <sup>(1)</sup>
Austin, Texas	Limestone	3,000	50+ <sup>(2)</sup>
<b>Total</b>		<b>7,000</b>	

<sup>(1)</sup> Owned reserves through various subsidiaries.

<sup>(2)</sup> Leased reserves.

Our total net aggregate sales were 2.6 million tons in fiscal 2011 and 2.3 million tons in fiscal 2010. Total aggregates production was 2.7 million tons for both fiscal 2011 and fiscal 2010. A portion of our total aggregates production is used internally by our readymix concrete operations, both in Texas and California.

**Raw Materials and Fuel Supplies**

**Cement.** The principal raw material used in the production of portland cement is calcium carbonate in the form of limestone. Limestone is obtained principally through mining and extraction operations conducted at quarries that we own or lease and are located in close proximity to our plants. We believe that the estimated recoverable limestone reserves owned or leased by us will permit each of our plants to operate at our present production capacity for at least 30 years. Other raw materials used in substantially smaller quantities than limestone are sand, clay, iron ore and gypsum. These materials are readily available and can either be obtained from Company-owned or leased reserves or purchased from

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outside suppliers. All of the limestone reserves are deemed to be probable under the definition provided by Industry Guide 7.

Coal and petroleum coke are the primary fuels used in our cement plants, but the plants are equipped to burn natural gas as an alternative. The cost of delivered coal and petroleum coke rose in fiscal 2011 as compared to fiscal 2010. We have not used hazardous waste-derived fuels in any of our plants. Electric power is also a major cost component in our manufacturing process and we have sought to diminish overall power costs by

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adopting interruptible power supply agreements at certain locations. These agreements may expose us to some production interruptions during periods of power curtailment.

**Concrete and Aggregates.** We supply from our manufactured cement facilities approximately 100% and 50% of the cement requirements for our Austin and northern California concrete operations, respectively. We supply approximately 16% and 86%, respectively, of our aggregates requirements for our Austin and northern California concrete operations. We obtain the balance of our cement and aggregates requirements from multiple sources in each of these areas.

We mine and extract limestone, sand and gravel, the principal raw materials used in the production of aggregates, from quarries owned or leased by us and located near our plants. The northern California quarry is estimated to contain over one billion tons of sand and gravel reserves. The Austin, Texas quarry is covered by a lease which expires in 2060. Based on its current production capacity, we estimate our northern California and Austin, Texas quarries contain over 100 years and approximately 50 years of reserves, respectively.

**Sales and Distribution**

**Cement.** The principal sources of demand for cement are infrastructure, commercial construction and residential construction, with public works contracts comprising over 50% of total demand. Cement consumption has steadily declined since its peak in 2005, with a decline of 11% during calendar 2010 from calendar 2009. This decline is due to the general economic condition of the construction economy as well as the poor condition of state and municipal budgets. Additionally, demand for cement is seasonal, particularly in northern states where inclement winter weather often affects construction activity. Cement sales are generally greater from spring through the middle of autumn than during the remainder of the year. The impact to our business of regional construction cycles may be mitigated to some degree by our geographic diversification.

The following table sets forth certain information regarding the geographic areas served by each of our cement plants and the location of our distribution terminals in each area. We have a total of 11 cement storage and distribution terminals that are strategically located to extend the sales areas of our plants.

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

Cement is distributed directly to our customers mostly through customer pickups or by common carriers from plants or distribution terminals. We transport cement principally by rail to our storage and distribution terminals, and no single customer accounted for 10% or more of our cement segment sales during fiscal 2011. Sales are made on the basis of competitive prices in each market and, as is customary in the industry, we do not typically enter into long-term sales contracts.

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The cement industry is extremely competitive as a result of multiple domestic suppliers and the importation of foreign cement through various terminal operations. Approximately 85% of the U.S. cement industry is owned by foreign international companies. Competition among producers and suppliers of cement is

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based primarily on price, with consistency of quality and service to customers being important but of lesser significance. Price competition among individual producers and suppliers of cement within a geographic area is intense because of the fungible nature of the product. Because of cement's low value-to-weight ratio, the relative cost of transporting cement on land is high and limits the geographic area in which each company can market its products profitably; therefore, the U.S. cement industry is fragmented into regional geographic areas rather than a single national selling area. No single cement company has a distribution of plants extensive enough to serve all geographic areas, so profitability is sensitive to shifts in the balance between regional supply and demand.

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

The Portland Cement Association estimates that imports represented approximately 8% of cement used in the U.S. during calendar 2010 as compared with approximately 10% in 2009 and 12% in 2008. Based on the normal distribution of cement into the market, we believe that approximately 5% of the total consumption will consistently be served by imported cement.

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

We sell aggregates to building contractors and other customers engaged in a wide variety of construction activities. Aggregates are delivered from our aggregate plants by common carriers and customer pick-up. None of our customers accounted for 10% of our segment revenues during fiscal 2011. We are continuing our efforts to secure a rail link from our principal aggregates deposit north of Sacramento, California to supply extended markets in northern California.

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

## **Environmental Matters**

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

Four environmental issues involving the cement manufacturing industry deserve special mention. The first issue involves cement kiln dust or CKD. The federal Environmental Protection Agency ( EPA ) has been evaluating the regulatory status of CKD under the Resource Conservation and Recovery Act ( RCRA ) for a number of years. In 1999, the EPA proposed a rule that would allow states to regulate properly-managed CKD as

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a non-hazardous waste under state laws and regulations governing solid waste. In contrast, CKD that was not properly managed would be treated as a hazardous waste under RCRA. In 2002, the EPA confirmed its intention to continue to exempt properly-managed CKD from the hazardous waste requirements of RCRA. The agency announced that it would collect additional data over the next three to five years to determine if the states' regulation of CKD is effective. In May 2009, the EPA indicated that it continues to consider an approach whereby it would finalize its 1999 proposal to exempt properly-managed CKD wastes and establish protective CKD management standards; however, as of May 2011 the EPA has reported that it continues to consider comments received and is uncertain when its proposal will be finalized.

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

A second industry environmental issue involves the historical disposal of refractory brick containing chromium. Such refractory brick was formerly used widely in the cement industry to line cement kilns. We currently do not use refractory brick containing chromium, and we crush spent refractory brick which is then used as raw feed in the kiln.

A third industry environmental issue involves the potential regulation of our emission of Greenhouse Gases ( GHGs ), including carbon dioxide. The consequences of GHG emission reduction regulations for our cement operations will likely be significant because (1) the cement manufacturing process requires the combustion of large amounts of fuel to generate very high kiln temperatures, and (2) the production of carbon dioxide is a byproduct of the calcination process, whereby carbon dioxide is removed from calcium carbonate to produce calcium oxide.

In the absence of comprehensive federal legislation regulating emissions of GHGs, the EPA has taken steps that would result in the regulation of GHGs 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, on December 15, 2009, the EPA published a final rule finding that current and projected concentrations of six key GHGs in the atmosphere threaten public health and welfare. This rule, according to EPA, will trigger construction and operating permit requirements for large stationary sources, including cement plants. 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 triggers New Source Review ( NSR ) requirements for non-GHG emissions will also trigger NSR for GHG if our proposed GHG emissions exceed 75,000 tons per year. This would require the installation of controls on those GHG emissions. Effective July 1, 2011, any modification or expansion of our existing plants (or constructing a new plant) that results in an increase of our GHG emissions in excess of 100,000 tons per year will require NSR and the implementation of control requirements even if NSR is not triggered for any other pollutant. 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.

Several states have also taken measures to reduce emissions of GHGs, primarily through the planned development of GHG inventories or registries or regional GHG cap and trade programs. Many states have also joined together to form regional initiatives, which include the Regional Greenhouse Gas Initiative in the northeast, the Western Regional Climate Action Initiative and the Midwestern Greenhouse Gas Accord.

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It is not possible at this time to predict how any future legislation that may be enacted or regulations that may be adopted to address GHG emissions would impact our business. However, 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 a material adverse effect on us and our results of operations.

The fourth industry environmental issue is that the EPA has promulgated final regulations for certain Hazardous Air Pollutants ( HAPs ) for portland cement manufacturing. For specific HAPs, the final rule requires cement plants to meet certain emission and operating standards. The new rule sets limits on mercury emissions from existing Portland cement kilns and increases the stringency of emission limits for new kilns. The rule sets emission limits for total hydrocarbons, and also sets emission limits for particulate matter as a surrogate for non-volatile metal HAPs, from cement kilns of all sizes, and reduces hydrochloric acid emissions from kilns that are large emitters. The new rule takes full effect in 2013. We do not believe we would be placed at a competitive disadvantage by such rules.

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

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

## **Capital Expenditures**

**Cement.** We had capital expenditures related to compliance with environmental regulations applicable to our cement operations of \$0.4 million during fiscal 2011 and expect to spend an additional \$0.5 million during fiscal 2012.

## **GYPSUM WALLBOARD AND RECYCLED PAPERBOARD OPERATIONS**

### **Company Operations**

**Gypsum Wallboard.** We currently own five gypsum wallboard manufacturing facilities, comprising six board lines; however, we temporarily idled our gypsum manufacturing facility in Bernalillo, N.M. beginning in December 2009, due to low demand. We expect to re-open this facility when business conditions improve. There are four primary steps in the gypsum wallboard manufacturing process: (1) gypsum is mined and extracted from the ground (or, in the case of synthetic gypsum, received from a power generation company); (2) the gypsum is then calcined and converted into plaster; (3) the plaster is mixed with various other materials and water to produce a mixture known as slurry, which is extruded between two continuous sheets of recycled paperboard on a high-speed production line and allowed to harden; and (4) the sheets of gypsum wallboard are then cut to appropriate lengths, dried and bundled for sale. Gypsum wallboard is used to finish the interior walls and ceilings in residential, commercial and industrial structures.

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The following table sets forth certain information regarding our plants:

Location	Annual Gypsum Wallboard Capacity (MMSF) <sup>(1)</sup>	Estimated Minimum Gypsum Rock Reserves (years) <sup>(2)</sup>
Albuquerque, New Mexico	450	50+ <sup>(3)(4)</sup>
Bernalillo, New Mexico <sup>(8)</sup>	525	50+ <sup>(3)(4)</sup>
Gypsum, Colorado	725	25 <sup>(5)</sup>
Duke, Oklahoma	1,300	18 <sup>(5)(6)</sup>
Georgetown, South Carolina	750	57 <sup>(7)</sup>
Total	3,750	

(1) Million Square Feet ( MMSF ), subject to anticipated product mix.

(2) At 100% capacity utilization.

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

(4) Includes mining claims and leased reserves.

(5) Includes both owned and leased reserves.

(6) We anticipate that additional reserves would be available on satisfactory terms, if required.

(7) We have a sixty year supply agreement with Santee Cooper for synthetic gypsum.

(8) This plant was temporarily idled beginning in December 2009.

Our gypsum wallboard production totaled 1,695 MMSF in fiscal 2011 and 1,732 MMSF in fiscal 2010. Total gypsum wallboard sales were 1,665 MMSF in fiscal 2011 and 1,750 MMSF in fiscal 2010. Total wallboard production as a percentage of current rated capacity was approximately 50% in both fiscal 2011 and 2010. Our operating rates were consistent with industry average capacity utilization in both fiscal 2011 and fiscal 2010.

**Recycled Paperboard.** Our recycled paperboard manufacturing operation, which we refer to as Republic Paperboard Company ( Republic ), was acquired in November 2000 and is located in Lawton, Oklahoma. Our paperboard operation has a highly technologically advanced paper machine designed primarily for gypsum liner production. The paper's uniform cross-directional strength and finish characteristics facilitate the efficiencies of new high-speed wallboard manufacturing lines. Although the machine was designed primarily to manufacture gypsum liner products, we are also able to manufacture alternative products, including containerboard grades (such as linerboard and medium) and lightweight packaging grades (such as bag liner). In addition, recycled industrial paperboard grades (tube/core stock and protective angle board) are produced to maximize manufacturing efficiencies.

Our paper machine allows the paperboard operation to manufacture high-strength gypsum liner that is approximately 10-15% lighter in basis weight than generally available in the U.S. The low-basis weight product utilizes less recycled fiber to produce paper that, in turn, absorbs less moisture during the gypsum wallboard manufacturing process resulting in reduced drying time and energy (natural gas) usage. The low-basis weight paper also reduces the overall finished board weight, providing wallboard operations with more competitive transportation costs for both the inbound and outbound segments.

**Raw Materials and Fuel Supplies**

**Gypsum Wallboard.** We mine and extract natural gypsum rock, the principal raw material used in the manufacture of gypsum wallboard, from mines and quarries owned, leased or subject to mining claims owned by the Company and located near our plants. We also use synthetic gypsum at our Georgetown, South Carolina plant that we obtain through a supply agreement with Santee Cooper, a South Carolina utility company. Two leases cover the New Mexico reserves; one with the Pueblo of Zia and the second with the State of New Mexico. Gypsum ore reserves at the Gypsum, Colorado plant are contained within a total of 115 placer claims encompassing 2,300 acres. Included in this are 94 unpatented mining claims where mineral rights can be developed upon completion of permitting requirements. We currently own land with over 17 million tons of gypsum in the area of Duke, Oklahoma, with an additional 2 million tons controlled through a lease agreement. All of the gypsum reserves are deemed to be probable under the definition provided by Industry Guide 7. Other gypsum deposits are located near the plant in Duke, which we believe may be obtained at reasonable cost when needed. We are currently in the fourth year of a sixty year supply agreement (original twenty

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year term with two twenty year extension options) with a public utility in South Carolina for our synthetic gypsum. Based on the size

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of the power plant, it is anticipated that the power plant will produce adequate gypsum for the foreseeable future to satisfy our operating needs. If the utility is unable to provide the agreed-upon amount of gypsum, it is responsible for providing gypsum from a third party to fulfill its obligations.

Through our modern low cost paperboard mill we manufacture sufficient quantities of paper necessary for our gypsum wallboard production. Paper is a significant cost component in the manufacture of gypsum wallboard, currently representing approximately one-third of our cost of production.

Our gypsum wallboard manufacturing operations use large quantities of natural gas and electrical power. A significant portion of the Company's natural gas requirements for our gypsum wallboard plants are currently provided by four gas producers under gas supply agreements expiring in March 2012 for Colorado and New Mexico and May 2011 for Oklahoma and South Carolina. If the agreements are not renewed, we expect to be able to obtain our gas supplies from other suppliers at competitive prices. Electrical power is supplied to our New Mexico plants at standard industrial rates by a local utility. Our Albuquerque plant utilizes an interruptible power supply agreement, which may expose it to some production interruptions during periods of power curtailment. Power for our Gypsum, Colorado facility is generated at the facility by a cogeneration power plant that we own. Currently, the cogeneration power facility supplies power and waste hot gases for drying to the gypsum wallboard plant. We do not sell any power to third parties. Gas costs represented approximately 12% of our production costs in fiscal 2011.

**Recycled Paperboard.** The principal raw materials are recycled paper fiber (recovered waste paper), water and specialty paper chemicals. The largest waste paper source used by the operation is old cardboard containers (known as OCC). A blend of high grades (white papers consisting of ink-free papers such as news blank and unprinted papers) is used in the gypsum liner facing paper and white top containerboard grades.

We believe that an adequate supply of OCC recycled fiber will continue to be available from sources located within a 600 mile radius of the paper mill. The majority of the recycled fiber purchased is delivered via truck, with occasional limited amounts received by rail. Prices are subject to market fluctuations based on generation of material (supply), demand and the presence of the export market. The current outlook for fiscal year 2012 is for waste paper prices to decrease slightly relative to fiscal year 2011 but to remain elevated above historic pricing. Current gypsum liner customer contracts include price escalators that partially offset/compensate for changes in raw material fiber prices.

The chemicals used in the paper making operation, including size, retention aids, dry strengths additives, biocides and bacteria controls, are readily available from several manufacturers at competitive prices. We continue to source the majority of these chemicals from a supplier with whom we have had an established business relationship since 2004.

The manufacture of recycled paperboard involves the use of large volumes of water in the production process. An agreement exists with the City of Lawton municipal services for supply of water to Republic. Electricity, natural gas and other utilities are available to us at either contracted rates or standard industrial rates in adequate supplies. These utilities are subject to standard industrial curtailment provisions.

Paperboard operations are generally large consumers of energy, primarily natural gas and electricity. During fiscal 2011, natural gas pricing was slightly decreased from fiscal year 2010 as efforts continued to source favorable NYMEX and Basis opportunities. Natural gas pricing was impacted by increased transportation costs from the transportation service company. Upward movement in natural gas pricing has a negative impact on production costs and operating earnings. The paper mill is subject to an electricity supply agreement with Public Service of Oklahoma (PSO); however, this power company has a large dependency on natural gas, which could impact our electricity rates. Oklahoma is a regulated state for electricity services and as such all rate change requests must be presented to the Oklahoma Corporation Commission for review and approval before implementation.

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### **Sales and Distribution**

**Gypsum Wallboard.** The principal sources of demand for gypsum wallboard are (i) residential construction, (ii) repair and remodeling, (iii) non-residential construction, and (iv) other markets such as exports and manufactured housing, which we estimate accounted for approximately 35%, 55%, 8% and 2%, respectively, of calendar 2010 industry sales. The gypsum wallboard industry remains highly cyclical; and closely follows construction industry cycles, particularly housing construction. Demand for wallboard can be seasonal and is generally greater from spring through the middle of autumn.

We sell gypsum wallboard to numerous building materials dealers, gypsum wallboard specialty distributors, lumber yards, home center chains and other customers located throughout the United States. Gypsum wallboard is sold on a delivered basis, mostly by truck. We generally utilize third-party common carriers for deliveries. Two customers with multiple shipping locations accounted for approximately 20% of our total gypsum wallboard sales during fiscal 2011. The loss of these customers could have a material adverse effect on the financial results of the gypsum wallboard segment.

Although gypsum wallboard is distributed principally in local areas, certain industry producers (including the Company) have the ability to ship gypsum wallboard by rail outside their usual regional distribution areas to regions where demand is strong. We own or lease 140 railcars for transporting gypsum wallboard. In addition, in order to facilitate distribution in certain strategic areas, we maintain a distribution center in New Mexico and two reload yards in California. Our rail distribution capabilities permit us to service customers in markets on both the east and west coasts. During fiscal 2011, less than 5% of our sales volume of gypsum wallboard was transported by rail. Equipment availability for truck shipments is expected to be in tight supply during fiscal 2012.

There are eight manufacturers of gypsum wallboard in the U.S. operating a total of approximately 60 plants. We estimate that the three largest producers - USG Corporation, National Gypsum Company and Koch Industries - account for approximately 60% of gypsum wallboard sales in the U.S. Due to the commodity nature of the product, competition is based principally on price, which is highly sensitive to changes in supply and demand. Product quality and customer service are also important to the customer.

Currently, wallboard production capacity in the United States is estimated at approximately 34 billion square feet per year. One new competitive plant is expected to be added in North Carolina during calendar year 2011. The Gypsum Association, an industry trade group, estimates that total calendar 2010 gypsum wallboard shipments by U.S. manufacturers were approximately 17.0 billion square feet, resulting in average industry capacity utilization in calendar 2010 of approximately 50%.

**Recycled Paperboard.** Our manufactured recycled paperboard products are sold primarily to gypsum wallboard manufacturers. During fiscal 2011, approximately 33% of the recycled paperboard sold by the paper mill was consumed by the Company's gypsum wallboard manufacturing operations, approximately 12% was sold to CertainTeed, pursuant to a paper supply contract (the CertainTeed Agreement), and the remainder was shipped to other gypsum liner manufacturers, bag producers, containerboard consumers and other manufacturers. The existing CertainTeed Agreement was originally entered into by Republic Paperboard and James Hardie Gypsum, Inc. in 1999; however, the James Hardie North American gypsum wallboard operations were acquired by BPB Gypsum, whose operations were then purchased during fiscal 2006 by St. Gobain. St. Gobain's North American operations conduct business under the CertainTeed trade name. The loss of CertainTeed as a customer or a termination or reduction of CertainTeed's production of gypsum wallboard, unless replaced by a commercially similar arrangement, could have a material adverse effect on the Company.

### **Environmental Matters**

**Gypsum Wallboard.** The gypsum wallboard industry is subject to numerous federal, state and local laws and regulations pertaining to health, safety and the environment. Some of these laws, such as the federal Clean Air Act and the federal Clean Water Act (and analogous state laws), impose environmental permitting requirements and govern the nature and amount of emissions that may be generated when conducting particular operations. Some laws, such as CERCLA (and analogous state laws), impose obligations to clean up or remediate

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spills of hazardous materials into the environment. Other laws require us to reclaim certain land upon completion of extraction and mining operations in our quarries. None of our gypsum wallboard operations is the subject of any local, state or federal environmental proceedings or inquiries. We do not, and have not, used asbestos in any of our gypsum wallboard products.

The EPA recently 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 Resource Conservation and Recovery Act ( RCRA ) (the subtitle that regulates hazardous waste). However, under this proposal, beneficial use of coal combustion products, including synthetic gypsum used in the manufacture of wallboard, would continue to be exempt from Subtitle C of RCRA under the Bevill Amendment and not warrant federal 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. Because the EPA s proposals must go through a public comment period before becoming final, it is not possible to accurately estimate how any final rule would impact our business or which regulation 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.

Our gypsum wallboard manufacturing process combusts a significant amount of fuel, especially natural gas, and our operations could therefore be subject to future regulation of greenhouse gas ( GHG ) emissions. For a more detailed discussion of this issue, see the Environmental Matters section of our cement business description on pages 5-7.

Although our gypsum wallboard operations could be adversely affected by federal, regional or state climate change initiatives, at this time, it is not possible to accurately estimate how future laws or regulations addressing GHG emissions would impact our business. However, 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 gypsum wallboard manufacturing industry and a material adverse effect on the financial results of our operations.

***Recycled Paperboard.*** Prior to November 2000, our now closed Commerce City, Colorado paper mill (the Commerce City Mill ) had investigated the presence of subsurface petroleum hydrocarbons at the mill site and had retained an environmental consultant who concluded that fuel oil, jet fuel, and gasoline additives had migrated into the subsurface of the property from an adjacent property. As a result of an additional subsequent investigation by the Commerce City Mill, new environmental conditions were uncovered that appear to stem from underground storage tank use on the mill site. The Commerce City Mill and a former owner of the Commerce City Mill have entered into a participation agreement with the Division of Oil and Public Safety of the Colorado Department of Labor and Employment (the Oil Division ) to respond to those conditions that appear to stem from historic underground storage tank use. Under the participation agreement, the Commerce City mill will pay 25% (with the former owner paying 75%) of the costs associated with the investigation and remediation efforts approved by both parties. The former owner and we have each approved and submitted to the Colorado Oil Division a Corrective Action Plan (the CAP ) for the removal of the subsurface petroleum hydrocarbon at the Commerce City Mill. The CAP was approved by the Colorado Oil Division in calendar 2002. All remediation has been completed, and we have received a No Further Action Letter from the State of Colorado.

**Capital Expenditures**

***Gypsum Wallboard and Recycled Paperboard.*** We had no capital expenditures related to compliance with environmental regulations applicable to our gypsum wallboard and recycled paperboard operations during fiscal 2011, and we do not expect any material capital expenditures during fiscal 2012.

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### **EMPLOYEES**

As of March 31, 2011, we had approximately 1,350 employees, of which 350 were employed under collective bargaining agreements and various supplemental agreements with local unions.

### **WHERE YOU CAN FIND MORE INFORMATION**

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports available free of charge through the investor relations page of our website, located at [www.eaglematerials.com](http://www.eaglematerials.com) as soon as reasonably practicable after they are filed with or furnished to the SEC. This reference to our website is merely intended to suggest where additional information may be obtained by investors, and the materials and other information presented on our website are not incorporated in and should not otherwise be considered part of this Report. Alternatively, you may contact our investor relations department directly at (214) 432-2000 or by writing to Eagle Materials Inc., Investor Relations, 3811 Turtle Creek Blvd., Suite 1100, Dallas, Texas 75219.

### **ITEM 1A. RISK FACTORS**

*The foregoing discussion of our business and operations should be read together with the risk factors set forth below. They describe various risks and uncertainties to which we are or may become subject, many of which are outside of our control. These risks and uncertainties, together with other factors described elsewhere in this Report, have affected, or may in the future affect, our business, operations, financial condition and results of operations in a material and adverse manner.*

***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 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.

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***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, including the current economic recession. 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.

***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 Greenhouse Gases ( GHG s) are in various phases of discussions or implementation at the international, national, regional and state levels. In addition, the EPA has taken steps that would result in the regulation of GHGs 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, on December 15, 2009, the EPA published a final rule finding that emissions of GHGs from automobiles endanger public health and welfare and it proposed a rule to limit GHG emissions from automobiles. This rule, according to the EPA, will trigger construction and operating permit requirements for large stationary sources, including cement plants. 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 triggers New Source Review ( NSR ) requirements for non-GHG emissions will also trigger NSR for GHG if our proposed GHG emissions exceed 75,000 tons 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 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

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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 the 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 and sulfur dioxide from cement kilns of all sizes and would reduce hydrochloric acid emissions from kilns that are large emitters. The PC MACT takes full effect in 2013, although there is an opportunity for a one-year delay under certain circumstances. This rule 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.

***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.

***Increases in interest rates could adversely affect demand for our products, which would have an adverse effect on our results of operations.***

Our business is significantly affected by the movement of interest rates. Interest rates have a direct impact on the level of residential, commercial and infrastructure construction activity. Higher interest rates could result in decreased demand for our products, which would have a material adverse effect on our business and results of operations. In addition, increases in interest rates could result in higher interest expense related to borrowings under our credit facilities.

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***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 are expected to 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 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;

Pay dividends and make other restricted payments;

Make investments, loans, advances or guarantees;

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Encumber the assets of the Company and its restricted subsidiaries;

Enter into transactions with our affiliates.

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In addition, these agreements require us to meet and maintain certain financial ratios and tests, which may require that we take action to reduce our debt or to act in a manner contrary to our business objectives. Events beyond our control, including the severity and duration of the current industry downturn and changes in general business and economic conditions, may impair our ability to comply with these covenants or meet those financial ratios and tests. A breach of any of these covenants or failure to maintain the required ratios and meet the required tests may result in an event of default under those agreements. This may allow the lenders under those agreements to declare all amounts outstanding thereunder to be immediately due and payable, terminate any commitments to extend further credit to us and pursue other remedies available to them under the applicable agreements. If this occurs, our indebtedness may be accelerated and we may not be able to refinance the accelerated indebtedness on favorable terms, or at all, or repay the accelerated indebtedness.

### ***Our production facilities may experience unexpected equipment failures, catastrophic events and scheduled maintenance.***

Interruptions in our production capabilities may cause our productivity and results of operations to decline significantly during the affected period. Our manufacturing processes are dependent upon critical pieces of equipment. Such equipment may, on occasion, be out of service as a result of unanticipated events such as fires, explosions, violent weather conditions or unexpected operational difficulties. We also have periodic scheduled shut-downs to perform maintenance on our facilities. Any significant interruption in production capability may require us to make significant capital expenditures to remedy problems or damage as well as cause us to lose revenue due to lost production time, which could have a material adverse effect on our results of operations and financial condition.

### ***Pension assets and costs associated with employee benefit plans generally are affected by economic and market conditions.***

The current economic environment could negatively impact the fair value of pension assets, which could increase future funding requirements to our pension trusts. More generally, our costs are significantly affected by expenses related to our employee benefit plans. The recognition of costs and liabilities associated with these plans for financial reporting purposes is affected by assumptions made by management and used by actuaries engaged by us to calculate the projected and accumulated benefit obligations and the annual expense recognized for these plans. Economic and market factors and conditions could affect any of these assumptions and may affect our estimated and actual employee benefit plan costs and our results of operations.

### ***Inflation and increases in interest rates could adversely affect our business and demand for our products, which would have an adverse effect on our results of operations.***

Our business is significantly affected by the movement of interest rates. Interest rates have a direct impact on the level of residential, commercial and infrastructure construction activity by impacting the cost of borrowed funds to builders. Higher interest rates could result in decreased demand for our products, which would have a material adverse effect on our business and results of operations. In addition, increases in interest rates could result in higher interest expense related to borrowings under our credit facilities. Inflation can result in higher interest rates. With inflation, the costs of capital increase, and the purchasing power of our cash resources can decline. Current or future efforts by the government to stimulate the economy may increase the risk of significant inflation and its direct and indirect adverse impact on our business and results of operations.

### ***This report includes various forward-looking statements, which are not facts or guarantees of future performance and which are subject to significant risks and uncertainties.***

This report and other materials we have filed or will file with the SEC, as well as information included in oral statements or other written statements made or to be made by us, contain or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. You can identify these statements by the fact that they do not relate to matters of a strictly factual or historical nature and generally discuss or relate to forecasts, estimates or other expectations regarding future events. Generally, the words believe, expect, intend,

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estimate, anticipate, project, may, can, could, might, will and similar expressions identify forward-looking statements, including statements related to expected operating and performing results, planned transactions, plans and objectives of management, future developments or conditions in the industries in which we participate, including future prices for our products, audits and legal proceedings to which we are a party and other trends, developments and uncertainties that may affect our business in the future.

Forward-looking statements are not historical facts or guarantees of future performance but instead represent only our beliefs at the time the statements were made regarding future events, which are subject to significant risks, uncertainties, and other factors, many of which are outside of our control. Any or all of the forward-looking statements made by us may turn out to be materially inaccurate. This can occur as a result of incorrect assumptions, changes in facts and circumstances or the effects of known risks and uncertainties. Many of the risks and uncertainties mentioned in this report or other reports filed by us with the SEC, including those discussed in the risk factor section of this report, will be important in determining whether these forward-looking statements prove to be accurate. Consequently, neither our stockholders nor any other person should place undue reliance on our forward-looking statements and should recognize that actual results may differ materially from those that may be anticipated by us.

All forward-looking statements made in this report are made as of the date hereof, and the risk that actual results will differ materially from expectations expressed in this report will increase with the passage of time. We undertake no obligation, and disclaim any duty, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changes in our expectations or otherwise.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

There are no unresolved Staff comments.

### **ITEM 2. PROPERTIES**

We operate cement plants, quarries and related facilities at Buda, Texas; LaSalle, Illinois; Fernley, Nevada and Laramie, Wyoming. The Buda plant is owned by a partnership in which we have a 50% interest. Our principal aggregate plants and quarries are located near Austin, Texas and Marysville, California. In addition, we operate gypsum wallboard plants in Albuquerque, New Mexico; Gypsum, Colorado; Duke, Oklahoma; and in Georgetown, South Carolina. We produce recycled paperboard at Lawton, Oklahoma. None of our facilities are pledged as security for any debts. We also have a gypsum wallboard plant in Bernalillo, New Mexico that we temporarily idled beginning in December 2009. We expect to re-open this facility when business conditions improve. See Item 1. Business on pages 2-12 of this Report for additional information relating to the Company's properties.

### **ITEM 3. LEGAL PROCEEDINGS**

We are a party to certain ordinary legal proceedings incidental to our business. In general, although the outcome of litigation is inherently uncertain, we believe that all of the pending litigation proceedings in which the Company or any subsidiary 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 proposes 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 is 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

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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 (H) 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 ). NCC had previously responded to an EPA request for information pursuant to Section 114 of the 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 although it 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 substantial meritorious defenses to the allegations in the NOV. NCC met with the EPA in December 2010 to present its defenses and is working to negotiate 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. As a part of a settlement, or should NCC fail in its defense in any enforcement action, 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 many 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.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES  
STOCK PRICES AND DIVIDENDS**

As of May 20, 2011, there were approximately 2,400 holders of record of our Common Stock which trades on the New York Stock Exchange under the symbol EXP.

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

Quarter ended:	Fiscal Year Ended March 31, 2011			Fiscal Year Ended March 31, 2010		
	High	Low	Dividends	High	Low	Dividends
June 30	\$ 32.79	\$ 26.92	\$ 0.10	\$ 29.00	\$ 22.32	\$ 0.10
September 30	\$ 26.76	\$ 21.79	\$ 0.10	\$ 29.73	\$ 22.72	\$ 0.10
December 31	\$ 28.73	\$ 22.74	\$ 0.10	\$ 29.75	\$ 25.00	\$ 0.10
March 31	\$ 32.50	\$ 27.44	\$ 0.10	\$ 26.85	\$ 22.18	\$ 0.10

The Dividends section of Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations is hereby incorporated by reference into this Part II, Item 5.

**SHARE REPURCHASES**

Our Board of Directors has approved the repurchase of a cumulative total of 31,610,605 shares of our Common Stock since we became publicly held in April 1994. On November 7, 2006, the Board of Directors authorized us to repurchase up to an additional 5,156,800 shares, for a total authorization, as of that date, of 6,000,000 shares, of which 717,300 remain eligible for purchase at March 31, 2011. We did not repurchase any shares during the fiscal years ended March 31, 2011, 2010 and 2009.

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 may be determined by our management, based on its evaluation of market and economic conditions and other factors. Repurchases may also be effected pursuant to plans or instructions that meet the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934.

During fiscal 2011, we reacquired shares of stock from an employee upon the exercise of stock options that were granted under our Incentive Plan. These shares were surrendered by the employee and reacquired by us to satisfy the employee's exercise price and minimum statutory tax withholding, which is required upon the exercise of stock options and the surrendered shares are shown in the following table:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
January 1 through January 31, 2011		\$		
February 1 through February 28, 2011				
March 1 through March 31, 2011	38,818	32.50		
Quarter 4 Totals	38,818	\$ 32.50		717,300

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

**Table of Contents****PERFORMANCE GRAPH**

*The following performance graph and related information shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.*

The graph below compares the cumulative 5-year total return to holders of common stock with the cumulative total returns of the Russell 1000 index and the Dow Jones US Building Materials & Fixtures index. The graph assumes that the value of the investment in the Company's common stock and in each of the indexes (including the reinvestment of dividends) was \$100 on March 31, 2006 and tracks it through March 31, 2011.

	2006	2007	2008	2009	2010	2011
Eagle Materials, Inc.	100.00	71.25	57.94	40.59	45.12	52.21
Russell 1000	100.00	111.84	105.79	65.31	99.01	115.54
Dow Jones US Building Materials & Fixtures	100.00	105.38	87.93	48.72	77.40	94.94

*The stock price performance included in this graph is not necessarily indicative of future stock price performance.*

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**  
**SUMMARY OF SELECTED FINANCIAL DATA <sup>(1)</sup>**

(amounts in thousands, except per share data)

	<b>For the Fiscal Years Ended March 31,</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net Revenues	\$ 462,180	\$ 467,905	\$ 598,580	\$ 748,023	\$ 917,854
Earnings Before Income Taxes	16,762 <sup>(2)</sup>	39,297 <sup>(2)</sup>	62,183	144,384	304,288
Net Earnings	14,849 <sup>(3)</sup>	28,950 <sup>(3)</sup>	41,764	97,768	202,664
Diluted Earnings Per Share	0.34	0.66	0.95	2.12	4.07
Cash Dividends Per Share	0.40	0.40	0.60	0.80	0.70
Total Assets	982,810	1,013,776	1,066,668	1,117,721	971,410
Total Debt	287,000	303,000	355,000	400,000	200,000
Stockholders' Equity	459,564	451,647	434,112	411,972	546,046
Book Value Per Share At Year End	\$ 10.34	\$ 10.30	\$ 9.96	\$ 9.49	\$ 11.40
Average Diluted Shares Outstanding	44,251	44,038	43,879	46,145	49,787

- <sup>(1)</sup> The Summary of Selected Financial Data should be read in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements for matters that affect the comparability of the information presented above.
- <sup>(2)</sup> During fiscal 2011 and 2010, we wrote-off \$10,701 and \$2,458, respectively, primarily related to the write-off of deferred project costs associated with our decision not to proceed with the expansion and modernization of our Nevada Cement (2011) and Mountain Cement (2010) facilities. Excluding these write-offs, our Earnings Before Income Taxes would have been \$27,463 and \$31,498 in fiscal 2011 and 2010, respectively.
- <sup>(3)</sup> Excluding the impact of the write-offs discussed in note 2 above, Net Earnings would have been \$19,746 and \$23,214 in 2011 and 2010, respectively. These amounts were calculated using the effective tax rates of 28.1% in fiscal 2011 and 26.3% in fiscal 2010.

**Table of Contents****ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
EXECUTIVE SUMMARY**

Eagle Materials Inc. is a diversified producer of basic building materials and construction products used in residential, industrial, commercial and infrastructure construction. We operate in four business segments: cement, gypsum wallboard, recycled paperboard, and concrete and aggregates, with Cement and Gypsum Wallboard 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. Certain information for each of Concrete and Aggregates is broken out separately in the segment discussions.

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 accounts for its interest under the equity method of accounting. However, for purposes of the Cement segment information presented, we proportionately consolidate our 50% share of the Joint Venture's revenues and operating earnings, which is the way management organizes the segments within the Company for making operating decisions and assessing performance. See Note (F) of the Notes to the Consolidated Financial Statements for additional segment information.

**RESULTS OF OPERATIONS****Fiscal Year 2011 Compared to Fiscal Year 2010**

	For the Years Ended March 31,		Change
	2011	2010	
	(in thousands, except per share)		
Revenues <sup>(1)</sup>	\$ 579,355	\$ 574,932	1%
Operating Costs <sup>(1)</sup>	(519,545)	(498,902)	4%
Other Operating Income, net	840	3,161	(73%)
Operating Earnings	60,650	79,191	(23%)
Corporate General and Administrative	(16,667)	(15,886)	5%
Other Corporate Expenses	(10,701)	(2,548)	320%
Interest Expense, net	(16,520)	(21,460)	(23%)
Earnings Before Income Taxes	16,762	39,297	(57%)
Income Taxes	(1,913)	(10,347)	(82%)
Net Earnings	\$ 14,849	\$ 28,950	(49%)
Diluted Earnings per Share	\$ 0.34	\$ 0.66	(48%)

<sup>(1)</sup> Includes intersegment revenues and our proportionate share of our Joint Venture. See Footnote (F) to the Consolidated Financial Statements for more information.

**Revenues.** Consolidated revenues for fiscal 2011 increased slightly from fiscal 2010. The increase was due primarily to increased revenues for our paperboard business, which resulted primarily from higher average sales prices. Increases in the paperboard sales revenues were slightly offset by decreases in cement, wallboard and concrete and aggregates, whose revenues declined primarily due to lower average sales prices. The decline in average sales prices from our cement and wallboard segments was due primarily to the continued depressed levels of demand in the residential and commercial sectors, which has been adversely impacted by the decline in the overall economic environment in the United States.



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**Operating Costs.** Operating costs increased during fiscal 2011, as compared to 2010, principally due to increased sales volume for our cement business and increased raw material costs for our paperboard business. The increased raw material costs for our paperboard business related primarily to increased fiber and fiber freight costs, offset slightly by decreased natural gas costs.

**Other Operating Income, net.** Other income consists of a variety of items that are non-segment operating in nature and includes non-inventoried aggregates income, gypsum wallboard distribution center income, asset sales and other miscellaneous income and cost items. Other income declined in fiscal 2011 as compared to fiscal 2010, as we realized a gain on the sale of land of approximately \$2.5 million during fiscal 2010.

**Operating Earnings.** Operating earnings declined during fiscal 2011, as compared to fiscal 2010, primarily due to the increase in operating expenses and reduction in other income. The increase in operating expenses was offset partially by the increase in net revenues.

**Corporate General and Administrative.** Corporate general and administrative expenses for fiscal 2011 increased to \$16.7 million from \$15.9 million in fiscal 2010. The increase in corporate general and administrative expense in fiscal 2011, as compared to fiscal 2010, was primarily the result of increased long-term incentive compensation and benefits costs, primarily related to stock compensation and profit sharing.

**Other Non-Operating Expense.** During fiscal 2011, we determined that we would not move forward with the planned expansion of Nevada Cement Company. This decision was based on the economic impact of new environmental regulations combined with the challenging market conditions in northern Nevada and Northern California. As a result of this decision, we wrote-off approximately \$8.9 million during fiscal 2011. The remaining expense consists of the write-down of unused aggregate equipment at our Texas operation and other miscellaneous write-downs. In the prior year, the \$2.5 million included in this account related to costs written-off after we decided not to proceed with the modernization of our Mountain Cement facility.

**Interest Expense, Net.** Net interest expense of \$16.5 million for fiscal 2011 decreased from the \$21.5 million incurred in fiscal 2010. The decrease in net interest expense is related to decreased borrowings during the period, primarily in connection with early repayment of \$15 million of private placement debt in April, and lower average borrowings throughout the year on our line of credit. Interest expense was also favorably impacted due to an interest credit of approximately \$2.0 million due to our ability to participate in several state tax amnesty programs with respect to our unrecognized tax benefit.

**Income Taxes.** The effective tax rate declined to 11.4% for fiscal 2011 from 26.3% during fiscal 2010. The reduction in the tax rate is due primarily to the application of the deposits to payments and the filing of amended state returns; we were able to deduct certain items paid for state and federal taxes during the year, which provided a tax benefit of approximately \$2.8 million during fiscal 2011. See Footnote (G) of the Consolidated Financial Statements for more information.

**Net Earnings and Diluted Earnings per Share.** Fiscal 2011 net earnings of \$14.8 million decreased 49% from net earnings of \$29.0 million in fiscal 2010. Diluted earnings per share in fiscal 2011 of \$0.34 were 48% lower than the \$0.66 for fiscal 2010.

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

	For the Years Ended March 31, 2011                      2010 (in thousands, except net sales prices)		Percentage Change
<b>Revenues <sup>(1)</sup></b>			
Cement <sup>(2)</sup>	\$ 225,784	\$ 228,475	(1%)
Gypsum Wallboard	204,560	210,671	(3%)
Recycled Paperboard	104,775	90,164	16%
Concrete and Aggregates	44,236	45,622	(3%)
<b>Gross Revenues</b>	<b>\$ 579,355</b>	<b>\$ 574,932</b>	<b>1%</b>
<b>Sales Volume</b>			
Cement (M Tons) <sup>(2)</sup>	2,541	2,467	3%
Gypsum Wallboard (MMSF)	1,665	1,750	(5%)
Recycled Paperboard (M Tons)	216	215	
Concrete (M Yards)	475	461	3%
Aggregates (M Tons)	2,564	2,318	11%
<b>Average Net Sales Prices <sup>(3)</sup></b>			
Cement <sup>(2)</sup>	\$ 80.83	\$ 85.59	(6%)
Gypsum Wallboard	91.79	92.10	
Recycled Paperboard	483.03	417.28	16%
Concrete	62.77	67.23	(7%)
Aggregates	5.61	6.29	(11%)
<b>Operating Earnings</b>			
Cement <sup>(2)</sup>	\$ 45,688	\$ 58,007	(21%)
Gypsum Wallboard	1,242	1,383	(10%)
Recycled Paperboard	12,086	14,805	(18%)
Concrete and Aggregates	794	1,835	(57%)
Other Operating Income, net	840	3,161	(73%)
<b>Operating Earnings</b>	<b>\$ 60,650</b>	<b>\$ 79,191</b>	<b>(23%)</b>

(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.** Revenues declined slightly in fiscal 2011 as compared to fiscal 2010. The decline in sales revenues is due primarily to reduced average sales prices, offset slightly by increased sales volumes during fiscal 2011 as compared to fiscal 2010. The decline in average sales prices during fiscal 2011 as compared to fiscal 2010 was consistent across all markets, except the Texas market where average sales prices were relatively stable, and were primarily due to continued weakness in demand in our markets. The decline in revenues and average sales prices was the primary reason operating earnings declined by 21% in fiscal 2011, as compared to fiscal 2010. Operating costs remained relatively flat during fiscal 2011, as compared to fiscal 2010, with increases in fuel costs being offset by decreases in power costs.

**Gypsum Wallboard Operations.** Sales revenues declined 3% during fiscal 2011 as compared to fiscal 2010, primarily due to the reduction in sales volumes, as average net sales prices remained relatively flat. The decline in sales volumes is primarily due to weak residential construction and the decline in commercial construction. Sharp declines in demand have reduced the consumption of gypsum wallboard by more than 50% since its peak in calendar 2005. Operating earnings, despite declining 10% in fiscal 2011 as compared to fiscal 2010, were relatively flat in terms of the dollar amount of operating earnings. The decline in operating earnings was due primarily to reduced sales volume, primarily in the fourth quarter of fiscal 2011 as compared to the fourth quarter of fiscal 2010.



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***Recycled Paperboard Operations.*** The increase in net revenue during fiscal 2011 as compared to fiscal 2010 is due primarily to the increase in average net sales price. The increase in the average net sales price per ton during 2011 as compared to the similar periods in 2010 is primarily due to the price escalators in our long-term sales agreement. Despite the increase in net revenues, operating earnings decreased 18% for fiscal 2011 as compared to fiscal 2010, primarily due to decreases in the percentage of higher margin gypsum paper sales and increases in the cost of recycled fiber, our primary raw material. The decline in the sales of gypsum paper is due primarily to the overall decline in the gypsum wallboard market. During fiscal 2011, sales of gypsum paper declined to 47% of total paperboard sales from 51% during fiscal 2010 and the cost of recycled fiber increased 64% from \$114 per ton to \$188 per ton as OCC remained elevated throughout the fiscal year.

***Concrete and Aggregates Operations.*** Concrete and aggregate revenues declined slightly in fiscal 2011 as compared to 2010. The decrease was due primarily to lower average net sales prices, offset slightly by increased sales volumes. Sales volumes increased 3% and 11% for concrete and aggregates in fiscal 2011 as compared to fiscal 2010, respectively. The increase in volume of aggregates sold was primarily due to increased sales in the Texas market, which generally have a lower average sales price than the northern California market. The decline in revenue and average net sales price also had an adverse impact on operating earnings during fiscal 2011, as did the change in sales mix to a higher percentage of base material.

**GENERAL OUTLOOK**

Calendar 2010 was a very difficult year economically in the United States, particularly in the building materials and construction products businesses. Commercial and residential construction activity remains at cyclic low levels and infrastructure spending has been less than anticipated. Although we anticipate the administration will continue to address the current economic crises during calendar 2011, there can be no assurance as to the actual impact that these actions will have on our business, financial condition or results of operations. Many of the states that comprise our markets are experiencing budget deficits, and have reduced infrastructure spending in response to these shortfalls. We do not expect a significant increase in government spending for infrastructure in calendar 2011.

Cement demand in all U.S. regions continues to be impacted by reduced residential housing construction, continued weakness of the commercial construction market and expanded state government budget deficits, which are expected to limit cement consumption during calendar 2011. Cement consumption in the U.S. declined during calendar year 2010, as compared to calendar year 2009. Imported cement comprised approximately 8% of the total cement consumption during calendar year 2010, which was slightly less than calendar year 2009. We anticipate cement consumption for calendar 2011 to be flat with cement consumption during calendar 2010.

We anticipate concrete and aggregate sales prices and sales volumes will remain at historically low levels as demand for residential and infrastructure projects in both of our markets is expected to remain soft.

The U.S. wallboard industry continues to be adversely impacted by the current downturn in the residential and commercial construction markets, which has resulted in the industry operating at a utilization rate of approximately 50%. Low capacity utilization continues to negatively impact gypsum wallboard pricing. We do not anticipate wallboard consumption to improve significantly during remainder of calendar 2011.

In response to the continued uncertainty of gypsum wallboard paper demand, our recycled paperboard segment continues to exercise sales opportunities in several other markets to enable our paper operation to maximize its operating earnings. Fiber prices remain elevated, significantly impacting the cost of manufacturing and product margins. Natural gas costs are expected to remain relatively constant during fiscal year 2012. Electricity costs are expected to increase in fiscal 2012.

**Table of Contents****Fiscal Year 2010 Compared to Fiscal Year 2009**

	<b>For the Years Ended March 31,</b>		
	<b>2010</b>	<b>2009</b>	
	<b>(in thousands, except per share)</b>		<b>Change</b>
Revenues <sup>(1)</sup>	\$ 574,932	\$ 751,326	(23%)
Operating Costs <sup>(1)</sup>	(498,902)	(646,924)	(23%)
Other Operating Income, net	3,161	3,602	(12%)
Operating Earnings	79,191	108,004	(27%)
Corporate General and Administrative	(15,886)	(16,901)	(6%)
Other Corporate Expenses	(2,548)		
Interest Expense, net	(21,460)	(28,920)	(26%)
Earnings Before Income Taxes	39,297	62,183	(37%)
Income Taxes	(10,347)	(20,419)	(49%)
Net Earnings	\$ 28,950	\$ 41,764	(31%)
Diluted Earnings per Share	\$ 0.66	\$ 0.95	(31%)

<sup>(1)</sup> Includes intersegment revenues and our proportionate share of our Joint Venture. See Footnote (F) to the Consolidated Financial Statements for more information.

**Revenues.** Consolidated revenues for fiscal 2010 decreased 23% from fiscal 2009. The decrease is primarily due to lower sales volumes and average sales prices in all four of our operating segments. The decline in sales volumes and average sales prices was due primarily to the continued depressed levels of demand in the residential and commercial sectors, which continued to be adversely impacted by the decline in the overall economic environment in the United States.

**Operating Costs.** Operating costs decreased during fiscal 2010, as compared to 2009, principally due to lower production in our gypsum wallboard and cement divisions. Additionally, certain operating costs declined, both in total as well as on a per unit basis, namely fiber and electricity in our recycled paperboard division, natural gas in our recycled paperboard and gypsum wallboard divisions, and transportation in our gypsum wallboard division.

**Other Operating Income, net.** Included in net revenues are other income, which consists of a variety of items that are non-segment operating in nature and includes non-inventoried aggregates income, gypsum wallboard distribution center income, asset sales and other miscellaneous income and cost items. Other income, net totaled \$3.2 million for fiscal 2010 as compared to \$3.6 million for fiscal 2009. The majority of our other income during fiscal 2010 relates to the gain on the sale of land of approximately \$2.5 million, while other income during fiscal 2009 is due primarily to the \$2.6 million gain on sale of railcars, both by our gypsum wallboard division.

**Operating Earnings.** Operating profit declined by 27% during fiscal 2010, as compared to fiscal 2009, primarily due to lower net revenues, as described above. The decline in net revenues was offset partially by the reduction in operating expenses.

**Corporate General and Administrative.** Corporate general and administrative expenses for fiscal 2010 declined to \$15.9 million from \$16.9 million in fiscal 2009. The decrease in corporate general and administrative expense in fiscal 2010, as compared to fiscal 2009, was primarily the result of decreased incentive compensation and benefits costs due to lower operating earnings, decreased stock compensation expense and improved overhead efficiency. The decrease in stock compensation expense is due to the expensing of stock options granted in August 2008 over a seven month period ended March 31, 2009.

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**Other Non-Operating Expense.** Due to improved operational efficiencies and reduced costs at our Mountain Cement facility, we withdrew our permit application with the Wyoming Department of Environmental Quality in September 2009. As a result of withdrawing our permit, we expensed deferred costs of approximately \$2.5 million related to the planned expansion.

**Interest Expense, Net.** Net interest expense of \$21.5 million for fiscal 2010 decreased from the \$28.9 million incurred in fiscal 2009. The decrease in net interest expense is related to decreased borrowings during the period, primarily in connection with early repayment of \$100 million of private placement debt in February 2009, and lower rates on both our previous and New Credit Facility and unrecognized tax benefit throughout the year.

**Income Taxes.** The effective tax rate declined to 26.3% for fiscal 2010 from an effective tax rate of 32.8% during fiscal 2009. The decline is due primarily to the larger impact of percentage depletion and lower state income taxes on lower earnings during fiscal 2010 as compared to fiscal 2009.

**Net Earnings and Diluted Earnings per Share.** Fiscal 2010 net earnings of \$29.0 million decreased 31% from net earnings of \$41.8 million in fiscal 2009. Diluted earnings per share in fiscal 2010 of \$0.66 were 31% lower than the \$0.95 for fiscal 2009.

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

	For the Years Ended March 31,		
	2010	2009	
	(in thousands, except net sales prices)		Percentage Change
Revenues <sup>(1)</sup>			
Cement <sup>(2)</sup>	\$ 228,475	\$ 289,436	(21%)
Gypsum Wallboard	210,671	279,306	(25%)
Recycled Paperboard	90,164	116,337	(22%)
Concrete and Aggregates	45,622	66,247	(31%)
Gross Revenues	\$ 574,932	\$ 751,326	(23%)
Sales Volume			
Cement (M Tons) <sup>(2)</sup>	2,467	2,825	(13%)
Gypsum Wallboard (MMSF)	1,750	2,102	(17%)
Recycled Paperboard (M Tons)	215	232	(7%)
Concrete (M Yards)	461	611	(25%)
Aggregates (M Tons)	2,318	3,281	(29%)
Average Net Sales Prices <sup>(3)</sup>			
Cement <sup>(2)</sup>	\$ 85.59	\$ 96.03	(11%)
Gypsum Wallboard	92.10	99.17	(7%)
Recycled Paperboard	417.28	492.27	(15%)
Concrete	67.23	73.14	(8%)
Aggregates	6.29	6.57	(4%)
Operating Earnings			
Cement <sup>(2)</sup>	\$ 58,007	\$ 82,036	(29%)
Gypsum Wallboard	1,383	1,190	16%
Recycled Paperboard	14,805	16,581	(11%)
Concrete and Aggregates	1,835	4,595	(60%)
Other Operating Income, net	3,161	3,602	(12%)
Operating Earnings	\$ 79,191	\$ 108,004	(27%)

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- (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.** The decrease in revenues during fiscal 2010, as compared to fiscal 2009, is due primarily to the 13% decline in sales volume. The decline in demand adversely impacted average sales prices in

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all of our markets, resulting in a decline of 11% in average net sales price during fiscal 2010, as compared to fiscal 2009. The decline in average sales price and sales volume was most severe in our Texas and Mountain markets, which were more significantly impacted by the decline in oil well activity during fiscal 2010. The decline in revenues and sales volumes was the primary reason operating earnings declined by 29% in fiscal 2010, as compared to fiscal 2009. Operating costs remained relatively flat during fiscal 2010, as compared to fiscal 2009, with slight decreases in the cost of fuel and power and a slight increase in other purchased raw materials. Purchased cement costs also decreased; however, the percentage of purchased cement sold decreased to 2% of total cement sold in fiscal 2010 from 16% of total cement sold in fiscal 2009, with almost all of the purchased cement being sold by our joint venture.