

EAGLE MATERIALS INC
Form 10-Q
February 08, 2010
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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

December 31, 2009

Commission File Number 1-12984

Eagle Materials Inc.

Delaware

(State of Incorporation)

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75-2520779

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

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

(Address of principal executive offices)

(214) 432-2000

(Registrant's telephone number)

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

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

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

As of February 5, 2010, the number of outstanding shares of common stock was:

| Class | Outstanding Shares |
|-------------------------------|--------------------|
| Common Stock, \$.01 Par Value | 43,809,874 |

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Eagle Materials Inc. and Subsidiaries

Form 10-Q

December 31, 2009

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Consolidated Statements of Earnings

(dollars in thousands, except share data)

(unaudited)

| | For the Three Months Ended December 31, | | For the Nine Months Ended December 31, | |
|---|--|-----------|---|------------|
| | 2009 | 2008 | 2009 | 2008 |
| REVENUES | | | | |
| Gypsum Wallboard | \$ 45,374 | \$ 61,393 | \$ 159,016 | \$ 217,374 |
| Cement | 37,171 | 45,874 | 135,886 | 161,955 |
| Paperboard | 12,900 | 15,555 | 38,298 | 55,710 |
| Concrete and Aggregates | 9,084 | 14,901 | 37,319 | 54,682 |
| Other, net | 110 | 106 | 197 | 3,845 |
| | 104,639 | 137,829 | 370,716 | 493,566 |
| COSTS AND EXPENSES | | | | |
| Gypsum Wallboard | 47,661 | 58,593 | 156,563 | 221,302 |
| Cement | 29,690 | 32,544 | 101,645 | 115,642 |
| Paperboard | 9,684 | 11,517 | 25,680 | 43,615 |
| Concrete and Aggregates | 9,182 | 14,495 | 35,627 | 50,801 |
| Other, net | | | 84 | |
| Corporate General and Administrative | 3,170 | 5,140 | 12,314 | 14,110 |
| Interest Expense, net | 5,695 | 7,671 | 16,929 | 23,791 |
| | 105,082 | 129,960 | 348,842 | 469,261 |
| EQUITY IN EARNINGS OF UNCONSOLIDATED JOINT VENTURE | | | | |
| | 5,910 | 8,681 | 18,276 | 25,421 |
| EARNINGS BEFORE INCOME TAXES | | | | |
| | 5,467 | 16,550 | 40,150 | 49,726 |
| Income Taxes | 783 | 5,291 | 11,352 | 14,992 |
| NET EARNINGS | | | | |
| | \$ 4,684 | \$ 11,259 | \$ 28,798 | \$ 34,734 |
| EARNINGS PER SHARE: | | | | |
| Basic | \$ 0.11 | \$ 0.26 | \$ 0.66 | \$ 0.80 |

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| | | | | | | | | |
|---------|----|------|----|------|----|------|----|------|
| Diluted | \$ | 0.11 | \$ | 0.26 | \$ | 0.65 | \$ | 0.79 |
|---------|----|------|----|------|----|------|----|------|

AVERAGE SHARES OUTSTANDING:

| | | | | |
|-------|------------|------------|------------|------------|
| Basic | 43,752,952 | 43,517,844 | 43,655,146 | 43,473,363 |
|-------|------------|------------|------------|------------|

| | | | | |
|---------|------------|------------|------------|------------|
| Diluted | 44,092,803 | 43,826,789 | 44,033,928 | 43,869,479 |
|---------|------------|------------|------------|------------|

| | | | | | | | | |
|----------------------------------|----|------|----|------|----|------|----|------|
| CASH DIVIDENDS PER SHARE: | \$ | 0.10 | \$ | 0.10 | \$ | 0.30 | \$ | 0.50 |
|----------------------------------|----|------|----|------|----|------|----|------|

See notes to unaudited consolidated financial statements.

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

Consolidated Balance Sheets

(dollars in thousands)

| | December 31, 2009 (unaudited) | March 31, 2009 |
|--|-------------------------------------|---------------------|
| ASSETS | | |
| Current Assets - | | |
| Cash and Cash Equivalents | \$ 22,442 | \$ 17,798 |
| Accounts and Notes Receivable | 38,262 | 44,261 |
| Inventories | 99,515 | 107,063 |
| Prepaid and Other Assets | 4,553 | 6,161 |
| Total Current Assets | 164,772 | 175,283 |
| Property, Plant and Equipment - | 1,100,534 | 1,089,610 |
| Less: Accumulated Depreciation | (455,960) | (419,669) |
| Property, Plant and Equipment, net | 644,574 | 669,941 |
| Notes Receivable | 7,024 | 6,301 |
| Investment in Joint Venture | 33,797 | 39,521 |
| Goodwill and Intangible Assets | 152,335 | 152,812 |
| Other Assets | 24,065 | 22,810 |
| | \$ 1,026,567 | \$ 1,066,668 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current Liabilities - | | |
| Accounts Payable | \$ 16,460 | \$ 19,645 |
| Federal Income Taxes Payable | 3,817 | |
| Accrued Liabilities | 38,086 | 44,604 |
| Total Current Liabilities | 58,363 | 64,249 |
| Long-term Debt | 300,000 | 355,000 |
| Other Long-term Liabilities | 100,090 | 97,104 |
| Deferred Income Taxes | 118,890 | 122,488 |
| Total Liabilities | 577,343 | 638,841 |

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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 43,809,874 and 43,589,775 Shares, respectively

Capital in Excess of Par Value

Accumulated Other Comprehensive Losses

Retained Earnings

Total Stockholders' Equity

438 436

16,878 11,166

(6,040) (6,040)

437,948 422,265

449,224 427,827

\$ 1,026,567 \$ 1,066,668

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 Nine Months Ended December 31, | |
|--|---|----------------|
| | 2009 | 2008 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Earnings | \$ 28,798 | \$ 34,734 |
| Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities - | | |
| Depreciation, Depletion and Amortization | 38,254 | 38,533 |
| Gain on Sale of Property, Plant and Equipment | | (2,596) |
| Deferred Income Tax Provision | (3,598) | (1,827) |
| Stock Compensation Expense | 2,478 | 4,839 |
| Equity in Earnings of Unconsolidated Joint Venture | (18,276) | (25,421) |
| Excess Tax Benefits from Share Based Payment Arrangements | (1,766) | (603) |
| Distributions from Joint Venture | 24,000 | 27,500 |
| Changes in Operating Assets and Liabilities: | | |
| Accounts and Notes Receivable | 5,276 | 12,793 |
| Inventories | 7,548 | (3,529) |
| Accounts Payable and Accrued Liabilities | (5,796) | (25,788) |
| Other Assets | 144 | (1,434) |
| Income Taxes Payable | 4,637 | 4,862 |
| Net Cash Provided by Operating Activities | 81,699 | 62,063 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Property, Plant and Equipment Additions | (12,201) | (12,846) |
| Proceeds from Sale of Property, Plant and Equipment | | 3,996 |
| Net Cash Used in Investing Activities | (12,201) | (8,850) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Decrease in Long-term Debt | (55,000) | |
| Dividends Paid to Stockholders | (13,090) | (26,087) |
| Proceeds from Stock Option Exercises | 1,470 | 1,135 |
| Excess Tax Benefits from Share Based Payment Arrangements | 1,766 | 603 |

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| | | |
|---|-----------|-----------|
| Net Cash Used in Financing Activities | (64,854) | (24,349) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 4,644 | 28,864 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 17,798 | 18,960 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 22,442 | \$ 47,824 |

See notes to the unaudited consolidated financial statements.

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Eagle Materials Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

December 31, 2009

(A) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements as of and for the three and nine month periods ended December 31, 2009, 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 27, 2009.

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.

Certain prior year balances, primarily prepaid expenses and deferred taxes, have been reclassified to be consistent with the current year presentation.

We evaluated all events or transactions that occurred after December 31, 2009 up through February 8, 2010, the date we issued these financial statements. During this period, we did not have any material recognizable subsequent events.

Recent Accounting Pronouncements

Effective with the quarter ended December 31, 2009, we adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 105, Generally Accepted Accounting Principles (ASC 105). ASC 105 establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States. The FASB will make all future changes to guidance in the Codification by issuing Accounting Standards Updates. The Codification also provides that rules and interpretive releases of the U. S. Securities and Exchange Commission (SEC) issued under the authority of federal securities laws will continue to be sources of authoritative GAAP for SEC registrants. The Codification does not create any new GAAP standards but incorporates existing accounting and reporting standards into a new topical structure so that users can more easily access authoritative accounting guidance. Therefore, we have updated all references to authoritative standards to be consistent with those set forth in the Codification. The adoption of ASC 105 had no impact on our consolidated financial position, results of operations or cash flows.

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In May 2009, the FASB issued guidance on subsequent events, which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The guidance was adopted effective for the first fiscal quarter of 2010 and did not have a material impact on our financial statements.

In April 2009, the FASB issued guidance on interim disclosures about fair value of financial instruments, which requires quarterly disclosure of information about the fair value of financial instruments. The guidance was adopted effective for the first fiscal quarter of 2010 and did not have a material impact on our financial statements.

(B) CASH FLOW INFORMATION - SUPPLEMENTAL

Cash payments made for interest were \$18.2 million and \$24.4 million for the nine months ended December 31, 2009 and 2008, respectively. Net payments made for federal and state income taxes during the nine months ended December 31, 2009 and 2008, were \$11.0 and \$13.1 million, respectively.

(C) STOCKHOLDERS EQUITY

A summary of changes in stockholders equity follows:

| | For the Nine Months Ended December 31, 2009 (dollars in thousands) |
|---|---|
| Common Stock | |
| Balance at Beginning of Period | \$ 436 |
| Stock Option Exercises | 2 |
| Balance at End of Period | 438 |
| Capital in Excess of Par Value | |
| Balance at Beginning of Period | 11,166 |
| Share-Based Activity | 4,244 |
| Stock Option Exercises | 1,468 |
| Balance at End of Period | 16,878 |
| Retained Earnings | |
| Balance at Beginning of Period | 422,265 |
| Dividends Declared to Stockholders | (13,115) |
| Net Earnings | 28,798 |
| Balance at End of Period | 437,948 |
| Accumulated Other Comprehensive Loss - | |
| Balance at Beginning of Period | (6,040) |
| Balance at End of Period | (6,040) |

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| | | |
|----------------------------------|----|---------|
| Total Stockholders Equity | \$ | 449,224 |
|----------------------------------|----|---------|

There were no share repurchases during the three and nine month periods ended December 31, 2009. As of December 31, 2009, we have authorization to purchase an additional 717,300 shares.

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Comprehensive income for the nine month periods ended December 31, 2009 and 2008 was identical to net income for the same periods.

As of December 31, 2009, we had an accumulated other comprehensive loss of \$6.0 million in connection with recognizing the difference between the fair value of the pension assets and the projected benefit obligation.

(E) INVENTORIES

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

| | As of | |
|--|------------------------|-------------------|
| | December 31, 2009 | March 31, 2009 |
| | (dollars in thousands) | |
| Raw Materials and Material-in-Progress | \$ 27,016 | \$ 32,580 |
| Gypsum Wallboard | 6,978 | 9,622 |
| Finished Cement | 9,664 | 11,303 |
| Paperboard | 3,472 | 4,142 |
| Aggregates | 11,529 | 11,684 |
| Repair Parts and Supplies | 38,672 | 36,429 |
| Fuel and Coal | 2,184 | 1,303 |
| | \$ 99,515 | \$ 107,063 |

(F) ACCRUED EXPENSES

Accrued expenses consist of the following:

| | As of | |
|------------------------------------|------------------------|-------------------|
| | December 31, 2009 | March 31, 2009 |
| | (dollars in thousands) | |
| Payroll and Incentive Compensation | \$ 7,316 | \$ 10,813 |
| Benefits | 9,919 | 9,152 |
| Interest | 3,004 | 7,310 |
| Insurance | 6,681 | 5,665 |
| Property Taxes | 3,732 | 3,915 |
| Other | 7,434 | 7,749 |
| | \$ 38,086 | \$ 44,604 |

(G) SHARE-BASED EMPLOYEE COMPENSATION**Long-Term Compensation Plans**

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Our current Incentive Plan (the Plan) was initially adopted during fiscal 2004 and amended during fiscal 2006 and fiscal 2010. Under the terms of the Plan, we can issue stock options, restricted stock units (RSUs) and restricted stock (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. The exercise price of options must be equal to or greater than the fair market value of a share of our common stock on the date of grant and the term of these options may not exceed ten years. Vesting of options granted to employees is

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generally based on performance criteria, while options granted to members of the Board of Directors are immediately and fully exercisable. RSUs issued to employees generally are paid in shares based on the achievement of certain performance criteria. Dividend equivalent units are accrued on all RSUs that have been earned, but not yet paid out in shares. RSUs granted to members of the Board of Directors are generally paid in shares when the director retires in accordance with our Director Retirement Policy. Restrictions on restricted shares issued to employees generally lapse ratably over a five-to-seven-year period. Equity Awards issued under the Plan generally provide that, in the event of a change in control, all awards become immediately and fully exercisable.

Options. Stock option expense for all outstanding stock option awards totaled approximately \$0.3 million and \$2.1 million for the three and nine month periods ended December 31, 2009, respectively, as compared to \$1.7 and \$3.9 million for the three and nine month periods ended December 31, 2008, respectively. At December 31, 2009, there was approximately \$3.7 million of unrecognized compensation cost related to outstanding stock options which is expected to be recognized over a weighted-average period of 4.4 years.

The following table represents stock option activity for the quarter ended December 31, 2009:

| | Number of Shares | Weighted- Average Exercise Price |
|--|------------------------|--|
| Outstanding Options at Beginning of Period | 3,568,431 | \$ 33.32 |
| Granted | 138,651 | \$ 27.72 |
| Exercised | (126,849) | \$ 27.23 |
| Cancelled | (124,000) | \$ 32.83 |
| Outstanding Options at End of Period | 3,456,233 | \$ 33.90 |
| Options Exercisable at End of Period | 1,986,233 | |
| Weighted-Average Fair Value of Options Granted During the Period | \$ 9.39 | |

The following table summarizes information about stock options outstanding at December 31, 2009:

| Range of Exercise Prices | Outstanding Options | | | Exercisable Options | |
|--------------------------|------------------------------------|---|--|------------------------------------|--|
| | 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 | 152,634 | 1.06 | \$ 7.69 | 152,634 | \$ 7.69 |
| \$ 9.57 - \$ 13.43 | 381,041 | 2.94 | \$ 12.10 | 381,041 | \$ 12.10 |
| \$ 21.52 - \$ 29.08 | 1,189,849 | 5.19 | \$ 26.31 | 1,159,849 | \$ 26.27 |
| \$ 34.09 - \$ 40.78 | 316,670 | 3.94 | \$ 37.83 | 236,670 | \$ 38.25 |
| \$ 47.53 - \$ 62.83 | 1,416,039 | 4.56 | \$ 48.10 | 56,039 | \$ 61.43 |
| | 3,456,233 | 4.39 | \$ 33.90 | 1,986,233 | \$ 24.54 |

At December 31, 2009, there was no aggregate intrinsic value of stock options outstanding for non-exercisable options. The aggregate intrinsic value of exercisable options at that date was approximately \$3.0 million. The total intrinsic value of options exercised during the nine month

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period ended December 31, 2009 was approximately \$2.0 million.

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Restricted Stock Units. We have previously granted RSUs to employees and directors. The value of the RSUs granted to employees is being amortized over a three year period, with the exception of the RSUs granted on August 21, 2008, which we expensed over a one year period. The value of the RSUs granted to directors is being amortized over a period not to exceed ten years. Expense related to RSUs was approximately \$0.0 million and \$1.2 million for the three and nine month periods ended December 31, 2009, respectively, as compared to \$0.4 million and \$0.8 million for the three and nine month periods ended December 31, 2008, respectively. At December 31, 2009, there was approximately \$0.4 million of unearned compensation from RSUs that will be recognized over a weighted-average period of 5.1 years.

Restricted Stock. We granted 30,000 shares of restricted stock on August 21, 2009. The restricted stock was valued at approximately \$0.8 million, based on the closing price of the stock on the date of the grant. The restrictions lapse in annual increments over a five-year period, with the expense recognized ratably over the same five-year period.

During our Annual Shareholders Meeting, our shareholders approved a proposal to increase the number of shares available under our Incentive Plan by 3,000,000 shares and approved certain other amendments to the Plan. Shares available for future stock option and restricted stock unit grants under existing plans were 3,264,522 at December 31, 2009.

(H) COMPUTATION OF EARNINGS PER SHARE

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

| | For the Three Months Ended December 31, | | For the Nine Months Ended December 31, | |
|--|--|------------|---|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Weighted-Average Shares of Common Stock Outstanding | 43,752,952 | 43,517,844 | 43,655,146 | 43,473,363 |
| Common Equivalent Shares: | | | | |
| Assumed Exercise of Outstanding Dilutive Options | 1,476,522 | 651,489 | 1,131,192 | 900,131 |
| Less Shares Repurchased from Assumed | | | | |
| Proceeds of Assumed Exercised Options | (1,180,270) | (447,291) | (835,584) | (594,346) |
| Restricted Shares | 43,599 | 104,747 | 83,174 | 90,331 |
| Weighted-Average Common and Common Equivalent Shares Outstanding | 44,092,803 | 43,826,789 | 44,033,928 | 43,869,479 |
| Shares Excluded Due to Anti-dilution Effects | 2,015,545 | 2,946,977 | 2,359,386 | 2,360,392 |

(I) 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 nine months ended December 31, 2009 was approximately 28%.

(J) 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.

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

| | For the Three Months Ended December 31, 2009 2008 (dollars in thousands) | | For the Nine Months Ended December 31, 2009 2008 (dollars in thousands) | |
|--|--|--------|---|--------|
| Service Cost - Benefits Earned during the Period | \$ 126 | \$ 140 | \$ 404 | \$ 419 |
| Interest Cost of Benefit Obligations | 266 | 250 | 768 | 751 |
| Expected Return on Plan Assets | (62) | (280) | (620) | (839) |
| Recognized Net Actuarial Loss | 509 | 77 | 581 | 230 |
| Amortization of Prior-Service Cost | (57) | 36 | 97 | 108 |
| Net Periodic Pension Cost | \$ 782 | \$ 223 | \$ 1,230 | \$ 669 |

(K) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of our long-term debt has been estimated based upon our current incremental borrowing rates for similar types of borrowing arrangements. The fair value of our Senior Notes at December 31, 2009 is as follows:

| | Fair Value (dollars in thousands) |
|------------------------|--------------------------------------|
| Series 2005A Tranche A | \$ 40,105 |
| Series 2005A Tranche B | \$ 78,860 |
| Series 2005A Tranche C | \$ 76,968 |
| Series 2007A Tranche A | \$ 10,013 |
| Series 2007A Tranche B | \$ 11,545 |
| Series 2007A Tranche C | \$ 52,100 |
| Series 2007A Tranche D | \$ 37,723 |

All assets and liabilities which are not considered financial instruments have been valued using historical cost accounting. The carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term maturities of these assets and liabilities.

(L) CREDIT FACILITIES

Long-term debt consists of the following:

| | As of | |
|----------------------|------------------------|-------------------|
| | December 31, 2009 | March 31, 2009 |
| | (dollars in thousands) | |
| Bank Credit Facility | \$ | \$ 55,000 |
| Senior Notes | 300,000 | 300,000 |

Bank Credit Facility -

We 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 a variable rate equal to LIBOR, plus an agreed margin (ranging from 55 to 150 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. Interest payments are payable monthly or at the end of the LIBOR advance periods, which can be up to a period of nine months at our option.

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The Bank Credit Facility has a \$25 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 December 31, 2009, we had \$7.0 million of letters of credit outstanding.

At December 31, 2009, the Company had \$343.0 million of borrowings available under the Bank Credit Facility. Under the Bank Credit Facility, we are required to adhere to certain financial and other covenants, including covenants relating to the Company's interest coverage ratio and consolidated funded indebtedness ratio.

Senior Notes -

We entered into a Note Purchase Agreement on November 15, 2005 (the 2005 Note Purchase Agreement) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2005A Senior Notes (the Series 2005A Senior Notes) in a private placement transaction. The Series 2005A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in three tranches on November 15, 2005. On February 5, 2009, we repurchased \$7.0 million in principal of the Series 2005A Senior Notes for \$6.7 million, leaving \$193.0 million outstanding. Following the repurchase, 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 | \$ 77.2 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. On February 5, 2009, we repurchased \$93.0 million in principal of the Series 2007A Senior Notes for \$88.3 million, leaving \$107.0 million outstanding. 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 consolidated funded indebtedness ratio, 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 December 31, 2009.

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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.

(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 December 31, 2009, we had contingent liabilities under these outstanding letters of credit of approximately \$7.0 million.

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

| | As of and For the Three Months Ended December 31, | | As of and For the Nine Months Ended December 31, | |
|---|--|----------|---|----------|
| | 2009 | 2008 | 2009 | 2008 |
| | (dollars in thousands) | | (dollars in thousands) | |
| Accrual Balances at Beginning of Period | \$ 6,612 | \$ 5,528 | \$ 5,794 | \$ 5,673 |
| Insurance Expense Accrued | 492 | 905 | 2,161 | 2,633 |
| Payments | (423) | (639) | (1,274) | (2,512) |
| Accrual Balance at End of Period | \$ 6,681 | \$ 5,794 | \$ 6,681 | \$ 5,794 |

In the ordinary course of business, we execute contracts involving indemnifications typical in our industries 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 we 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. Currently we have no outstanding guarantees.

The Internal Revenue Service (the "IRS") completed the examination of our federal income tax returns for the fiscal years ended March 31, 2001, 2002, and 2003. The IRS issued an Exam Report and Notice of Proposed Adjustment on November 9, 2007, 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"). We completed our IRS Appeals effort in late August 2009 and were unable to resolve the case. On September 7, 2009, we were notified that our request for the IRS Post Appeals Mediation program was approved, and such mediation is scheduled for March 3, 2010.

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If sustained, the adjustment proposed by the IRS would result in additional federal income taxes owed by us of approximately \$27.6 million, plus penalties of \$5.7 million and applicable interest. Moreover, for taxable years subsequent to fiscal 2003, we also claimed depreciation deductions with respect to the Republic Assets, as originally recorded.

The IRS examination of federal income tax returns for fiscal years ended March 31, 2004, 2005 and 2006 is currently in process, and the IRS has indicated they intend to issue a notice in the near future challenging the depreciation deductions with respect to the Republic Assets on the same basis as set forth in the Notice of Proposed Adjustment. If challenged on the same basis as set forth in the Notice of Proposed Adjustment, additional federal income taxes for the years 2004 - 2006 of approximately \$32.0 million, plus applicable interest and possible civil penalties of up to approximately \$24.0 million assuming such penalties and interest are assessed on the same basis as the preceding years, could be asserted by the IRS for those periods. Also, additional state income taxes, interest, and civil penalties of approximately \$9.3 million would be owed by us for the fiscal years under exam and subsequent taxable years if the IRS' position is sustained.

We paid the IRS approximately \$45.8 million during November 2007 with respect to tax years 2001 - 2003, which is comprised of \$27.6 million in federal income taxes, \$5.7 million for penalties and \$12.5 million for interest, to avoid additional imposition of the large corporate tax underpayment interest rates. In the event we reach a settlement with the IRS in mediation or in the courts, we will reverse any accrued interest and penalties in excess of the negotiated settlement through the consolidated Statement of Earnings. In the event we are unable to reach a settlement, we believe we have a substantial basis for our tax position, and intend to vigorously contest the proposed adjustment in court. 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 are currently contingently liable for performance under \$8.8 million in performance bonds required by certain states and municipalities, and their related agencies. The bonds are principally for certain reclamation obligations and mining permits. We have indemnified the underwriting insurance company against any exposure under the performance bonds. In our past experience, no material claims have been made against these financial instruments.

(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: 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 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.

We operate four gypsum wallboard plants, two gypsum wallboard reload centers, a gypsum wallboard distribution center, four cement plants, eleven cement distribution terminals, 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 United States. 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 organizes 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 December 31, 2009 2008 | | For the Nine Months Ended December 31, 2009 2008 | |
|-----------------------------|---|-------------------|--|-------------------|
| | (dollars in thousands) | | (dollars in thousands) | |
| Revenues - | | | | |
| Gypsum Wallboard | \$ 45,374 | \$ 61,393 | \$ 159,016 | \$ 217,374 |
| Cement | 53,413 | 71,411 | 188,370 | 243,461 |
| Paperboard | 21,024 | 25,864 | 65,051 | 94,464 |
| Concrete and Aggregates | 9,251 | 15,139 | 37,991 | 55,416 |
| Other, net | 110 | 106 | 197 | 3,845 |
| Sub-total | 129,172 | 173,913 | 450,625 | 614,560 |
| Less: Intersegment Revenues | (9,206) | (12,129) | (31,173) | (44,921) |
| Less: Joint Venture | (15,327) | (23,955) | (48,736) | (76,073) |
| Net Revenues | \$ 104,639 | \$ 137,829 | \$ 370,716 | \$ 493,566 |

| | For the Three Months Ended December 31, 2009 2008 | | For the Nine Months Ended December 31, 2009 2008 | |
|--------------------------------|---|------------------|--|------------------|
| | (dollars in thousands) | | (dollars in thousands) | |
| Intersegment Revenues - | | | | |
| Cement | \$ 915 | \$ 1,582 | \$ 3,748 | \$ 5,433 |
| Paperboard | 8,124 | 10,309 | 26,753 | 38,754 |
| Concrete and Aggregates | 167 | 238 | 672 | 734 |
| | \$ 9,206 | \$ 12,129 | \$ 31,173 | \$ 44,921 |

| | | | | |
|---------------------------------------|------------|------------|--------------|--------------|
| Cement Sales Volume (M Tons) - | | | | |
| Wholly owned Operations | 418 | 461 | 1,497 | 1,601 |
| Joint Venture | 166 | 240 | 529 | 765 |
| | 584 | 701 | 2,026 | 2,366 |

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| | For the Three Months Ended December 31, 2009 2008 (dollars in thousands) | | For the Nine Months Ended December 31, 2009 2008 (dollars in thousands) | |
|--|--|------------------|---|------------------|
| Operating Earnings - | | | | |
| Gypsum Wallboard | \$ (2,287) | \$ 2,800 | \$ 2,453 | \$ (3,928) |
| Cement | 13,391 | 22,011 | 52,517 | 71,734 |
| Paperboard | 3,216 | 4,038 | 12,618 | 12,095 |
| Concrete and Aggregates | (98) | 406 | 1,692 | 3,881 |
| Other, net | 110 | 106 | 113 | 3,845 |
| Sub-total | 14,332 | 29,361 | 69,393 | 87,627 |
| Corporate General and Administrative | (3,170) | (5,140) | (12,314) | (14,110) |
| Earnings Before Interest and Income Taxes | 11,162 | 24,221 | 57,079 | 73,517 |
| Interest Expense, net | (5,695) | (7,671) | (16,929) | (23,791) |
| Earnings Before Income Taxes | \$ 5,467 | \$ 16,550 | \$ 40,150 | \$ 49,726 |
| Cement Operating Earnings - | | | | |
| Wholly owned Operations | \$ 7,481 | \$ 13,330 | \$ 34,241 | \$ 46,313 |
| Joint Venture | 5,910 | 8,681 | 18,276 | 25,421 |
| | \$ 13,391 | \$ 22,011 | \$ 52,517 | \$ 71,734 |
| Capital Expenditures ⁽¹⁾ - | | | | |
| Gypsum Wallboard | \$ 69 | \$ 562 | \$ 131 | \$ 3,554 |
| Cement | 1,864 | 1,114 | 11,253 | 7,787 |
| Paperboard | 52 | 130 | 222 | 528 |
| Concrete and Aggregates | 260 | | 503 | 965 |
| Other | 92 | 5 | 92 | 12 |
| | \$ 2,337 | \$ 1,811 | \$ 12,201 | \$ 12,846 |
| Depreciation, Depletion and Amortization ⁽¹⁾ - | | | | |
| Gypsum Wallboard | \$ 5,588 | \$ 5,669 | \$ 16,822 | \$ 17,342 |
| Cement | 3,780 | 3,497 | 11,019 | 10,621 |
| Paperboard | 2,271 | 2,276 | 6,830 | 6,805 |
| Concrete and Aggregates | 991 | 1,067 | 3,000 | 3,081 |
| Other, net | 171 | 230 | 583 | 684 |

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\$ 12,801 \$ 12,739 \$ 38,254 \$ 38,533

| | As of | |
|--------------------------------------|------------------------|-------------------|
| | December 31, 2009 | March 31, 2009 |
| | (dollars in thousands) | |
| Identifiable Assets ⁽¹⁾ - | | |
| Gypsum Wallboard | \$ 459,863 | \$ 489,518 |
| Cement | 311,059 | 317,555 |
| Paperboard | 150,019 | 154,541 |
| Concrete and Aggregates | 51,315 | 56,334 |
| Corporate and Other | 54,311 | 48,720 |
| | \$ 1,026,567 | \$ 1,066,668 |

⁽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. Corporate assets consist primarily of cash and cash equivalents, general office assets and miscellaneous other assets. See Footnote (M) of the Unaudited Consolidated Financial Statements for additional information. The segment breakdown of goodwill is as follows:

| | As of | |
|------------------|------------------------|-------------------|
| | December 31, 2009 | March 31, 2009 |
| | (dollars in thousands) | |
| Gypsum Wallboard | \$ 116,618 | \$ 116,618 |
| Cement | 8,359 | 8,359 |
| 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 third quarter for the gypsum wallboard assets and goodwill, noting that there was no impairment at that time. We will continue to test for any potential impairment on a quarterly basis throughout fiscal year 2010, or until conditions in the wallboard industry improve enough for us to determine that an impairment loss is not likely to occur.

During December 2009, we idled our gypsum manufacturing facility in Bernalillo, N.M. due to low industry utilization. In connection with the closure, we accrued approximately \$0.4 million in severance and other related costs. The closure of the facility is temporary, as we expect to re-open this facility when business conditions improve.

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 December 31, 2009 | | For the Nine Months Ended December 31, 2009 | |
|------------------------------|--|-----------|---|------------|
| | 2009 | 2008 | 2009 | 2008 |
| | (dollars in thousands) | | | |
| Revenues | \$ 27,526 | \$ 44,899 | \$ 90,370 | \$ 144,693 |
| Gross Margin | \$ 12,520 | \$ 18,400 | \$ 39,496 | \$ 54,611 |
| Earnings Before Income Taxes | \$ 11,821 | \$ 17,361 | \$ 36,553 | \$ 50,842 |

| | As of | |
|---------------------|------------------------|-------------------|
| | December 31, 2009 | March 31, 2009 |
| | (dollars in thousands) | |
| Current Assets | \$ 39,776 | \$ 47,307 |
| Non-Current Assets | \$ 37,251 | \$ 42,742 |
| Current Liabilities | \$ 11,247 | \$ 16,251 |

Table of Contents**(O) INTEREST EXPENSE**

The following components are included in interest expense, net:

| | For the Three Months Ended December 31, 2009 2008 (dollars in thousands) | | For the Nine Months Ended December 31, 2009 2008 (dollars in thousands) | |
|------------------------|--|----------|---|-----------|
| Interest (Income) | \$ (4) | \$ (141) | \$ (27) | \$ (219) |
| Interest Expense | 4,546 | 5,811 | 13,869 | 18,610 |
| Interest Expense - IRS | 1,075 | 1,876 | 2,774 | 5,025 |
| Other Expenses | 78 | 125 | 313 | 375 |
| Interest Expense, net | \$ 5,695 | \$ 7,671 | \$ 16,929 | \$ 23,791 |

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. Interest expense - IRS relates to interest accrued on our unrecognized tax benefits. Other expenses include amortization of debt issuance costs, and bank credit facility costs.

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 nine month periods ended December 31, 2009 and 2008, respectively, reflects the Company's four business segments, consisting of Gypsum Wallboard, Cement, 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 Wallboard and Paperboard operations are more national in scope and shipments are made throughout the continental U.S. 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.

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 December 31, | | | For the Nine Months Ended December 31, | | |
|--------------------------------------|--|------------|--------|---|------------|--------|
| | 2009 | 2008 | Change | 2009 | 2008 | Change |
| | (In thousands except share data) | | | (In thousands except share data) | | |
| Revenues ⁽¹⁾ | \$ 129,172 | \$ 173,913 | (26%) | \$ 450,625 | \$ 614,560 | (27%) |
| Operating Costs ⁽¹⁾ | 114,840 | 144,552 | (21%) | 381,232 | 526,933 | (28%) |
| Operating Profit | 14,332 | 29,361 | (51%) | 69,393 | 87,627 | (21%) |
| Corporate General and Administrative | 3,170 | 5,140 | (38%) | 12,314 | 14,110 | (13%) |
| Interest Expense, net | 5,695 | 7,671 | (26%) | 16,929 | 23,791 | (29%) |
| Earnings Before Income Taxes | 5,467 | 16,550 | (67%) | 40,150 | 49,726 | (19%) |
| Income Taxes | 783 | 5,291 | (85%) | 11,352 | 14,992 | (24%) |
| Net Earnings | \$ 4,684 | \$ 11,259 | (58%) | \$ 28,798 | \$ 34,734 | (17%) |
| Diluted Earnings per Share | \$ 0.11 | \$ 0.26 | (58%) | \$ 0.65 | \$ 0.79 | (18%) |

⁽¹⁾ Total of wholly-owned subsidiaries and proportionately consolidated 50% interest in the Joint Venture's results. **Net Revenues.** Net revenues decreased by 26% and 27% for the three and nine month periods ended December 31, 2009, respectively, as compared to the similar periods in 2008. The decreases during the three and nine month periods ended December 31, 2009 were due primarily to decreases in both sales prices and sales volumes for all of our businesses, as compared to the similar periods in 2008. The decreased sales volumes and decreased average sales prices in all of our businesses, are both 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 decreased 21% and 28% for the three and nine month periods ended December 31, 2009, respectively, as compared to 2008. The decline in both the fiscal quarter and year to date costs is primarily due to the reduction in production volumes for all of our segments, caused by reduced demand in the residential and commercial construction markets. Additionally, the decline in the costs of certain critical operating supplies, such as natural gas, fiber and freight have contributed to lower operating costs in fiscal 2010 as compared to fiscal 2009. The declines in natural gas and freight costs positively impacted the earnings of our gypsum wallboard and paperboard segments, while the decline in fiber costs positively impacted the paperboard segment.

Operating Profits. Operating profit decreased 51% to \$14.3 million for the quarter ended December 31, 2009, as compared to \$29.4 million during the same period in 2008, primarily due to lower net revenues and average net sales prices as described above. Operating profits declined 21% to \$69.4 million for the nine month period ended December 31, 2009, as compared to \$87.6 million during the similar period in 2008, primarily due to lower revenues in fiscal 2010 as compared to fiscal 2009, partially offset by lower operating expenses during fiscal 2010.

Corporate General and Administrative. Corporate general and administrative expenses declined 38% and 13% for the three and nine month periods ended December 31, 2009, respectively, as compared to the similar period in 2008. These declines were due primarily to lower incentive compensation in both the three and nine month periods, due to lower expected earnings, and improved overhead efficiency. Corporate General and Administrative Expenses also declined during the fiscal third quarter of 2010 as compared to 2009 due to the vesting of RSU's granted during August 2008, which became fully vested in August 2009.

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Interest Expense, Net. Net interest expense decreased 26% and 29% during the three and nine month periods ended December 31, 2009, respectively. The decrease in expense is related primarily to our repurchase of \$100 million in private placement debt during February 2009, resulting in lower average borrowings during fiscal 2010, as compared to fiscal 2009. Additionally, interest rates for our revolving line of credit and unrecognized tax benefits were lower during the three and nine month periods ended December 31, 2009 as compared to the rates during the similar periods in 2008.

Income Taxes. As of December 31, 2009 the estimated tax rate for fiscal 2010 was 28%, as compared to 30% for fiscal 2009. The expected tax rate for the full fiscal year is expected to be 28%, as compared to 30% for fiscal 2009. The decline is primarily due to the impact of percentage depletion on lower earnings.

Net Earnings and Diluted Earnings per Share. Pre-tax earnings for the quarter of \$5.5 million decreased 67% from last year's pre-tax earnings of \$16.6 million; while pre-tax earnings of \$40.2 million for the nine month period ended December 31, 2009 decreased 19% from last year's pre-tax earnings of \$49.7 million. Net earnings of \$4.7 million and diluted earnings per share of \$0.11 for the third quarter of fiscal 2010 both declined 58%, as compared to the third quarter of fiscal 2009. Net earnings of \$28.8 million for the nine month period ended December 31, 2009 decreased 17%, as compared to the nine month period ended December 31, 2008, while diluted earnings per share of \$0.65 for the current nine month period decreased 18% as compared to the same nine month period of the prior fiscal year.

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

| | For the Three Months Ended December 31, | | | For the Nine Months Ended December 31, | | |
|--|--|-------------------|----------------------|---|-------------------|----------------------|
| | 2009 (In thousands except per unit) | 2008 | Percentage Change | 2009 (In thousands except per unit) | 2008 | Percentage Change |
| Revenues ⁽¹⁾ | | | | | | |
| Gypsum Wallboard | \$ 45,374 | \$ 61,393 | (26%) | \$ 159,016 | \$ 217,374 | (27%) |
| Cement ⁽²⁾ | 53,413 | 71,411 | (25%) | 188,370 | 243,461 | (23%) |
| Recycled Paperboard | 21,024 | 25,864 | (19%) | 65,051 | 94,464 | (31%) |
| Concrete and Aggregates | 9,251 | 15,139 | (39%) | 37,991 | 55,416 | (31%) |
| Other, net | 110 | 106 | 4% | 197 | 3,845 | (95%) |
| Gross Revenues | \$ 129,172 | \$ 173,913 | (26%) | \$ 450,625 | \$ 614,560 | (27%) |
| Sales Volume | | | | | | |
| Gypsum Wallboard (MMSF) | 388 | 453 | (14%) | 1,302 | 1,655 | (21%) |
| Cement (M Tons) ⁽²⁾ | 584 | 701 | (17%) | 2,026 | 2,366 | (14%) |
| Recycled Paperboard (M Tons) | 50 | 52 | (4%) | 158 | 186 | (15%) |
| Concrete (M Yards) | 95 | 144 | (34%) | 380 | 501 | (24%) |
| Aggregates (M Tons) | 468 | 735 | (36%) | 1,928 | 2,835 | (32%) |
| Average Net Sales Prices ⁽³⁾ | | | | | | |
| Gypsum Wallboard | \$ 89.00 | \$ 103.71 | (14%) | \$ 94.10 | \$ 96.28 | (2%) |
| Cement ⁽²⁾ | 84.01 | 95.00 | (12%) | 86.34 | 96.63 | (11%) |
| Recycled Paperboard | 415.62 | 494.11 | (16%) | 410.16 | 499.97 | (18%) |
| Concrete | 66.53 | 72.74 | (9%) | 67.75 | 73.47 | (8%) |
| Aggregates | 6.25 | 6.39 | (2%) | 6.36 | 6.56 | (3%) |
| Operating Earnings | | | | | | |
| Gypsum Wallboard | \$ (2,287) | \$ 2,800 | (182%) | \$ 2,453 | \$ (3,928) | |
| Cement ⁽²⁾ | 13,391 | 22,011 | (39%) | 52,517 | 71,734 | (27%) |
| Recycled Paperboard | 3,216 | 4,038 | (20%) | 12,618 | 12,095 | 4% |
| Concrete and Aggregates | (98) | 406 | (124%) | 1,692 | 3,881 | (56%) |
| Other, net | 110 | 106 | 4% | 113 | 3,845 | (97%) |
| Net Operating Earnings | \$ 14,332 | \$ 29,361 | (51%) | \$ 69,393 | \$ 87,627 | (21%) |

- (1) Gross revenue, before freight and delivery costs.
- (2) Includes proportionate share of our Joint Venture.
- (3) Net of freight and delivery costs.

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Gypsum Wallboard Operations. The decrease in revenues during the three and nine month periods ended December 31, 2009, as compared to the similar periods in 2008, is due primarily to the 14% and 21% decrease in sales volume, respectively. The decline in sales volume is primarily due to low demand for residential and commercial construction. Residential and commercial demand normally comprises approximately 70% of the demand for gypsum wallboard, and sharp declines in demand have reduced the consumption of gypsum wallboard by approximately 50% since its peak in 2006. In addition to the decline in sales volume for the third quarter of fiscal 2010, the average net sales price decreased 14% as compared to the third quarter of fiscal 2009. The nine month fiscal 2010 average net sales price also declined as compared to the fiscal 2009 nine month average, primarily due to the decline in average sales price over the last two fiscal quarters. Operating earnings for gypsum wallboard decreased during the quarter ended December 31, 2009 as compared to the similar quarter in 2008, but increased during the nine month period ended December 31, 2009 as compared to 2008. The decrease in operating earnings during the fiscal third quarter was primarily related to lower average net sales prices and net sales volumes, offset partially by reduced transportation costs. The increase in operating earnings for the nine month period ended December 31, 2009, as compared to the similar period in 2008, is due primarily to lower operating expenses, primarily natural gas, power and transportation, offset slightly by decreases in average net sales price and sales volume. In response to the decline in demand and industry utilization, we idled our Bernalillo wallboard facility during December 2009. Costs involved with the shut-down were not significant, and were expensed during the quarter ended December 31, 2009.

Cement Operations. Revenues decreased during the three and nine month periods ended December 31, 2009, as compared to the similar periods in 2008, primarily due to the lower sales volumes and lower average sales prices. Sales volumes decreased in all of our markets except Illinois where volumes increased slightly, but were more pronounced in the Mountain and Texas markets. The declines in the Mountain and Texas markets included both manufactured and purchased cement. Purchased cement sales declined to approximately 2,000 tons and 45,000 tons during the three and nine month periods ended December 31, 2009, respectively, as compared to approximately 110,000 tons and 411,000 tons during the three and nine month periods ended December 31, 2008, respectively. The decline in average sales prices during the three and nine month periods was consistent across all markets and was primarily due to the decline in demand in our markets. Operating earnings declined during the third quarter and year to date in fiscal 2010, as compared to the similar periods in fiscal 2009. These declines are due primarily to decreases in the sales volumes and average sales price. Operating expenses also declined for the nine month period in fiscal 2010. These declines were primarily due to declines in parts, supplies and outside services, fuel and electricity expenses. On a quarterly basis, operating expenses remained consistent between fiscal 2010 and 2009.

Recycled Paperboard Operations. Net revenues declined 19% and 31% during the three and nine month periods ended December 31, 2009 as compared to the similar periods in 2008, primarily due to the 16% and 18% decline in average net sales price and the 4% and 15% decline in average sales volume for the three and nine month periods, respectively. The decline in sales volume is primarily due to reduced residential and commercial construction, which has adversely impacted demand for gypsum paper, resulting in gypsum paper representing only 45% and 50% of total sales volume during the three and nine month periods ending December 31, 2009 as compared to 52% and 62% of total sales volume during the similar periods of fiscal 2009. The decrease in the proportion of the product mix represented by higher priced gypsum paper also had an adverse impact on the average selling price during the three and nine month periods ended December 31, 2009, as compared to December 31, 2008. For the three months ended December 31, 2009, operating earnings were down 20%, primarily due to the decrease in both pricing and volumes, as well as the change in sales mix. Operating expenses for the fiscal third quarter of 2010 were lower than operating expenses for the same quarter of 2009. During the fiscal third quarter, fiber costs increased, but were flat compared to the prior year's third quarter, while natural gas and electricity costs were approximately 40% lower in fiscal 2010 than fiscal 2009. Operating earnings grew by 4% for the nine months ended December 31, 2009 as compared to 2008, primarily due to decreases in our primary operating expenses, namely fiber, natural gas, electricity and chemicals. On a per ton basis, operating costs decreased approximately 13% during the first half of fiscal 2010 as compared to fiscal 2009. The decline in natural gas is due primarily to higher than normal expense during fiscal 2009, while the decline in fiber expense during the last quarter of fiscal 2009 and the first quarter of fiscal 2010 was due primarily to the reduced demand for recycled fiber.

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Concrete and Aggregates Operations. Decreases in sales volumes during the three and nine month periods of fiscal 2010, as compared to similar periods in fiscal 2009, was the primary reason for the decline in revenue for both concrete and aggregates. The decline in sales volumes negatively impacted the average net sales prices during these same periods, resulting in average net sales price declines for both concrete and aggregates, as compared to the similar periods ended December 31, 2008. The decrease in revenues and average net sales prices were the primary reason for the decline in operating earnings during the three and nine month periods ended December 31, 2009, as compared to the similar periods in 2008.

Other, net. Included in net revenues are other income, which consists of a variety of items that are non-segment operating in nature and includes non-inventoried aggregates income, gypsum wallboard distribution center income, asset sales and other miscellaneous income and cost items. Included in Other, net during the nine month period ended December 31, 2008 is approximately \$2.6 million related to a gain on the sale of rail cars by our gypsum wallboard division.

GENERAL OUTLOOK

Calendar 2009 has been a very difficult year economically in the United States, and particularly in the construction products businesses. Despite the passage of the American Recovery and Reinvestment Act of 2009 (the Act), there was little increase in infrastructure spending, and commercial and residential construction activity continued to decline. The portion of the Act related to infrastructure is expected to have more impact in calendar 2010 as more infrastructure projects are approved. Although we anticipate the administration will continue to address the current financial crisis throughout calendar 2010, there can be no assurance as to the actual impact that these legislative initiatives, or any other similar governmental programs, will have on our business, financial condition or results of operations.

The U.S. wallboard industry continues to be adversely impacted by the current downturn in the residential and commercial construction markets, resulting in industry capacity utilization declining to approximately 50%. The reduction in capacity utilization continues to negatively impact gypsum wallboard pricing, which is expected to remain depressed throughout fiscal 2010. Wallboard consumption during calendar 2009, as reported by the Gypsum Association, decreased approximately 27% from consumption in calendar year 2008. We do not anticipate wallboard consumption to improve significantly during calendar 2010; however, we expect an increase in capacity utilization at our plants during fiscal 2011 due to the closing of the Bernalillo plant in December 2009.

We anticipate the decline in gypsum paper sales, both on a gross basis and as a percentage of our total paper sales, to continue throughout the remainder of fiscal 2010. In response to the expected decline in gypsum paper sales, we continue to seek opportunities for sales in new markets as well as supplying product to the containerboard market. The cost of two of our major operating expenses, electricity and natural gas, declined during the three and nine month periods of fiscal 2010, and due to the worldwide recession, we do not anticipate significant increases in these costs for the remainder of fiscal 2010. Fiber, another of our major operating costs, has experienced price increases throughout the first nine months of fiscal 2010, rebounding from the historical lows in the last two quarters of fiscal 2009. As the generation of Old Cardboard Containers (OCC) continues to decline in the slumping economy and the presence of export demand for OCC remains steady, the price of fiber is anticipated to continue to rise throughout the rest of fiscal 2010. We closely monitor the price and consumption of fiber, electricity and natural gas as these costs comprise a significant portion of our total production costs.

Cement demand in all U.S. regions continues to be impacted by decreasing residential housing construction, the softening commercial construction market and state government budget deficits, which will hinder cement consumption during the remainder of fiscal 2010. Cement consumption in the US declined approximately 26% in the first eleven months of calendar 2009 as compared to the first eleven months of calendar 2008. The U.S. cement industry continues to reduce imports of foreign cement with

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imports declining to approximately 8% of total consumption during the first eleven months of calendar 2009, as compared to approximately 12% of total consumption in the first eleven months of calendar 2008. We have also severely curtailed importing of cement, and do not anticipate increasing our imports meaningfully during the first half of calendar 2010. The United States government has included increased infrastructure spending as part of the stimulus package passed during the first quarter of calendar 2009; however, the effects of these expenditures are not anticipated to meaningfully impact the cement industry until later this year.

Similarly, we expect concrete and aggregate sales volumes to be depressed throughout the remainder of fiscal 2010 in both of our markets as both residential and infrastructure spending remain soft, and any impact from the stimulus bill most likely will not be realized until later this year.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Recent Accounting Pronouncements

Effective with the quarter ended December 31, 2009, we adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 105, Generally Accepted Accounting Principles (ASC 105). ASC 105 establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States. The FASB will make all future changes to guidance in the Codification by issuing Accounting Standards Updates. The Codification also provides that rules and interpretive releases of the U. S. Securities and Exchange Commission (SEC) issued under the authority of federal securities laws will continue to be sources of authoritative GAAP for SEC registrants. The Codification does not create any new GAAP standards, but incorporates existing accounting and reporting standards into a new topical structure so that users can more easily access authoritative accounting guidance. Therefore, we have updated all references to authoritative standards to be consistent with those set forth in the Codification. The adoption of ASC 105 had no impact on our consolidated financial position, results of operations or cash flows.

In May 2009, the FASB issued guidance on subsequent events, which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The guidance was adopted effective for the first fiscal quarter of 2010 and did not have a material impact on our financial statements.

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In April 2009, the FASB issued guidance on interim disclosures about fair value of financial instruments, which requires quarterly disclosure of information about the fair value of financial instruments. The guidance was adopted effective for the first fiscal quarter of 2010 and did not have a material impact on our financial statements.

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

The following table provides a summary of our cash flows:

| | For the Nine Months Ended December 31, 2009 2008 (dollars in thousands) | |
|---|---|-----------------|
| Net Cash Provided by Operating Activities | \$ 81,699 | \$ 62,063 |
| Investing Activities: | | |
| Capital Expenditures | (12,201) | (12,846) |
| Proceeds from Sale of Property, Plant and Equipment | | 3,996 |
| Net Cash Used in Investing Activities | (12,201) | (8,850) |
| Financing Activities: | | |
| Excess Tax Benefits from Share Based Payment Arrangements | 1,766 | 603 |
| Increase (Decrease) in Notes Payable | (55,000) | |
| Dividends Paid | (13,090) | (26,087) |
| Proceeds from Stock Option Exercises | 1,470 | 1,135 |
| Net Cash Used in Financing Activities | (64,854) | (24,349) |
| Net Increase in Cash | \$ 4,644 | \$ 28,864 |

Cash flow from operating activities increased by \$19.6 million during the nine month period ended December 31, 2009, as compared to the similar period in 2008, primarily due to increases in cash flows from changes in operating assets and liabilities, partially offset by decreases in net earnings and earnings of our unconsolidated joint venture. The positive change in assets and liabilities was due primarily to reduction in our inventory of \$7.5 million during the nine month period ended December 31, 2009, as compared to an increase in inventory of \$3.5 million during the same period in 2008. Additionally, accounts payable and accrued expenses decreased by \$5.8 million, as compared to a decrease of \$25.7 million during the same period in 2008.

Net cash used in investing activities increased to \$12.2 million during the first nine months of fiscal 2010, as compared to \$8.9 million during the first nine months of fiscal 2009. Capital expenditures were relatively flat over the two periods; however, railcar sales in the nine month period of fiscal 2009 generated \$4.0 million of cash flow.

The IRS issued its Exam Report and Notice of Proposed Adjustment to the Company in November 2007 that proposes to disallow a portion of the depreciation deductions claimed by the Company during fiscal years ended March 31, 2001, 2002 and 2003. The adjustment proposed by the IRS, if sustained, would result in additional federal income taxes of approximately \$27.6 million, plus penalties of \$5.7 million and applicable interest, and would result in additional state income taxes, including applicable interest and penalties. The Company is pursuing an administrative appeal and, if necessary, will resort to the courts for a final determination. The Company paid the IRS approximately \$45.8 million during November 2007, including \$27.6 million in federal income taxes, the \$5.7 million for penalties and \$12.5 million of interest, to avoid additional imposition of the large corporate tax underpayment interest rates. See Footnote (M) of the Unaudited Consolidated Financial Statements for additional information.

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Net cash used in financing activities was \$64.9 million during the nine month period ended December 31, 2009, as compared to \$24.3 million during the nine month period ended December 31, 2008. The increase in cash used in financing activities is primarily due to the repayment of \$55 million in debt, which decreased our total debt from \$355.0 million at March 31, 2009 to \$300.0 million at December 31, 2009. This decrease in debt was partially offset by a decrease in dividends paid, due to a reduction in the dividend rate during the fourth quarter of fiscal 2009. Our debt-to-capitalization ratio was 40.0% at December 31, 2009, as compared to 45.3% at March 31, 2009 and our net-debt-to-capitalization ratio was 38.2% at December 31, 2009, as compared to 44.1% at March 31, 2009.

Working capital decreased to \$106.4 million at December 31, 2009, compared to \$111.0 million at March 31, 2009, primarily due to decreased inventory and accounts receivable, offset slightly by increased cash. We do not have any material contractual obligations related to long-term capital projects at December 31, 2009. We were in compliance at December 31, 2009 with all the terms and covenants of our credit agreements and other debt instruments.

Given the relative weakness in the gypsum wallboard earnings over the last year and during the first quarter 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 performed at the end of the third quarter and was similar to the annual impairment test we perform each year 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 that time. We will continue to assess the potential impairment quarterly during fiscal year 2010, 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 -*

We 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 a variable rate equal to LIBOR, plus an agreed margin (ranging from 55 to 150 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. Interest payments are payable monthly or at the end of the LIBOR advance periods, which can be up to a period of nine months at the option of the Company. Under the Bank Credit Facility, we are required to adhere to certain financial and other covenants, including covenants relating to the Company's interest coverage ratio and consolidated funded indebtedness ratio. At December 31, 2009, the Company had \$343.0 million of borrowings available under the Bank Credit Facility.

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. On February 5, 2009, we repurchased \$7.0 million in principal of the Series 2005A Senior Notes for \$6.7 million, leaving \$193.0 million outstanding. Following the repurchase, 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 | \$77.2 million | November 15, 2017 | 5.48% |

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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. On February 5, 2009, we repurchased \$93.0 million in principal of the Series 2007A Senior Notes for \$88.3 million, leaving \$107.0 million outstanding. 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 consolidated funded indebtedness ratio, 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 may, from time to time, purchase our outstanding debt for cash in open market purchases, privately negotiated transactions or pursuant to offers made to the holders of such debt. We will evaluate any such transaction in light of market conditions prevailing at the time, taking into account our liquidity, our future debt service requirements and our requirement for future access to capital. The amounts involved in any such transactions, individually or in the aggregate, may be material.

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 a 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.

We do not have any off balance sheet debt, except for approximately \$12 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 \$25 million Letter of Credit Facility. At December 31, 2009, we had \$7.0 million of letters of credit outstanding that renew annually. We are contingently liable for performance under \$8.7 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 and

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the Note Purchase Agreements, the level of competition and general and economic factors beyond our control. These and other developments could reduce our cash flow or require that we seek additional sources of funding. We cannot predict what effect these factors will have on our future liquidity.

Cash used for Share Repurchases.

We did not repurchase any of our shares during the nine month period ended December 31, 2009. As of December 31, 2009, 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.

Dividends.

Dividends paid in the nine months ended December 31, 2009 and 2008 were \$13.1 million and \$26.1 million, respectively. We reduced our annual dividend from \$0.80 per share to \$0.40 per share beginning with the February 2009 dividend payment. 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 Nine Months Ended December 31, 2009 2008 (dollars in thousands) | |
|------------------------------------|---|---------------|
| Land and Quarries | \$ 5,749 | \$ 296 |
| Plants | 4,974 | 9,626 |
| Buildings, Machinery and Equipment | 1,478 | 2,924 |
| Total Capital Expenditures | \$ 12,201 | \$ 12,846 |

For fiscal 2010, 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 Bank Credit Facility.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks related to fluctuations in interest rates on our 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 December 31, 2009. At present, we do not utilize derivative financial instruments.

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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

An evaluation has been performed under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2009. Based on that evaluation, the Company's management, including its Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2009, to provide reasonable assurance that the information required to be disclosed in the Company's reports filed or submitted under the Securities Exchange Act of 1934 is processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. There have been no changes in the Company's internal controls over financial reporting during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Part II. Other Information

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 undergoing a significant downturn. The effects of this downturn have been exacerbated by market disruptions resulting from the subprime mortgage crisis, which began in the second half of 2007, and the ensuing financial crisis affecting the banking system and financial markets, which became evident in the third quarter of 2008. A similar downturn has occurred in commercial construction as well, beginning in 2008. Furthermore, activity in the infrastructure construction business is directly related to the amount of government funding available for such projects. Any decrease in the amount of government funds available for such projects or any decrease in construction activity in general (including a continued decrease in residential construction or continued weakening of commercial construction) could have a material adverse effect on our business, financial condition and results of operations.

The value of investments are influenced by economic and market conditions.

The current economic environment could negatively impact the fair value of pension assets, which could increase future funding requirements of the pension trusts.

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,

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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.

The current difficult economic environment has caused a contraction in the availability, and increased the cost of, credit in the marketplace. This could potentially reduce the sources of liquidity for the Company and our customers.

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.

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 greenhouse gas emissions are in various phases of discussions or implementation at national, regional and state levels. The potential consequences of greenhouse gas 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 fuel, especially natural gas. At this time, it is not possible to accurately estimate how laws or regulations addressing greenhouse gas 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.

Furthermore, the EPA recently adopted regulations that include extensive greenhouse gas monitoring and reporting requirements applicable to our industries. The EPA has also recently announced findings that greenhouse gases in the atmosphere endanger public health and welfare, and that emissions from mobile sources cause or contribute to greenhouse gases in the atmosphere. These proposed findings, if finalized as proposed, would not immediately affect our operations, but standards eventually promulgated pursuant to these findings could affect our operations and our ability to obtain air permits for new or modified facilities.

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During 2009, the EPA also issued a proposed rule amendment to the National Emissions Standards for Hazardous Air Pollutants, or NESHAP, that would significantly reduce the permitted levels of emissions of certain air pollutants from Portland cement kilns. The NESHAP amendment would set limits on mercury emissions from existing Portland cement kilns and would increase the stringency of emission limits for new kilns. The NESHAP amendment would also set emission limits for total hydrocarbons, particulate matter and sulfur dioxide from cement kilns of all sizes and would reduce hydrochloric acid emissions from kilns that are large emitters. The NESHAP amendment, if adopted as proposed, would take full effect no earlier than 2013, and could materially increase our cost of production.

The EPA has also stated that it is developing regulations to address the storage and disposal of coal combustion products, which includes fly ash and flue gas desulfurization gypsum (synthetic gypsum). We use synthetic gypsum in wallboard manufactured at our Georgetown, SC plant. The EPA has not yet proposed any rule and any proposed rule must go through a public comment period before becoming final. Consequently, at this time, it is not possible to accurately estimate how any proposed rule regulating coal combustion products, if implemented, would impact our business. However, any regulation governing the storage and disposal of coal combustion products, if adopted, could have a material adverse effect on our business, financial condition and results of operations depending on how any such regulation impacts our costs or the demand for our products.

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

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

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

Major cost components in each of our businesses are the cost of fuel, energy and raw materials. Significant increases in the cost 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 accurately estimate 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.

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 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 result in an event of default under those agreements. This may allow the lenders under those agreements to declare all amounts outstanding thereunder to be immediately due and payable, terminate any commitments to extend further credit to us and pursue other remedies available to them under the applicable agreements. If this occurs, our indebtedness may be accelerated and we may not be able to refinance the accelerated

indebtedness on favorable terms, or at all, or repay the accelerated indebtedness.

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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.

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.

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.

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.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The disclosure required under this Item is included in Item 2. of this Quarterly Report on Form 10-Q under the heading Cash Used for Share Repurchase and is incorporated herein by reference.

Item 6. Exhibits

- 12.1* Computation of Ratio of Earnings to Fixed Charges.
- 31.1* Certification of the Chief Executive Officer of Eagle Materials Inc. pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934, as amended.
- 31.2* Certification of the Chief Financial Officer of Eagle Materials Inc. pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934, as amended.
- 32.1* Certification of the Chief Executive Officer of Eagle Materials Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2* Certification of the Chief Financial Officer of Eagle Materials Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EAGLE MATERIALS INC.
Registrant

February 8, 2010

/s/ STEVEN R. ROWLEY
Steven R. Rowley
President and Chief Executive Officer
(principal executive officer)

February 8, 2010

/s/ D. CRAIG KESLER
D. Craig Kesler
Executive Vice President Finance and
Administration and Chief Financial Officer
(principal financial officer)

February 8, 2010

/s/ WILLIAM R. DEVLIN
William R. Devlin
Senior Vice President Controller and
Chief Accounting Officer
(principal accounting officer)