EAGLE MATERIALS INC
Form 10-Q
August 04, 2006

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United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended
June 30, 2006
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 þ No o

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

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

As of August 3, 2006, the number of outstanding shares of each of the issuer s classes of common stock was:

Class	Outstanding Shares
Common Stock, $.01 Par Value	49,998,565

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

	For the Three Months Ended June 30, 2006	For the Three Months Ended June 30, 2005
REVENUES		
Gypsum Wallboard	$ 147,687	$ 104,838
Cement	68,300	57,335
Paperboard	19,491	19,089
Concrete and Aggregates	23,671	22,412
Other, net	825	1,124
	259,974	204,798
COSTS AND EXPENSES		
Gypsum Wallboard	83,712	76,987
Cement	52,341	46,833
Paperboard	14,224	12,925
Concrete and Aggregates	19,896	18,960
Corporate General and Administrative	4,279	3,102
Interest Expense, net	1,763	1,336
	176,215	160,143
EQUITY IN EARNINGS OF UNCONSOLIDATED JOINT VENTURE	5,997	5,527
EARNINGS BEFORE INCOME TAXES	89,756	50,182
Income Taxes	30,664	15,274
NET EARNINGS	$ 59,092	$ 34,908
EARNINGS PER SHARE:		
Basic	$ 1.17	$ 0.64
Diluted	$ 1.16	$ 0.64
AVERAGE SHARES OUTSTANDING:		
Basic	50,335,024	54,315,939
Diluted	51,157,170	54,965,496
CASH DIVIDENDS PER SHARE	$ 0.175	$ 0.10

See notes to unaudited consolidated financial statements.

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

	June 30, 2006 (unaudited)	March 31, 2006
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 97,233	$ 54,766
Accounts and Notes Receivable, net	105,785	94,061
Inventories	67,401	67,799
Total Current Assets	270,419	216,626
Property, Plant and Equipment	893,886	856,227
Less: Accumulated Depreciation	(307,054)	(298,665)
Property, Plant and Equipment, net	586,832	557,562
Investment in Joint Venture	27,594	27,847
Goodwill and Intangible Assets	67,695	67,854
Other Assets	15,384	19,027
	$ 967,924	$ 888,916
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts Payable	$ 55,444	$ 51,562
Federal Income Taxes Payable	26,877	
Accrued Liabilities	49,378	53,137
Total Current Liabilities	131,699	104,699
Long-term Debt	200,000	200,000
Deferred Income Taxes	117,995	119,479
Stockholders Equity		
Preferred Stock, Par Value $0.01; Authorized 5,000,000 Shares; None Issued		
Common Stock, Par Value $0.01; Authorized 100,000,000 Shares; Issued and Outstanding 50,406,400 and 50,318,797 Shares, respectively	504	503
Capital in Excess of Par Value	3,220	
Accumulated Other Comprehensive Losses	(1,404)	(1,404)
Retained Earnings	515,910	465,639
Total Stockholders Equity	518,230	464,738
	$ 967,924	$ 888,916

See notes to the unaudited consolidated financial statements.

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

	For the Three Months Ended June 30, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Earnings	$ 59,092	$ 34,908
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities, Net of Effect of Non-Cash Activity		
Depreciation, Depletion and Amortization	9,936	9,535
Deferred Income Tax Provision	(1,484)	(3,360)
Stock Compensation Expense	1,062	557
Equity in Earnings of Unconsolidated Joint Venture	(5,997)	(5,527)
Excess Tax Benefits from Share Based Payment Arrangements	(1,284)	
Distributions from Joint Venture	6,250	7,000
Changes in Operating Assets and Liabilities:		
Accounts and Notes Receivable	(11,724)	(14,913)
Inventories	398	7,501
Accounts Payable and Accrued Liabilities	106	1,974
Other Assets	1,963	1,303
Income Taxes Payable	29,801	15,876
Net Cash Provided by Operating Activities	88,119	54,854
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, Plant and Equipment Additions	(38,982)	(16,171)
Net Cash Used in Investing Activities	(38,982)	(16,171)
CASH FLOWS FROM FINANCING ACTIVITIES		
Addition to Long-term Debt		1,000
Addition to Note Payable		8,600
Dividends Paid to Stockholders	(8,804)	(5,480)
Retirement of Common Stock		(36,518)
Proceeds from Stock Option Exercises	850	1,072
Excess Tax Benefits from Share Based Payment Arrangements	1,284	
Net Cash Used in Financing Activities	(6,670)	(31,326)
NET INCREASE IN CASH AND CASH EQUIVALENTS	42,467	7,357
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	54,766	7,221
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 97,233	$ 14,578

See notes to the unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
June 30, 2006

(A) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements as of and for the three month period ended June 30, 2006, include the accounts of Eagle Materials Inc. and its majority owned subsidiaries (EXP the Company or we) and have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on June 2, 2006.

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

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

(B) SHARE-BASED EMPLOYEE COMPENSATION

Share Based Payments. Effective April 1, 2005, the Company adopted SFAS 123R, Share-Based Payment utilizing the modified prospective approach. Under the modified prospective approach, SFAS 123R applies to new awards and to awards that were outstanding on April 1, 2005 and are subsequently modified or cancelled. Compensation expense for outstanding awards for which the requisite service had not been rendered as of April 1, 2005, will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes previously disclosed under SFAS 123 Accounting for Stock-Based Compensation. Prior periods were not restated to reflect the impact of adopting the new standard.

Long-Term Compensation Plans

Options. During the first quarter of fiscal 2007, the Company granted a target number of stock options to certain individuals that may be earned, in whole or in part, by meeting certain performance conditions related to both financial and operational performance. These stock options were valued at the grant date using the Black-Scholes option pricing model. The weighted-average assumptions used in the Black-Scholes model to value the option awards in fiscal 2007 are as follows: annual dividend rate of $0.70, expected volatility of 30%, risk free interest rate of 4.75% and expected life of 10 years. At the end of fiscal 2007, one third of the options earned will become immediately vested, with the remaining earned options vesting ratably on March 31, 2008 and 2009. The Company is expensing the fair value of the options granted over a three year period, as adjusted for forfeitures. For the three-month periods ended June 30, 2006 and 2005, we expensed approximately $697,000 and $359,000, respectively. At June 30, 2006, there was approximately $6.3 million of unrecognized compensation cost related to outstanding stock options which is expected to be recognized over a weighted-average period of 2.5 years.

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The following table represents stock option activity for the quarter ended June 30, 2006:

	Number of Shares	Weighted-Average Exercise Price
Outstanding Options at Beginning of Period	1,816,865	$ 15.74
Granted	68,425	$ 62.83
Exercised	(74,531)	$ 11.40
Cancelled	(50,242)	$ 30.32
Outstanding Options at End of Period	1,760,517	$ 14.95
Options Exercisable at End of Period	1,261,125	
Weighted-Average Fair Value of Options Granted during the Period	$ 30.91	

The following table summarizes information about stock options outstanding at June 30, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares Outstanding	Weighted Average Exercise Price
\$6.80 - \$8.15	335,013	4.4 years	$ 7.36	306,802	$ 7.29
\$9.57 - \$10.54	211,488	3.4 years	$ 10.29	199,524	$ 10.33
\$11.04 - \$18.88	638,812	5.5 years	$ 12.09	481,377	$ 12.03
\$21.52 - \$29.59	425,814	7.1 years	$ 25.68	224,100	$ 24.57
\$34.67 - \$39.54	82,583	6.2 years	$ 36.63	49,322	$ 34.99
\$62.83	66,807	9.9 years	$ 62.83		$
	1,760,517	5.6 years	$ 14.95	1,261,125	$ 13.73

At June 30, 2006, the aggregate intrinsic value of options outstanding was \$52.4 million. The aggregate intrinsic value of exercisable options at that date was approximately \$41.3 million. The total intrinsic value of options exercised during the three month period ended June 30, 2006 was approximately \$ 3.7 million.

Restricted Stock Units. The Company granted a target level of restricted stock units to employees during the three month period ended June 30, 2006. The ultimate number of restricted stock units earned from the grant will not be known until the end of fiscal 2007, and, similar to the stock option grants described above, will be based on the achievement of certain criteria during the year. Any unearned shares will be forfeited. The value of the shares granted is being amortized over a three year period. Expense related to restricted stock units was approximately \$365,000 and \$198,000 for the three-month periods ended June 30, 2006 and 2005, respectively. At June 30, 2006 there was approximately \$2.8 million of unearned compensation from restricted stock units that will be recognized over a weighted average period of 2.3 years.

Shares available for future stock option and restricted stock unit grants under existing plans were 2,816,378 at June 30, 2006.

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(C) PENSION AND EMPLOYEE BENEFIT PLANS

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

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

	For the Three Months Ended June 30,	
	2006	2005
	(dollars in thousands)	
Service Cost Benefits Earned during the Period	$ 124	$ 125
Interest Cost of Benefit Obligations	192	190
Amortization of Unrecognized Prior-Service Cost	35	34
Credit for Expected Return on Plan Assets	(211)	(205)
Actuarial Loss	60	58
Net Period Cost	$ 200	$ 202

(D) STOCKHOLDERS EQUITY

A summary of changes in stockholders equity follows:

	For the Three Months Ended June 30, 2006 (dollars in thousands)
Common Stock	
Balance at Beginning of Period	$ 503
Stock Option Exercises	1
Balance at End of Period	504
Capital in Excess of Par Value	
Balance at Beginning of Period	
Share Based Activity	2,371
Stock Option Exercises	849
Balance at End of Period	3,220
Retained Earnings	
Balance at Beginning of Period	465,639
Dividends Declared to Stockholders	(8,821)
Net Earnings	59,092
Balance at End of Period	515,910

Accumulated Other Comprehensive Losses		
Balance at Beginning of Period		(1,404)
Balance at End of Period		(1,404)
Total Stockholders Equity	$	518,230

There were no share repurchases during the three month period ended June 30, 2006. As of June 30, 2006, the Company has authorization to purchase an additional 3.0 million shares.

(E) CASH FLOW INFORMATION SUPPLEMENTAL

Cash payments made for interest were $5.7 million and $1.2 million for the three months ended June 30, 2006 and 2005, respectively. Net payments made for federal and state income taxes during the three months ended June 30, 2006 and 2005, were $1.4 and $1.5 million, respectively.

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(F) COMPREHENSIVE INCOME

Comprehensive income for the three month periods ended June 30, 2006 and 2005 was identical to net income for the same periods.

As of June 30, 2006, the Company has an accumulated other comprehensive loss of $1.4 million, net of income taxes of $0.8 million, in connection with recognizing an additional minimum pension liability. The minimum pension liability relates to the accumulated benefit obligation in excess of the fair value of plan assets of the defined benefit retirement plans.

(G) INVENTORIES

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

	As of	
	June 30, 2006	March 31, 2006
	(dollars in thousands)	
Raw Materials and Material-in-Progress	$ 16,701	$ 15,494
Gypsum Wallboard	9,853	6,621
Finished Cement	6,494	10,978
Paperboard	4,067	3,536
Aggregates	4,037	5,579
Repair Parts and Supplies	24,858	23,962
Fuel and Coal	1,391	1,629
	$ 67,401	$ 67,799

(H) COMPUTATION OF EARNINGS PER SHARE

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

	For the Three Months Ended June 30,	
	2006	2005
Weighted-Average Shares of Common Stock Outstanding	50,335,024	54,315,939
Common Equivalent Shares:		
Assumed Exercise of Outstanding Dilutive Options	1,693,710	1,678,869
Less Shares Repurchased from Assumed Proceeds of Assumed Exercised Options	(952,447)	(1,063,671)
Restricted Shares	80,883	34,359
Weighted-Average Common and Common Equivalent Shares Outstanding	51,157,170	54,965,496

At June 30, 2006, 66,807 stock options were excluded from the diluted earnings per share calculation, as their effect was anti-dilutive.

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(I) CREDIT FACILITIES

Bank Credit Facility -

The Company entered into a $350.0 million credit facility on December 16, 2004. On June 30, 2006 we amended the Bank Credit Facility (the Bank Credit Facility) to extend the expiration date from December 2009 to June 2011, and to reduce the borrowing rates and commitment fees. Borrowings under the Bank Credit Facility are guaranteed by all major operating subsidiaries of the Company. Outstanding principal amounts on the Bank Credit Facility bear interest, at the option of the Company, at a variable rate equal to: (i) LIBOR, plus an agreed margin (ranging from 55 to 100 basis points), which is established quarterly based upon the Company s ratio of consolidated EBITDA to its consolidated indebtedness; or (ii) an alternate base rate which is the higher of (a) the prime rate or (b) the federal funds rate plus $^1/2$% per annum. 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. Under the Bank Credit Facility, we are required to adhere to a number of financial and other covenants, including covenants relating to the Company s interest coverage ratio and consolidated funded indebtedness ratio. At March 31, 2006 the Company had $342.3 million of borrowings available under the Bank Credit Facility.

Senior Notes -

We entered into a Note Purchase Agreement (the Note Purchase Agreement) on November 15, 2005 related to our sale of $200 million of senior, unsecured notes, designated as Series 2005A Senior Notes (the Senior Notes) in a private placement transaction. The Senior Notes, which are guaranteed by substantially all of the Company s subsidiaries, were sold at par and issued in three tranches on November 15, 2005, as follows:

	Principal	Maturity Date	Interest Rate
Tranche A	$40 million	November 15, 2012	5.25%
Tranche B	$80 million	November 15, 2015	5.38%
Tranche C	$80 million	November 15, 2017	5.48%

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

Our obligations under the Note Purchase Agreement and 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 Agreement contains 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.

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 Agreement) on the Senior Notes and the other payment and performance obligations of the Company contained in the Senior Notes and in the Note Purchase Agreement. 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.

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(J) NET INTEREST EXPENSE

The following components are included in interest expense, net:

	For the Three Months Ended June 30,	
	2006	2005
	(dollars in thousands)	
Interest (Income)	$ (588)	$ (34)
Interest Expense	2,814	1,259
Other Expenses	100	111
Interest Capitalized	(563)	
Interest Expense, net	$ 1,763	$ 1,336

Interest income includes interest on investments of excess cash and interest on notes receivable. Components of interest expense include interest associated with the Senior Notes and commitment fees based on the unused portion of the Bank Credit Facility. Other expenses include amortization of debt issue costs and bank credit facility costs. Interest capitalized relates to the expansion project at Illinois Cement Company and construction of a new wallboard facility by American Gypsum Company.

(K) COMMITMENTS AND CONTINGENCIES

The Company has certain deductible limits under its workers compensation and liability insurance policies for which reserves are established based on the undiscounted estimated costs of known and anticipated claims. We have entered into standby letter of credit agreements relating to workers compensation and auto and general liability self-insurance. At June 30, 2006, we had contingent liabilities under these outstanding letters of credit of approximately $7.7 million.

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

	As of and for the Three Months Ended June 30,	
	2006	2005
	(dollars in thousands)	
Accrual Balances at Beginning Period	$ 5,456	$ 4,902
Insurance Expense Accrued	1,244	1,199
Payments	(847)	(545)
Accrual Balance at End of Period	$ 5,853	$ 5,559

The Company is currently contingently liable for performance under $6.9 million in performance bonds required by certain states and municipalities, and their related agencies. The bonds are principally for certain reclamation obligations and mining permits. We have indemnified the underwriting insurance company against any exposure under the performance bonds. In the Company s past experience, no material claims have been made against these financial instruments.

The Company s tax returns are subject to periodic examination by the Internal Revenue Service (IRS) and State Taxing Authorities. At June 30, 2006, the IRS was in the process of conducting an audit of the Company s tax returns. We expect the IRS to complete its audit during fiscal 2007.

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In the ordinary course of business, we execute contracts involving indemnifications 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. The Company currently has no outstanding guarantees.

(L) 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: Gypsum Wallboard, Cement, Recycled Paperboard, and Concrete and Aggregates, with Gypsum Wallboard and Cement being our principal lines of business. These operations are conducted in the United States and include the mining of gypsum and the manufacture and sale of gypsum wallboard, 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 manufacture and sale of recycled paperboard to the gypsum wallboard industry and other paperboard converters and the sale of readymix concrete and the mining and sale of aggregates (crushed stone, sand an