EAGLE MATERIALS INC
Form 10-K
May 29, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended
March 31, 2007
Commission File No. 1-12984
EAGLE MATERIALS INC.
(Exact name of registrant as specified in its charter)
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)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock (par value $.01 per share)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES þ NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

The aggregate market value of the voting stock held by nonaffiliates of the Company at September 29, 2006 (the last business day of the registrants most recently completed second fiscal quarter) was approximately $1.652 billion.

As of May 23, 2007, the number of outstanding shares of common stock was:

Class	Outstanding Shares
Common Stock, $.01 Par Value	47,980,097

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy statement for the Annual Meeting of Stockholders of Eagle Materials Inc. to be held on August 2, 2007 are incorporated by reference in Part III of this Report.

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Amended and Restated Bylaws
Subsidiaries
Consent of Ernst & Young LLP
Certification of CEO Pursuant to Rules 13a-14/15d-14
Certification of CFO Pursuant to Rules 13a-14/15d-14
Certification of CEO Pursuant to Rules Section 906
Certification of CEO Pursuant to Rules Section 906

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PART I

ITEM 1. BUSINESS

OVERVIEW

Eagle Materials Inc. (the Company or EXP which may be referred to as we or us) is a manufacturer of basic building materials including gypsum wallboard, cement, gypsum and non-gypsum paperboard and concrete and aggregates. We were founded in 1963 as a building materials subsidiary of Centex Corporation (Centex) and we operated as a public company under the name Centex Construction Products, Inc. from April 1994 to January 30, 2004 when Centex completed a tax free distribution of its shares to its shareholders (the Spin-off). Since the date of the Spin-off, we are no longer affiliated with Centex. Today, our primary businesses are the manufacture and distribution of gypsum wallboard and the manufacture and sale of cement. Gypsum wallboard is distributed throughout the U.S. with particular emphasis in the geographic markets nearest to our production facilities. We sell cement in four regional markets and for the twenty-first consecutive year we have sold 100% of our cement production capacity. At March 31, 2007 we operated four gypsum wallboard plants (five board lines), four cement plants (six kilns, one of which belongs to our joint venture company), one gypsum paperboard plant, nine concrete batching plants and two aggregates facilities.

Fiscal year 2007 represented a record year for the Company in several regards, such as:

- The highest fiscal year operating earnings in our history, due principally to record operating earnings of both our gypsum wallboard and cement segments;
- We completed the twenty-first consecutive year of selling all of our cement production, as well as setting a fiscal year sales record for volume with over 3.2 million tons of cement sold;
- Completed the expansion of Illinois Cement Company on-time and under-budget; and
- Began construction of the new greenfield wallboard plant in Georgetown, South Carolina, which is expected to be completed and operational by December 2007.

Over the last several years the Company has maintained the goal of pursuing strategic growth opportunities through expansion or acquisition, while continuing to be a low cost producer. During fiscal 2007, the Company focused on the following goals:

Expanding our Wallboard Operation:

The Company began construction in March 2006 of a new $150 million wallboard plant in Georgetown, South Carolina, which will utilize synthetic gypsum as our primary raw material. Construction is currently on-time and on-budget, and is expected to be completed and operational in December 2007. The new wallboard plant is expected to add 750 million square feet of production capacity to our gypsum wallboard segment.

Expanding on Our Existing Asset Position in Our Cement Business:

- We completed the $65 million expansion of Illinois Cement Company, increasing clinker capacity 70% to 1.0 million tons. The expansion was completed in December 2006 and became fully operational in January 2007.
- The Company is developing its plans to expand and modernize our Nevada Cement Company plant and our Mountain Cement Company plant. The plans will expand the per plant production capacity of Nevada Cement Company and Mountain Cement Company to 1.0 million tons each of clinker annually representing an increase in production of 60% and 100%, respectively. We anticipate beginning the modernization of the plants during the first half of calendar 2008, with the completion of Nevada Cement expected to be in mid calendar 2009 and the completion of Mountain Cement to be in late calendar 2009. We anticipate investing a total of approximately $320 million for both projects.

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After the completion of the modernization and expansions of our Nevada Cement and Mountain Cement plants, along with the Illinois Cement expansion, our total net clinker capacity is expected to increase by 50% to 3.7 million tons per year and our total cement capacity is expected to increase to approximately 4.1 million tons per year.

We continue to be committed to our goal of being a low cost producer in each of the markets in which we compete through disciplined investment and engineered operational execution. We will also continue to focus on expansion of our geographic footprint through acquisition or expansion of existing facilities that provide increased profitability for our shareholders.

INDUSTRY SEGMENT INFORMATION

For management and financial reporting purposes, our businesses are separated into four segments: Gypsum Wallboard; Cement; Recycled Paperboard; and Concrete and Aggregates. A description of these business segments can be found on pages 3 - 12.

The following table presents revenues and earnings before interest and income taxes contributed by each of our industry segments during the periods indicated. We conduct one of our four cement plant operations through a joint venture, Texas Lehigh Cement Company LP, which is located in Buda, Texas. The Company owns a 50% interest in the joint venture and accounts for its interest using the equity method of accounting. However, for segment reporting purposes, we proportionately consolidate our 50% share of the cement 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. Prior to January 11, 2005, we reported our 50% interest in the Illinois Cement Company consistent with that of Texas Lehigh Cement Company. Consequently, the information presented below and for the remainder of this Form 10-K includes the 50% interest in Illinois Cement through January 10, 2005 (the date we acquired the other 50%) and our 100% interest in Illinois Cement for the period from January 11, 2005 through March 31, 2005, and for all of fiscal 2006 and 2007. Identifiable assets, depreciation, depletion and amortization, and capital expenditures by segment are presented in Note (G) of the Notes to the Consolidated Financial Statements on pages 50 - 53.

	For the Fiscal Years Ended March 31,		
	2007	2006	2005
	(dollars in millions)		
Revenues:			
Gypsum Wallboard	$ 511.6	$ 479.1	$ 350.1
Cement	321.9	285.3	211.3
Paperboard	127.5	133.5	125.2
Concrete and Aggregates	97.3	89.8	70.8
Other, net	4.5	2.3	0.2
Sub-total	1,062.8	990.0	757.6
Less: Intersegment Revenues	(63.9)	(65.1)	(58.8)
Less: Joint Ventures Revenues	(76.5)	(65.2)	(82.3)
Total Net Revenues	$ 922.4	$ 859.7	$ 616.5

	For the Fiscal Years Ended March 31,		
	2007	2006	2005
	(dollars in millions)		
Operating Earnings:			
Gypsum Wallboard	$ 198.1	$ 154.2	$ 81.6
Cement	92.2	78.3	57.6
Paperboard	19.0	20.1	25.4
Concrete and Aggregates	16.2	9.6	7.7
Other, net	4.5	1.5	(0.7)
Sub-total	330.0	263.7	171.6
Corporate Overhead	(20.3)	(16.4)	(10.3)
Earnings Before Interest and Income Taxes	$ 309.7	$ 247.3	$ 161.3

Net revenues (net of joint venture and intersegment revenue, see Note (G) of the Notes to the Consolidated Financial Statements) for the past three years from each of our business segments, expressed as a percentage of total net revenues were as follows:

	For the Fiscal Years Ended March 31,		
	2007	2006	2005
Percentage of Total Net Revenues:			
Gypsum Wallboard	55.5%	55.8%	56.8%
Cement	25.6	24.9	20.4
Paperboard	8.1	8.9	11.5
Concrete and Aggregates:			
Readymix Concrete	6.7	6.5	6.8
Aggregates	3.6	3.9	4.5
Sub-total	10.3	10.4	11.3
Other, net	0.5		
Total Net Revenues	100.0%	100.0%	100.0%

GYPSUM WALLBOARD OPERATIONS

Company Operations. We currently own and operate four gypsum wallboard manufacturing facilities, and are constructing a fifth wallboard facility in Georgetown, South Carolina which we expect will become operational during December 2007. There are four primary steps in the manufacturing process: (1) gypsum is mined and extracted from the ground; (2) the gypsum is then calcined and converted into plaster; (3) the plaster is mixed with various other materials and water to produce a mixture known as slurry, which is extruded between two continuous sheets of recycled paperboard on a high-speed production line and allowed to harden; and (4) the sheets of gypsum wallboard are then cut to appropriate lengths, dried and bundled for sale. Gypsum wallboard is used to finish the interior walls and ceilings in residential, commercial and industrial construction.

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The following table sets forth certain information regarding our plants:

Location	Annual Gypsum Wallboard Capacity (MMSF)[1]	Estimated Minimum Gypsum Rock Reserves (years)	Estimated Gypsum Reserve (million tons)
Albuquerque, New Mexico	430	50+(2)(3)	39(2)
Bernalillo, New Mexico	495	50+(2)(3)	39(2)
Gypsum, Colorado	690	25(4)	15
Duke, Oklahoma	1,285	29(4)(5)	31
Total Current Capacity	2,900		
Georgetown, South Carolina	750(7)	60(6)	-(6)
Total	3,650		

(1) Million Square Feet (MMSF).

(2) The same reserves serve both New Mexico plants.

(3) Includes mining claims and leased reserves.

(4) Includes both owned and leased reserves.

(5) Additional reserves available.

(6) The Company has a sixty year supply agreement with Santee Cooper for synthetic gypsum.

(7) Georgetown, South Carolina

plant is
currently under
construction.

Our gypsum wallboard production totaled 2,638 MMSF in fiscal 2007 and 2,833 MMSF in fiscal 2006. Total gypsum wallboard sales were 2,610 MMSF in fiscal 2007 and 2,832 MMSF in fiscal 2006. Total wallboard production as a percentage of current rated capacity was 91% in fiscal 2007 and 98% in fiscal 2006. The Company s operating rates were consistent with industry average capacity utilization in fiscal 2007 and its plants operated at full capacity during fiscal 2006 because of record wallboard demand.

Raw Materials and Fuel Supplies. We mine and extract natural gypsum rock, the principal raw material used in the manufacture of gypsum wallboard, from mines and quarries owned, leased or subject to mining claims owned by the Company and located near our plants. We do not presently use synthetic gypsum although we have a supply agreement with Santee Cooper, a South Carolina utility company, to utilize this material at our facility currently under construction in South Carolina. Two leases cover the New Mexico reserves; one with the Pueblo of Zia and the second with the State of New Mexico. The term of the Zia lease continues for so long as gypsum is produced in paying quantities, as defined in the legal agreement. The term of the State lease continues for so long as annual lease payments are made. We do not anticipate any problems in continuing to extend the term of these leases for the foreseeable future. Gypsum ore reserves at the Gypsum, Colorado plant are contained within a total of 115 placer mines encompassing 2,300 acres. Mineral rights are held on an additional 108 unpatented mining claims where mineral rights can be developed upon completion of permitting requirements. We currently own land with over 23 million tons of gypsum in the area of Duke, Oklahoma, with an additional 8 million tons controlled through a lease agreement. Other gypsum deposits are located near the plant in Duke, which we believe may be obtained at reasonable costs when needed.

Through our modern low cost paperboard mill we manufacture sufficient quantities of paper necessary for our gypsum wallboard production. Paper is the largest cost component in the manufacture of gypsum wallboard currently representing approximately one-third of the cost of production.

Our gypsum wallboard manufacturing operations use large quantities of natural gas and electrical power. A significant portion of the Company s natural gas requirements for our gypsum wallboard plants are currently provided by three gas producers under gas supply agreements expiring in March 2008 for Colorado, October 2007 for New Mexico and Oklahoma. If the agreements are not renewed, we expect to be able to obtain our gas supplies from other suppliers at competitive prices. Electrical power is supplied to our New Mexico plants at standard industrial rates by a local utility. Our Albuquerque plant utilizes an interruptible power supply agreement, which may expose it to some production interruptions during periods of power curtailment. Power for the Gypsum, Colorado facility is generated at the facility by a cogeneration power plant. Currently the cogeneration power facility supplies power and waste hot gases for drying to the gypsum

wallboard plant. We do not sell any power to third parties. Gas costs currently represent approximately 20% of the production costs.

Sales and Distribution. The principal sources of demand for gypsum wallboard are (i) residential construction, (ii) repair and remodeling, (iii) non-residential construction, and (iv) other markets such as exports and manufactured housing, which the Company estimates accounted for approximately 42%, 33%, 24% and 1%, respectively, of calendar 2006 industry sales. The gypsum wallboard industry remains highly cyclical; weakening new residential construction has been partially offset by the growth in the repair and remodeling and commercial construction segments. Also, demand for wallboard can be seasonal and is generally greater from spring through the middle of autumn.

We sell gypsum wallboard to numerous building materials dealers, gypsum wallboard specialty distributors, lumber yards, home center chains and other customers located throughout the United States. One customer with multiple shipping locations accounted for approximately 11% of our total gypsum wallboard sales during fiscal 2007. The loss of this customer could have a material adverse effect on our financial results.

Gypsum wallboard is sold on a delivered basis, mostly by truck. Although truck rates have generally been negotiated for the remainder of calendar year 2007, increases in fuel costs are difficult to pass on to the customers and could negatively impact our net revenues if significant or prolonged surcharges were implemented by the carriers.

Although gypsum wallboard is distributed principally in regional areas, the Company and certain other industry producers have the ability to ship gypsum wallboard by rail outside their usual regional distribution areas to regions where demand is strong. We own or lease 241 railcars for transporting gypsum wallboard. In addition, in order to facilitate distribution in certain strategic areas, we maintain a distribution center in Albuquerque, New Mexico and four reload yards in Arizona, California and Illinois. Our rail distribution capabilities permit us to service customers in markets on both the east and west coasts. During fiscal 2007, approximately 25% of our sales volume of gypsum wallboard was transported by rail. Equipment availability for both rail and truck shipments is expected to increase during fiscal 2008.

Competition. There are eight manufacturers of gypsum wallboard in the U.S. operating a total of 76 plants. We estimate that the three largest producers USG Corporation, National Gypsum Company and Koch Industries account for approximately 65% of gypsum wallboard sales in the U.S. In general, a number of our competitors in the gypsum wallboard industry have greater financial, manufacturing, marketing and distribution resources than the Company. Furthermore, certain of our competitors operate vertically integrated gypsum wallboard distribution centers, which may provide them with certain marketing advantages over the Company.

Competition among gypsum wallboard producers is primarily on a regional basis and to a lesser extent on a national basis. Because of the commodity nature of the product, competition is based principally on price, which is highly sensitive to changes in supply and demand, and to a lesser extent, on product quality and customer service.

Currently, wallboard production capacity in the United States is estimated at 37.6 billion square feet per year, a 33% increase from 1998. The Gypsum Association, an industry trade group, estimates that total calendar 2006 gypsum wallboard shipments by U.S. manufacturers were approximately 35.0 billion square feet, the second highest level on record, resulting in average industry capacity utilization of approximately 93%.

Environmental Matters. The gypsum wallboard industry is subject to numerous federal, state and local laws and regulations pertaining to health, safety and the environment. Some of these laws, such as the federal Clean Air Act and the federal Clean Water Act (and analogous state laws), impose environmental permitting requirements and govern the nature and amount of emissions that may be generated when conducting particular operations. Some laws, such as the federal Comprehensive Environmental Response,

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Compensation, and Liability Act (and analogous state laws), impose obligations to clean up or remediate spills of hazardous materials into the environment. Other laws require us to reclaim certain land upon completion of extraction and mining operations in our quarries. None of the Company s gypsum wallboard operations are presently the subject of any local, state or federal environmental proceedings or inquiries. The Company does not, and has not, used asbestos in any of its gypsum wallboard products.

CEMENT OPERATIONS

Company Operations. Our cement production facilities are located in or near Buda, Texas; LaSalle, Illinois; Laramie, Wyoming; and Fernley, Nevada. The LaSalle, Illinois, Laramie, Wyoming and Fernley, Nevada facilities are wholly-owned. The Buda, Texas plant is owned by Texas Lehigh Cement Company LP, a limited partnership joint venture owned 50% by the Company and 50% by Lehigh Cement Company, a subsidiary of Heidelberg Cement AG. Our LaSalle, Illinois plant operates under the name Illinois Cement Company, the Laramie, Wyoming plant operates under the name of Mountain Cement Company and the Fernley, Nevada plant under the name of Nevada Cement Company.

Cement is the basic binding agent for concrete, a primary construction material. Our modern cement plants utilize dry process technology and at present approximately 80% of our clinker capacity is from preheater or preheater/pre-calciner kilns. The following table sets forth certain information regarding these plants:

Location	Rated Annual Clinker Capacity (M short tons)[1]	Manufacturing Process	Number of Kilns	Dedication Date	Estimated Minimum Limestone Reserves (Years)
Buda, TX[2]	1,300	Dry 4 Stage Preheater/ Pre-calciner	1	1983	50+(5)
LaSalle, IL	1,000	Dry 5 Stage Preheater/ Pre-calciner	1	2006	36(5)
Laramie, WY	640	Dry 2 Stage Preheater	1	1988	30(6)
		Dry Long Dry Kiln	1	1996	
Fernley, NV	505	Dry Long Dry Kiln	1	1964	50+(6)
		Dry 1 Stage Preheater	1	1969	
Total Gross[3]	3,445				
Total Net[3][4]	2,795				

(1)

One short ton equals 2,000 pounds.

(2) The amounts shown represent 100% of plant capacity and production. This plant is owned by a separate partnership in which the Company has a 50% interest.

(3) Generally, a plant s cement grinding production capacity is greater than its clinker production capacity.

(4) Net of partners 50% interest in the Buda, Texas plant.

(5) Owned reserves.

(6) Includes both owned and leased reserves.

The Company s net cement production, including its 50% share of the cement Joint Venture production, and conversion of purchased clinker, totaled 2.8 million tons in both fiscal 2007 and 2006. Total net cement sales, including the Company s 50% share of cement sales from the Joint Venture, were 3.2 million tons in both fiscal 2007 and 2006 as all four plants sold 100% of the product they produced. During the past two years, we imported and purchased cement from others to be resold. Purchased cement sales typically occur at lower gross profit margins. In fiscal 2007, 26% of the cement sold by us was acquired from outside sources, compared to 21% in fiscal 2006. During September 2006, Texas Lehigh Cement Company, our 50% joint venture, acquired a minority interest in an import terminal in Houston, Texas. Texas Lehigh can purchase up to 495,000 short tons annually from the cement terminal.

Cement production is capital-intensive and involves high initial fixed costs. The Company has announced plans to modernize and expand its Mountain Cement and Nevada Cement facilities. The projects at Nevada Cement Company and Mountain Cement Company are both expected to be completed in mid to late calendar year 2008 and 2009, respectively. Upon completion of these projects, Mountain Cement Company and Nevada Cement Company each will have rated annual clinker capacity of 1.0 million tons, raising total gross cement capacity to 4.4 million tons, and net cement capacity to near 3.7 million tons.

Raw Materials and Fuel Supplies. The principal raw material used in the production of portland cement is calcium carbonate in the form of limestone. Limestone is obtained principally through mining and extraction operations conducted at quarries owned or leased by the Company and located in close proximity to our plants. We believe that the estimated recoverable limestone reserves owned or leased by us will permit each of our plants to operate at our present production capacity for at least 30 years. Other raw materials used in substantially smaller quantities than limestone are sand, clay, iron ore and gypsum. These materials are readily available and can either be obtained from Company-owned or leased reserves or purchased from outside suppliers.

Our cement plants use coal and coke as their primary fuel, but are equipped to burn natural gas as an alternative. The cost of delivered coal and coke rose in fiscal 2007 and is expected to rise again in fiscal 2008. We have not used hazardous waste-derived fuels in our plants although our LaSalle, Illinois and Buda, Texas plants have been permitted to burn scrap tires as a substitute fuel. Electric power is also a major cost component in the manufacturing process and we have sought to diminish overall power costs by adopting interruptible power supply agreements. These agreements may expose us to some production interruptions during periods of power curtailment.

Sales and Distribution. Demand for cement can be cyclical, because demand for concrete products is derived from demand for construction with over 50% of demand from public works contracts. Recently, construction spending and cement consumption have been stable. The construction sector is also affected by the general condition of the economy as well as regional economic influences. Regional cement markets experience peaks and valleys correlated with regional construction cycles. Additionally, demand for cement is seasonal, particularly in northern states where inclement winter weather affects construction activity. Sales are generally greater from spring through the middle of autumn than during the remainder of the year. The impact on the Company of regional construction cycles may be mitigated to some degree by our geographic diversification.

The following table sets forth certain information regarding the geographic area served by each of our cement plants and the location of our distribution terminals in each area. We have a total of 11 cement storage and distribution terminals that are strategically located to extend the sales areas of our plants.

Plant Location	Principal Geographic Areas	Distribution Terminals
Buda, Texas	Texas and western Louisiana	Corpus Christi, Texas Houston, Texas Orange, Texas Roanoke (Ft. Worth), Texas Waco, Texas Houston Cement Company (Joint Venture), Houston, Texas
LaSalle, Illinois	Illinois and southern Wisconsin	Hartland, Wisconsin
Laramie, Wyoming	Wyoming, Utah, Colorado and western Nebraska	Salt Lake City, Utah Denver, Colorado North Platte, Nebraska
Fernley, Nevada	Northern Nevada and northern California	Sacramento, California

Cement is distributed directly to our customers mostly through customer pickups by common carriers from plants or distribution terminals. We transport cement principally by rail to our storage and distribution terminals. No single customer accounted for 10% or more of our cement sales during fiscal 2007. Sales are made on the basis of competitive prices in each area. As is customary in the industry, the Company does not typically enter into long-term sales contracts.

Competition. The cement industry is extremely competitive as a result of multiple domestic suppliers and the importation of foreign cement through various terminal operations. The U.S. cement industry is over 80% owned by foreign international companies. Competition among producers and suppliers of cement is based primarily on price, with consistency of quality and service to customers being important but of lesser significance. Price competition among individual producers and suppliers of cement within a geographic area is intense because of the fungible nature of the product. Because of cement s low value-to-weight ratio, the relative cost of transporting cement on land is high and limits the geographic area in which each company can market its products economically. Therefore, the U.S. cement industry is fragmented into regional geographic areas rather than a single national selling area. No single cement company has a distribution of plants extensive enough to serve all geographic areas, so profitability is sensitive to shifts in the balance between regional supply and demand.

Cement imports into the U.S. occur primarily to supplement domestic cement production. Cement is typically imported into deep water ports or transported on the Mississippi River system near major population centers to take advantage of lower waterborne freight costs versus higher truck and rail transportation costs that U.S. based manufacturers incur to deliver into the same areas.

The U.S. Government and the Government of Mexico entered into an agreement in April 2006 providing for the elimination of the antidumping duties imposed by the U.S. on cement imported from Mexico. The agreement provides for a three year transition period during which the volume of Mexican cement imported into the southern tier of the U.S. will be limited to approximately 3 million metric tons per year and the antidumping duty imposed on Mexican cement will be set at $3 per ton. This is not expected to impact cement prices in the short term as the Portland Cement Association (PCA) estimates that the current industry wide domestic production capacity is 27% short of domestic consumption.

The PCA estimates that imports represented approximately 29% of cement used in the U.S. during calendar 2006 as compared with approximately 25% in 2005 and 21% in 2004.

Environmental Matters. Our operations are subject to numerous federal, state and local laws and regulations pertaining to health, safety and the environment. Some of these laws, such as the federal Clean Air Act and the federal Clean Water Act (and analogous state laws) impose environmental permitting requirements and govern the nature and amount of emissions that may be generated when conducting particular operations. Some laws, such as the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) (and analogous state laws) impose obligations to clean up or remediate spills of hazardous materials into the environment. Other laws require us to reclaim certain land upon completion of extraction and mining operations in our quarries. We believe that the Company has obtained all the material environmental permits that are necessary to conduct our operations. We further believe that the Company is conducting its operations in substantial compliance with these permits. In addition, none of the Company s sites is listed as a CERCLA Superfund site.

Four environmental issues involving the cement manufacturing industry deserve special mention. The first issue involves cement kiln dust or CKD. The federal Environmental Protection Agency, or EPA, has been evaluating the regulatory status of CKD under the federal Resource Conservation and Recovery Act (RCRA) for a number of years. In 1999, the EPA proposed a rule that would allow states to regulate properly-managed CKD as a non-hazardous waste under state laws and regulations governing solid waste. In contrast, CKD that was not properly managed would be treated as a hazardous waste under RCRA. In 2002, the EPA confirmed its intention to exempt properly-managed CKD from the hazardous waste requirements of RCRA. The agency announced that it would collect additional data over the next three to five years to determine if the states

regulation of CKD is effective, which may lead the EPA to withdraw its 1999 proposal to treat any CKD as a hazardous waste. In 2007, EPA indicated that during 2008 it will provide the public with the information it has collected regarding CKD management practices, and anticipates taking final action on the 2002 announcements in April 2009.

Currently, substantially all CKD produced in connection with our ongoing operations is recycled, and therefore such CKD is not viewed as a waste under RCRA. However, CKD was historically collected and stored on-site at our Illinois, Nevada and Wyoming cement plants and at a former plant site in Corpus Christi, Texas, which is no longer in operation. If either the EPA or the states decide to impose management standards on this CKD at some point in the future, the Company could incur additional costs to comply with those requirements with respect to its historically collected CKD. CKD that comes in contact with water might produce a leachate with an alkalinity high enough to be classified as hazardous and might also leach certain hazardous trace metals therein.

A second industry environmental issue involves the historical disposal of refractory brick containing chromium. Such refractory brick was formerly used widely in the cement industry to line cement kilns. The Company currently does not use refractory containing chromium and crushes spent refractory brick, which is used as raw feed in the kiln.

A third industry environmental issue involves the potential regulation of greenhouse gases from cement plants. Carbon dioxide, a byproduct of the cement manufacturing process, is a greenhouse gas that many scientists and others believe contributes to the warming of the Earth s atmosphere. A recent U.S. Supreme Court decision (Massachusetts v. EPA) relating to regulation of carbon dioxide emissions from automobiles could spur further regulation of greenhouse gasses emitted by industries including the cement industry. Although no restrictions have yet been imposed under federal laws (although a few states have adopted some restrictions), it is possible that cement plants may be targeted because of the large amounts of carbon dioxide generated during the manufacturing process. Any imposition of raw materials or production limitations, fuel-use or carbon taxes or emissions limitations or reductions could have a significant impact on the cement manufacturing industry and a material adverse effect on the Company and its results of operations.

Fourth, the Environmental Protection Agency has promulgated regulations for certain toxic air pollutants, including standards for portland cement manufacturing. The maximum attainable control technology standards require cement plants to test for certain pollutants and meet certain emission and operating standards. Management has no reason to believe, however, that these standards have placed the Company at a competitive disadvantage.

Management believes that our current procedures and practices in our operations, including those for handling and managing hazardous materials, are consistent with industry standards and are in substantial compliance with applicable environmental laws and regulations. Nevertheless, because of the complexity of operations and compliance with environmental laws, there can be no assurance that past or future operations will not result in violations, remediation or other liabilities or claims. Moreover, we cannot predict what environmental laws will be enacted or adopted in the future or how such future environmental laws or regulations will be administered or interpreted. Compliance with more stringent environmental laws, or stricter interpretation of existing environmental laws, could necessitate significant capital outlays.

RECYCLED PAPERBOARD OPERATIONS

Company Operations. Our recycled paperboard manufacturing operation, acquired in November 2000, is located in Lawton, Oklahoma. The paperboard company operates a state-of-the-art paper mill producing high-quality, low-basis weight gypsum liner paper for the wallboard industry from 100% recycled fiber. Manufacturing capabilities at Republic, aside from the gypsum liner products, include recycled containerboard grades (linerboard and medium). In addition, to maximize manufacturing efficiencies, recycled industrial paperboard grades (tube/core stock and protective angle board) are produced.

The Mill. The paperboard operation has a highly technologically advanced paper machine designed for gypsum liner production, providing it with stability and longevity of output. The paper s uniform cross-

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directional strength and finish characteristics facilitate the efficiencies of new high-speed wallboard manufacturing lines.

The paperboard operation manufactures high strength gypsum liner that is approximately 20% lighter in basis weight than generally available in the U.S. The low-basis weight product utilizes less recycled fiber to produce paper that, in turn, absorbs less moisture during the gypsum wallboard manufacturing process; therefore, reducing drying requirement and energy (natural gas) usage. The low-basis weight paper also reduces the overall finished board weight, providing wallboard operations with more competitive transportation costs both the inbound and outbound segments.

Raw Materials. The principal raw materials are recycled paper fiber (recovered waste paper), water and specialty paper chemicals. The largest waste paper source used by the operation is old cardboard containers (known as OCC). A blend of high grades (white papers consisting of ink free papers such as news blank and unprinted papers) is used in the facing paper to produce a white product with customer desired properties.

Adequate supply of OCC recycled fiber will continue to be available from generators and brokers located within a 600 mile radius of the paper mill. The majority of the recycled fiber purchased is delivered via truck, with the limited remainder (5%) delivered by rail. Prices are subject to market fluctuations based on generation of material (supply), demand and the presence of the export market. The current outlook for fiscal year 2008 is for the waste paper prices to increase moderately, largely due to export demand from China. Current customer contracts include price escalators to compensate for changes in raw material / fiber prices.

The chemicals used in the paper making operation, including size, retention aids, dry strengths additives, biocides and bacteria controls, are readily available from several manufacturers at competitive prices. We are under contractual agreement with our current supplier and have the opportunity for renewal in fiscal year 2008.

The manufacture of recycled paperboard involves the use of large volumes of water in the production process. The mill uses water provided under an agreement with the City of Lawton, Oklahoma municipal services. The agreement with the City of Lawton, Oklahoma, which commenced in calendar year 1999, is for a fifteen year term with two automatic five-year extensions, unless the Company notifies the City in writing at least six months prior to the expiration of the term or extended term. Although adequate sources of water have historically been available, an extended period of general water shortages, legal curtailment of any paper mill s current water sources or uses, or deterioration of the current quality of water could adversely affect the operations, thereby limiting its production capacity.

Electricity, natural gas and other utilities rates are available to the Company at either contracted rates or standard industrial rates in adequate supplies. These utilities are subject to standard industrial curtailment provisions. In the event that a natural gas curtailment or unfavorable pricing condition should occur, the Lawton mill is equipped to use fuel oil as an alternative fuel in the No.1 boiler.

Paperboard operations are generally large consumers of energy primarily natural gas and electricity. During fiscal 2007, natural gas pricing was slightly less than the previous year, yielding a savings for the Company; however, prices are expected to increase during fiscal 2008. If natural gas prices continue to increase, they are expected to negatively impact fiscal 2008 production costs and operating earnings. The paper mill is subject to an electricity supply agreement with Public Service of Oklahoma (PSO); however, this power company has a large dependency on natural gas, which could negatively impact the electricity rates.

Sales and Distribution. Our manufactured recycled paperboard products are sold primarily to gypsum wallboard manufacturers. During fiscal 2007, approximately 40% of the recycled paperboard sold by the paper mill was consumed by the Company s gypsum wallboard manufacturing operations, approximately 40% was sold to CertainTeed, pursuant to a paper supply contract (the CertainTeed Agreement), and the remainder was shipped to other gypsum wallboard manufacturers and containerboard manufacturers. The

existing CertainTeed Agreement was originally entered into by Republic Paperboard (the Company) and James Hardie Gypsum, Inc. in 1999; however, the James Hardie North American gypsum wallboard operations were acquired by BPB Gypsum, whose operations were purchased during fiscal 2006 by St. Gobain. St. Gobain North American operations function under the CertainTeed trade name. The loss of CertainTeed as a customer or a termination or reduction of CertainTeed s production of gypsum wallboard, unless replaced by a commercially similar arrangement, could have a material adverse effect on the Company.

Environmental Matters. Prior to November 2000, the Company s now closed Commerce City, Colorado paper mill (the Commerce City Mill) had investigated the presence of subsurface petroleum hydrocarbons at the mill site and had retained an environmental consultant who concluded that fuel oil, jet fuel, and gasoline additives had migrated in the subsurface of the property from an adjacent property. As a result of an additional subsequent investigation by the Commerce City Mill, new environmental conditions were uncovered that appear to stem from underground storage tank use on the mill site. The Commerce City Mill and a former owner of the Commerce City Mill have entered into a participation agreement with the Division of Oil and Public Safety of the Colorado Department of Labor and Employment (the Oil Division) to respond to those conditions that appear to stem from historic underground storage tank use. Under the participation agreement, the Commerce City mill will pay 25% (with the former owner paying 75%) of the costs associated with the investigation and remediation efforts approved by both parties. The Company and the former owner have each approved and submitted to the Oil Division a Corrective Action Plan (the CAP) for the removal of the subsurface petroleum hydrocarbon at the Commerce City Mill. The CAP was approved by the Oil Inspection Section in calendar 2002. All remediation has been completed and we are awaiting final approval by the State of Colorado.

CONCRETE AND AGGREGATES OPERATIONS

Company Operations. Readymix concrete, a versatile, low-cost building material used in almost all construction, involves the mixing of cement, sand, gravel, or crushed stone and water to form concrete which is then sold and distributed to numerous construction contractors. Concrete is produced in batch plants and transported to the customer s job site in mixer trucks.

The construction aggregates business consists of the mining, extraction, production and sale of crushed stone, sand, gravel and lightweight aggregates such as expanded clays and shales. Construction aggregates of suitable characteristics are employed in virtually all types of construction, including the production of portland cement concrete and asphaltic mixes in highway construction and maintenance.

We produce and distribute readymix concrete from company owned sites north of Sacramento, California and in Austin, Texas. The following table sets forth certain information regarding these operations:

Location	Number of Plants	Number of Trucks
Northern California	3	43
Austin, Texas	6	86
Total	9	129

We conduct aggregate operations near our concrete facilities in northern California and Austin, Texas. Aggregates are obtained principally by mining and extracting from quarries owned or leased by the Company. The following table sets forth certain information regarding these operations:

Location	Types of Aggregates	Estimated Annual Production Capacity (Thousand tons)	Estimated Minimum Reserves (Years)

Northern California	Sand and Gravel	3,500	100+(1)
Austin, Texas	Limestone	2,500	60(2)
Total		6,000	

(1) Owned reserves through various subsidiaries.

(2) Leased reserves.

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The Company s total net aggregate sales were 4.9 million tons in fiscal 2007 and 5.7 million tons in fiscal 2006. Total aggregates production was 5.6 million tons for fiscal 2007 and 5.8 million for fiscal 2006. A portion of the Company s total aggregates production is used internally by the Company s readymix concrete operations.

Raw Materials. The Company supplies from its manufactured cement facilities approximately 100% and 0% of its cement requirements for its Austin and northern California concrete operations, respectively. The Company supplies approximately 35% and 51%, respectively, of its aggregates requirements for its Austin and northern California concrete operations. The Company obtains the balance of its cement and aggregates requirements from multiple sources in each of these areas.

We mine and extract limestone and sand and gravel, the principal raw materials used in the production of aggregates, from quarries owned or leased by the Company and located near its plants. The northern California quarry is estimated to contain over one billion tons of sand and gravel reserves. The Austin, Texas quarry is covered by a lease which expires in 2060. Based on its current production capacity, the Company estimates its northern California and Austin, Texas quarries contain over 100 years and approximately 60 years of reserves, respectively.

Sales and Distribution. Demand for readymix concrete and aggregates largely depend on local levels of construction activity. The construction sector is subject to weather conditions, the availability of financing at reasonable rates and overall fluctuations in local economies, and therefore tends to be cyclical. We sell readymix concrete to numerous contractors and other customers in each plant s selling area. Our batch plants in Austin and northern California are strategically located to serve each selling area. Concrete is delivered from the batch plants by trucks owned by the Company.

We sell aggregates to building contractors and other customers engaged in a wide variety of construction activities. Aggregates are delivered from our aggregate plants by common carriers and customer pick-up. One customer accounted for approximately 12% of our aggregate sales in fiscal 2007. At presently we are attempting to secure a rail link from our principal aggregates deposit north of Sacramento, California to supply extended markets in northern California.

Competition. Both the concrete and aggregates industries are highly fragmented, with numerous participants operating in each local area. Because the cost of transporting concrete and aggregates is very high relative to product values, producers of concrete and aggregates typically can sell their products only in areas within 50 miles of their production facilities. Barriers to entry in each industry are low, except with respect to environmental permitting requirements for new aggregate production facilities and zoning of land to permit mining and extraction of aggregates.

Environmental Matters. The concrete and aggregates industry is subject to environmental regulations similar to those governing our cement operations. None of our concrete or aggregates operations are presently the subject of any material local, state or federal environmental proceeding or inquiries.

EMPLOYEES

As of March 31, 2007, we had approximately 1,600 employees.

As of March 31, 2007, we had approximately 450 employees employed under collective bargaining agreements and various supplemental agreements with local unions.

WHERE YOU CAN FIND MORE INFORMATION

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports available free of charge through the investor relations page of our website, located at *www.eaglematerials.com* as soon as reasonably practicable after they are filed with or furnished to the SEC. Alternatively, you may contact our investor relations department directly at (214) 432-2000 or by writing to Eagle Materials Inc., Investor Relations, 3811 Turtle Creek Blvd., Suite 1100, Dallas, Texas 75219.

ITEM 1A. RISK FACTORS

These statements involve known and unknown risks and uncertainties that may cause the Company s actual results to be materially different from planned or expected results. Those risks and uncertainties include, but are not limited to:

Levels of construction spending. Demand for the Company s products is directly related to the level of activity in the construction industry, which includes residential, commercial and infrastructure construction. 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 the continued slow down of home building activity, could have a material adverse effect on the Company s financial condition and results of operations.

Interest rates. The Company s 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 put in place. Higher interest rates could 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 the Company s borrowings under its credit facilities.

Price fluctuations and supply/demand for our products. The products sold by the Company 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 production capacity for products such as gypsum wallboard may create an oversupply of such products and negatively impact product prices. There can be no assurance that prices for products sold by the Company will not decline in the future or that such declines will not have a material adverse effect on our financial condition and results of operations.

Significant changes in the cost of, and the availability of, fuel, energy and other raw materials. Significant increases in the cost of fuel, energy or raw materials used in connection with our businesses or substantial decreases in their availability could materially and adversely effect our sales and operating profits. Major cost components in each of our businesses are the cost of fuel, energy and raw materials. 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. 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.

The seasonal nature of the Company s business. A majority of our business is seasonal with peak revenues and profits occurring primarily in the months of April through November. 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 the Company s common stock.

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National and regional economic conditions. 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. In addition, since operations occur 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 any downturns in the construction industry or 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.

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

Competition from new or existing competitors or the ability to successfully penetrate new markets. The construction products industry is highly competitive. If we are unable to keep our products competitively priced, our sales could be reduced materially. Also, we may experience increased competition from companies offering products based on new processes that are more efficient or result in improvements in product performance, which could put us at a disadvantage and cause us to lose customers and sales volume. Our failure to continue to compete effectively could have a material adverse effect on our business, financial condition and results of operations.

Environmental liabilities. Our operations are subject to state, federal and local environmental laws and regulations, which impose liability for clean up or remediation of environmental pollution and hazardous waste arising from past acts; and require pollution control and prevention, site restoration and operating permits and/or approvals to conduct certain of its 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. Risk of environmental liability is inherent in the operation of our businesses. As a result, it is possible that environmental liabilities could have a material adverse effect on the Company in the future.

Compliance with governmental regulations. Our operations and our customers are subject to and affected by federal, state and local laws and regulations with respect to land usage, street and highway usage, noise level and health and safety and environmental matters. In many instances, various permits are required for construction and related operations. Although management believes that we are in compliance in all material respects with regulatory requirements, there can be no assurance that the Company will not incur material costs or liabilities in connection with regulatory requirements or that demand for its products will be affected by regulatory issues affecting its customers.

Events that may disrupt the U.S. or world economy. Future terrorist attacks, the ensuing U.S. military and other responsive actions, could have a significant adverse effect on the general economic, market and political conditions, which in turn could have material adverse effect on the Company s business.

Significant changes in the cost and availability of transportation. 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 the wallboard division. 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.

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In general, the Company is subject to the risks and uncertainties of the construction industry and of doing business in the U.S. The forward-looking statements are made as of the date of this report, and the Company undertakes no obligation to update them, whether as a result of new information, future events or otherwise.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved staff comments.

ITEM 2. PROPERTIES

We operate cement plants, quarries and related facilities at Buda, Texas; LaSalle, Illinois; Fernley, Nevada and Laramie, Wyoming. The Buda plant is owned by a partnership in which EXP has a 50% interest. Our principal aggregate plants and quarries are located in the Austin, Texas area and Marysville, California. In addition, we operate gypsum wallboard plants in Albuquerque and nearby Bernalillo, New Mexico, Gypsum, Colorado and Duke, Oklahoma and are currently constructing a plant in Georgetown, South Carolina. We produce recycled paperboard at Lawton, Oklahoma. None of our facilities are pledged as security for any debts.

See Item 1. Business on pages 1-12 of this Report for additional information relating to the Company s properties.

ITEM 3. LEGAL PROCEEDINGS

We are a party to certain ordinary legal proceedings incidental to our business. In general, although the outcome of litigation is inherently uncertain, we believe that all of the pending litigation proceedings in which the Company or any subsidiary are currently involved are likely to be resolved without having a material adverse effect on the consolidated financial condition or operations of the Company. In connection with the audit of our federal income tax returns for the fiscal years ended March 31, 2001, 2002, and 2003, the IRS issued to the Company a Notice of Proposed Adjustment, on May 10, 2007 that proposes to reduce the tax basis of, and disallow a portion of the depreciation deductions claimed by the Company with respect to, assets acquired by the Company from Republic Group LLC in a transaction completed in November 2000 (the Republic Assets). See Footnote (H) of the consolidated financial statements for more information.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

STOCK PRICES AND DIVIDENDS

As of May 23, 2007, there were approximately 3,000 holders of record of our Common Stock which trades on the New York Stock Exchange under the symbol EXP.

The following table sets forth the high and low closing prices for our Common Stock as reported on the New York Stock Exchange for the periods indicated, as well as dividends paid during these periods:

	Fiscal Year Ended March 31, 2007			Fiscal Year Ended March 31, 2006		
Quarter ended:	High	Low	Dividends	High	Low	Dividends
June 30, 2006	$74.30	$38.04	$0.175	$31.41	$24.19	$0.10
September 30, 2006	$46.62	$33.58	$0.175	$40.26	$30.13	$0.10
December 31, 2006	$44.73	$32.30	$0.175	$41.52	$31.62	$0.10
March 31, 2007	$49.39	$42.84	$0.175	$63.76	$37.76	$0.10

On March 21, 2007, we announced an increase in the annual dividend to $0.80 per share beginning with the dividend payment scheduled for July 20, 2007.

SHARE REPURCHASES

The Company s Board of Directors has approved the repurchase of a cumulative total of 31,610,605 shares of the Company s Common Stock for repurchase since the Company became publicly held in April 1994. On November 7, 2006, the Board of Directors authorized the Company to repurchase up to an additional 5,156,800 shares, for a total authorization, as of that date, of 6,000,000 shares, of which 5,495,800 remain eligible for purchase at March 31, 2007. The Company repurchased 2,706,791 shares, 4,547,163 shares and 1,986,600 shares of Common Stock at a cost of $100.4 million, $165.3 million and $43.8 million in the years ended March 31, 2007, 2006 and 2005, respectively.

The total number of shares purchased in the table below represents shares of Common Stock repurchased pursuant to the Board of Director s authorization dated November 29, 1998, as amended July 28, 2004, January 24, 2006 and November 7, 2006. 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 Company management, based on its evaluation of market and economic conditions and other factors.

Purchases of the Company s Common Stock during the quarter ended March 31, 2007 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
January 1 through January 31, 2007		$		
February 1 through February 28, 2007	196,300	$45.69	196,300	
March 1 through March 31, 2007	353,691	$44.91	307,900	
Quarter 4 Totals	549,991	$45.19	504,200	5,495,800

The equity compensation plan information set for in Part III, Item 12 of this Form 10-K is hereby incorporated by reference into this Part II, Item 5.

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ITEM 6. SELECTED FINANCIAL DATA
SUMMARY OF SELECTED FINANCIAL DATA [1]
(amounts in thousands, except per share data)

	For the Fiscal Years Ended March 31,				
	2007	2006	2005	2004	2003
Revenues	$922,401	$859,702	$616,541	$502,622	$429,178
Earnings Before Income Taxes	304,288	241,066	158,089	102,123	86,613
Net Earnings	202,664	160,984	106,687	66,901	57,606
Diluted Earnings Per Share	4.07	3.02	1.91	1.19	1.04
Cash Dividends Per Share	0.70(3)	0.40	0.40	2.15(2)	0.07
Total Assets	971,410	888,916	780,001	692,975	706,355
Total Debt	200,000	200,000	84,800	82,880	80,927
Stockholders Equity	546,046	464,738	485,368	439,022(2)	479,611
Book Value Per Share At Year End	$ 11.40	$ 9.24	$ 8.88	$ 7.80	$ 8.70
Average Diluted Shares Outstanding	49,787	53,330	55,884	56,208	55,572

(1) The Financial Highlights should be read in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements for matters that affect the comparability of the information presented above.

(2) Includes a special one-time $2.00 per share ($112.9 million total) dividend paid in connection with the Spin-off from Centex Corporation.

(3) On March 21, 2007 the Company announced that it was increasing its annual dividend payment to $0.80 beginning with the July 20, 2007 dividend payment.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE SUMMARY

Eagle Materials Inc. is a diversified producer of basic building materials and construction products used in residential, industrial, commercial and infrastructure construction. Information presented for the three years ended March 31, 2007, 2006 and 2005 reflects the Company s four businesses 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. Downturns in overall economic activity usually have a significant adverse effect on these businesses due to decreased demand and reduced pricing. Our operations, depending on each business segment, range from local in nature to national businesses; therefore, we have operations in a variety of geographic markets, subjecting our businesses to the economic conditions in each such geographic market. General economic downturns or localized downturns in the regions where we have operations could 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., except for the Northeast; however, our primary markets are in the Southwestern U.S. Demand for wallboard varies between regions with the East and West Coasts representing the largest demand centers. 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 300 miles by rail. Concrete and aggregates are even more regional as those operations serve the areas immediately surrounding Austin, Texas and north of Sacramento, California. Therefore, demand for cement, concrete and aggregates is tied more closely to the economies of the local and regional markets, which may fluctuate more widely than in the nation as a whole.

Fiscal 2007 represented the highest fiscal year operating profits in our history, up 25% from fiscal year 2006. Much of this increase can be attributed to the Gypsum Wallboard segment, whose operating earnings increased by 28% in fiscal 2007 as compared to fiscal 2006, primarily as a result of the 18% increase in average sales price. Our cement companies completed their 21st consecutive sold-out year and set a new record for sales volume. Sales volume for our cement companies increased to 3.2 million tons during fiscal 2007, a 1% increase over fiscal year 2006. Additionally, average cement sales prices during fiscal 2007 were the highest in our history, increasing nearly $10 per ton over fiscal 2006. Paperboard operating earnings declined due to a reduction in the percentage of gypsum wallboard liner sold during the year, primarily due to the reduced demand in the residential housing market. Increases in average sales prices for both the concrete and aggregate segments contributed to a 53% and 101% increase in operating earnings, respectively, despite sales volumes remaining flat for concrete and decreasing for aggregates. Corporate expenses increased $3.9 million due primarily to increased compensation and benefit costs, with the majority of the increase attributable to stock compensation expense.

Declining demand in the residential housing market, which comprises approximately 50% of the demand for gypsum wallboard, has significantly affected the gypsum wallboard industry. According to the Gypsum Association, national wallboard shipments declined 3% during calendar year 2006 as compared to calendar year 2005 with the entire decline occurring in the last half of the year. Shipments in the first three months of calendar 2007 were approximately 7.8 billion square feet, a decline of approximately 18% from the 9.5 billion square feet sold during the first three months of calendar 2006 and industry wallboard utilization is expected to be in the low-to-mid 80% range for the remainder of calendar 2007. We expect increasing price competition in the wallboard marketplace during calendar 2007.

U.S. cement consumption continues to be strong. Total U.S. cement shipments of approximately 141 million short tons for calendar 2006 were 0.3% below calendar 2005. Cement imports for calendar 2006 were 39 million short tons, 7% above last year s imports. The U.S. Cement Industry has been sold out for the last twelve years as a result of a domestic capacity deficit. Current U.S. cement demand requires imports of over 27% to supplement domestic capacity. We anticipate a tight supply of imported cement this year due to high freight

rates and increasing demand in world markets. Cement pricing has increased 8% over prior year, the second straight year of price increases, reversing a slight decline over the prior three years. We implemented cumulative price increases of between $5.00 and $10.00 per ton in all our markets during fiscal 2007.

The Company conducts one of its cement operations through a joint venture, Texas Lehigh Cement Company LP, which is located in Buda, Texas (the Joint Venture). The Company owns a 50% interest in the joint venture and accounts for its interest under the equity method of accounting. However, for purposes of the Cement segment information presented, the Company proportionately consolidates its 50% share of the Joint Venture s revenues and operating earnings, which is the way management organizes the segments within the Company for making operating decisions and assessing performance. See Note (G) of the Notes to the Consolidated Financial Statements for additional segment information.

RESULTS OF OPERATIONS

Fiscal Year 2007 Compared to Fiscal Year 2006

Consolidated Results. Consolidated net revenues for fiscal 2007 were up 7% from fiscal 2006 driven by higher sales prices primarily in the Gypsum Wallboard and Cement segments. Fiscal 2007 operating earnings of $309.7 million, a record high, were up 17% from $263.8 million last fiscal year mainly due to increased Gypsum Wallboard and Cement operating earnings.

The following tables lists by line of business the revenues and operating earnings discussed in our operating segments:

	Revenues For the Fiscal Years Ended March 31,		Operating Earnings[1] For the Fiscal Years Ended March 31,	
	2007	2006	2007	2006
	(dollars in thousands)		(dollars in thousands)	
Gypsum Wallboard	$ 511,615	$ 479,134	$ 198,085	$ 154,227
Cement	321,852	285,289	92,182	78,311
Paperboard	127,545	133,482	18,998	20,087
Concrete and Aggregates	97,323	89,778	16,249	9,613
Other, net	4,547	2,279	4,547	1,539
Sub-total	1,062,882	989,962	$ 330,061	$ 263,777
Less: Intersegment Revenues	(63,959)	(65,096)		
Less: Joint Venture Revenues	(76,522)	(65,164)		
Total	$ 922,401	$ 859,702		

[1] Prior to Corporate General and Administrative and interest expense.

Corporate Overhead. Corporate general and administrative expenses for fiscal 2007 were $20.3 million compared to $16.4 million for last fiscal year. The increase was primarily the result of increased compensation and benefit costs, including increased stock compensation expense.

Other Income. Other income consists of a variety of items that are non-segment operating in nature and includes clinker sales income, non-inventoried aggregates income, gypsum wallboard distribution center income, asset sales

and other miscellaneous income and cost items.

Net Interest Expense. Net interest expense of $5.4 million for fiscal 2007 decreased by $0.9 million from fiscal 2006 due to increased capitalized interest related to the expansion and modernization at Illinois Cement Company and the construction of the new gypsum wallboard facility in Georgetown, South Carolina, offset by increased average net borrowings during the year.

Income Taxes. The effective tax rate for fiscal 2007 increased to 33.4% from 33.2% primarily due to the implementation of the Texas state margin tax during fiscal 2007.

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Net Income. As a result of the foregoing, pre-tax earnings of $304.3 million were 26.2% above fiscal 2006 pre-tax earnings of $241.1 million. Fiscal 2007 net earnings of $202.7 million increased 25.9% from net earnings of $161.0 million in fiscal 2006. Diluted earnings per share in fiscal 2007 of $4.07 were 34.8% higher than the $3.02 for fiscal 2006.

GYPSUM WALLBOARD OPERATIONS

	For the Fiscal Years Ended March 31,		Percentage
	2007	2006	Change
	(dollars in thousands)		
Gross Revenues, as reported	$ 511,615	$ 479,134	7%
Freight and Delivery Costs billed to customers	(89,121)	(89,374)	%
Net Revenues	$ 422,494	$ 389,760	8%
Sales Volume (MMSF)	2,610	2,832	(8)%
Average Net Sales Price [1]	$ 161.86	$ 137.65	18%
Unit Costs	$ 85.97	$ 83.17	3%
Operating Margin	$ 75.89	$ 54.48	39%
Operating Earnings	$ 198,085	$ 154,227	28%
Freight per MSF	$ 34.15	$ 31.57	8%

(1) Net of freight per MSF.

Revenues:	The increase in revenues during fiscal 2007 is due primarily to increased sales prices during the year, partially offset by the decline in sales volume. Sales prices increased through July 2006, before beginning to decline over the remainder of the year. Additionally, demand, particularly in residential homebuilding, declined, which reduced marketplace utilization during the fiscal third and fourth quarters of 2007 as compared to 2006.
Operating Margins:	Wallboard operating margins increased in fiscal 2007 as compared to fiscal 2006 primarily due to increased sales prices and lower fuel costs during the fiscal year, offset slightly by increased transportation and raw materials costs along with increased incentive compensation expenses.
Outlook:	The Company expects residential housing to remain soft, which will have an adverse impact on our fiscal 2008 operating results. During the first quarter of calendar 2007, wallboard shipments declined 18% from the first quarter of calendar 2006. Additionally, we expect that pricing will continue to decline in fiscal 2008 as industry utilization is expected to remain in the low-to-mid 80% range. The non-residential housing market is expected to remain strong; however, these markets are not expected to completely offset the impact of the reduction in residential housing.

CEMENT OPERATIONS

	For the Fiscal Years Ended March 31,		Percentage
	2007	2006	Change
	(dollars in thousands)		
Gross Revenues, including intersegment	$ 321,852	$ 285,289	13%
Freight and Delivery Costs billed to customers	(13,013)	(19,212)	(32)%
Net Revenues	$ 308,839	$ 266,077	16%
Sales Volume (M Tons)	3,235	3,200	1%
Average Net Sales Price	$ 93.13	$ 83.15	12%
Unit Costs (including imports and purchased cement)	$ 64.63	$ 58.68	10%
Operating Margin	$ 28.50	$ 24.47	16%
Operating Earnings	$ 92,182	$ 78,311	18%

Revenues: The increase in revenues in fiscal 2007 as compared to fiscal 2006 is due primarily to increased average sales prices and a slight increase in sales volume. Purchased cement comprised approximately 26% of total sales during fiscal 2007, as compared to 21.1% in fiscal 2006.

Operating Margins: Operating margins increased by 16% due to increased net sales prices, offset by higher fuel, maintenance and purchased cement costs coupled with the impact of 153,000 additional tons of high cost purchased cement sales in fiscal 2007 as compared to fiscal 2006. The start up of the Illinois Cement plant adversely impacted margins by approximately $2.25 per ton. Purchased cement cost in fiscal 2007 increased by approximately 13% over fiscal 2006. The purchased cement volume increase is attributed to purchases through our newly-acquired interest Houston Cement Company along with 70,000 tons of purchased cement at Illinois Cement Company during the start up of the new plant.

Outlook: Demand for cement is expected to remain strong, as imports are expected to comprise over 27% of all cement consumed in the United States in calendar 2007. Price increases scheduled for the early part of calendar year 2007 were delayed due primarily to poor weather in most of our markets, but we expect these price increases to take effect during the middle of calendar 2007. We expect operating margins to increase during fiscal 2008 as additional production from our Illinois Cement plant expansion will replace low margin purchased cement sales with manufactured cement in this market. Additionally, state budgets look strong, which should enable consistent infrastructure spending during fiscal 2008.

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RECYCLED PAPERBOARD OPERATIONS

	For the Fiscal Years Ended March 31,		Percentage
	2007	2006	Change
	(dollars in thousands)		
Gross Revenues, including intersegment	$ 127,545	$ 133,482	(4)%
Freight and Delivery Costs billed to customers	(2,950)	(2,587)	14%
Net Revenues	$ 124,595	$ 130,895	(5)%
Sales Volume (M Tons)	275	289	(5)%
Average Net Sales Price	$ 452.99	$ 452.63	%
Unit Costs	$ 383.91	$ 383.12	%
Operating Margin	$ 69.08	$ 69.51	(1)%
Operating Earnings	$ 18,998	$ 20,087	(5)%

Revenues: Net revenues declined during fiscal 2007 as compared to fiscal 2006 due to a decrease in sales volume during fiscal 2007. The decrease in sales volume was due primarily to the reduction in demand for gypsum liner during fiscal 2007 as compared to fiscal 2006. Gypsum liner sales volume declined 14% in fiscal 2007 as compared to fiscal 2006. The gypsum liner sales volume decline was partially offset by a 28,000 ton sales volume increase for medium and containerboard.

Operating Margins: Operating margin remained relatively flat during fiscal 2007 as compared to fiscal 2006. High margin gypsum liner sales volume declined 14% in fiscal 2007 compared to fiscal 2006. The gypsum liner sales volume decline was partially offset by the increased sales prices for all grades of paper. Also, higher fiber costs were offset by lower gas and chemicals costs.

Outlook: The reduced demand for high margin gypsum liner is expected to adversely impact our recycled paperboard operations. The start up of our new wallboard plant in Georgetown, South Carolina is expected to have a positive impact during the fourth quarter of fiscal 2008 as it is expected to increase sales of higher priced gypsum liner. Additionally, increases in the cost of fiber and natural gas could have an adverse impact on our paperboard operations as these two costs comprise a significant portion of our production costs.

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CONCRETE AND AGGREGATES OPERATIONS

	For the Fiscal Years Ended March 31, 2007	2006	Percentage Change
	(dollars in thousands)		
CONCRETE			
Gross Revenues	$ 63,354	$ 55,269	15%
Sales Volume (M Yards)	882	883	%
Average Net Sales Price	$ 71.81	$ 62.61	15%
Unit Costs	$ 60.71	$ 55.37	10%
Operating Margin	$ 11.10	$ 7.24	53%
Operating Earnings	$ 9,793	$ 6,395	53%
AGGREGATES			
Gross Revenues, including intersegment	$ 33,968	$ 34,509	(2)%
Freight & Delivery Cost billed to customers	(406)	(831)	(51)%
Net Revenues	$ 33,562	$ 33,678	%
Sales Volume (M Tons)	4,875	5,714	(15)%
Average Net Sales Price	$ 6.88	$ 5.89	17%
Unit Costs	$ 5.56	$ 5.33	4%
Operating Margin	$ 1.32	$ 0.56	135%
Operating Earnings	$ 6,456	$ 3,218	101%

Revenues: Concrete revenues increased 15% in fiscal 2007 as compared to fiscal 2006, primarily due to the increase in the average sales price during the year. Aggregate revenues remained relatively flat despite the increase in average sales price, primarily due to the decline in sales volume during the year. The decline in sales volumes was primarily in our northern California market, and was generally due to poor weather during the first and fourth quarters of fiscal 2007.

Operating Margins: Concrete operating margins increased 53% during fiscal 2007 as compared to 2006, primarily due to a 15% increase in the average sales price during the year, partially offset by higher cement and aggregate costs.

Aggregate operating margins in fiscal 2007 increased 135% from fiscal 2006 due primarily to a 17% increase in the average net sales price; partially offset by the negative impact on fixed costs of a 6% decline in production volume in addition to the decline of higher margin concrete aggregates sales volumes.

Outlook: The Company expects aggregate pricing to remain strong during fiscal year 2008, principally because of strong construction activity in the Austin, Texas market.

Concrete pricing may weaken during fiscal year 2008 in both of our markets due to increased competition in the marketplace.

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Fiscal Year 2006 Compared to Fiscal Year 2005

Consolidated Results. Consolidated net revenues for fiscal 2006 were up 39% from fiscal 2005 driven by higher sales prices and volumes in all segments, especially Gypsum Wallboard and Cement. Fiscal 2006 operating earnings of $263.8 million were up 54% from $171.7 million last fiscal year mainly due to increased Gypsum Wallboard and Cement operating earnings.

The following tables list by line of business the revenues and operating earnings discussed in our operating segments:

	Revenues For the Fiscal Years Ended March 31,		Operating Earnings[1] For the Fiscal Years Ended March 31,	
	2006	2005	2006	2005
	(dollars in thousands)		(dollars in thousands)	
Gypsum Wallboard	$ 479,134	$ 350,101	$ 154,227	$ 81,616
Cement	285,289	211,343	78,311	57,616
Paperboard	133,482	125,184	20,087	25,406
Concrete and Aggregates	89,778	70,786	9,613	7,742
Other, net	2,279	193	1,539	(721)
Sub-total	989,962	757,607	$ 263,777	$ 171,659
Less: Intersegment Revenues	(65,096)	(58,812)		
Less: Joint Venture Revenues	(65,164)	(82,254)		
Total	$ 859,702	$ 616,541		

(1) Prior to Corporate General and Administrative and interest expense.

Corporate Overhead. Corporate general and administrative expenses for fiscal 2006 were $16.4 million compared to $10.3 million for last fiscal year. The increase was primarily the result of increased headcount and higher compensation and benefit costs, including the expensing of employee stock compensation in accordance with a change in accounting standards.

Other Income. Other income consists of a variety of items that are non-segment operating in nature and includes clinker sales income, non-inventoried aggregates income, gypsum wallboard distribution center income, asset sales and other miscellaneous income and cost items.

Net Interest Expense. Net interest expense of $6.3 million for fiscal 2006 increased $3.1 million from fiscal 2005 due to increased borrowings.

Income Taxes. The effective tax rate for fiscal 2006 increased to 33.2% from 32.5% primarily due to an increase in state income tax expense partially offset by a revision of certain estimates utilized by the Company for permanent items included within the corporate tax filings and the new domestic production activities deduction.

Net Income. As a result of the foregoing, pre-tax earnings of $241.1 million were 52% above fiscal 2005 pre-tax earnings of $158.1 million. Fiscal 2006 net earnings of $161.0 million increased 51% from net earnings of

$106.7 million in fiscal 2005. Diluted earnings per share in fiscal 2006 of $3.02 were 58% higher than the $1.91 for fiscal 2005.

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GYPSUM WALLBOARD OPERATIONS

	For the Fiscal Years Ended March 31,		Percentage
	2006	2005	Change
	(dollars in thousands)		
Gross Revenues, as reported	$ 479,134	$ 350,101	37%
Freight and Deliv			