UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):
May 16, 2007

Eagle Materials Inc.

(Exact name of registrant as specified in its charter)

Delaware	**1-12984**	**75-2520779**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

3811 Turtle Creek Blvd., Suite 1100, Dallas, Texas	**75219**
(Address of principal executive offices)	(Zip code)

Registrant's telephone number including area code: **(214) 432-2000**

Not Applicable
(Former name or former address if changed from last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

5.02(e).

On May 16, 2007, the Compensation Committee of the Board of Directors of Eagle Materials Inc., a Delaware corporation (the "Company"), approved certain compensation arrangements set forth below with the persons (the "Named Officers") who are anticipated to be listed in the Summary Compensation Table in the Proxy Statement for the Company's 2007 Annual Meeting of Stockholders.

The Compensation Committee approved an annual incentive bonus for fiscal 2007 for Mr. Steven R. Rowley, President and Chief Executive Officer of $1,456,912.10. This annual incentive bonus was paid under the terms of the Eagle Materials Salaried Incentive Compensation Program for Fiscal 2007. In addition, the Compensation Committee approved a base salary for fiscal 2008 for Mr. Rowley of $750,000.

The Compensation Committee also approved the Eagle Materials Inc. Salaried Incentive Compensation Program for Fiscal Year 2008 (the "Eagle Plan"). A copy of the Eagle Plan is attached to this Report as Exhibit 10.1. Under the terms of the Eagle Plan, a pool of 1.2% of the Company's earnings before interest and taxes for fiscal 2008 is available to pay annual bonuses to participating officers, subject to reduction based on individual performance in fiscal 2008. The Compensation Committee also determined the applicable percentage of the bonus pool available for payment of the annual incentive bonus to the CEO and the other Named Officers participating in the Eagle Plan (Mr. Rowley, President and Chief Executive Officer — 40%; Mr. Arthur R. Zunker, Senior Vice President and Treasurer — 20%; and Mr. James H. Graass, Executive Vice President and General Counsel — 15%).

The remaining Named Officers (Mr. Gerry J. Essl, Executive Vice President — Cement and Concrete/Aggregates and Mr. David B. Powers, Executive Vice President — Gypsum), participate in subsidiary incentive compensation plans pursuant to which a percentage of the operating earnings of the applicable subsidiary (or group of subsidiaries) is available for payment of bonuses to the participating employees. Mr. Essl participates in the Eagle Materials Inc. Cement Companies Salaried Incentive Compensation Program for Fiscal Year 2008 (a copy which is attached to this Report as Exhibit 10.2) and the Eagle Materials Inc. Concrete and Aggregates Companies Salaried Incentive Compensation Program for Fiscal Year 2008 (a copy of which is attached to this Report as Exhibit 10.3). In the plans in which Mr. Essl participates, the Compensation Committee approved the percentage of operating earnings of each of the Company's cement, and concrete/aggregates subsidiaries for fiscal 2008 which is available for payment of bonuses to participating employees (2.25%) and the percentage of such bonus pool available for payment to Mr. Essl at the end of fiscal 2008 (22%), subject to reduction based on Mr. Essl's individual performance. Mr. Powers participates in the American Gypsum Company Salaried Incentive Compensation Program for Fiscal Year 2008 (a copy which is attached to this Report as Exhibit 10.4). In the case of Mr. Powers, the Compensation Committee approved the percentage of American Gypsum's operating earnings available for payment of annual bonuses to participating American Gypsum employees (2.25%) and the percentage of such bonus pool available for payment to Mr. Powers at the end of fiscal 2008 (22%), subject to reduction based on Mr. Powers' individual performance.

Item 9.01 Financial Statements and Exhibits

Exhibit Number	Description
10.1	Eagle Materials Inc. Salaried Incentive Compensation Program for Fiscal Year 2008
10.2	Eagle Materials Inc. Cement Companies Salaried Incentive Compensation Program for Fiscal Year 2008
10.3	Eagle Materials Inc. Concrete and Aggregates Salaried Incentive Compensation Program for Fiscal Year 2008
10.4	American Gypsum Company Salaried Incentive Compensation Program for Fiscal Year 2008

SIGNATURES

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

EAGLE MATERIALS INC.

By: /s/ Arthur R. Zunker, Jr.

Senior Vice President–Finance and Treasurer

Date: May 22, 2007

Exhibit 10.1

EAGLE MATERIALS INC.
SALARIED INCENTIVE COMPENSATION PROGRAM
FOR FISCAL YEAR 2008

1. Purpose

The purpose of the Eagle Materials Inc. Salaried Incentive Compensation Program for Fiscal Year 2008 (the “Plan”) is to establish an incentive bonus program which: (i) focuses on the performance of Eagle Materials Inc. (the “Company”) as well as individual performance; and (ii) aligns the interest of participants with those of the Company’s shareholders. The Plan is adopted by the Compensation Committee of the Board of Directors (the “Committee”) under the structure of the Company’s Incentive Plan (the “Incentive Plan”) and is subject to all the terms and conditions of such Incentive Plan, including, without limitation, the limits set forth in Section 8 of the Incentive Plan. The Plan shall be in effect for the fiscal year ending March 31, 2008.

2. Eligibility

The Company’s Chief Executive Officer (the “CEO”) and his direct reports are eligible to participate in the Plan. The CEO may also include in the Plan additional exempt salaried employees at the corporate level of the Company.

Participants must be an exempt salaried manager or professional. No hourly or non-exempt employee may participate. Participants in the Plan may not participate in any other Company incentive plan providing for monetary awards, except for the Eagle Materials Long Term Compensation Program and the Eagle Materials Special Situation Program.

3. Bonus Pool

To ensure reasonableness and affordability, available funds for bonus payments under the Plan are to be determined as a percentage of EBIT of the Company. The actual percentage may vary from year to year as recommend by the CEO and approved by the Committee. For Fiscal Year 2008, 1.2% of the Company’s earnings before interest and taxes (“EBIT”) will fund the corporate bonus pool.

Participants must be employed on March 31, 2008 to be eligible for any bonus award. Awards may be adjusted for partial year participation for participants who enter the program after April 1, 2007.

4. Allocation of Corporate Pool

At the beginning of the fiscal year goals and objectives shall be established for each participant. The actual bonus award paid at the end of the fiscal year shall be based on the individual participant’s performance relative to the previously established goals and objectives. Except with respect to the CEO, each participant’s allocated percentage of the corporate pool, his/her goals and objectives and his/her individual performance relative to the goals and objectives (and bonus award) shall be recommended by the CEO and approved and certified by the Committee. The CEO's allocated percentage of the corporate pool, his/her goals and objectives and his/her individual performance (and bonus award) shall be approved and certified by the Committee. For each participant, the maximum annual bonus award opportunity is represented by the percentage of the corporate pool assigned to such participant.

5. Goals and Objectives

The goals and objectives to be used for participants in the Plan may be comprised of objective and subjective criteria and should generally have a broader scope than the goals and objectives for subsidiary companies. However, at the same time the goals must also contain specific criteria regarding execution that links subsidiary company performance to corporate performance. By way of example and not limitation, these goals and objectives could focus on operational criteria, the interaction between corporate and subsidiaries as a way of gauging the successful execution of business plans, strategic execution criteria, criteria relating to shareholder alignment and investor relations, interaction and communication with the board, performance relative to the responsibilities associated with being publicly traded company, organizational development and leadership skills.

6. Plan Administration

The Plan shall be administered by the Committee, which shall have full and exclusive power to interpret this Plan and to adopt such rules, regulations and guidelines for carrying out this Plan as it may deem necessary or appropriate in its sole discretion. All decisions of the Committee shall be binding and conclusive on the participants. The Committee shall determine all terms and conditions of the bonus awards.

No member of the Committee shall be liable for anything done or omitted to be done by him or by any member of the Committee in connection with the performance of any duties under this Plan, except for his own willful misconduct or as expressly provided by statute.

7. No Employment Guaranteed

No provision of this Plan hereunder shall confer any right upon any executive officer to continued employment.

8. Governing Law

This Plan and all determinations made and actions taken pursuant hereto, shall be governed by and construed in accordance with the laws of the State of Texas, without reference to any conflicts of law principles thereof that would require the application of the laws of another jurisdiction.

Exhibit 10.2

EAGLE MATERIALS INC.
CEMENT COMPANIES
SALARIED INCENTIVE COMPENSATION PROGRAM
FOR FISCAL YEAR 2008

1. Bonus Pool

To insure reasonableness and affordability the available funds for bonus payments are determined as a percent of earnings of the cement companies of Eagle Materials Inc. The actual percentage may vary from year to year.

For Fiscal Year 2008, bonus pool funding from the subsidiary companies will be 2.25% of each company's operating profit.

Participants must be employed at fiscal year-end to be eligible for any bonus award. Awards may be adjusted for partial year participation for participants added during a year.

Eagle Materials CEO retains the final right of interpretation and administration of the plan and to amend or terminate the plan at any time.

2. Eligibility

The Eagle Materials Cement EVP, the subsidiary company Presidents, and his/her direct reports will be in the plan. Additional participants who have management responsibilities or are in a professional capacity that can measurably impact earnings may be recommended by subsidiary company presidents subject to the approval of the Eagle Materials Cement EVP and the Eagle Materials CEO. The addition of new participants will not affect the total pool available but will in effect dilute the potential bonuses of the original participants.

Participants must be an exempt salaried manager or professional. No hourly or non-exempt employee may participate. Participants in this plan may not participate in any other company incentive plan with monetary awards, except for the Cement Companies' Long Term Compensation program, the Eagle Materials Long Term Compensation Program and the Eagle Materials Special Situation Program.

3. Allocation of Pool

The subsidiary company Presidents will be eligible for 20% - 30% of the pool. The subsidiary company Presidents will recommend the distribution of the remainder of the company pool. The participants in the plan and their percentage of the pool will require approval of the Eagle Materials Cement EVP and Eagle Materials CEO at the beginning of the fiscal year for which the bonus is being earned. For example:

Participant	% of Pool Available
Company President	27%
Plant Manager	15%
Vice President, Sales	13%
Vice President, Finance	9%
Production Manager	7%
Maintenance Manager	7%
Executive Vice President	22%
Total	100%

The subsidiary company President's bonus opportunity will be 50% specific, objective goals and 50% discretionary as determined by Eagle Materials Cement EVP taking into consideration overall job performance and compliance with Eagle Materials Policies and Code of Ethics. All participants in the plan must have the ability to significantly affect the performance of the subsidiary company by achieving measurable, quantifiable, objectives. The subsidiary company Presidents will determine the objective and discretionary balance of bonus opportunities for the participants in their companies, subject to approval by Eagle Materials Cement EVP and Eagle Materials CEO.

4. <u>Objective Criteria</u>

Objective setting is essential to an effective incentive compensation plan and should be measurable and focus on areas that have meaningful impact on our operational performance. Having selected objectives, it is also important to establish a reference point for that objective which indicates expected performance.

In addition to consideration of the budget plan as a reference, we will consider historic performance of a facility, equipment design standards, industry standards, comparable values from other companies or like situations and any other qualified source or establishing reference points or basis for determining performance.

To illustrate the need for the selection of an objective, the reference point and how performance deviation from the reference is judged, take safety, for example. Let's suppose a company plans 0 lost time accidents, which is reasonable to plan. If they have 1 lost time accidents, is the performance a total failure, poor, fair or reasonable? If they have 2 lost time accidents, is the performance unacceptable, poor, fair or reasonable? From this information it would be difficult to assess their overall safety performance. We could give consideration to the number of incidents requiring doctor's treatment. We could include an evaluation of worker's compensation claims or dollars spent. As an alternative to these, we could use industry statistics available from an authoritative source such as MSHA or PCA which show accident frequency and severity ratio for comparable facilities. We could establish a mean or average as our reference point, based on accident frequency and severity, and agree to a bonus adjustment according to our percentile ranking with comparable industry.

Another example might be the case of a kiln chain system that is allowed to deteriorate. This would tend to lower thermal efficiency and clinker production rate, but could increase kiln available hours because we didn't take the necessary down time to repair the chain system. A plan built on this premise might have TPH clinker production and BTU per ton statistics lower than historical performance but kiln up time shown as higher. Rather than using plan as the reference point for these criteria, we might use historical performance for TPH clinker, BTU/ton and a combination of historical and industry average for kiln up time. The intent would be to cause a focus on the issue of not deferring maintenance.

Because our basic products are commodities, the level of prices in a given market area are established by supply and demand over which local management has little control. Through price leadership, local management can affect prices in a small range around supply-demand equilibrium. Accordingly, one of the performance criteria might still be pricing but this does not indicate that an overall bad or good market is itself a performance indicator of local management. For bonus purposes, they should neither be penalized nor rewarded for the general economic conditions.

Fixed assets is another area over which local management exercises limited control. Each manager basically has to work with the fixed assets he is assigned. Local management can exercise considerable control over current assets such as receivables and inventory but, as a heavily capitalized industry with limited transportability, local management essentially has to do the best they can with the PP&E they are assigned.

Typical examples for consideration:

- Sales
  - Volumes, tons
  - Mill nets
- Gross Margins
- Accuracy of monthly reprojections
- Production costs
- Terminal Expenses
- Controlling capital projects
- Safety
- Housekeeping & Appearance
- Production — Efficiency
  - Clinker tons per hour
  - Cement tons per hour
  - BTU's per ton of clinker
  - % utilization on kiln
- Productivity
  - Clinker tons per year
  - Cement tons per year
- Overhead Cost
  - T & E
  - Bad debt expense
- Working capital —
  - Reducing spare parts inventory
  - Receivables — stated as DSO

- Inventory R&O, raw materials, fuel, payables or process
- Quality —
  - Cement uniformity, specific product application
  - Clinker standard deviation
- Long-term planning
  - Reserves
  - Environmental compliance
  - Maintenance — protection of assets
- Personnel
  - Organization
  - Training
  - Replacement
  - Union relations
- Other profits
  - Sale of surplus assets
  - Lease or rental income

5. <u>Measuring Performance</u>

At the close of the fiscal year each subsidiary company President will review the performance of the company versus the objectives submitted at the beginning of the year and recommend to Eagle Materials Cement EVP distribution of the bonus pool to the participants. Distribution of the bonus pool requires approval of both Eagle Materials EVP and CEO.

Any portion of the Company Operating Pool not paid out (unearned) or forfeited will be added to the SSP at Corporate.

At any time during the fiscal year each cement company President may also recommend to the Eagle Materials Cement EVP and CEO an SSP award to recognize outstanding individual performances.

Exhibit 10.3

EAGLE MATERIALS INC.
CONCRETE and AGGREGATES COMPANIES
SALARIED INCENTIVE COMPENSATION PROGRAM
FOR FISCAL YEAR 2008

1. Bonus Pool

To insure reasonableness and affordability the available funds for bonus payments are determined as a percent of earnings of Eagle Materials Inc.'s concrete and aggregate companies. The actual percentage may vary from year to year.

For Fiscal Year 2008, a bonus pool for each concrete and aggregate company shall be established equal to 2.25% of each company's operating profit.

Participants must be employed at fiscal year-end to be eligible for any bonus award. Awards may be adjusted for partial year participation for participants added during a year.

Eagle Materials CEO retains the final right of interpretation and administration of the plan and to amend or terminate the plan at any time.

2. Eligibility

The Eagle Materials Concrete and Aggregate EVP, the subsidiary company Presidents, V.P. Sales and Plant Managers will be in the plan. Additional participants who have management responsibilities or are in a professional capacity that can measurably impact earnings may be recommended by subsidiary company presidents subject to the approval of the Eagle Materials Concrete and Aggregate EVP and Eagle Materials CEO. The addition of new participants will not affect the total pool available but will in effect dilute the potential bonuses of the original participants.

Participants must be an exempt salaried manager or professional. No hourly or non-exempt employee may participate. Participants in this plan may not participate in any other company incentive plan with monetary awards, except for the Concrete and Aggregate Companies' Long-Term Compensation Program, the Eagle Materials Long- Term Compensation Program and the Eagle Materials Special Situation Program.

3. Allocation of Pool

The subsidiary company Presidents will be eligible for 20% - 40% of the pool. The subsidiary company Presidents will recommend the distribution of the remainder of the company pool. The participants in the plan and their percentage of the pool will require approval of the Eagle Materials Concrete and Aggregate EVP and Eagle Materials CEO at the beginning of the fiscal year for which the bonus is being earned.

The subsidiary company President’s bonus opportunity will be 50% specific, objective goals and 50% discretionary as determined by Eagle Materials Concrete and Aggregate EVP taking into consideration overall job performance and compliance with Eagle Materials Policies and Code of Ethics. All participants in the plan must have the ability to significantly affect the performance of the subsidiary company by achieving measurable, quantifiable, objectives. The subsidiary company Presidents will determine the objective and discretionary balance of bonus opportunities for the participants in their companies subject to approval by Eagle Materials Concrete and Aggregate EVP and Eagle Materials CEO.

4. Objective Criteria

Objective setting is essential to an effective incentive compensation plan and should be measurable and focus on areas that have meaningful impact on our operational performance. Having selected objectives, it is also important to establish a reference point for that objective which indicates expected performance.

In addition to consideration of the budget plan as a reference, we will consider historic performance of a facility, equipment design standards, industry standards, comparable values from other companies or like situations and any other qualified source or establishing reference points or basis for determining performance.

To illustrate the need for the selection of an objective, the reference point and how performance deviation from the reference is judged, let’s look at safety as an example. Let’s suppose a company plans 0 lost time accidents, which is reasonable to plan. If they have 1 lost time accidents, is the performance a total failure, poor, fair or reasonable? If they have 2 lost time accidents, is the performance unacceptable, poor, fair or reasonable? From this information it would be difficult to assess their overall safety performance. We could give consideration to the number of incidents requiring doctor’s treatment. We could include an evaluation of worker’s compensation claims or dollars spent. As an alternative to these, we could use industry statistics available from an authoritative source such as MSHA or OSHA which show accident frequency and severity ratio for comparable facilities. We could establish a mean or average as our reference point, based on accident frequency and severity, and agree to a bonus adjustment according to our percentile ranking with comparable industry.

Because our basic products are commodities the level of prices in a given market area are established by supply and demand over which local management has little control. Through price leadership, local management can affect prices in a small range around supply-demand equilibrium. Accordingly, one of the performance criteria might still be pricing but this does not indicate that an overall bad or good market is itself a performance indicator of local management. For bonus purposes, they should neither be penalized nor rewarded for the general economic conditions.

Fixed assets is another area over which local management exercises limited control. Each manager basically has to work with the fixed assets he is assigned. Local management can exercise considerable control over current assets such as receivable and inventory but, as a heavily capitalized industry with limited transportability, local management essentially has to do the best they can with the PP&E they are assigned.

Typical examples for consideration:

- Sales
  - Volumes — cubic yards, tons
  - Price — cubic yards, tons
- Costs
  - Per yard of dry materials
  - Per ton of aggregates (produced)
  - Maintenance per cubic yard
  - Delivery per cubic yard
- Gross margins
- Accuracy of monthly reprojections
- Safety
- Housekeeping & Appearance Production — Efficiency
  - Concrete yards per truck
  - Concrete yards per batch plant
  - % utilization of dry/wet plants
- Productivity
  - Man hours per concrete yard — plant
  - Man hours per concrete yard — delivery
  - Aggregates — TPH
- Overhead Cost
  - T & E
  - Bad debt expense
- Working capital —
  - Receivables — stated as DSO
  - Inventory R&O, raw materials, fuel, payables or process
- Quality — Uniformity, specific product application
- Long-term planning
  - Reserves
  - Environmental compliance
  - Maintenance — protection of assets
- Personnel
  - Organization
  - Training
  - Union relations
- Other profits
  - Associated business lines
  - Sale of surplus assets
  - Lease or rental income

5. Measuring Performance

At the close of the fiscal year each subsidiary company President will review the performance of the company versus the objectives submitted at the beginning of the year and recommend to Eagle Materials Concrete and Aggregate EVP distribution of the pool to the participants. Distribution of the pool requires approval of both Eagle Materials Concrete and Aggregate EVP and Eagle Materials CEO.

Any portion of the Company Operating Pool not paid out (unearned) or forfeited will be added to the SSP at Corporate.

At anytime during the fiscal year each concrete and aggregate company President may also recommend to the Eagle Materials Concrete and Aggregate EVP and CEO an SSP award to recognize outstanding individual performances.

Exhibit 10.4

EAGLE MATERIALS INC.
AMERICAN GYPSUM COMPANY
SALARIED INCENTIVE COMPENSATION PROGRAM
FOR FISCAL YEAR 2008

1. <u>Bonus Pool</u>

To insure reasonableness and affordability the available funds for bonus payments are determined as a percent of earnings of American Gypsum Company (the "Company"). The actual percentage may vary from year to year.

For Fiscal Year 2008, bonus pool funding will be 2.25% of American Gypsum Company's operating profit.

Participants must be employed at fiscal year-end to be eligible for any bonus award. Awards may be adjusted for partial year participation for participants added during a year.

Eagle Materials CEO retains the final right of interpretation and administration of the plan and to amend or terminate the plan at any time.

2. <u>Eligibility</u>

The American Gypsum Company President, Vice Presidents and Plant Mangers will be in the plan. Additional participants who have management responsibilities or are in a professional capacity that can measurably impact earnings may be recommended by American Gypsum Company President subject to the approval of the Eagle Materials CEO. The addition of new plan participants will not affect the total pool available but will in effect dilute the potential bonuses of the original participants.

Participants must be an exempt salaried manager or professional. No hourly or non-exempt employee may participate. Participants in this plan may not participate in any other company incentive plan with monetary awards, except for American Gypsum Company's Long-Term Compensation Program, the Eagle Materials Long-Term Compensation Program and the Eagle Materials Special Situation Program.

3. <u>Allocation of Pool</u>

The American Gypsum Company President will be eligible for 20% - 25% of the pool. The American Gypsum Company President will recommend the distribution of the remainder of the company pool. The participants in the plan and their percentage of the pool will be approved by the Eagle Materials CEO at the beginning of the fiscal year for which the bonus is being earned. For example:

Participant	% of Pool Available
Company President	22%
Vice Presidents	34%
Plant Managers	20%
Other Participants (Directors, Superintendents)	24%
Total	100%

The American Gypsum Company President's bonus opportunity will be 50% objective goals and 50% discretionary as determined by Eagle Materials CEO taking into consideration overall job performance and compliance with Eagle Materials Policies and Code of Ethics. All participants in the plan must have the ability to significantly affect the performance of the subsidiary company by achieving measurable, quantifiable objectives. The American Gypsum Company President will determine the objective and discretionary balance of bonus opportunities for the other participants in this program, subject to approval by the Eagle Materials CEO.

4. Objective Criteria

Objective setting is essential to an effective incentive compensation plan. Objectives should be measurable and focus on areas that have meaningful impact on our operational performance. Having selected objectives, it is also important to establish a reference point for that objective which indicates expected performance.

In addition to consideration of the budget plan as a reference, we will consider historic performance of a facility, equipment design standards, industry standards, comparable values from other companies or like situations and any other qualified source or establishing reference points or basis for determining performance.

To illustrate the need for the selection of an objective, the reference point and how performance deviation from the reference is judged, let's look at safety as an example. Let's suppose a company plans 0 lost time accidents, which is reasonable to plan. If they have 1 lost time accidents, is the performance a total failure, poor, fair or reasonable? If they have 2 lost time accidents, is the performance unacceptable, poor, fair or reasonable? From this information it would be difficult to assess their overall safety performance. We could give consideration to the number of incidents requiring doctor's treatment. We could include an evaluation of worker's compensation claims or dollars spent. As an alternative to these, we could use industry statistics available from an authoritative source such as OSHA or GA which show accident frequency and severity ratio for comparable facilities. We could establish a mean or average as our reference point, based on accident frequency and severity, and agree to a bonus adjustment according to our percentile ranking with comparable industry.

Another example might be the case of a dryer system that is allowed to deteriorate. This would tend to lower thermal efficiency and line speed, but could increase available hours because we didn't take the necessary down time to repair the dryer system. A plan built on this premise might have production and BTU per MSF statistics lower than historical performance but up time shown as higher. Rather than using plan as the reference point for these criteria, we might use historical performance for line speed, BTU/msf and a combination of historical and industry average for up time. The intent would be to cause a focus on the issue of <u>not</u> deferring maintenance.

Because our basic products are commodities the level of prices in a given market area are established by supply and demand over which local management has little control. Through price leadership, local management can affect prices in a small range around supply-demand equilibrium. Accordingly, one of the performance criteria might still be pricing but this does not indicate that an overall bad or good market is itself a performance indicator of local management. For bonus purposes, they should neither be penalized nor rewarded for the general economic conditions.

Fixed assets is another area over which local management exercises limited control. Each manager basically has to work with the fixed assets he is assigned. Local management can exercise considerable control over current assets such as receivable and inventory but, as a heavily capitalized industry with limited transportability, local management essentially has to do the best they can with the PP&E they are assigned.

Typical objectives that impact earnings include:

- Sales
  - Volume (total or specific product)
  - Price
  - Market share
- Plant Efficiencies
  - Waste
  - Speed
  - Delay
  - Fuel usage/msf
  - Contribution/machine hour
- Production
  - Volume
  - Cost (total or specific component)
- Quality Rating
- Environmental Compliance
- Managing Capital Projects
- Overhead Reduction
- Working Capital
  - Inventory turns
  - Receivables
- Long Term Planning
  - Gypsum reserves
  - Maintenance — protection of assets
- Personnel
  - Training and development
  - Turnover rate
  - Union relations

5. <u>Measuring Performance</u>

At the close of the fiscal year the American Gypsum Company President will review the performance of the company versus the objectives submitted at the beginning of the year and recommend the distribution of the pool to the participants. Distribution of the pool requires approval of the Eagle Materials CEO.

Any portion of the Company Operating Pool not paid out (unearned) or forfeited will be added to the SSP at Corporate.

At anytime during the fiscal year the American Gypsum Company President may also recommend to the Eagle Materials CEO an SSP award to recognize outstanding individual performances that dramatically improved the company's profitability or long term value.