

EAGLE MATERIALS INC
Form 10-Q
November 04, 2011
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United States
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

For the Quarterly Period Ended

September 30, 2011

Commission File Number 1-12984

Eagle Materials Inc.

Delaware

(State of Incorporation)

75-2520779

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

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

(Address of principal executive offices)

(214) 432-2000

(Registrant's telephone number)

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

Indicate by check mark whether the registrant 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

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

Large accelerated filer Accelerated filer

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

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

As of November 2, 2011, the number of outstanding shares of common stock was:

Class	Outstanding Shares
Common Stock, \$.01 Par Value	44,899,310

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Eagle Materials Inc. and Subsidiaries

Form 10-Q

September 30, 2011

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Consolidated Statements of Earnings

(dollars in thousands, except share data)

(unaudited)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2011	2010	2011	2010
Revenues	\$ 134,819	\$ 132,135	\$ 254,626	\$ 262,929
Cost of Goods Sold	126,102	118,586	238,536	232,949
Gross Profit	8,717	13,549	16,090	29,980
Equity in Earnings of Unconsolidated Joint Venture	7,936	4,160	13,384	10,672
Other Income	115	175	36	892
Operating Earnings	16,768	17,884	29,510	41,544
Corporate General and Administrative	(4,472)	(4,415)	(8,590)	(8,118)
Earnings Before Interest and Taxes	12,296	13,469	20,920	33,426
Interest Expense, Net	(4,557)	(3,148)	(9,142)	(8,438)
Earnings Before Income Taxes	7,739	10,321	11,778	24,988
Income Tax Expense	(1,714)	(691)	(2,696)	(4,831)
Net Earnings	\$ 6,025	\$ 9,630	\$ 9,082	\$ 20,157
EARNINGS PER SHARE:				
Basic	\$ 0.14	\$ 0.22	\$ 0.21	\$ 0.46
Diluted	\$ 0.14	\$ 0.22	\$ 0.20	\$ 0.46
AVERAGE SHARES OUTSTANDING:				
Basic	44,200,291	43,855,326	44,190,220	43,843,912
Diluted	44,325,277	44,169,251	44,433,809	44,200,303
CASH DIVIDENDS PER SHARE:	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20

See notes to unaudited consolidated financial statements.

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Consolidated Balance Sheets

(dollars in thousands)

	September 30, 2011 (unaudited)	March 31, 2011
ASSETS		
Current Assets -		
Cash and Cash Equivalents	\$ 10,692	\$ 1,874
Accounts and Notes Receivable	64,447	43,855
Inventories	108,156	115,237
Income Tax Receivable	6,688	9,088
Prepaid and Other Assets	2,856	4,572
Total Current Assets	192,839	174,626
Property, Plant and Equipment -	1,122,895	1,112,058
Less: Accumulated Depreciation	(536,057)	(512,228)
Property, Plant and Equipment, net	586,838	599,830
Notes Receivable	5,005	5,326
Investment in Joint Venture	35,545	33,661
Goodwill and Intangible Assets	151,221	151,539
Other Assets	18,685	17,828
	\$ 990,133	\$ 982,810
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities -		
Accounts Payable	\$ 35,285	\$ 30,339
Accrued Liabilities	42,939	40,011
Total Current Liabilities	78,224	70,350
Long-term Debt	285,000	287,000
Other Long-term Liabilities	38,097	37,807
Deferred Income Taxes	127,077	128,089
Total Liabilities	528,398	523,246
Stockholders Equity -		
Preferred Stock, Par Value \$0.01; Authorized 5,000,000 Shares; None Issued		
Common Stock, Par Value \$0.01; Authorized 100,000,000 Shares; Issued and Outstanding 44,899,310 and 44,447,428 Shares, respectively	449	444
Capital in Excess of Par Value	26,882	24,859
Accumulated Other Comprehensive Losses	(2,893)	(2,893)
Retained Earnings	437,297	437,154
Total Stockholders Equity	461,735	459,564

See notes to the unaudited consolidated financial statements.

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

Consolidated Statements of Cash Flows

(unaudited dollars in thousands)

	For the Six Months Ended September 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Earnings	\$ 9,082	\$ 20,157
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities -		
Depreciation, Depletion and Amortization	24,683	24,839
Gain on Sale of Property, Plant and Equipment		(485)
Deferred Income Tax Provision	(1,012)	4,157
Stock Compensation Expense	2,293	2,061
Excess Tax Benefits from Share Based Payment Arrangements	(30)	(375)
Equity in Earnings of Unconsolidated Joint Venture	(13,384)	(10,672)
Distributions from Joint Venture	11,500	14,250
Changes in Operating Assets and Liabilities:		
Accounts and Notes Receivable	(20,271)	(4,294)
Inventories	7,081	2,919
Accounts Payable and Accrued Liabilities	2,677	971
Other Assets	2,402	(1,864)
Income Taxes Payable	2,523	(24,701)
Net Cash Provided by Operating Activities	27,544	26,963
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, Plant and Equipment Additions	(7,516)	(5,467)
Proceeds from Sale of Property, Plant and Equipment		600
Net Cash Used in Investing Activities	7,516	(4,867)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (Decrease) in Bank Credit Facility	(2,000)	7,000
Repayment of Senior Notes		(15,000)
Dividends Paid to Stockholders	(8,975)	(8,797)
Proceeds from Stock Option Exercises	128	911
Shares Redeemed to Settle Employee Taxes on Stock Compensation	(393)	
Excess Tax Benefits from Share Based Payment Arrangements	30	375
Net Cash Used in Financing Activities	(11,210)	(15,511)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,818	6,585
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,874	1,416
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 10,692	\$ 8,001

See notes to the unaudited consolidated financial statements.

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Eagle Materials Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

September 30, 2011

(A) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements as of and for the three and six month periods ended September 30, 2011 include the accounts of Eagle Materials Inc. and its majority owned subsidiaries (the Company, us or we) and have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on May 26, 2011.

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

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

We evaluated all events or transactions that occurred after September 30, 2011 through the filing of these financial statements.

Recent Accounting Pronouncements

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

(B) CASH FLOW INFORMATION - SUPPLEMENTAL

Cash payments made for interest were \$8.9 million and \$9.0 million for the six months ended September 30, 2011 and 2010, respectively. Net payments made for federal and state income taxes during the six months ended September 30, 2011 and 2010, were \$1.2 million and \$33.5 million, respectively.

(C) COMPREHENSIVE INCOME

Comprehensive income for the six month periods ended September 30, 2011 and 2010 was identical to net income for the same periods.

As of September 30, 2011, we had an accumulated other comprehensive loss of \$2.9 million, in connection with recognizing the difference between the fair value of the pension assets and the projected benefit obligation.

Table of Contents**(D) ACCOUNTS AND NOTES RECEIVABLE**

Accounts and notes receivable have been shown net of the allowance for doubtful accounts of \$5.0 million and \$4.6 million at September 30, 2011 and March 31, 2011, respectively. We perform ongoing credit evaluations of our customers' financial condition and generally require no collateral from our customers. The allowance for non-collection of receivables is based upon analysis of economic trends in the construction industry, detailed analysis of the expected collectability of accounts receivable that are past due and the expected collectability of overall receivables. We have no significant credit risk concentration among our diversified customer base.

We had notes receivable totaling approximately \$6.2 million at September 30, 2011, of which approximately \$1.2 million has been classified as current and presented with accounts receivable on the balance sheet. We lend funds to certain companies in the ordinary course of business, and the notes bear interest, on average, at the prime rate plus 1.5%. Remaining unpaid amounts, plus accrued interest, mature on various dates between 2011 and 2017. The notes are collateralized by certain assets of the borrowers, namely property and equipment and are generally payable monthly. We monitor the credit risk of each borrower by focusing on the timeliness of payments, review of credit history and credit metrics and interaction with the borrowers. At September 30, 2011, approximately \$0.6 million of our allowance for doubtful accounts is related to our notes receivable.

(E) STOCKHOLDERS' EQUITY

A summary of changes in stockholders' equity follows:

	For the Six Months Ended September 30, 2011 (dollars in thousands)	
Common Stock		
Balance at Beginning of Period	\$	444
Stock Option Exercises		5
Balance at End of Period	\$	449
Capital in Excess of Par Value		
Balance at Beginning of Period		24,859
Stock Compensation Expense		2,293
Shares Redeemed to Settle Employee Taxes		(393)
Stock Option Exercises		123
Balance at End of Period		26,882
Retained Earnings		
Balance at Beginning of Period		437,154
Dividends Declared to Stockholders		(8,939)
Net Earnings		9,082
Balance at End of Period		437,297
Accumulated Other Comprehensive Loss -		
Balance at Beginning of Period		(2,893)
Balance at End of Period		(2,893)
Total Stockholders' Equity	\$	461,735

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There were no open market share repurchases during the three and six month periods ended September 30, 2011. As of September 30, 2011, we have authorization to purchase an additional 717,300 shares.

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

	As of	
	September 30, 2011	March 31, 2011
	(dollars in thousands)	
Raw Materials and Material-in-Progress	\$ 37,567	\$ 35,118
Finished Cement	7,191	11,540
Gypsum Wallboard	6,573	6,347
Aggregates	11,797	12,419
Paperboard	2,090	5,274
Repair Parts and Supplies	39,486	41,659
Fuel and Coal	3,452	2,880
	\$ 108,156	\$ 115,237

(G) ACCRUED EXPENSES

Accrued expenses consist of the following:

	As of	
	September 30, 2011	March 31, 2011
	(dollars in thousands)	
Payroll and Incentive Compensation	\$ 6,546	\$ 7,712
Benefits	8,036	7,988
Interest	7,003	7,003
Insurance	6,294	6,639
Property Taxes	5,507	4,033
Other	9,553	6,636
	\$ 42,939	\$ 40,011

(H) COMPUTATION OF EARNINGS PER SHARE

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

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2011	2010	2011	2010
Weighted-Average Shares of Common Stock Outstanding	44,200,291	43,855,326	44,190,220	43,843,912
Common Equivalent Shares:				
Assumed Exercise of Outstanding Dilutive Options	330,646	653,322	798,081	1,155,453

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Less: Shares Repurchased from Assumed Proceeds of Assumed Exercised Options	(224,231)	(444,133)	(656,517)	(893,527)
Restricted Shares	18,571	104,736	102,025	94,465
Weighted-Average Common and Common Equivalent Shares Outstanding	44,325,277	44,169,251	44,433,809	44,200,303
Shares Excluded Due to Anti-dilution Effects	3,340,271	2,942,059	2,772,812	2,392,784

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

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

	For the Three Months Ended September 30,		For the Six Months ended September 30,	
	2011	2010	2011	2010
	(dollars in thousands)		(dollars in thousands)	
Service Cost - Benefits Earned During the Period	\$ 139	\$ 135	\$ 278	\$ 270
Interest Cost of Benefit Obligations	265	256	530	512
Expected Return on Plan Assets	(291)	(206)	(582)	(412)
Recognized Net Actuarial Loss	86	194	172	388
Amortization of Prior-Service Cost	20	32	40	64
Net Periodic Pension Cost	\$ 219	\$ 411	\$ 438	\$ 822

(J) INCOME TAXES

Income taxes for the interim period presented have been included in the accompanying financial statements on the basis of an estimated annual effective tax rate. In addition to the amount of tax resulting from applying the estimated annual effective tax rate to pre-tax income, we will, when appropriate, include certain items treated as discrete events to arrive at an estimated overall tax amount. The effective tax rate for the six months ended September 30, 2011 was approximately 23%.

(K) SHARE-BASED EMPLOYEE COMPENSATION

On January 8, 2004, our stockholders approved a new incentive plan (the Plan) that combined and amended the two previously existing stock option plans. In August 2009, our shareholders approved an amendment to the Plan which, among other things, increased the number of shares available for award under the Plan by 3 million shares. Under the terms of the Plan, we can issue equity awards, including stock options, restricted stock units (RSUs), restricted stock and stock appreciation rights (collectively, the Equity Awards) to employees of the Company and members of the Board of Directors. The Compensation Committee of our Board of Directors specifies the terms for grants of Equity Awards under the Plan.

Long-Term Compensation Plans -

Options. In June 2011, the Compensation Committee of the Board of Directors approved an incentive equity award of an aggregate of 352,829 stock options pursuant to the Plan to certain individuals that vest ratably over a three year period (the Fiscal 2012 Employee Stock Option Grant). The options have a term of ten years from the date of grant. In August 2011, we granted 121,295 options to members of the Board of Directors (the Fiscal 2012 Board of Directors Grant). Options granted under the Fiscal 2012 Board of Directors Grant vested immediately, and can be exercised from the date of grant until their expiration at the end of ten years. The Fiscal 2012 Employee Stock Option Grant and Fiscal 2012 Board of Directors Grant were both valued at the grant date using the Black-Scholes option pricing model.

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The weighted-average assumptions used in the Black-Scholes model to value the option awards in fiscal 2012 are as follows:

Dividend Yield	2.0%
Expected Volatility	41.9%
Risk Free Interest Rate	2.5%
Expected Life	8.0 years

Stock option expense for all outstanding stock option awards totaled approximately \$0.3 million and \$0.6 million for the three and six month periods ended September 30, 2011, respectively, and \$0.4 million and \$1.2 million for the three and six month periods ended September 30, 2010, respectively. The expense for the three month period ended September 30, 2011 reflects a credit of \$1.3 million resulting from our updated assessment of future satisfaction of performance conditions associated with certain stock option grants. At September 30, 2011, there was approximately \$4.7 million of unrecognized compensation cost related to outstanding stock options, net of estimated forfeitures, which is expected to be recognized over a weighted-average period of 2.5 years.

The following table represents stock option activity for the six month period ended September 30, 2011:

	Number of Shares	Weighted- Average Exercise Price
Outstanding Options at Beginning of Period	3,323,786	\$ 35.60
Granted	474,124	\$ 26.41
Exercised	(8,751)	\$ 14.60
Cancelled	(65,279)	\$ 34.61
Outstanding Options at End of Period	3,723,880	\$ 34.50
Options Exercisable at End of Period	1,913,049	
Weighted-Average Fair Value of Options Granted during the Period	\$ 10.29	

The following table summarizes information about stock options outstanding at September 30, 2011:

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Number of Shares Outstanding	Average Remaining Contractual Life	Weighted - Average Exercise Price	Number of Shares Outstanding	Weighted - Average Exercise Price
\$ 11.56 - \$ 13.43	321,552	1.25	\$ 12.34	321,552	\$ 12.34
\$ 23.17 - \$ 30.74	1,693,473	5.81	\$ 26.88	1,243,917	\$ 26.44
\$ 34.09 - \$ 40.78	310,170	2.17	\$ 37.88	279,770	\$ 38.04
\$ 47.53 - \$ 62.83	1,398,685	2.78	\$ 48.06	67,810	\$ 58.46
	3,723,880	3.97	\$ 34.50	1,913,049	\$ 26.90

At September 30, 2011, there was no aggregate intrinsic value for both outstanding and exercisable options. The total intrinsic value of options exercised during the six month period ended September 30, 2011 was approximately \$0.1 million.

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Restricted Stock Units. Expense related to RSUs was approximately \$0.4 million and \$0.7 million for the three and six month periods ended September 30, 2011, respectively, and \$0.2 million and \$0.3 million for the three and six month periods ended September 30, 2010, respectively. At September 30, 2011, there was approximately \$2.6 million of unearned compensation from RSUs, net of estimated forfeitures, which will be recognized over a weighted-average period of 1.7 years.

Restricted Stock. In June 2011, the Compensation Committee also approved the granting of an aggregate of 412,164 shares of restricted stock to certain key employees at both the corporate and subsidiary level that will be earned if our ten year average return on invested capital exceeds 12% at March 31, 2012. If this criterion is not met, all of the shares will be forfeited. If the criterion is met, restrictions on the shares will lapse ratably over five years, with the first fifth lapsing immediately, and the remaining restrictions lapsing on March 31, 2013 through 2016. The value of the restricted shares, net of estimated forfeitures, is being expensed over a five year period. Expense related to restricted shares was \$0.8 million and \$1.1 million for the three and six month periods ended September 30, 2011, respectively, and \$0.3 million and \$0.5 million for the three and six month periods ended September 30, 2010, respectively. At September 30, 2011, there was approximately \$16.3 million of unearned compensation from restricted stock, net of estimated forfeitures, which will be recognized over a weighted-average period of 5.5 years.

The number of shares available for future grants of stock options, restricted stock units, stock appreciation rights and restricted stock under the Plan was 1,732,614 at September 30, 2011.

(L) LONG-TERM DEBT

Long-term debt consists of the following:

	As of	
	September 30, 2011	March 31, 2011
	(dollars in thousands)	
Bank Credit Facility	\$	\$ 2,000
Senior Notes	285,000	285,000
Long-term Debt	\$ 285,000	\$ 287,000

Bank Credit Facility -

On December 16, 2010, we amended our existing credit facility, modifying certain financial and other covenants and extending the maturity date to 2015. The principal balance of the existing facility was repaid, and replaced with a new \$300.0 million credit agreement (the Bank Credit Facility). The Bank Credit Facility expires on December 16, 2015. Borrowings under the Bank Credit Facility are guaranteed by all major operating subsidiaries of the Company. At the option of the Company, outstanding principal amounts on the Bank Credit Facility bear interest at a variable rate equal to (i) LIBOR, plus an agreed margin (ranging from 100 to 225 basis points), which is to be established quarterly based upon the Company's ratio of consolidated EBITDA, which is defined as earnings before interest, taxes, depreciation and amortization, to its consolidated indebtedness, or (ii) an alternative base rate which is the higher of (a) the prime rate or (b) the federal funds rate plus 1/2%, per annum plus an agreed margin (ranging from 0 to 125 basis points). Interest payments are payable monthly or at the end of the LIBOR advance periods, which can be up to a period of six months at the option of the Company. The Bank Credit Facility contains customary covenants that restrict our ability to incur additional debt, encumber our assets, sell assets, make or enter into certain investments, loans or guaranties and enter into sale and leaseback arrangements. The Bank Credit Facility also requires us to maintain a consolidated funded indebtedness ratio (consolidated indebtedness to consolidated earnings before interest, taxes, depreciation, amortization and other non-cash deductions) of 3.5 or less and an interest coverage ratio (consolidated earnings before interest, taxes, depreciation, amortization and other non-cash deductions to

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interest expense) of at least 2.5. The Bank Credit Facility also limits our ability to make certain restricted payments, such as paying cash dividends; however, there are several exceptions to this restriction, including: (i) the Company may pay cash dividends in an aggregate amount of up to \$50.0 million each fiscal year; and (ii) the Company may make restricted payments not otherwise permitted so long as no default would result therefrom and our consolidated funded indebtedness ratio does not exceed 3.0.

The Bank Credit Facility has a \$50.0 million letter of credit facility. Under the letter of credit facility, the Company pays a fee at a per annum rate equal to the applicable margin for Eurodollar loans in effect from time to time plus a one-time letter of credit fee in an amount equal to 0.125% of the initial stated amount. At September 30, 2011, we had \$10.2 million of letters of credit outstanding. We had \$289.8 million of borrowings available under the Bank Credit Facility at September 30, 2011.

Senior Notes -

We entered into a Note Purchase Agreement on November 15, 2005 (the 2005 Note Purchase Agreement) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2005A Senior Notes (the Series 2005A Senior Notes) in a private placement transaction. The Series 2005A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in three tranches on November 15, 2005. Since entering into the 2005 Note Purchase Agreement, we have repurchased \$22.0 million in principal of the Series 2005A Senior Notes during prior periods. Following these repurchases, the amounts outstanding for each of the three tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche A	\$ 38.6 million	November 15, 2012	5.25%
Tranche B	\$ 77.2 million	November 15, 2015	5.38%
Tranche C	\$ 62.2 million	November 15, 2017	5.48%

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

We entered into an additional Note Purchase Agreement on October 2, 2007 (the 2007 Note Purchase Agreement) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2007A Senior Notes (the Series 2007A Senior Notes) in a private placement transaction. The Series 2007A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in four tranches on October 2, 2007. Since entering into the 2007 Note Purchase Agreement, we have repurchased \$93.0 million in principal of the Series 2007A Senior Notes during prior periods. Following the repurchase, the amounts outstanding for each of the four tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche A	\$ 9.5 million	October 2, 2014	6.08%
Tranche B	\$ 11.0 million	October 2, 2016	6.27%
Tranche C	\$ 50.0 million	October 2, 2017	6.36%
Tranche D	\$ 36.5 million	October 2, 2019	6.48%

Interest for each tranche of Notes is payable semi-annually on April 2 and October 2 of each year until all principal is paid for the respective tranche.

Our obligations under the 2005 Note Purchase Agreement and the 2007 Note Purchase Agreement (collectively referred to as the Note Purchase Agreements) and the Series 2005A Senior Notes and the Series 2007A Senior Notes (collectively referred to as the Senior Notes) are equal in right of payment with all other senior, unsecured debt of the Company, including our debt under the Bank Credit Facility. The Note Purchase Agreements contain customary restrictive covenants, including covenants that place limits on our ability to encumber our assets, to incur additional debt, to sell assets, or to merge or consolidate with third parties, as well as certain cross covenants with the Bank Credit Facility. We were in compliance with all financial ratios and covenants at September 30, 2011.

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Pursuant to a Subsidiary Guaranty Agreement, substantially all of our subsidiaries have guaranteed the punctual payment of all principal, interest, and Make-Whole Amounts (as defined in the Note Purchase Agreements) on the Senior Notes and the other payment and performance obligations of the Company contained in the Senior Notes and in the Note Purchase Agreements. We are permitted, at our option and without penalty, to prepay from time to time at least 10% of the original aggregate principal amount of the Senior Notes at 100% of the principal amount to be prepaid, together with interest accrued on such amount to be prepaid to the date of payment, plus a Make-Whole Amount. The Make-Whole Amount is computed by discounting the remaining scheduled payments of interest and principal of the Senior Notes being prepaid at a discount rate equal to the sum of 50 basis points and the yield to maturity of U.S. treasury securities having a maturity equal to the remaining average life of the Senior Notes being prepaid.

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

(M) COMMITMENTS AND CONTINGENCIES

We have certain deductible limits under our workers' compensation and liability insurance policies for which reserves are established based on the undiscounted estimated costs of known and anticipated claims. We have entered into standby letter of credit agreements relating to workers compensation and auto and general liability self-insurance. At September 30, 2011, we had contingent liabilities under these outstanding letters of credit of approximately \$10.2 million.

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

	As of and For the Three Months Ended September 30, 2011 2010 (dollars in thousands)		As of and For the Six Months Ended September 30, 2011 2010 (dollars in thousands)	
Accrual Balances at Beginning of Period	\$ 6,264	\$ 6,448	\$ 6,639	\$ 6,384
Insurance Expense Accrued	187	792	1,153	1,546
Payments	(157)	(394)	(1,498)	(1,084)
Accrual Balance at End of Period	\$ 6,294	\$ 6,846	\$ 6,294	\$ 6,846

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

We are currently contingently liable for performance under \$10.3 million in performance bonds required by certain states and municipalities, and their related agencies. The bonds are principally for

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certain reclamation obligations and mining permits. We have indemnified the underwriting insurance company against any exposure under the performance bonds. In our past experience, no material claims have been made against these financial instruments.

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

In June 2010, we received a Notice of Deficiency ("Notice") of \$71.5 million of taxes and penalties for the fiscal years ended March 31, 2001 through 2006, inclusive, related to the IRS audit of the Republic Asset Acquisition. The Notice was in substantial agreement with our financial accruals; including interest. The total amount related to the Notice, including interest, was approximately \$98.7 million, of which \$75 million had previously been deposited with the IRS. We deposited the remaining \$23.7 million with the IRS in July 2010 and asked the IRS to apply all \$98.7 million of deposits to the payment of the tax, penalties and interest. Subsequent review of the IRS interest billing produced a refund of \$0.8 million reducing the net outlay to \$97.9 million. On May 4, 2011 we filed a lawsuit in Federal District Court to recover the \$97.9 million of taxes, penalties and interest paid to the IRS.

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

We have various litigation, commitments and contingencies in the ordinary course of business. Management believes that none of the litigation in which it or any subsidiary is currently involved is likely to have a material adverse effect on our consolidated financial condition or results of operations.

(N) SEGMENT INFORMATION

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

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

As further discussed below, we operate four cement plants, eleven cement distribution terminals, five gypsum wallboard plants, including the plant temporarily idled in Bernalillo, N.M., a gypsum wallboard distribution center, a recycled paperboard mill, nine readymix concrete batch plant locations and two aggregates processing plant locations. The principal markets for our cement products are Texas, northern Illinois (including Chicago), the Rocky Mountains, northern Nevada, and northern California. Gypsum wallboard and recycled paperboard are distributed throughout the continental U.S. Concrete and aggregates are sold to local readymix producers and paving contractors in the Austin, Texas area and northern California.

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We conduct one of our four cement plant operations, Texas Lehigh Cement Company LP in Buda, Texas, through a Joint Venture. For segment reporting purposes only, we proportionately consolidate our 50% share of the Joint Venture's revenues and operating earnings, which is consistent with the way management reports the segments within the Company for making operating decisions and assessing performance.

We account for intersegment sales at market prices. The following table sets forth certain financial information relating to our operations by segment:

	For the Three Months Ended September 30, 2011		For the Six Months Ended September 30, 2011	
	2011	2010	2011	2010
	(dollars in thousands)		(dollars in thousands)	
Revenues -				
Cement	\$ 72,554	\$ 67,813	\$ 132,698	\$ 130,275
Gypsum Wallboard	50,981	50,314	102,323	108,514
Paperboard	31,737	29,204	60,413	57,928
Concrete and Aggregates	13,882	12,940	25,782	24,263
Sub-total	169,154	160,271	321,216	320,980
Less: Intersegment Revenues	(11,875)	(10,208)	(22,736)	(21,283)
Net Revenues, including Joint Venture	157,279	150,063	298,480	299,697
Less: Joint Venture	(22,460)	(17,928)	(43,854)	(36,768)
Net Revenues	\$ 134,819	\$ 132,135	\$ 254,626	\$ 262,929

	For the Three Months Ended September 30, 2011		For the Six Months Ended September 30, 2011	
	2011	2010	2011	2010
	(dollars in thousands)		(dollars in thousands)	
Intersegment Revenues -				
Cement	\$ 1,202	\$ 1,164	\$ 2,241	\$ 2,156
Paperboard	10,452	8,857	20,134	18,820
Concrete and Aggregates	221	187	361	307
	\$ 11,875	\$ 10,208	\$ 22,736	\$ 21,283

Cement Sales Volume (M Tons) -				
Wholly owned Operations	588	576	1,037	1,074
Joint Venture	229	199	454	403
	817	775	1,491	1,477

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	For the Three Months Ended September 30, 2011		For the Six Months Ended September 30, 2011	
	2010	2010	2011	2010
	(dollars in thousands)		(dollars in thousands)	
Operating Earnings -				
Cement	\$ 15,111	\$ 12,127	\$ 23,899	\$ 25,760
Gypsum Wallboard	(2,540)	1,295	(1,302)	6,496
Paperboard	4,038	3,833	7,068	7,627
Concrete and Aggregates	44	454	(191)	769
Other, net	115	175	36	892
Sub-total	16,768	17,884	29,510	41,544
Corporate General and Administrative	(4,472)	(4,415)	(8,590)	(8,118)
Earnings Before Interest and Income Taxes	12,296	13,469	20,920	33,426
Interest Expense, net	(4,557)	(3,148)	(9,142)	(8,438)
Earnings Before Income Taxes	\$ 7,739	\$ 10,321	\$ 11,778	\$ 24,988
Cement Operating Earnings -				
Wholly owned Operations	\$ 7,175	\$ 7,967	\$ 10,515	\$ 15,088
Joint Venture	7,936	4,160	13,384	10,672
	\$ 15,111	\$ 12,127	\$ 23,899	\$ 25,760
Capital Expenditures ⁽¹⁾ -				
Cement	\$ 2,088	\$ 1,160	\$ 4,208	\$ 3,279
Gypsum Wallboard	701	435	2,014	555
Paperboard	104		222	57
Concrete and Aggregates	811	577	1,023	1,497
Other		55	49	79
	\$ 3,704	\$ 2,227	\$ 7,516	\$ 5,467
Depreciation, Depletion and Amortization ⁽¹⁾ -				
Cement	\$ 3,703	\$ 3,606	\$ 7,433	\$ 7,340
Gypsum Wallboard	5,267	5,456	10,484	10,922
Paperboard	2,127	2,260	4,252	4,519
Concrete and Aggregates	1,063	939	2,124	1,780
Other, net	203	128	390	278
	\$ 12,363	\$ 12,389	\$ 24,683	\$ 24,839

	As of	
	September 30, 2011	March 31, 2011
	(dollars in thousands)	
Identifiable Assets ⁽¹⁾ -		
Cement	\$ 316,091	\$ 304,693
Gypsum Wallboard	436,024	443,174
Paperboard	141,563	144,434
Concrete and Aggregates	54,048	51,797

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Corporate and Other	42,407	38,712
	\$ 990,133	\$ 982,810

(1) Basis conforms with equity method accounting.

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Segment operating earnings, including the proportionately consolidated 50% interest in the revenues and expenses of the Joint Venture, represent revenues, less direct operating expenses, segment depreciation, and segment selling, general and administrative expenses. During the fiscal quarter ended June 30, 2011, we reversed an accrual recorded in a prior period, which resulted in a \$3.0 million increase in our gypsum wallboard segment operating earnings. Corporate assets consist primarily of cash and cash equivalents, general office assets, miscellaneous other assets and unrecognized tax benefits. The segment breakdown of goodwill is as follows:

	As of	
	September 30, 2011	March 31, 2011
	(dollars in thousands)	
Cement	\$ 8,359	\$ 8,359
Gypsum Wallboard	116,618	116,618
Paperboard	7,538	7,538
	\$ 132,515	\$ 132,515

We perform our annual test of impairment on goodwill during the fourth quarter of our fiscal year. Due to the decline in operating earnings of the gypsum wallboard segment during the last year, and continuing into this year, we have performed an impairment test at the end of the first and second quarters for the gypsum wallboard assets and goodwill, noting that there was no impairment at this time. We will continue to test for any potential impairment on a quarterly basis throughout fiscal year 2012, or until conditions in the wallboard industry improve enough for us to determine that an impairment loss is not likely to occur.

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

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2011	2010	2011	2010
	(dollars in thousands)		(dollars in thousands)	
Revenues	\$ 38,786	\$ 31,468	\$ 76,263	\$ 64,701
Gross Margin	\$ 17,063	\$ 9,242	\$ 28,951	\$ 23,361
Earnings Before Income Taxes	\$ 15,871	\$ 8,321	\$ 26,768	\$ 21,344

	As of	
	September 30, 2011	March 31, 2011
	(dollars in thousands)	
Current Assets	\$ 45,369	\$ 42,541
Non-Current Assets	\$ 39,495	\$ 33,457
Current Liabilities	\$ 15,252	\$ 10,296

During the six month period ended September 30, 2011, we provided approximately \$10.0 million to our Joint Venture for its capital needs.

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The fair value of our long-term debt has been estimated based upon our current incremental borrowing rates for similar types of borrowing arrangements. The fair value of our Senior Notes at September 30, 2011 is as follows:

	Fair Value (dollars in thousands)
Series 2005A Tranche A	\$ 39,353
Series 2005A Tranche B	81,562
Series 2005A Tranche C	65,232
Series 2007A Tranche A	10,113
Series 2007A Tranche B	12,004
Series 2007A Tranche C	54,400
Series 2007A Tranche D	39,730

The carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable and accrued liabilities approximate their fair values at September 30, 2011 due to the short-term maturities of these assets and liabilities.

(P) INTEREST EXPENSE

The following components are included in interest expense, net:

	For the Three Months Ended September 30, 2011 2010 (dollars in thousands)		For the Six Months Ended September 30, 2011 2010 (dollars in thousands)	
Interest (Income)	\$ (1)	\$ (2)	\$ (2)	\$ (4)
Interest Expense	4,440	4,444	8,915	8,898
Interest Expense (Income) Income Taxes		(1,326)		(546)
Other Expenses	118	32	229	90
Interest Expense, net	\$ 4,557	\$ 3,148	\$ 9,142	\$ 8,438

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

Interest expense Income Taxes relates to interest accrued on our unrecognized tax benefits, primarily related to the Republic Asset Acquisition. During fiscal 2011, we paid or applied cash deposits as payments to the IRS and filed amended state tax returns and made payments for the tax years 2001 through 2006. During the quarter ended September 30, 2010, we paid or applied cash deposits as payments to the IRS and filed amended state tax returns and made payments for the tax years 2001 through 2006, which resulted in an adjustment of previously accrued interest expense of approximately \$1.5 million.

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

EXECUTIVE SUMMARY

Eagle Materials Inc. is a diversified producer of basic building products used in residential, industrial, commercial and infrastructure construction. Information presented for the three and six month periods ended September 30, 2011 and 2010, respectively, reflects the Company's four business segments, consisting of Cement, Gypsum Wallboard, Recycled Paperboard and Concrete and Aggregates. Certain information for each of Concrete and Aggregates is broken out separately in the segment discussions.

We operate in cyclical commodity businesses that are directly related to the overall construction environment. Our operations, depending on each business segment, range from local in nature to national businesses. We have operations in a variety of geographic markets, which subject us to the economic conditions in each such geographic market as well as the national market. General economic downturns or localized downturns in the regions where we have operations generally have a material adverse effect on our business, financial condition and results of operations. Our Cement companies are located in geographic areas west of the Mississippi river and the Chicago, Illinois metropolitan area. Due to the low value-to-weight ratio of cement, cement is usually shipped within a 150 mile radius of the plants by truck and up to 400 miles by rail; though the price of diesel fuel may impact the truck shipping radius. Concrete and Aggregates are even more regional as those operations serve the areas immediately surrounding Austin, Texas and north of Sacramento, California. Cement, concrete and aggregates demand may fluctuate more widely because local and regional markets and economies may be more sensitive to changes than the national markets. Our Wallboard and Paperboard operations are more national in scope and shipments are made throughout the continental U.S.

We continue to pursue opportunities in businesses that are naturally adjacent to our existing core businesses and would allow us to leverage our core competencies, existing infrastructure and customer relationships. We expect that the entry into any such new businesses would require capital expenditures and the investment of management time and other resources, and would be subject to the risks associated with any new venture of this type.

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

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

	For the Three Months Ended September 30,			For the Six Months Ended September 30,		
	2011	2010	Change	2011	2010	Change
	(In thousands except per share)			(In thousands except per share)		
Revenues ⁽¹⁾	\$ 169,154	\$ 160,271	6%	\$ 321,216	\$ 320,980	
Operating Costs ⁽¹⁾	(152,501)	(142,562)	7%	(291,742)	(280,328)	4%
Other Income, net	115	175	(34%)	36	892	(96%)
Operating Earnings	16,768	17,884	(6%)	29,510	41,544	(29%)
Corporate General and Administrative	(4,472)	(4,415)	1%	(8,590)	(8,118)	6%
Interest Expense, net	(4,557)	(3,148)	45%	(9,142)	(8,438)	8%
Earnings Before Income Taxes	7,739	10,321	(25%)	11,778	24,988	(53%)
Income Tax Expense	(1,714)	(691)	148%	(2,696)	(4,831)	(44%)
Net Earnings	\$ 6,025	\$ 9,630	(37%)	\$ 9,082	\$ 20,157	(55%)
Diluted Earnings per Share	\$ 0.14	\$ 0.22	(36%)	\$ 0.20	\$ 0.46	(57%)

⁽¹⁾ Total of wholly-owned subsidiaries and proportionately consolidated 50% interest in the Joint Ventures results.

Net Revenues. Net revenues increased by 6% for the three month period ended September 30, 2011, compared to the similar period in 2010. The increase, during the three month period ended September 30, 2011, was due primarily to increases in sales volume for all of our businesses except recycled paperboard and aggregates, coupled with increased average sales prices for cement and recycled paperboard. Net revenues for the six months ended September 30, 2011 were relatively flat compared to the revenues in the six month period ended September 30, 2010. Despite revenues being relatively flat, revenues actually increased for all of our businesses except gypsum wallboard, which declined 6%. Sales volume and average sales price increased for our cement business and average sales prices increased for our paperboard and aggregates businesses, but declined for our other businesses. The decreased sales volumes and average net sales price in our gypsum wallboard segment is related to the continued downturn in the residential and commercial construction sectors, which have been disproportionately impacted by the decline in overall economic activity in the U.S. over the last two years.

Operating Costs. Operating costs increased 7% and 4% for the three and six month periods ended September 30, 2011, respectively, compared to the similar periods in 2010. Increased sales volumes and fiber costs are the primary reasons for the increase in operating expenses for the quarter ended September 30, 2011. Operating expenses increased for the six months ended September 30, 2011, primarily due to increased parts, supplies, and services, fuel, power and increased fiber expense, partially offset by lower sales volumes.

Other Income. 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.

Operating Earnings. Operating earnings decreased by 6% and 29% during the three and six month periods ended September 30, 2011, respectively, compared to 2010. The decrease in operating revenues during the three months ended September 30, 2011, compared to the similar period in 2010, was primarily due to lower operating earnings in our gypsum wallboard and aggregates segments, partially offset by increased operating earnings in our cement segment. Operating earnings declined for the six months ended September 30, 2011, compared to the similar period in 2010, primarily due to relatively flat revenues, coupled with increased operating costs, primarily in our gypsum wallboard segment.

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Corporate General and Administrative. Corporate general and administrative expenses increased 1% and 6% for the three and six month periods ended September 30, 2011, respectively, compared to the similar periods in 2010. The increase in corporate general and administrative expenses is due primarily to increased stock compensation expenses, partially offset by lower incentive compensation and benefits costs due to lower operating earnings and improved overhead efficiency.

Interest Expense, Net. Net interest expense increased 45% and 8% during the three and six month periods ended September 30, 2011, respectively, compared to similar periods in 2010. The increase in interest expense during fiscal 2012, compared to fiscal 2011, is due to payments made to the IRS related to the Republic Asset Acquisition during the first six months of fiscal 2011 (See Footnote (P) to the Unaudited Consolidated Financial Statements for more details). These payments, as charged by the IRS, included interest that was less than interest accrued by the Company, resulting in a credit to interest expense during the quarter ended September 30, 2010. Interest expense on our debt was relatively flat for the three and six months ended September 30, 2011, compared to the similar three and six month periods in 2010.

Income Taxes. The effective tax rate for the six month period ended September 30, 2011 was approximately 23% compared to approximately 19% for the six month period ended September 30, 2010. The effective tax rate during fiscal 2011 was positively impacted by the deduction of interest and state taxes related to the payment of taxes to the IRS and state authorities for fiscal years 2001 through 2006. The expected tax rate for the full fiscal year is expected to be 23%, compared to 26% for fiscal 2011.

Net Earnings and Diluted Earnings per Share. Net earnings for the quarter ended September 30, 2011 of \$6.0 million decreased 37% from last year's net earnings of \$9.6 million; while net earnings of \$9.1 million for the six month period ended September 30, 2011 decreased 55% from last year's net earnings of \$20.2 million. Diluted earnings per share for the three and six month periods ended September 30, 2011 were \$0.14 and \$0.20, respectively, compared to \$0.22 and \$0.46 for the three and six month periods ended September 30, 2010, respectively.

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

	For the Three Months Ended September 30,			For the Six Months Ended September 30,		
	2011	2010	Percentage Change	2011	2010	Percentage Change
	(In thousands except per unit)			(In thousands except per unit)		
Revenues ⁽¹⁾						
Cement ⁽²⁾	\$ 72,554	\$ 67,813	7%	\$ 132,698	\$ 130,275	2%
Gypsum Wallboard	50,981	50,314	1%	102,323	108,514	(6%)
Recycled Paperboard	31,737	29,204	9%	60,413	57,928	4%
Concrete and Aggregates	13,882	12,940	7%	25,782	24,263	6%
Gross Revenues	\$ 169,154	\$ 160,271	6%	\$ 321,216	\$ 320,980	
Sales Volume						
Cement (M Tons) ⁽²⁾	817	775	5%	1,491	1,477	1%
Gypsum Wallboard (MMSF)	403	397	2%	815	851	(4%)
Recycled Paperboard (M Tons)	60	62	(3%)	117	121	(3%)
Concrete (M Yards)	144	123	17%	280	240	17%
Aggregates (M Tons)	771	794	(3%)	1,383	1,421	(3%)
Average Net Sales Prices ⁽³⁾						
Cement ⁽²⁾	\$ 81.23	\$ 80.03	1%	\$ 81.24	\$ 80.67	1%
Gypsum Wallboard	92.09	96.08	(4%)	91.05	97.18	(6%)
Recycled Paperboard	524.20	474.29	11%	515.21	477.82	8%
Concrete	64.33	67.01	(4%)	62.73	65.54	(4%)
Aggregates	5.98	5.90	1%	5.94	5.97	(1%)
Operating Earnings						
Cement ⁽²⁾	\$ 15,111	\$ 12,127	25%	\$ 23,899	\$ 25,760	(7%)
Gypsum Wallboard	(2,540)	1,295	(296%)	(1,302)	6,496	(120%)
Recycled Paperboard	4,038	3,833	5%	7,068	7,627	(7%)
Concrete and Aggregates	44	454	(90%)	(191)	769	(125%)
Other, net	115	175	(34%)	36	892	(96%)
Net Operating Earnings	\$ 16,768	\$ 17,884	(6%)	\$ 29,510	\$ 41,544	(29%)

(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 increased during the three and six month periods ended September 30, 2011, as compared to the similar periods in 2010, primarily due to increased sales volumes and average sales prices. Sales volumes increased during the three and six months period ended September 30, 2011 as compared to the similar period in 2010, primarily due to increased volumes in the Nevada and Texas markets, offset slightly by decreased volume in the Illinois market. Average sales prices during the three and six month periods ended September 30, 2011 increased slightly, primarily due to a change in product mix sold. Operating earnings increased during the second quarter of fiscal 2012, as compared to the similar periods in fiscal 2011, primarily due to increased sales price and sales volume, as well as lower operating costs, namely decreased parts supplies and services, which were partially offset by increased fuel and power expense. Operating earnings decreased for the six month period ended September 30, 2011, compared to the similar period in 2010, primarily due to increased operating expenses, for parts, supplies and services, fuel and power, partially offset by increased average sales price and sales volume. The increased parts, supply and services costs related to major maintenance projects.

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Gypsum Wallboard Operations. The increase in net revenue during the three month period ended September 30, 2011, compared to 2010, was primarily due to the increase in sales volume, partially offset by the decline in average sales price. The decrease in revenues for the six month period ended September 30, 2011, compared to the similar period in 2010, is primarily due to declines in both average sales price and sales volume. The decrease in average sales price during the three and six month periods ended September 30, 2011, compared to the similar periods in 2010, is primarily due to increased transportation costs and increased competition in the marketplace. Operating earnings decreased for the quarter and year to date periods in fiscal 2012, as compared to fiscal 2011, primarily due to the decline in average sales price, and increases in certain operating expenses, principally paper and other raw materials. Operating earnings during the six months ended September 30, 2011 were also positively impacted by the reversal of \$3.0 million accrual, which related to a prior period.

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Recycled Paperboard Operations. Net revenues increased 9% and 4% during the three and six month periods ended September 30, 2011, compared to the similar periods in 2010, primarily due to the 11% and 8% increase in average sales price for the three and six month periods, respectively, partially offset by slight declines in average sales volumes. The increase in the average selling price per ton during the three and six month periods ended September 30, 2011, compared to the similar periods in 2010, is primarily due to the price escalators in our long-term sales agreement. Operating earnings increased for the three month period ended September 30, 2011, compared to the similar period in 2010, primarily due to increased average sales prices and an increase in the percentage of higher margin gypsum paper sold to 48% in the three months ended September 30, 2011 from 40% during the comparable period in 2010, partially offset by increased cost of recycled fiber during fiscal 2011. Operating earnings declined by 7% for the six months ended September 30, 2011, compared to the similar period in 2010, primarily due to the increase in the cost of recycled fiber and other operating expenses, including machine clothing and repair and maintenance costs, partially offset by the increase in average sales price.

Concrete and Aggregates Operations. Net revenues increased for both the three and six month periods ended September 30, 2011, compared to the similar periods in 2010. The increase in net revenue is due primarily to the increase in concrete sales volume, partially offset by the decline in concrete average net sales price and aggregate sales volumes. Operating earnings decreased during the three and six month periods ended September 30, 2011, compared to 2010, primarily due to increased transportation costs in our readymix business. Operating earnings declined for our aggregates business for both the three and six month periods ended September 30, 2011, compared to the similar periods in 2010, primarily due to reduced sales volumes.

GENERAL OUTLOOK

Calendar 2011 continues to be 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 crisis during calendar 2011, current budget constraints will likely limit whatever fiscal stimulus is proposed. There can be no assurance as to the actual impact, if any, that these or any other actions will have on our business, financial condition or results of operations. Many of the states that comprise our markets are also 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 during the remainder of fiscal 2012.

Cement demand in all U.S. regions continues to be impacted by reduced residential housing construction, continued weakness in 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, compared to calendar year 2009, and we anticipate cement consumption for calendar 2011 to be flat with cement consumption during calendar 2010.

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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 volumes and low capacity utilization continue to negatively impact gypsum wallboard pricing and profitability. We do not anticipate wallboard demand to improve significantly during the remainder of fiscal 2012.

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 the remainder of fiscal year 2012. Electricity costs are expected to increase in fiscal 2012.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Recent Accounting Pronouncements

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

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES****Cash Flow.**

The following table provides a summary of our cash flows:

	For the Six Months Ended September 30,	
	2011	2010
	(dollars in thousands)	
Net Cash Provided by Operating Activities	\$ 27,544	\$ 26,963
Investing Activities:		
Capital Expenditures	(7,516)	(5,467)
Proceeds from Sale of Property, Plant and Equipment		600
Net Cash Used in Investing Activities	(7,516)	(4,867)
Financing Activities:		
Excess Tax Benefits from Share Based Payment Arrangements	30	375
Decrease in Long-Term Debt	(2,000)	(8,000)
Dividends Paid	(8,975)	(8,797)
Shares Repurchased to Settle Employee Taxes on RSUs	(393)	
Proceeds from Stock Option Exercises	128	911
Net Cash Provided by Financing Activities	(11,210)	(15,511)
Net Increase in Cash	\$ 8,818	\$ 6,585

Cash flow from operating activities was relatively flat during the six month period ended September 30, 2011, compared to the similar period in 2010, despite lower net income in the six month period ended September 30, 2011. Cash provided by operating activities in fiscal 2012 was primarily due to net income plus depreciation, depletion and amortization, partially offset by use of cash of \$5.6 million due to changes in operating assets and liabilities. During fiscal 2011, cash provided by operating activities was adversely impacted by the \$23.7 million payment to the IRS in July 2010.

Net cash used in investing activities during the six month period ended September 30, 2011 was approximately \$3.0 million more than cash used for that purpose in the similar period in 2010, primarily due to the timing of capital expenditure. We expect capital expenditures for the full year of fiscal 2012 to be consistent with capital expenditures during fiscal 2011.

In June 2010, we received a Notice of Deficiency (Notice) of \$71.5 million of taxes and penalties for the fiscal years ended March 31, 2001 through 2006, inclusive, related to the IRS audit of the Republic Asset Acquisition. The Notice was in substantial agreement with our financial accruals, including interest. The total amount related to the Notice, including interest, was approximately \$98.7 million, of which \$75 million had previously been deposited with the IRS. We deposited the remaining \$23.7 million with the IRS in July 2010 and asked the IRS to apply all \$98.7 million of deposits to the payment of the tax, penalties and interest. Subsequent review of the IRS interest billing produced a refund of \$0.8 million reducing the net outlay to \$97.9 million. On May 4, 2011 we filed a lawsuit in Federal District Court to recover the \$97.9 million of taxes, penalties and interest paid to the IRS. See Footnote (M) of the Unaudited Consolidated Financial Statements for additional information.

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Net cash used in financing activities was \$11.2 million during the six month period ended September 30, 2011, as compared to net cash used in financing activities of \$15.5 million during the six month period ended September 30, 2010. The decrease in cash used in financing activities is primarily due to the reduction in debt repayments during the six months ended September 30, 2011, as compared to the similar period in 2010. Our debt-to-capitalization ratio and net-debt-to-capitalization ratio declined to 38.2% and 37.3%, respectively, at September 30, 2011, as compared to 38.4% and 38.3%, respectively, at March 31, 2011.

Working capital increased to \$114.6 million at September 30, 2011, compared to \$104.3 million at March 31, 2011, primarily due to increased accounts and notes receivable, partially offset by increased accounts payable and accrued expenses. We did not have any material contractual obligations related to long-term capital projects at September 30, 2011. We were in compliance at September 30, 2011 with all the terms and covenants of our credit agreements.

Given the relative weakness in the gypsum wallboard earnings over the last year and during the first six months of this year, we determined it was necessary to perform an impairment test on the assets and goodwill of the gypsum wallboard segment. That impairment test was similar to the annual impairment test performed during the first quarter of each calendar year. We estimated the fair value of the gypsum wallboard reporting unit using the income method, which consisted of estimating future earnings and cash flows, and discounting these to a single present value, which was compared to the carrying value. Based upon the above analysis, we noted that there was no impairment at this time. We will continue to assess the potential impairment throughout fiscal year 2012, or until conditions in the wallboard industry improve enough for us to determine that impairment loss is not likely to occur.

Debt Financing Activities.

Bank Credit Facility -

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

The Bank Credit Facility has a \$50.0 million letter of credit facility. Under the letter of credit facility, the Company pays a fee at a per annum rate equal to the applicable margin for Eurodollar loans in effect from time to time plus a one-time letter of credit fee in an amount equal to 0.125% of the initial

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stated amount. At September 30, 2011, we had \$10.2 million of letters of credit outstanding. We had \$289.8 million of borrowings available under the Bank Credit Facility at September 30, 2011.

Senior Notes

We entered into a Note Purchase Agreement on November 15, 2005 (the 2005 Note Purchase Agreement) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2005A Senior Notes (the Series 2005A Senior Notes) in a private placement transaction. The Series 2005A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in three tranches on November 15, 2005. Since entering into the 2005 Note Purchase Agreement, we have repurchased \$22 million in principal of the Series 2005A Senior Notes. Following these repurchases, the amounts outstanding for each of the three tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche A	\$ 38.6 million	November 15, 2012	5.25%
Tranche B	\$ 77.2 million	November 15, 2015	5.38%
Tranche C	\$ 62.2 million	November 15, 2017	5.48%

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

We entered into an additional Note Purchase Agreement on October 2, 2007 (the 2007 Note Purchase Agreement) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2007A Senior Notes (the Series 2007A Senior Notes) in a private placement transaction. The Series 2007A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in four tranches on October 2, 2007. Since entering into the 2007 Note Purchase Agreement, we have repurchased \$93 million in principal of the Series 2007A Senior Notes. Following the repurchase, the amounts outstanding for each of the four tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche A	\$ 9.5 million	October 2, 2014	6.08%
Tranche B	\$ 11.0 million	October 2, 2016	6.27%
Tranche C	\$ 50.0 million	October 2, 2017	6.36%
Tranche D	\$ 36.5 million	October 2, 2019	6.48%

Interest for each tranche of Notes is payable semi-annually on April 2 and October 2 of each year until all principal is paid for the respective tranche.

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

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

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

We do not have any off balance sheet debt, except for approximately \$12.0 million of operating leases, which have an average remaining term of approximately fifteen years. Also, we have no outstanding debt guarantees. We have available under the Bank Credit Facility a \$50.0 million Letter of Credit Facility. At September 30, 2011, we had \$10.2 million of letters of credit outstanding that renew annually. We are contingently liable for performance under \$10.3 million in performance bonds relating primarily to our mining operations.

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

Cash Used for Share Repurchases.

We did not repurchase any of our shares on the open market during the six month period ended September 30, 2011. As of September 30, 2011, we had a remaining authorization to purchase 717,300 shares. Share repurchases may be made from time-to-time in the open market or in privately negotiated transactions. The timing and amount of any repurchases of shares will be determined by management, based on its evaluation of market and economic conditions and other factors.

During the six month period ended September 30, 2011, 14,873 shares of stock were withheld from employees upon the vesting of Restricted Shares or Restricted Shares Units that were granted under the Plan. These shares were withheld by us to satisfy the employees' minimum statutory tax withholding, which is required once the Restricted Shares or Restricted Shares Units are vested.

Dividends.

Dividends paid were \$9.0 million and \$8.8 million for the six month periods ended September 30, 2011 and 2010, respectively. Each quarterly dividend payment is subject to review and approval by our Board of Directors, who will continue to evaluate our dividend payment amount on a quarterly basis.

Capital Expenditures.

The following table compares capital expenditures:

	For the Six Months Ended September 30,	
	2011	2010
	(dollars in thousands)	
Land and Quarries	\$ 13	\$
Plants	5,469	4,465
Buildings, Machinery and Equipment	2,034	1,002
 Total Capital Expenditures	 \$ 7,516	 \$ 5,467

For fiscal 2012, we expect capital expenditures of approximately \$15.0 to \$20.0 million. Historically, we have financed such expenditures with cash from operations and borrowings under our revolving credit facility.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks related to fluctuations in interest rates on our Bank Credit Facility. From time-to-time we have utilized derivative instruments, including interest rate swaps, in conjunction with our overall strategy to manage the debt outstanding that is subject to changes in interest rates. There were no outstanding borrowings under the Bank Credit Facility at September 30, 2011. At present, we do not utilize derivative financial instruments.

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

Item 4. Controls and Procedures

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

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Part II. Other Information

Item 1. Legal Proceedings

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

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

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Item 1A. Risk Factors

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

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

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

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

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

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

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

A majority of our revenues are from customers who are in industries and businesses that are cyclical in nature and subject to changes in general economic conditions, 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.

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

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

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

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

Legislative and regulatory measures to address emissions of Green House Gasses (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 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,

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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.

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.

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.

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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;

Encumber the assets of the Company and its restricted subsidiaries;

Enter into transactions with our affiliates.

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

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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

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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, estimate, anticipate, project, may, 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.

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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 2. Unregistered Sales of Equity Securities and Use of Proceeds

The disclosure required under this Item is included in Item 1. of this Quarterly Report on Form 10-Q under the heading "Cash Used for Share Repurchase" and is incorporated herein by reference.

Item 5. Other Information

Section 1503 of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires companies that are operators (as such term is defined in the Federal Mine Safety and Health Act of 1977 (the "Mine Act")) to disclose certain mine safety information in each periodic report to the Commission. The disclosures required by Section 1503 are included in Exhibit 99.1 to this Form 10-Q.

Item 6. Exhibits

- 10.1* Eagle Materials Inc. Director Compensation Summary. ⁽¹⁾
- 10.2* Form of Non-Qualified Stock Option Agreement.