

EAGLE MATERIALS INC
Form 10-Q
August 08, 2014
[Table of Contents](#)

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the Quarterly Period Ended

June 30, 2014

Commission File Number 1-12984

Eagle Materials Inc.

Delaware

Edgar Filing: EAGLE MATERIALS INC - Form 10-Q

(State of Incorporation)

75-2520779

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

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

(Address of principal executive offices)

(214) 432-2000

(Registrant's telephone number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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 August 4, 2014, the number of outstanding shares of common stock was:

<u>Class</u>	<u>Outstanding Shares</u>
Common Stock, \$.01 Par Value	50,200,124

Table of Contents

Eagle Materials Inc. and Subsidiaries

Form 10-Q

June 30, 2014

Table of Contents

PART I. FINANCIAL INFORMATION (unaudited)

	Page
Item 1. Consolidated Financial Statements	
<u>Consolidated Statements of Earnings for the Three Months Ended June 30, 2014 and 2013</u>	1
<u>Consolidated Statements of Comprehensive Earnings for the Three Months Ended June 30, 2014 and 2013</u>	2
<u>Consolidated Balance Sheets as of June 30, 2014 and March 31, 2014</u>	3
<u>Consolidated Statements of Cash Flows for the Three Months Ended June 30, 2014 and 2013</u>	4
<u>Notes to Unaudited Consolidated Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Results of Operations and Financial Condition</u>	19
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 4. <u>Controls and Procedures</u>	30

PART II. OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	30
Item 1A. <u>Risk Factors</u>	31
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
Item 4. <u>Mine Safety Disclosures</u>	39
Item 6. <u>Exhibits</u>	39
<u>SIGNATURES</u>	41

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

Consolidated Statements of Earnings

(dollars in thousands, except share and per share data)

(unaudited)

	For the Three Months Ended June 30,	
	2014	2013
Revenues	\$ 266,251	\$ 227,044
Cost of Goods Sold	209,850	180,440
Gross Profit	56,401	46,604
Equity in Earnings of Unconsolidated Joint Venture	9,800	7,878
Corporate General and Administrative Expense	(7,042)	(5,594)
Other Income (Expense)	679	583
Interest Expense, Net	(4,052)	(4,955)
Earnings before Income Taxes	55,786	44,516
Income Taxes	(18,076)	(14,415)
Net Earnings	\$ 37,710	\$ 30,101
EARNINGS PER SHARE		
Basic	\$ 0.76	\$ 0.61
Diluted	\$ 0.75	\$ 0.60
AVERAGE SHARES OUTSTANDING		
Basic	49,501,847	48,955,724
Diluted	50,287,452	49,810,170
CASH DIVIDENDS PER SHARE	\$ 0.10	\$ 0.10

See notes to unaudited consolidated financial statements.

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

Consolidated Statements of Comprehensive Earnings

(dollars in thousands, except share and per share data)

(unaudited)

	For the Three Months Ended June 30,	
	2014	2013
Net Earnings	\$ 37,710	\$ 30,101
Net Change in Funded Status of Defined Benefit Plans:		
Amortization of Net Actuarial Loss, net of		
tax expense of \$57 and \$83	106	155
Comprehensive Earnings	\$ 37,816	\$ 30,256

See notes to unaudited consolidated financial statements.

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

Consolidated Balance Sheets

(dollars in thousands)

	June 30, 2014 (unaudited)	March 31, 2014
ASSETS		
Current Assets -		
Cash and Cash Equivalents	\$ 6,541	\$ 6,482
Accounts and Notes Receivable, net	134,108	102,917
Inventories	182,470	187,096
Prepaid and Other Assets	8,290	10,465
Total Current Assets	331,409	306,960
Property, Plant and Equipment -	1,682,543	1,660,975
Less: Accumulated Depreciation	(691,946)	(676,924)
Property, Plant and Equipment, net	990,597	984,051
Notes Receivable	3,197	3,063
Investment in Joint Venture	44,434	43,008
Goodwill and Intangible Assets, net	160,262	160,690
Other Assets	14,468	13,757
	\$ 1,544,367	\$ 1,511,529
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities -		
Accounts Payable	\$ 57,803	\$ 57,098
Accrued Liabilities	34,894	41,520
Income Taxes Payable	19,956	702
Current Portion of Long-term debt	9,500	9,500
Total Current Liabilities	122,153	108,820
Long-term Debt	358,759	371,759
Other Long-term Liabilities	53,177	53,678
Deferred Income Taxes	142,094	145,773
Total Liabilities	676,183	680,030
Stockholders Equity -		
Preferred Stock, Par Value \$0.01; Authorized 5,000,000 Shares; None Issued	502	501

Edgar Filing: EAGLE MATERIALS INC - Form 10-Q

Common Stock, Par Value \$0.01; Authorized 100,000,000 Shares; Issued and Outstanding 50,153,937 and 50,058,738 Shares, respectively		
Capital in Excess of Par Value	257,407	253,524
Accumulated Other Comprehensive Losses	(5,377)	(5,483)
Retained Earnings	615,652	582,957
Total Stockholders' Equity	868,184	831,499
	\$ 1,544,367	\$ 1,511,529

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 Three Months Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Earnings	\$ 37,710	\$ 30,101
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities -		
Depreciation, Depletion and Amortization	17,290	17,221
Deferred Income Tax Provision	(3,742)	(892)
Stock Compensation Expense	2,936	1,805
Excess Tax Benefits from Share Based Payment Arrangements	(492)	(764)
Equity in Earnings of Unconsolidated Joint Venture	(9,800)	(7,878)
Distributions from Joint Venture	8,375	9,750
Changes in Operating Assets and Liabilities:		
Accounts and Notes Receivable	(31,325)	(30,075)
Inventories	4,626	(7,817)
Accounts Payable and Accrued Liabilities	(6,263)	(8,157)
Other Assets	1,237	1,456
Income Taxes Payable	19,746	14,111
Net Cash Provided by Operating Activities	40,298	18,861
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(23,181)	(21,237)
Net Cash Used in Investing Activities	(23,181)	(21,237)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (Decrease) in Credit Facility	(13,000)	8,000
Dividends Paid to Stockholders	(5,005)	(4,954)
Proceeds from Stock Option Exercises	1,023	1,699
Shares Redeemed to Settle Employee Taxes on Restricted Shares	(568)	(286)
Excess Tax Benefits from Share Based Payment Arrangements	492	764
Net Cash Provided by (Used in) Financing Activities	(17,058)	5,223
NET INCREASE IN CASH AND CASH EQUIVALENTS	59	2,847
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,482	3,897
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 6,541	\$ 6,744

See notes to the unaudited consolidated financial statements.

Table of Contents

Eagle Materials Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

June 30, 2014

(A) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements as of and for the three month period ended June 30, 2014 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 23, 2014.

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.

Recent Accounting Pronouncements

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

(B) CASH FLOW INFORMATION - SUPPLEMENTAL

Cash payments made for interest were \$6.6 million and \$7.5 million for the three month periods ended June 30, 2014 and 2013, respectively. Net payments made for federal and state income taxes were \$0.4 million during each of the three months ended June 30, 2014 and 2013.

(C) ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable have been shown net of the allowance for doubtful accounts of \$6.1 million and \$5.8 million at June 30, 2014 and March 31, 2014, respectively. We perform ongoing credit evaluations of our customers financial condition and generally require no collateral from our customers. The allowance for non-collection of receivables is based upon analysis of economic trends in the construction industry, detailed analysis of the expected collectability of accounts receivable that are past due and the expected collectability of overall receivables. We have no significant credit risk concentration among our diversified customer base.

We had notes receivable totaling approximately \$9.1 million at June 30, 2014, of which approximately \$5.9 million are classified as current and presented with accounts receivable on the balance sheet. We lend funds to certain companies in the ordinary course of business, and the notes bear interest, on average, at 4.3% which will vary based on changes in LIBOR. Remaining unpaid amounts, plus accrued interest, mature on various dates between 2014 and 2017. The notes are collateralized by certain assets of the borrowers, namely property and equipment, and are generally payable monthly. We monitor

Table of Contents

the credit risk of each borrower by focusing on the timeliness of payments, review of credit history and credit metrics and interaction with the borrowers. At June 30, 2014, approximately \$0.3 million of our allowance for doubtful accounts is related to our notes receivable.

(D) STOCKHOLDERS EQUITY

A summary of changes in stockholders equity follows:

	For the Three Months Ended June 30, 2014 (dollars in thousands)
Common Stock	
Balance at Beginning of Period	\$ 501
Stock Option Exercises	1
Balance at End of Period	502
Capital in Excess of Par Value	
Balance at Beginning of Period	253,524
Stock Compensation Expense	2,936
Shares Redeemed to Settle Employee Taxes	(568)
Stock Option Exercises	1,515
Balance at End of Period	257,407
Retained Earnings	
Balance at Beginning of Period	582,957
Dividends Declared to Stockholders	(5,015)
Net Earnings	37,710
Balance at End of Period	615,652
Accumulated Other Comprehensive Losses	
Balance at Beginning of Period, net of tax	(5,483)
Pension Plan Actuarial losses	106
Balance at End of Period, net of tax	(5,377)
Total Stockholders Equity	\$ 868,184

There were no open market share repurchases during the three month period ended June 30, 2014. As of June 30, 2014, we have authorization to purchase an additional 717,300 shares.

(E) INVENTORIES

Edgar Filing: EAGLE MATERIALS INC - Form 10-Q

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	
	June 30, 2014	March 31, 2014
	(dollars in thousands)	
Raw Materials and Material-in-Progress	\$ 79,486	\$ 82,319
Finished Cement	21,168	19,173
Gypsum Wallboard	6,059	7,144
Frac Sand	245	275
Aggregates	11,786	11,815
Paperboard	2,997	4,102
Repair Parts and Supplies	53,758	56,119
Fuel and Coal	6,971	6,149
	\$ 182,470	\$ 187,096

Table of Contents**(F) ACCRUED EXPENSES**

Accrued expenses consist of the following:

	As of	
	June 30, 2014	March 31, 2014
	(dollars in thousands)	
Payroll and Incentive Compensation	\$ 10,135	\$ 12,855
Benefits	9,839	10,158
Interest	2,018	4,813
Property Taxes	3,462	2,801
Power and Fuel	2,304	2,132
Sales and Use Tax	681	658
Legal	1,210	1,831
Other	5,245	6,272
	\$ 34,894	\$ 41,520

(G) SHARE-BASED EMPLOYEE COMPENSATION

On August 7, 2013 our stockholders approved the Eagle Materials Inc. Amended and Restated Incentive Plan (the Plan), which increased the shares we are authorized to issue as awards by 3,000,000 (1,500,000 of which may be stock awards). Under the terms of the Plan, we can issue equity awards, including stock options, restricted stock units (RSUs), restricted stock and stock appreciation rights to employees of the Company and members of the Board of Directors. Awards that were already outstanding prior to the approval of the Plan on August 7, 2013 remain outstanding. The Compensation Committee of our Board of Directors specifies the terms for grants of equity awards under the Plan.

Long-Term Compensation Plans -

Options. In June 2014, the Compensation Committee approved an incentive equity award of an aggregate of 193,636 stock options pursuant to the Plan to certain officers and key employees (the Fiscal 2015 Employee Stock Option Grant) that will be earned if our ten year return on equity is at least 15% at March 31, 2015. If this criterion is not met, all of the shares will be forfeited. If the criterion is met, the award may be reduced by the Compensation Committee based on individual performance goals. Following any such reduction, the earned options will vest ratably over three years, with the first third vesting promptly following the determination date, and the remaining options vesting on March 31, 2016 and 2017. The stock options have a term of ten years from the date of grant. The Fiscal 2015 Employee Stock Option Grant was valued at the grant date using the Black-Scholes option pricing model.

The weighted-average assumptions used in the Black-Scholes model to value the option awards in fiscal 2015 are as follows:

Fiscal 2015

Edgar Filing: EAGLE MATERIALS INC - Form 10-Q

Dividend Yield	2.0%
Expected Volatility	44.8%
Risk Free Interest Rate	1.8%
Expected Life	6.0 years

Stock option expense for all outstanding stock option awards totaled approximately \$1.4 million and \$0.8 million for the three month periods ended June 30, 2014 and 2013, respectively. At June 30, 2014, there was approximately \$13.0 million of unrecognized compensation cost related to outstanding stock options, net of estimated forfeitures, which is expected to be recognized over a weighted-average period of 3.3 years.

Table of Contents

The following table represents stock option activity for the quarter ended June 30, 2014:

	Number of Shares	Weighted- Average Exercise Price
Outstanding Options at Beginning of Period	2,788,999	\$ 41.83
Granted	198,636	\$ 87.53
Exercised	(26,671)	\$ 38.37
Cancelled	(1,269,500)	\$ 47.53
Outstanding Options at End of Period	1,691,464	\$ 43.05
Options Exercisable at End of Period	1,058,583	
Weighted-Average Fair Value of Options Granted during the Period	\$ 32.14	

The following table summarizes information about stock options outstanding at June 30, 2014:

Range of Exercise Prices	Outstanding Options Weighted			Exercisable Options	
	Number of Shares Outstanding	Average Remaining Contractual Life	Weighted - Average Exercise Price	Number of Shares Outstanding	Weighted - Average Exercise Price
\$23.17 - \$ 30.74	679,191	4.77	\$ 26.50	670,191	\$ 26.47
\$33.08 - \$ 40.78	519,799	7.34	\$ 34.15	337,183	\$ 34.27
\$53.22 - \$ 74.10	288,838	8.59	\$ 66.59	51,209	\$ 65.34
\$87.34 - \$ 93.56	203,636	9.92	\$ 87.52		
	1,691,464	6.83	\$ 43.05	1,058,583	\$ 30.84

At June 30, 2014, the aggregate intrinsic value for outstanding options was \$86.7 million and the aggregate intrinsic value of exercisable options was \$67.2 million. The total intrinsic value of options exercised during the three month period ended June 30, 2014 was approximately \$1.5 million.

Restricted Stock. In June 2014, the Compensation Committee approved the granting of an aggregate of 80,416 shares of restricted stock to certain officers and key employees (the "Fiscal 2015 Employee Restricted Stock Award") that will be earned if our ten year return on equity is at least 15% at March 31, 2015. If this criterion is not met, all of the shares will be forfeited. If the criterion is met, the award may be reduced by the Compensation Committee based on individual performance goals. Following any such reduction, restrictions on the earned shares will lapse ratably over five years, with the first fifth lapsing promptly following the determination date, and the remaining restrictions lapsing on March 31, 2016 through 2019. The value of the Fiscal 2015 Employee Restricted Stock Award, net of estimated forfeitures, is being expensed over a five year period.

Edgar Filing: EAGLE MATERIALS INC - Form 10-Q

Expense related to restricted shares was \$1.5 million and \$0.9 million for the three month periods ended June 30, 2014 and 2013, respectively. At June 30, 2014, there was approximately \$20.8 million of unearned compensation from restricted stock, net of estimated forfeitures, which will be recognized over a weighted-average period of 3.2 years.

The number of shares available for future grants of stock options, restricted stock units, stock appreciation rights and restricted stock under the Plan was 4,979,185 at June 30, 2014.

Table of Contents**(H) COMPUTATION OF EARNINGS PER SHARE**

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

	For the Three Months Ended June 30,	
	2014	2013
Weighted-Average Shares of Common Stock Outstanding	49,501,847	48,955,724
Effect of Dilutive Shares:		
Assumed Exercise of Outstanding Dilutive Options	1,483,664	1,702,973
Less Shares Repurchased from Assumed Proceeds of Assumed Exercised Options	(974,265)	(1,141,008)
Restricted Shares	276,206	292,481
 Weighted-Average Common and Common Equivalent Shares Outstanding	 50,287,452	 49,810,170

At June 30, 2014 and 2013, 121,800 and 21,000 stock options, respectively, were excluded from the diluted earnings per share calculation, as their effect was anti-dilutive. During the quarter ended June 30, 2014, approximately 1,270,000 options expired without the performance criteria having been met.

(I) PENSION AND EMPLOYEE BENEFIT PLANS

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

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

	For the Three Months Ended June 30,	
	2014	2013
	(dollars in thousands)	
Service Cost	\$ 236	\$ 196
Benefits Earned during the Period		
Interest Cost of Benefit Obligations	315	305
Expected Return on Plan Assets	(414)	(343)
Recognized Net Actuarial Loss	155	245
Amortization of Prior-Service Cost	3	6
 Net Periodic Pension Cost	 \$ 295	 \$ 409

(J) INCOME TAXES

Edgar Filing: EAGLE MATERIALS INC - Form 10-Q

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 three months ended June 30, 2014 was approximately 32.4%, which has increased from the prior year due to the reduction in the impact of our depletion deduction caused by increased earnings in fiscal year 2015, as compared to fiscal 2014.

In September 2013, the Internal Revenue Service enacted final guidance regarding the deduction and capitalization of expenditures related to tangible property (tangible property regulations). The tangible property regulations clarify and expand sections 162(a) and 263(a) of the Internal Revenue Code

Table of Contents

which relate to amounts paid to acquire, produce, or improve tangible property. Additionally, the tangible property regulations provide final guidance under section 167 regarding accounting for and retirement of depreciable property and regulations under section 168 relating to the accounting for property under the Modified Accelerated Cost Recovery System. The tangible property regulations affect all taxpayers that acquire, produce, or improve tangible property, which includes the Company, and generally apply to taxable years beginning on or after January 1, 2014, which will impact us for the fiscal year ending March 31, 2015. We have evaluated the tangible property regulations and determined the regulations will not have a material impact on our financial condition, results of operations or cash flows.

(K) LONG-TERM DEBT

Long-term debt consists of the following:

	As of	
	June 30, 2014	March 31, 2014
	(dollars in thousands)	
Credit Facility	\$ 176,000	\$ 189,000
Senior Notes	192,259	192,259
Total Debt	368,259	381,259
Less: Current Portion of Long-term Debt	(9,500)	(9,500)
Total Debt	\$ 358,759	\$ 371,759

Credit Facility -

We have a \$400.0 million revolving Credit Facility, including a swingline loan sublimit of \$25.0 million, which is scheduled to expire on December 16, 2015. Borrowings under the Credit Facility are guaranteed by substantially all of the Company's subsidiaries. At the option of the Company, outstanding principal amounts on the Credit Facility bear interest at a variable rate equal to (i) LIBOR, plus an agreed margin (ranging from 100 to 225 basis points), which is to be established quarterly based upon the Company's ratio of consolidated EBITDA, defined as earnings before interest, taxes, depreciation and amortization, to the Company's consolidated indebtedness (the Leverage Ratio), or (ii) an alternative base rate which is the higher of (a) the prime rate or (b) the federal funds rate plus $\frac{1}{2}\%$ per annum plus an agreed margin (ranging from 0 to 125 basis points). Interest payments are payable, in the case of loans bearing interest at a rate based on the federal funds rate, quarterly, or in the case of loans bearing interest at a rate based on LIBOR, at the end of the LIBOR advance periods, which can be up to a period of six months at the option of the Company. The Company is also required to pay a commitment fee on unused available borrowings under the Credit Facility ranging from 10 to 35 basis points depending upon the Leverage Ratio. The Credit Facility contains customary covenants that restrict our ability to incur additional debt, encumber our assets, sell assets, make or enter into certain investments, loans or guaranties and enter into sale and leaseback arrangements. The Credit Facility also requires us to maintain a consolidated indebtedness ratio (calculated as consolidated indebtedness to consolidated earnings before interest, taxes, depreciation, amortization, certain transaction-related deductions and other non-cash deductions) of 3.5:1.0 or less and an interest coverage ratio (consolidated earnings before interest, taxes, depreciation, amortization, certain transaction-related deductions and other non-cash deductions to consolidated interest expense) of at least 2.5:1.0. The Credit Facility also limits our ability to make certain restricted payments, such as paying cash

dividends; however, there are several exceptions to this restriction, including: (i) the Company may pay cash dividends in an aggregate amount of up to \$50.0 million each fiscal year; and (ii) the Company may make restricted payments not otherwise permitted so long as, in each case, no default would result therefrom and our consolidated funded indebtedness ratio does not exceed 3.0:1.0. We had \$176.0 million of borrowings outstanding under the Credit Facility at June 30, 2014. Based on our Leverage Ratio, we had \$216.3 million of available borrowings, net of the outstanding letters of credit, under the Credit Facility at June 30, 2014.

Table of Contents

The Credit Facility has a \$50.0 million letter of credit facility. Under the letter of credit facility, the Company pays a fee at a per annum rate equal to the applicable margin for Eurodollar loans in effect from time to time plus a one-time letter of credit fee in an amount equal to 0.125% of the initial stated amount. At June 30, 2014, we had \$7.7 million of letters of credit outstanding.

Senior Notes -

We entered into a Note Purchase Agreement on November 15, 2005 (the 2005 Note Purchase Agreement) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2005A Senior Notes (the Series 2005A Senior Notes) in a private placement transaction. The Series 2005A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in three tranches on November 15, 2005. Since entering into the 2005 Note Purchase Agreement, we have repurchased \$81.1 million in principal of the Series 2005A Senior Notes (in periods prior to the fiscal year ended March 31, 2013). During November 2012, Tranche A of the Series 2005A Senior Notes matured and we retired the remaining \$4.7 million in notes from this Tranche. Following these repurchases and maturities, the amounts outstanding for each of the remaining tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche B	\$ 57.0 million	November 15, 2015	5.38%
Tranche C	\$ 57.2 million	November 15, 2017	5.48%

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

We also entered into an additional Note Purchase Agreement on October 2, 2007 (the 2007 Note Purchase Agreement) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2007A Senior Notes (the Series 2007A Senior Notes) in a private placement transaction. The Series 2007A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in four tranches on October 2, 2007. Since entering into the 2007 Note Purchase Agreement, we have repurchased \$122.0 million in principal of the Series 2007A Senior Notes (in periods prior to the fiscal year ended March 31, 2013). 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	\$ 8.0 million	October 2, 2016	6.27%
Tranche C	\$ 24.0 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 the second day of April and the second day of October 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 Credit Facility. The Note Purchase Agreements contain customary restrictive covenants, including covenants that place limits on our ability to encumber our assets, to incur additional debt, to sell assets, or to merge or consolidate with third parties, as well as certain cross covenants with the Credit Facility. We

were in compliance with all financial ratios and tests at June 30, 2014 and throughout the fiscal year.

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

Table of Contents

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.

We are leasing one of our cement plants from the city of Sugar Creek, Missouri. The city of Sugar Creek issued industrial revenue bonds to partly finance improvements to the cement plant. The lease payments due to the city of Sugar Creek under the cement plant lease, which was entered into upon the sale of the industrial revenue bonds, are equal in amount to the payments required to be made by the city of Sugar Creek to the holders of the industrial revenue bonds. Because we are the holder of all of the outstanding industrial revenue bonds, no debt is reflected on our financial statements in connection with our lease of the cement plant. At the conclusion of the lease in fiscal 2021, we have the option to purchase the cement plant for a nominal amount.

(L) INTEREST EXPENSE

The following components are included in interest expense, net:

	For the Three Months Ended June 30,	
	2014	2013
	(dollars in thousands)	
Interest (Income)	\$ (1)	\$ (1)
Interest Expense	3,660	4,559
Interest Expense Income Taxes	174	163
Other Expenses	219	234
Interest Expense, net	\$ 4,052	\$ 4,955

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

Interest expense Income Taxes relates to interest accrued on our unrecognized tax benefits, primarily related to the Republic Asset Acquisition.

(M) 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. During the quarter ended June 30, 2014, we changed our segment presentation to reflect Oil and Gas Proppants, which had been included in Concrete and Aggregates, as a separate segment. We have adjusted the prior period segment presentation to reflect this change for comparative purposes.

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

Table of Contents

We operate six cement plants, sixteen cement distribution terminals, five gypsum wallboard plants, including the plant temporarily idled in Bernalillo, N.M., a gypsum wallboard distribution center, a recycled paperboard mill, seventeen readymix concrete batch plant locations, four aggregates processing plant locations and a frac sand mine and processing facility. The principal markets for our cement products are Texas, northern Illinois (including Chicago), the central plains, the Rocky Mountains, northern Nevada, and northern California. Gypsum wallboard and recycled paperboard are distributed throughout the continental U.S, with the exception of the northeast. Concrete and aggregates are sold to local readymix producers and paving contractors in the Austin, Texas area, north of Sacramento, California and the greater Kansas City, Missouri area, while frac sand is currently sold in Texas.

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

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

	For the Three Months Ended June 30, 2014 2013 (dollars in thousands)	
Revenues -		
Cement	\$ 127,936	\$ 117,700
Gypsum Wallboard	112,677	95,981
Paperboard	37,479	32,163
Oil and Gas Proppants	11,180	942
Concrete and Aggregates	26,162	24,264
Sub-total	315,434	271,050
Less: Intersegment Revenues	(16,605)	(15,602)
Net Revenues, including Joint Venture	298,829	255,448
Less: Joint Venture	(32,578)	(28,404)
Net Revenues	\$ 266,251	\$ 227,044

	For the Three Months Ended June 30, 2014 2013 (dollars in thousands)	
Intersegment Revenues -		
Cement	\$ 2,360	\$ 1,992
Paperboard	14,016	13,212
Concrete and Aggregates	229	398

	\$ 16,605	\$ 15,602
Cement Sales Volume (M Tons) -		
Wholly owned Operations	1,007	979
Joint Venture	284	262
	1,291	1,241

Table of Contents

	For the Three Months Ended June 30,	
	2014	2013
	(dollars in thousands)	
Operating Earnings -		
Cement	\$ 20,507	\$ 19,010
Gypsum Wallboard	37,428	29,636
Paperboard	7,547	5,679
Oil and Gas Proppants	(637)	(855)
Concrete and Aggregates	1,356	1,012
Other, net	679	583
Sub-total	68,880	55,065
Corporate General and Administrative	(7,042)	(5,594)
Earnings Before Interest and Income Taxes	59,838	49,471
Interest Expense, net	(4,052)	(4,955)
Earnings Before Income Taxes	\$ 55,786	\$ 44,516
Cement Operating Earnings -		
Wholly-owned Operations	\$ 10,707	\$ 11,132
Joint Venture	9,800	7,878
	\$ 20,507	\$ 19,010
Capital Expenditures -		
Cement	\$ 8,820	\$ 3,767
Gypsum Wallboard	2,235	1,097
Paperboard	326	537
Oil and Gas Proppants	7,602	15,288
Concrete and Aggregates	4,130	548
Corporate Other	68	
	\$ 23,181	\$ 21,237
Depreciation, Depletion and Amortization -		
Cement	\$ 7,884	\$ 7,837
Gypsum Wallboard	5,098	5,283
Paperboard	2,070	2,182
Oil and Gas Proppants	569	317
Concrete and Aggregates	1,223	1,359
Corporate Other	446	243
	\$ 17,290	\$ 17,221

Edgar Filing: EAGLE MATERIALS INC - Form 10-Q

	As of	
	June 30, 2014	March 31, 2014
	(dollars in thousands)	
Identifiable Assets -		
Cement	\$ 780,567	\$ 762,578
Gypsum Wallboard	416,532	412,566
Paperboard	126,201	125,045
Oil and Gas Proppants	101,353	71,366
Concrete and Aggregates	88,458	108,197
Corporate Other	31,256	31,777
	\$ 1,544,367	\$ 1,511,529

Table of Contents

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, miscellaneous other assets and unrecognized tax benefits. The segment breakdown of goodwill is as follows:

	As of	
	June 30, 2014	March 31, 2014
	(dollars in thousands)	
Cement	\$ 8,359	\$ 8,359
Gypsum Wallboard	116,618	116,618
Paperboard	7,538	7,538
	\$ 132,515	\$ 132,515

We perform our annual test of impairment on goodwill during the fourth quarter of our fiscal year. If business conditions in the operating units containing goodwill change substantially during the fiscal year, and we are unable to conclude that an impairment loss is not likely to occur, we will perform impairment tests for those business units during our quarterly periods. At June 30, 2014, we determined that impairment losses are not likely to occur; therefore, no impairment tests were performed during the quarter.

We temporarily idled our gypsum manufacturing facility in Bernalillo, N.M. beginning in December 2009, due to cyclical low gypsum wallboard demand. The carrying value of the Bernalillo plant and equipment was \$2.9 million and \$1.3 million, respectively, at June 30, 2014, and we continue to depreciate the assets over their estimated useful life. We currently have a strong market position in New Mexico, and our Albuquerque gypsum wallboard facility is operating at close to capacity. We plan on resuming manufacturing at the Bernalillo facility in the future when demand for our products improves. Costs of maintaining the facility during the idling are not significant, and the facility was generating positive cash flow prior to being idled; therefore, we have determined that the value of the plant and equipment is not impaired. We are not currently considering the permanent closure of the Bernalillo facility. Any decision to permanently close Bernalillo would be the result of future changes in the building materials industry in the southwest United States and Rocky Mountain region, including changes in the production capacity or operations of our competitors, demand for gypsum wallboard or general macro-economic conditions, which we do not foresee at the present time. If we were to permanently close the Bernalillo facility, or if our expectations as to its use changed such that we project the future undiscounted cash flows from its operations would be insufficient to recover its carrying value due to the factors described above, or for any other reason, we would recognize impairment at that time. All of our other wallboard facilities are currently generating positive cash flow from operations.

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 just our 50% interest in those amounts):

For the Three Months
Ended June 30,
2014 2013
(dollars in thousands)

Edgar Filing: EAGLE MATERIALS INC - Form 10-Q

Revenues	\$ 65,156	\$ 56,808
Gross Margin	\$ 20,457	\$ 16,694
Earnings Before Income Taxes	\$ 19,600	\$ 15,756

Table of Contents

	As of	
	June 30, 2014	March 31, 2014
	(dollars in thousands)	
Current Assets	\$ 59,994	\$ 59,029
Non-Current Assets	\$ 44,005	\$ 42,826
Current Liabilities	\$ 17,140	\$ 17,901

(N) 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 June 30, 2014, we had contingent liabilities under these outstanding letters of credit of approximately \$7.7 million.

In the ordinary course of business, we execute contracts involving indemnifications that are standard in the industry and indemnifications specific to a transaction such as sale of a business. These indemnifications may include claims relating to any of the following: environmental and tax matters; intellectual property rights; governmental regulations and employment-related matters; customer, supplier, and other commercial contractual relationships; construction contracts and financial matters. While the maximum amount to which the Company may be exposed under such agreements cannot be estimated, it is the opinion of management that these indemnifications are not