EAGLE MATERIALS INC
Form 10-Q
February 06, 2009
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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, 2008

Commission File Number 1-12984

Eagle Materials Inc.

Delaware

(State of Incorporation)

75-2520779

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

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

(Address of principal executive offices)

(214) 432-2000

(Registrant s telephone number)

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

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

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

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

As of February 5, 2009, the number of outstanding shares of common stock was:

Class	**Outstanding Shares**
Common Stock, $.01 Par Value	43,554,826

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Eagle Materials Inc. and Subsidiaries

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Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Earnings

(dollars in thousands, except share data)

(unaudited)

	For the Three Months Ended December 31, 2008	For the Three Months Ended December 31, 2007	For the Nine Months Ended December 31, 2008	For the Nine Months Ended December 31, 2007
REVENUES				
Gypsum Wallboard	$ 61,393	$ 73,371	$ 217,374	$ 266,761
Cement	45,874	57,697	161,955	204,069
Paperboard	15,555	19,433	55,710	61,947
Concrete and Aggregates	14,901	22,148	54,682	70,434
Other, net	106	356	3,845	1,494
	137,829	173,005	493,566	604,705
COSTS AND EXPENSES				
Gypsum Wallboard	58,593	66,493	221,302	217,463
Cement	32,544	40,951	115,642	138,846
Paperboard	11,517	14,217	43,615	48,692
Concrete and Aggregates	14,495	19,013	50,801	59,148
Corporate General and Administrative	5,140	4,300	14,110	14,393
Interest Expense, net	7,671	5,811	23,791	13,666
	129,960	150,785	469,261	492,208
EQUITY IN EARNINGS OF UNCONSOLIDATED JOINT VENTURE	8,681	9,854	25,421	25,304
EARNINGS BEFORE INCOME TAXES	16,550	32,074	49,726	137,801
Income Taxes	5,291	9,615	14,992	43,279
NET EARNINGS	$ 11,259	$ 22,459	$ 34,734	$ 94,522
EARNINGS PER SHARE:				
Basic	$ 0.26	$ 0.51	$ 0.80	$ 2.07
Diluted	$ 0.26	$ 0.50	$ 0.79	$ 2.05
AVERAGE SHARES OUTSTANDING:				
Basic	43,517,844	44,019,262	43,473,363	46,227,109
Diluted	43,826,789	44,596,051	43,869,479	46,834,390
CASH DIVIDENDS PER SHARE:	$ 0.10	$ 0.20	$ 0.50	$ 0.60

See notes to unaudited consolidated financial statements.

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Eagle Materials Inc. and Subsidiaries

Consolidated Balance Sheets

(dollars in thousands)

	December 31, 2008 (unaudited)	March 31, 2008
ASSETS		
Current Assets -		
Cash and Cash Equivalents	$ 47,824	$ 18,960
Accounts and Notes Receivable	50,614	62,949
Inventories	102,246	98,717
Total Current Assets	200,684	180,626
Property, Plant and Equipment -	1,086,826	1,079,742
Less: Accumulated Depreciation	(407,514)	(374,186)
Property, Plant and Equipment, net	679,312	705,556
Notes Receivable	6,828	7,286
Investment in Joint Venture	38,016	40,095
Goodwill and Intangible Assets	152,971	153,449
Other Assets	27,115	27,835
	$ 1,104,926	$ 1,114,847
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities -		
Accounts Payable	$ 25,140	$ 50,961
Federal Income Taxes Payable	2,470	
Accrued Liabilities	46,909	56,315
Total Current Liabilities	74,519	107,276
Long-term Debt	400,000	400,000
Other Long-term Liabilities	88,521	84,342
Deferred Income Taxes	116,648	117,542
Total Liabilities	679,688	709,160
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 43,548,826 and 43,430,297 Shares, respectively	435	434
Capital in Excess of Par Value	6,576	
Accumulated Other Comprehensive Losses	(1,368)	(1,368)
Retained Earnings	419,595	406,621
Total Stockholders Equity	425,238	405,687
	$ 1,104,926	$ 1,114,847

See notes to the unaudited consolidated financial statements.

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Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(unaudited dollars in thousands)

	For the Nine Months Ended December 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Earnings	$ 34,734	$ 95,856
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities -		
Depreciation, Depletion and Amortization	38,533	32,354
Gain on Sale of Property, Plant and Equipment	(2,596)	
Deferred Income Tax Provision	(1,827)	(6,777)
Stock Compensation Expense	4,839	4,814
Equity in Earnings of Unconsolidated Joint Venture	(25,421)	(25,304)
Excess Tax Benefits from Share Based Payment Arrangements	(603)	(1,235)
Distributions from Joint Venture	27,500	30,000
Changes in Operating Assets and Liabilities:		
Accounts and Notes Receivable	12,793	24,993
Inventories	(3,529)	(7,090)
Accounts Payable and Accrued Liabilities	(25,788)	(23,706)
Other Assets	(1,434)	(901)
Income Taxes Payable	4,862	(21,499)
Net Cash Provided by Operating Activities	62,063	101,505
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, Plant and Equipment Additions	(12,846)	(75,937)
Proceeds from Sale of Property, Plant and Equipment	3,996	
Net Cash Used in Investing Activities	(8,850)	(75,937)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Long-term Debt		200,000
Dividends Paid to Stockholders	(26,087)	(26,793)
Purchase and Retirement of Common Stock		(153,445)
Proceeds from Stock Option Exercises	1,135	2,040
Excess Tax Benefits from Share Based Payment Arrangements	603	1,235
Net Cash (Used in) Provided by Financing Activities	(24,349)	23,037
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,864	48,605
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	18,960	17,215
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 47,824	$ 65,820

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, 2008

(A) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements as of and for the three and nine month periods ended December 31, 2008, 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 29, 2008.

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.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure certain financial instruments and other eligible items at fair value when the items are not otherwise currently required to be measured at fair value. Under SFAS 159, the decision to measure items at fair value is made at specified election dates on an irrevocable instrument-by-instrument basis. We adopted SFAS 159 on April 1, 2008 and decided not to elect the fair value option.

(B) SHARE-BASED EMPLOYEE COMPENSATION

Long-Term Compensation Plans

Options. We granted a target number of stock options during June 2007 to certain individuals (the Fiscal 2008 Stock Option Grant) that may be earned, in whole or in part, if certain performance conditions are satisfied. The Fiscal 2008 Stock Option Grant will vest over a seven year period depending upon the achievement of specified levels of earnings per share and operating earnings. Options are vested as they are earned, and any options not earned at the end of the seven year period will be forfeited. These stock options were valued at the grant date using the Black-Scholes option pricing model. Certain other employees that were not included in the original grant were granted options under the Fiscal 2008 Stock Option Grant during the first quarter of fiscal 2009. These awards vest identically to the original grant, and expire on the same day as the original grants. The weighted-average assumptions used in the Black-Scholes model to value the option awards in fiscal 2009 are as follows: annual dividend rate of 2.0%, expected volatility of 36%, risk free interest rate of 3.3% and expected life of 6.0 years. We are expensing the fair value of the options granted in fiscal 2009 over a five year period, as adjusted for expected forfeitures.

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In July 2008, we granted options to members of the Board of Directors (the Fiscal 2009 Board of Directors Grant). Options granted under the Fiscal 2009 Board of Directors Grant vested immediately, and can be exercised from the date of grant until their expiration at the end of seven years. In August 2008, the Compensation Committee of the Board of Directors approved an incentive equity award to certain individuals that may be earned, in whole or in part, if certain performance conditions are satisfied (the Fiscal 2009 Stock Option Grant). The Fiscal 2009 Stock Option Grant is structured to provide short-term incentives to address the changed circumstances in the economy and our business since the issuance of the Fiscal 2008 Stock Option Grant. The performance and vesting criteria for the Fiscal 2009 Stock Option Grant is based on the achievement of specified levels of earnings before interest, taxes, depreciation and amortization, as well as achievement of certain safety metrics for the nine month period ending March 31, 2009. The options have a term of seven years, and are vested as earned. Any awards not earned at March 31, 2009 will be forfeited. These stock options were valued at the grant date using the Black-Scholes option pricing model. The weighted-average assumptions used in the Black-Scholes model to value the option awards granted in fiscal 2009 are as follows: annual dividend rate of 2.0%, expected volatility of 36%, risk free interest rate of 3.4% and expected life of 6.0 years. We are expensing the fair value of the Fiscal 2009 Stock Option Grant over a nine month period, as adjusted for expected forfeitures.

Stock option expense for all outstanding stock option awards totaled approximately $1.7 million and $3.9 million for the three and nine month periods ended December 31, 2008, respectively, as compared to $1.1 million and $4.5 million expensed for the three and nine month periods ended December 31, 2007, respectively. At December 31, 2008, there was approximately $8.6 million of unrecognized compensation cost related to outstanding stock options which is expected to be recognized over a weighted-average period of 5.3 years.

The following table represents stock option activity for the nine month period ended December 31, 2008:

	Number of Shares	**Weighted-Average Exercise Price**
Outstanding Options at Beginning of Period	2,787,047	$ 34.26
Granted	912,910	$ 27.84
Exercised	(104,241)	$ 11.01
Cancelled		
Outstanding Options at End of Period	3,595,716	$ 33.30
Options Exercisable at End of Period		