



United States  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended

June 30, 2005

Commission File Number 1-12984



Eagle Materials Inc.

Delaware

(State of Incorporation)

75-2520779

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

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

(Address of principal executive offices)

(214) 432-2000

(Registrant's telephone number)

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

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

As of July 31, 2005, the number of outstanding shares of each of the issuer's classes of common stock was:

Class	Outstanding Shares
Common Stock, \$.01 Par Value	9,515,087
Class B Common Stock, \$.01 Par Value	8,257,984

Eagle Materials Inc. and Subsidiaries

Form 10-Q

June 30, 2005

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[Certification of CFO Pursuant to Rule 13a-14/15d-14](#)

[Certification of CEO Pursuant to Section 906](#)

[Certification of CFO Pursuant to Section 906](#)

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**Eagle Materials Inc. and Subsidiaries**  
Consolidated Statements of Earnings  
(dollars in thousands, except per share data)  
(unaudited)

	For the Three Months Ended June 30,	
	2005	2004
<b>REVENUES</b>		
Gypsum Wallboard	\$ 104,838	\$ 82,256
Cement	57,335	32,956
Paperboard	19,089	18,125
Concrete and Aggregates	22,412	16,954
Other, net	1,124	—
	<u>204,798</u>	<u>150,291</u>
<b>COSTS AND EXPENSES</b>		
Gypsum Wallboard	76,987	65,256
Cement	46,833	24,884
Paperboard	12,925	11,399
Concrete and Aggregates	18,960	14,823
Corporate General and Administrative	3,102	1,879
Interest Expense, net	1,336	708
Other, net	—	832
	<u>160,143</u>	<u>119,781</u>
<b>EQUITY IN EARNINGS OF UNCONSOLIDATED JOINT VENTURES</b>	<u>5,527</u>	<u>4,924</u>
<b>EARNINGS BEFORE INCOME TAXES</b>	50,182	35,434
Income Taxes	<u>15,274</u>	<u>12,221</u>
<b>NET EARNINGS</b>	<u>\$ 34,908</u>	<u>\$ 23,213</u>
<b>EARNINGS PER SHARE:</b>		
Basic	<u>\$ 1.93</u>	<u>\$ 1.25</u>
Diluted	<u>\$ 1.91</u>	<u>\$ 1.23</u>
<b>AVERAGE SHARES OUTSTANDING:</b>		
Basic	<u>18,105,313</u>	<u>18,631,714</u>
Diluted	<u>18,321,832</u>	<u>18,839,135</u>
<b>CASH DIVIDENDS PER SHARE</b>	<u>\$ 0.30</u>	<u>\$ 0.30</u>

*See notes to unaudited consolidated financial statements.*

**Eagle Materials Inc. and Subsidiaries**Consolidated Balance Sheets  
(unaudited – dollars in thousands)

	June 30, 2005	March 31, 2005
<b>ASSETS</b>		
Current Assets –		
Cash and Cash Equivalents	\$ 14,578	\$ 7,221
Accounts and Notes Receivable, net	85,865	70,952
Inventories	55,981	63,482
Total Current Assets	<u>156,424</u>	<u>141,655</u>
Property, Plant and Equipment –	804,542	788,447
Less: Accumulated Depreciation	(273,231)	(264,088)
Property, Plant and Equipment, net	531,311	524,359
Investment in Joint Venture	26,707	28,181
Goodwill and Intangible Assets	66,879	66,960
Other Assets	16,752	18,846
	<u>\$ 798,073</u>	<u>\$ 780,001</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities –		
Note Payable	\$ 39,400	\$ 30,800
Accounts Payable	49,166	40,687
Federal Income Taxes Payable	15,355	—
Accrued Liabilities	41,835	50,382
Total Current Liabilities	<u>145,756</u>	<u>121,869</u>
Long-term Debt	55,000	54,000
Deferred Income Taxes	115,404	118,764
Stockholders' Equity –		
Preferred Stock, Par Value \$0.01; Authorized 5,000,000 Shares; None Issued	—	—
Common Stock, Par Value \$0.01; Authorized 50,000,000 Shares; Issued and Outstanding 9,559,806 and 9,726,009 Shares, respectively, Class B Common Stock, Par Value \$0.01; Authorized 50,000,000 Shares; Issued and Outstanding 8,279,272 and 8,499,269 Shares, respectively	178	182
Capital in Excess of Par Value	—	—
Accumulated Other Comprehensive Losses	(1,842)	(1,842)
Retained Earnings	483,577	487,028
Total Stockholders' Equity	<u>481,913</u>	<u>485,368</u>
	<u>\$ 798,073</u>	<u>\$ 780,001</u>

*See notes to the unaudited consolidated financial statements.*

**Eagle Materials Inc. and Subsidiaries**Consolidated Statements of Cash Flows  
(unaudited – dollars in thousands)

	For the Three Months Ended	
	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Earnings	\$ 34,908	\$ 23,213
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities, Net of Effect of Non-Cash Activity –		
Depreciation, Depletion and Amortization	9,535	8,110
Deferred Income Tax Provision	(3,360)	2,964
Equity in Earnings of Unconsolidated Joint Ventures	(5,527)	(4,924)
Distributions from Joint Ventures	7,000	5,750
Increase in Accounts and Notes Receivable	(14,913)	(10,197)
Decrease in Inventories	7,501	4,284
Increase (Decrease) in Accounts Payable and Accrued Liabilities	1,974	(517)
Increase (Decrease) in Other, net	1,860	(326)
Increase in Income Taxes Payable	15,876	7,000
Net Cash Provided by Operating Activities	<u>54,854</u>	<u>35,357</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Property, Plant and Equipment Additions, net	(16,171)	(5,058)
Net Cash Used in Investing Activities	<u>(16,171)</u>	<u>(5,058)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Addition to (Reduction in) Long-term Debt	1,000	(19,700)
Addition to Note Payable	8,600	11,300
Dividends Paid to Stockholders	(5,480)	(5,643)
Retirement of Common Stock	(36,518)	(15,477)
Proceeds from Stock Option Exercises	1,072	708
Net Cash Used in Financing Activities	<u>(31,326)</u>	<u>(28,812)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	7,357	1,487
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>7,221</u>	<u>3,536</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>\$ 14,578</u>	<u>\$ 5,023</u>

See notes to the unaudited consolidated financial statements.

**Eagle Materials Inc. and Subsidiaries**  
**Notes to Unaudited Consolidated Financial Statements**  
**June 30, 2005**

**(A) BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements as of and for the three month period ended June 30, 2005, include the accounts of Eagle Materials Inc. and its majority owned subsidiaries (“EXP” the “Company” or “we”) and have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on June 10, 2005.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. In the opinion of the Company, all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the information in the following unaudited consolidated financial statements of the Company have been included. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

Certain prior period amounts have been reclassified to conform to the current year’s presentation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Recent Accounting Pronouncement**

*Inventory Costs.* In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151 (SFAS 151), Inventory Costs, an amendment of APB 43, Chapter 4. The amendments made by SFAS 151 require that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) be recognized as current-period charges and that the allocation of fixed production overheads to inventory be based on the normal capacity of production facilities. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005 or Fiscal 2007 for the Company. We are currently evaluating the impact that adoption of SFAS 151 will have on our financial position and results of operations.

**(B) SHARE-BASED EMPLOYEE COMPENSATION**

*Share Based Payments.* Effective April 1, 2005, the Company adopted SFAS 123R, “Share-Based Payment” utilizing the modified prospective approach. Under the modified prospective approach, SFAS 123R applies to new awards and to awards that were outstanding on April 1, 2005 and are subsequently modified or cancelled. Compensation expense for outstanding awards for which the requisite service had not been rendered as of April 1, 2005, will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes previously under SFAS 123 “Accounting for Stock-Based Compensation.” Prior periods were not restated to reflect the impact of adopting the new standard.

Prior to the adoption of SFAS 123R we accounted for employee stock options using the intrinsic value method of accounting prescribed by APB Opinion 25, “Accounting for Stock Issued to

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Employees,” as allowed by SFAS 123. Except as discussed below, no expense was generally recognized in fiscal 2005 related to the Company’s stock options because the number of shares were fixed at the grant date and each option’s exercise price was set at the stock’s fair market value on the date the option was granted.

### **Long-Term Compensation Plans**

*Options.* Options granted in fiscal 2005 and in fiscal 2006 vest over a one to three year period and become exercisable ratably over a two year period subsequent to vesting. Prior to the adoption of SFAS 123R awards pursuant in fiscal 2005 were determined to be variable awards and the related expense was recognized over the associated performance period based on the intrinsic value of the options deemed probable of vesting, measured at each quarter and year-end. Under SFAS 123R compensation expense is based on the grant date fair value with such fair value amortized over the estimated service period.

The Company determines the fair value of such awards using the Black-Scholes option pricing model. The following weighted-average assumptions were used to value EXP’s grants in the first quarter of fiscal 2006: 7 year expected life; expected volatility of 23%; risk free rate of 4.1% and annual dividends of \$1.20 per share during the expected term of the options.

The Company recognized share-based compensation expense associated with option grants of \$0.8 million (\$0.03 per diluted share, after tax) in the first quarter of fiscal 2006 versus \$0 in the prior year fiscal quarter. At June 30, 2005, there was \$8.6 million of unrecognized compensation cost related to share-based payments which is expected to be recognized over a weighted-average period of 3.2 years.

The following table represents stock option activity for the quarter ended June 30, 2005:

	Number of Shares	Weighted- Average Exercise Price
Outstanding Options at Beginning of Period	585,119	\$37.70
Granted	80,800	\$88.23
Exercised	<u>(25,496)</u>	\$31.78
Outstanding Options at End of Period	<u>640,423</u>	\$44.31
Options Exercisable at End of Period	<u>446,278</u>	
Weighted-Average Fair Value of Options Granted during the Period	\$ 25.00	



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The following table summarizes information about stock options outstanding at June 30, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares Outstanding	Weighted Average Exercise Price
\$20.39 - \$24.44	119,039	5.3 years	\$22.09	111,979	\$21.94
\$28.72 - \$31.63	89,447	5.1 years	\$30.83	85,848	\$30.90
\$33.12 - \$56.38	259,263	6.4 years	\$36.72	218,882	\$36.27
\$64.55 - \$88.23	172,674	7.2 years	\$78.01	29,569	\$69.13
	<u>640,423</u>	6.0 years	\$44.31	<u>446,278</u>	\$33.82

Shares available for future stock option grants under existing plans were 932,245 at June 30, 2005. At June 30, 2005 the aggregate intrinsic value of shares outstanding was \$26.1 million.

*Restricted Stock Units.* Restricted stock units (RSU's) are payable in Common Stock, on a one to one basis, based on the attainment of certain operational goals for each fiscal year. During fiscal 2005, 23,089 RSUs were initially granted to management of which 17,317 RSUs were vested. During fiscal 2006, an additional 22,932 RSUs have been initially granted to management. The ultimate number of RSUs to be awarded will be determined at the completion of fiscal 2006. Share based expense for RSUs was determined based on the market price of EXP's stock at the time of award applied to the number of shares anticipated to be issued and amortized over the three year vesting period. For the three month periods ended June 30, 2005 and June 30, 2004, the Company expensed approximately \$261,000 and \$78,000, respectively.

The following table illustrates for the first quarter of fiscal 2005 the effect on operating results and per share information had the Company accounted for share based compensation in accordance with SFAS 123R.

	For the Three Months Ended June 30, 2004 (dollars in thousands)
<b>Net Earnings</b>	
As Reported	\$23,213
Add Stock-Based Employee Compensation included in the determination of net income as reported, net of tax	272
Deduct Fair Value of Stock-Based Employee Compensation, net of tax	(833)
Pro forma	<u>\$22,652</u>
<b>Basic Earnings Per Share</b>	
As reported	\$ 1.25
Pro forma	\$ 1.22
<b>Diluted Earnings Per Share</b>	
As reported	\$ 1.23
Pro forma	\$ 1.20

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

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

	For the Three Months Ended June 30,	
	2005	2004
	(dollars in thousands)	
Service Cost – Benefits Earned during the Period	\$ 125	\$ 79
Interest Cost of Benefit Obligations	190	112
Amortization of Unrecognized Prior-Service Cost	34	31
Credit for Expected Return on Plan Assets	(205)	(107)
Actuarial Loss	<u>58</u>	<u>62</u>
Net Period Cost	<u>\$ 202</u>	<u>\$ 177</u>

**(D) STOCKHOLDERS' EQUITY**

A summary of changes in stockholders' equity follows:

	For the Three Months Ended June 30, 2005	
	(dollars in thousands)	
<b>Common Stock –</b>		
Balance at Beginning of Period	\$ 182	
Retirement of Common Stock(1)	(4)	
Stock Option Exercises	<u>—</u>	
Balance at End of Period	<u>178</u>	
<b>Capital in Excess of Par Value –</b>		
Balance at Beginning of Period	—	
Retirement of Common Stock(1)	(2,987)	
Share Based Activity	1,402	
Stock Option Exercises	<u>1,585</u>	
Balance at End of Period	<u>—</u>	
<b>Retained Earnings –</b>		
Balance at Beginning of Period	487,585	
Dividends Declared to Stockholders	(5,388)	
Retirement of Common Stock(1)	(33,528)	
Net Earnings	<u>34,908</u>	
Balance at End of Period	<u>483,577</u>	
<b>Unamortized Restricted Stock –</b>		
Balance at Beginning of Period	(557)	
Amortization	9	
Transfer to Capital in Excess of Par Value	<u>548</u>	
Balance at End of Period	<u>—</u>	
<b>Accumulated Other Comprehensive Losses –</b>		
Balance at Beginning of Period	<u>(1,842)</u>	
Balance at End of Period	<u>(1,842)</u>	
<b>Total Stockholders' Equity</b>	<u>\$481,913</u>	

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(1) There were purchases of 195,054 and 219,997 of the Company's Common Stock and Class B Common Stock, respectively during the quarter ended June 30, 2005 at average share prices of \$89.74 and \$86.36. There were 255,700 shares at an average price of \$60.52 repurchased of the Class B Common Stock in the corresponding prior year period and no repurchases of Common Stock. As of June 30, 2005, the Company has authorization to purchase an additional 1.184 million shares.

### (E) CASH FLOW INFORMATION — SUPPLEMENTAL

Cash payments made for interest were \$1.2 million and \$0.5 million for the three months ended June 30, 2005 and 2004, respectively. Net payments made for federal and state income taxes during the three months ended June 30, 2005 and 2004, were \$1.5 million and \$1.0 million, respectively.

### (F) COMPREHENSIVE INCOME

A summary of comprehensive income is presented below:

	For the Three Months Ended June 30,	
	2005	2004
	(dollars in thousands)	
Net Earnings and Comprehensive Income	\$34,908	\$23,213

As of June 30, 2005, the Company has an accumulated other comprehensive loss of \$1.8 million, net of income taxes of \$1.0 million, in connection with recognizing an additional minimum pension liability. The minimum pension liability relates to the accumulated benefit obligation in excess of the fair value of plan assets of the defined benefit retirement plans.

### (G) INVENTORIES

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

	As of	
	June 30, 2005	March 31, 2005
	(dollars in thousands)	
Raw Materials and Material-in-Progress	\$12,923	\$16,073
Gypsum Wallboard	7,021	8,668
Finished Cement	3,681	5,680
Paperboard	5,361	3,651
Aggregates	3,690	5,401
Repair Parts and Supplies	21,981	22,414
Fuel and Coal	1,324	1,595
	<u>\$55,981</u>	<u>\$63,482</u>

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

	For the Three Months Ended June 30,	
	2005	2004
Weighted-Average Shares of Common Stock Outstanding	18,105,313	18,613,714
Common Equivalent shares:		
Assumed Exercise of Outstanding Dilutive Options	559,623	598,735
Less Shares Repurchased from Assumed Proceeds of Assumed Exercised Options	(354,557)	(395,020)
Restricted Shares	11,453	3,706
Weighted-Average Common and Common Equivalent Shares Outstanding	<u>18,321,832</u>	<u>18,839,135</u>

**(I) CREDIT FACILITIES**

On December 16, 2004, we amended our existing credit facility to increase the facility amount from \$250.0 million to \$350.0 million, modified certain financial and other covenants and extended the maturity date to 2009 (the "New Credit Facility"). The New Credit Facility expires on December 16, 2009, at which time all borrowings outstanding are due. The borrowings under the New Credit Facility are guaranteed by all major operating subsidiaries of the Company. At the option of the Company, outstanding principal amounts on the New Credit Facility bear interest at a variable rate equal to: (i) LIBOR, plus an agreed margin (ranging from 87.5 to 162.5 basis points), which is to be established quarterly based upon the Company's ratio of consolidated EBITDA to its consolidated indebtedness; or (ii) an alternate base rate which is the higher of (a) the prime rate or (b) the federal funds rate plus 1/2% per annum, plus an agreed margin (ranging from 25 to 100 basis points). Interest payments are payable monthly or at the end of the LIBOR advance periods, which can be up to a period of six months at the option of the Company. Under the New Credit Facility, we are required to adhere to a number of financial and other covenants, including covenants relating to the Company's interest coverage ratio and consolidated funded indebtedness ratio. At June 30, 2005 the Company had \$342 million of borrowings available under the New Credit Facility.

**(J) SEGMENT INFORMATION**

Operating segments are defined as components of an enterprise that engage in business activities that earn revenues, incur expenses and prepare separate financial information that is evaluated regularly by our chief operating decision maker in order to allocate resources and assess performance.

We operate in four business segments: Gypsum Wallboard, Cement, Recycled Paperboard, and Concrete and Aggregates, with Gypsum Wallboard and Cement being our principal lines of business. These operations are conducted in the United States and include the mining of gypsum and the manufacture and sale of gypsum wallboard, the mining of limestone and the manufacture, production, distribution and sale of portland cement (a basic construction material which is the essential binding ingredient in concrete), the manufacture and sale of recycled paperboard to the gypsum wallboard industry and other paperboard converters, the sale of readymix concrete and the mining and sale of aggregates (crushed stone, sand and gravel). These products are used primarily in commercial and residential construction, public construction projects and projects to build, expand and repair roads and highways.

As further discussed below, we operate four cement plants, ten cement distribution terminals, four gypsum wallboard plants, five gypsum wallboard reload centers, a gypsum wallboard distribution center,

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a recycled paperboard mill, eight readymix concrete batch plant locations and two aggregates processing plant locations. The principal markets for our cement products are Texas, northern Illinois (including Chicago), the Rocky Mountains, northern Nevada, and northern California. Gypsum wallboard and recycled paperboard are distributed throughout the continental United States. Concrete and aggregates are sold to local readymix producers and paving contractors in the Austin, Texas area and northern California.

During fiscal 2005 up to January 10, 2005 we conducted two out of four of our cement plant operations through joint ventures, Texas Lehigh Cement Company, which is located in Buda, Texas and Illinois Cement Company, which is located in LaSalle, Illinois (collectively, the "Joint Ventures"). Effective January 11, 2005 we completed the purchase of the remaining 50% interest in Illinois Cement Company and accordingly the results of Illinois Cement Company have been consolidated into our results for the first quarter of fiscal 2006. For segment reporting purposes only, we proportionately consolidate our 50% share of the cement Joint Ventures' revenues and operating earnings, which is consistent with the way management organizes the segments within the Company for making operating decisions and assessing performance.

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

	For the Three Months Ended June 30,	
	2005	2004
	(dollars in thousands)	
<b>Revenues</b>		
Gypsum Wallboard	\$ 104,838	\$ 82,256
Cement	75,789	56,467
Paperboard	33,951	31,793
Concrete and Aggregates	22,859	17,253
Other, net	1,124	—
Sub-total	<u>238,561</u>	<u>187,769</u>
Less: Intersegment Revenues	(16,907)	(14,748)
Less: Joint Ventures	<u>(16,856)</u>	<u>(22,730)</u>
Net Revenue	<u>\$204,798</u>	<u>\$150,291</u>

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	For the Three Months Ended June 30,	
	2005	2004
	(dollars in thousands)	
<b>Intersegment Revenues –</b>		
Cement	\$ 1,598	\$ 781
Paperboard	14,862	13,668
Concrete and Aggregates	447	299
	<u>\$16,907</u>	<u>\$14,748</u>
<b>Operating Earnings –</b>		
Gypsum Wallboard	\$27,851	\$17,000
Cement	16,029	12,996
Paperboard	6,164	6,726
Concrete and Aggregates	3,452	2,131
Other, net	1,124	(832)
Sub-total	54,620	38,021
Corporate General and Administrative	(3,102)	(1,879)
Earnings Before Interest and Income Taxes	51,518	36,142
Interest Expense, net	(1,336)	(708)
Earnings Before Income Taxes	<u>\$50,182</u>	<u>\$35,434</u>
<b>Cement Operating Earnings –</b>		
Wholly Owned	\$10,502	\$ 8,072
Joint Ventures	5,527	4,924
	<u>\$16,029</u>	<u>\$12,996</u>
<b>Cement Sales Volumes (M tons) –</b>		
Wholly Owned	671	417
Joint Ventures	227	341
	<u>898</u>	<u>758</u>
<b>Capital Expenditures (1) –</b>		
Gypsum Wallboard	\$ 602	\$ 2,424
Cement	11,579	1,404
Paperboard	1,931	985
Concrete and Aggregates	2,059	245
	<u>\$16,171</u>	<u>\$ 5,058</u>
<b>Depreciation, Depletion and Amortization (1) –</b>		
Gypsum Wallboard	\$ 4,160	\$ 4,002
Cement	2,357	1,259
Paperboard	1,984	1,942
Concrete and Aggregates	731	703
Other, net	303	204
	<u>\$ 9,535</u>	<u>\$ 8,110</u>
	As of	
	June 30, 2005	March 31, 2005
<b>Identifiable Assets (1) –</b>		
Gypsum Wallboard	\$329,900	\$331,367
Cement	222,011	212,022
Paperboard	183,800	181,854
Concrete and Aggregates	42,434	37,135
Corporate and Other	19,928	17,623
	<u>\$798,073</u>	<u>\$780,001</u>

(1) Basis conforms with equity method accounting.

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Segment operating earnings, including the proportionately consolidated 50% interest in the revenues and expenses of the Joint Venture in fiscal 2006 and Joint Ventures in fiscal 2005, represent revenues less direct operating expenses, segment depreciation, and segment selling, general and administrative expenses. Corporate assets consist primarily of cash and cash equivalents, general office assets and miscellaneous other assets. The segment breakdown of goodwill is as follows:

	As of June 30,	
	2005	2004
	(dollars in thousands)	
Cement	\$ 3,906	\$ —
Gypsum Wallboard	37,843	37,844
Paperboard	2,446	2,446
	<u>\$44,195</u>	<u>\$40,290</u>

Combined summarized financial information for the one jointly owned operation for fiscal 2006 and the two jointly owned operations in fiscal 2005 that are not consolidated is set out below (this combined summarized financial information includes the total amounts for the Joint Ventures and not the Company's 50% interest in those amounts):

	For the Three Months Ended June 30,	
	2005	2004
	(dollars in thousands)	
Revenues	\$30,849	\$46,707
Gross Margin	\$12,046	\$11,479
Earnings Before Income Taxes	\$11,053	\$ 9,848

	As of,	
	June 30, 2005	March 31, 2005
	(dollars in thousands)	
Current Assets	\$31,038	\$33,979
Non-Current Assets	\$32,000	\$32,022
Current Liabilities	\$10,276	\$10,293

### **(K) NET INTEREST EXPENSE**

The following components are included in interest expense, net:

	For the Three Months Ended June 30,	
	2005	2004
	(dollars in thousands)	
Interest (Income)	\$ (34)	\$ —
Interest Expense	1,259	584
Other Expenses	111	124
Interest Expense, net	<u>\$1,336</u>	<u>\$708</u>

Interest income includes interest on investments of excess cash and interest on notes receivable. Components of interest expense include interest associated with bank borrowings, the accounts receivable

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securitization facility and commitment fees based on the unused portion of the bank credit facility. Other expenses include amortization of debt issue costs and bank credit facility costs.

### **(L) COMMITMENTS AND CONTINGENCIES**

The Company has certain deductible limits under its workers' compensation and liability insurance policies for which reserves are established based on the undiscounted estimated costs of known and anticipated claims. We have entered into standby letter of credit agreements relating to workers' compensation and auto and general liability self-insurance. At June 30, 2005, we had contingent liabilities under these outstanding letters of credit of approximately \$7.9 million.

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

	As of and for the Three Months Ended June 30,	
	2005	2004
	(dollars in thousands)	
Accrual Balances at Beginning Period	\$4,905	\$ 3,883
Insurance Expense Accrued	1,199	805
Payments	(545)	(1,104)
Accrual Balance at End of Period	<u>\$5,559</u>	<u>\$ 3,584</u>

The Company is currently contingently liable for performance under \$5.5 million in performance bonds required by certain states and municipalities, and their related agencies. The bonds are principally for certain reclamation obligations and mining permits. We have indemnified the underwriting insurance company against any exposure under the performance bonds. In the Company's past experience, no material claims have been made against these financial instruments.

In the ordinary course of business, we execute contracts involving indemnifications standard in the industry and indemnifications specific to a transaction such as sale of a business. These indemnifications might include claims relating to any of the following: environmental and tax matters; intellectual property rights; governmental regulations and employment-related matters; customer, supplier, and other commercial contractual relationships; and financial matters. While the maximum amount to which the Company may be exposed under such agreements cannot be estimated, it is the opinion of management that these indemnifications are not expected to have a material adverse effect on our consolidated financial position or results of operations. The Company currently has no outstanding guarantees.

### **(M) INCOME TAXES**

Income taxes for the interim period presented have been included in the accompanying financial statements on the basis of an estimated annual effective tax rate. In addition to the amount of tax resulting from applying the estimated annual effective tax rate to pre-tax income, the Company, when appropriate, includes certain items treated as discrete events to arrive at an estimated overall tax amount. The effective tax rate for the three months ended June 30, 2005 was 30% including a \$1.8 million discrete tax item relating to favorable adjustments to tax reserves for depletion. As of June 30, 2005, the estimated overall tax rate for the full fiscal year 2006 was 33% including the impact of the \$1.8 million discussed above, consistent with the prior year.



## Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

### EXECUTIVE SUMMARY

Eagle Materials Inc. is a diversified producer of basic building products used in residential, industrial, commercial and infrastructure construction. Information presented for the three months ended June 30, 2005 and 2004, reflects the Company's four business segments, consisting of Gypsum Wallboard, Cement, Recycled Paperboard and Concrete and Aggregates. Certain information for each of Concrete and Aggregates is broken out separately in the segment discussions.

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 our operations occur in a variety of geographic markets, our businesses are subject to the economic conditions in each such geographic market. Our wallboard 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 250 mile radius of the plants. 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 markets, which may fluctuate more widely than the nation as a whole.

Nationally, trends in the construction industry have been positive as total construction spending during May 2005 was estimated at a seasonally adjusted annual rate of \$1.1 billion, 7% above the same period in 2004. The Gypsum Association reported approximately 17.8 billion square feet of wallboard was shipped in the first six months of calendar 2005, a 4.4% increase over the prior record year. Wallboard demand has been favorably impacted by strong residential construction due to low interest rates; however, a continued rise in interest rates could impact this demand. Commercial and industrial activity continues to show signs of improvement but remains below historical averages. Cement demand has been positively impacted by the strong housing market, an improving non-residential construction market and a continuation of the high level of federal transportation projects. There can be no assurances that the favorable trends will continue in future periods. See "Forward Looking Statements".

General economic downturns or localized downturns in the regions where we have operations, including any downturns in the construction industry, and 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. Additionally, wallboard operations and to a lesser extent, our other operations are impacted by rising fuel costs, availability and cost of long haul trucking and logistical problems currently being seen in the U.S. rail market. Collectively, these issues could potentially impact our operating earnings and our ability to efficiently distribute our products to the customers we serve.

The Company conducts one of its cement 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 under the equity method of accounting. However, for purposes of the Cement segment information presented, we proportionately consolidate our 50% share of the cement Joint Venture's revenues and operating earnings, which is the way management organizes the segment within the Company for making operating decisions and assessing performance. On January 10, 2005, we completed the acquisition of the other 50% interest in Illinois Cement. Beginning January 11, 2005 we began fully consolidating the results of Illinois Cement; however, through January 10, 2005 we utilized the equity method of accounting for Illinois Cement.

[Table of Contents](#)**RESULTS OF OPERATIONS****Consolidated Results**

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

	For the Three Months Ended June 30,	
	2005	2004
	(dollars in thousands)	
<b>REVENUES</b>		
Gypsum Wallboard	\$ 104,838	\$ 82,256
Cement(2)	75,789	56,467
Paperboard	33,951	31,793
Concrete & Aggregates	22,859	17,253
Other, net	1,124	—
Sub-total	238,561	187,769
Less: Intersegment Revenues	(16,907)	(14,748)
Less: Joint Venture Revenues	(16,856)	(22,730)
Total	<u>\$204,798</u>	<u>\$150,291</u>
	For the Three Months Ended June 30,	
	2005	2004
	(dollars in thousands)	
<b>OPERATING EARNINGS(1)</b>		
Gypsum Wallboard	\$27,851	\$17,000
Cement(2)	16,029	12,996
Paperboard	6,164	6,726
Concrete & Aggregates	3,452	2,131
Other, net	1,124	(832)
Total	<u>\$54,620</u>	<u>\$38,021</u>

(1) Prior to Corporate General and Administrative expenses.

(2) Total of wholly-owned subsidiaries and proportionately consolidated 50% interest in Joint Ventures' results.

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### *Operating Earnings.*

Consolidated operating earnings increased 44% over the prior year quarter. Continued strong demand in our core markets helped to set record sales volumes in the Wallboard segment and Cement segment. Gypsum Wallboard average pricing increased 18% over the prior year quarter while Cement average pricing increased 15%. Pricing improvements have been offset somewhat by increased costs of energy, transportation and maintenance. The Paperboard segment posted record volumes and record first quarter pricing offset by increased fiber costs and the mix of products sold. Concrete prices have increased approximately 6% for the quarter as compared to the corresponding prior year period, offset somewhat by the increased costs of cement and fuel delivery costs. Aggregate demand in the northern California and Texas markets remains strong with record quarter sales volume.

### *Other Income.*

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

### *Corporate Overhead.*

Corporate general and administrative expenses for the first quarter of fiscal 2006 were \$3.1 million compared to \$1.9 million for the comparable prior year period. The increase is primarily the result of the adoption of Statement of Financial Accounting Standard 123(R) — Share Based Payments discussed further in Note (B) to the unaudited consolidated financial statements.

### *Net Interest Expense.*

Net interest expense of \$1.3 million for the first quarter of fiscal 2006 increased \$0.6 million from last year's comparable period due to higher average borrowings.

### *Income Taxes.*

In the first quarter of fiscal 2006, the Company recognized an adjustment of \$1.8 million to tax reserves associated with favorable developments in certain outstanding tax matters. This matter was treated as discretely affecting the first quarter tax provision. See Note M to the financial statements for additional information.

As of June 30, 2005, the effective tax rate for fiscal 2006 is 33%, which includes the impact of the discrete item discussed above, versus 33% for fiscal 2005.

### *Net Income.*

Pre-tax earnings of \$50.2 million were 42% above last year's first quarter pre-tax earnings of \$35.4 million. Net earnings of \$34.9 million increased 50% from net earnings of \$23.2 million for last year's same quarter. Diluted earnings per share of \$1.91 were 55% higher than the \$1.23 for last year's same quarter.

[Table of Contents](#)*Gypsum Wallboard*

	For the Three Months Ended June 30,		Percentage Change
	2005	2004	
	(dollars in thousands)		
Gross Revenues, as Reported	\$ 104,838	\$ 82,256	28%
Freight and Delivery Costs billed to customers	(21,744)	(17,240)	26%
Net Revenues	<u>\$ 83,094</u>	<u>\$ 65,016</u>	28%
Sales Volume (MMSF)	697	641	9%
Average Net Sales Price	\$ 119.18	\$ 101.39	18%
Freight (MMSF)	\$ 31.19	\$ 26.90	16%
Operating Margin	\$ 39.95	\$ 26.51	51%
Operating Earnings	\$ 27,851	\$ 17,000	64%

Revenues: Price increases in Fiscal 2005 as well as April 2005, combined with record Company wallboard shipments continue to positively impact revenues for the first quarter of fiscal 2006 as compared to the prior year. First quarter of fiscal 2006 shipments represented a record high for the Company and average mill nets were the highest quarterly average since the first quarter of Fiscal 2001. Pricing has continued to strengthen as a result of record demand resulting in near full capacity utilization of the U.S. wallboard industry.

Operating Margins: For the first quarter of fiscal 2006, cost-of-sales was impacted primarily by increasing transportation costs, natural gas and paper costs. On a per unit basis, freight costs have increased 16% for the quarter as compared to the corresponding period in the prior year.

Outlook: Strong demand for new housing continues to positively impact wallboard consumption in the first half of calendar 2005. For the near term, we anticipate wallboard demand to remain strong and supply to be tight (with 95%± industry capacity utilization) as a result of continued high levels of activity in residential construction and increasing repair/remodel and commercial construction activity. Wallboard pricing remains strong and a \$10.00 per msf price increase was realized on July 1, 2005 in the majority of our markets.

[Table of Contents](#)**Cement Operations (1)**

	For the Three Months Ended June 30,		Percentage Change
	2005	2004	
	(dollars in thousands)		
Gross Revenues, including intersegment	\$75,789	\$56,467	34%
Freight and Delivery Costs billed to customers	(5,287)	(4,674)	13%
Net Revenues	<u>\$70,502</u>	<u>\$51,793</u>	36%
Sales Volume (M Tons)	898	758	18%
Average Net Sales Price	\$ 78.55	\$ 68.34	15%
Operating Margin	\$ 17.86	\$ 17.11	4%
Operating Earnings	\$16,029	\$12,996	23%

(1) Total of wholly-owned subsidiaries and proportionately consolidated 50% interest of Joint Ventures' results.

Revenues:	Price increases were implemented during the first quarter of fiscal 2006 in the majority of our markets resulting in a record first quarter average sales price for the Company. Additionally, quarter sales volumes are at record levels due to high levels of construction activity and favorable weather conditions in our markets. The tight supply of cement in these markets has resulted in near sold out conditions at all of our plants for the first quarter of fiscal 2006.
Operating Margins:	We continue to utilize purchased cement to supplement our production capacities in certain markets that we serve. Purchased cement volume was 164,000 tons versus 92,000 tons in the prior year fiscal quarter. Purchased cement contributed to approximately \$4.86 per ton of the increase in production costs on a quarter-over-quarter basis. Quarterly maintenance and repair costs increased \$2.12 per ton versus prior year primarily due to costs associated with an unscheduled outage at one of our cement plants.
Outlook:	U.S. cement consumption remains strong as a result of strong housing activity, a recovering commercial construction market and federal and state infrastructure projects. In the near term, we expect U.S. cement pricing to remain stable or increase due to strong domestic consumption, increasing world consumption and high international freight costs for imported cement. Total U.S. shipments for the first four months of calendar 2005, were 5% above the same period in calendar 2004. The Company has sold 100% of its production for the last 19 years and according to the PCA it is estimated that current industry-wide domestic production capacity is 25% short of domestic consumption.

[Table of Contents](#)**Recycled Paperboard**

	For the Three Months Ended June 30,		Percentage Change
	2005	2004	
	(dollars in thousands)		
Gross Revenues, including intersegment	\$33,951	\$31,793	7%
Freight and Delivery Costs billed to customers	(755)	(668)	(13%)
Net Revenues	<u>\$33,196</u>	<u>\$31,125</u>	7%
Sales Volume (M Tons)	73	70	4%
Average Net Sales Price	\$457.68	\$445.42	3%
Operating Margin	\$ 85.02	\$ 96.27	(12%)
Operating Earnings	\$ 6,164	\$ 6,726	(8%)

Revenues: Paperboard sales to our wallboard division were 29 thousand tons at \$14.8 million compared to 28 thousand tons at \$13.6 million in last year's comparable quarter. Paperboard achieved price increases in each of the products it sells, primarily as a result of previously established contract escalators.

Operating Margins: For the quarter, cost-of-sales per ton was impacted primarily by higher recycled fiber costs, fuel costs and freight costs. Additionally, margins were impacted by the mix of products sold and higher returns and allowances.

Outlook: As a result of strong market demand, capital improvements and improved operating efficiency our paperboard mill is currently producing at 125% of its original design capacity. While we anticipate continued strong demand for our products over the next six to twelve months, announced recycled container board production capacity could place upward price pressure on recovered fiber as supply tightens.

[Table of Contents](#)**Concrete**

	For the Three Months Ended June 30,		Percentage Change
	2005	2004	
Gross Revenues, including intersegment	\$13,593	\$10,304	32%
Sales Volume - M Cubic Yards	233	188	24%
Average Net Sales Price	\$ 58.37	\$ 54.85	6%
Operating Margin	\$ 7.11	\$ 2.81	153%
Operating Earnings	\$ 1,655	\$ 528	214%

Revenues: Concrete revenues were primarily impacted by increased average sales prices in Austin, Texas of \$5.46 for the quarter versus the corresponding period in the prior year, and increased volumes in both the Texas and northern California markets.

Operating Margins: For the first quarter of fiscal 2006, concrete margins were negatively impacted by increased raw materials (cement and aggregates) and delivery costs. Costs per ton were favorably impacted by the fixed costs being spread over higher volumes during the quarter versus the prior year period.

Outlook: Pricing in the Austin, Texas market has increased as a result of increased construction activity in the region in both the commercial and residential sectors. We expect stabilized pricing in the Austin, Texas market and continued stable pricing in the northern California market for the next six to twelve months.

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### *Aggregates*

	For the Three Months Ended June 30,		Percentage Change
	2005	2004	
	(dollars in thousands)		
Gross Revenues, including intersegment	\$9,266	\$6,949	33%
Freight and Delivery Costs Billed to customers	(324)	—	100%
Net Revenues	<u>\$8,942</u>	<u>\$6,949</u>	33%
Sales Volume (M Tons)	1,572	1,211	30%
Average Net Sales Price	\$ 5.69	\$ 5.56	2%
Operating Margin	\$ 1.14	\$ 1.32	(13%)
Operating Earnings	\$1,797	\$1,603	12%

Revenues: Record volumes for the quarter were driven by a 225,000 ton increase in the Austin, Texas market over the prior year period. Approximately 64% of this increased volume was attributable to road base. Average pricing remained flat for the quarter as compared to the prior year due primarily to the mix of the products sold. Sales of road base are at lower prices than washed aggregates products and therefore negatively impacted the overall average sales price of aggregates.

Operating Margins: Quarter-to-date costs were impacted negatively by higher contract mining costs and higher maintenance costs versus the comparable period in the prior year.

Outlook: We expect that aggregates pricing in the Sacramento area will continue to strengthen due primarily to demand outpacing capacity. Aggregates pricing in the Austin, Texas market is anticipated to increase moderately over the next twelve months due to increased levels of construction activity in the Austin area and a changing mix of products sold.



## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

### Recent Accounting Pronouncement

See Note (A) to the Unaudited Consolidated Financial Statements on page 4.

## LIQUIDITY AND CAPITAL RESOURCES

### *Liquidity.*

The following table provides a summary of our cash flows:

	For the Three Months Ended June 30,	
	2005	2004
	(dollars in thousands)	
Net Cash Provided by Operating Activities:	\$ 54,854	\$ 35,357
Investing Activities:		
Capital Expenditures and Other Investing Activities	(16,171)	(5,058)
Net Cash Used in Investing Activities	(16,171)	(5,058)
Financing Activities:		
Addition (Reduction) in Long-term debt, net	1,000	(19,700)
Addition to Note Payable	8,600	11,300
Retirement of Common Stock	(36,518)	(15,477)
Dividends Paid	(5,480)	(5,643)
Proceeds from Stock Option Exercises	1,072	708
Net Cash used in Financing Activities	(31,326)	(28,812)
Net Increase in Cash	\$ 7,357	\$ 1,487

The \$19.5 million increase in cash flows from operating activities for the first three months of fiscal 2006 was largely attributable to increased earnings. In addition, changes in working capital items such as decreases in inventory and increases in accounts payable and accrued liabilities and federal taxes payable contributed to the increase in cash flows from operating activities.

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Working capital at June 30, 2005, was \$8.7 million compared to \$19.8 million at March 31, 2005. The decrease resulted primarily from a \$7.5 million decrease in inventory; a \$14.9 million increase in accounts and notes receivable; a \$8.6 million increase in notes payable; a \$2.0 million increase in accounts payable and accrued liabilities; and a \$15.9 million increase in federal taxes payable, offset against a \$7.4 million increase in cash.

Total debt was increased from \$84.8 million at March 31, 2005, to \$94.4 at June 30, 2005. Debt-to-capitalization at June 30, 2005, was 16% compared to 14% at March 31, 2005.

Based on our financial condition and results of operations as of and for the three months ended June 30, 2005, along with the projected net earnings for the remainder of Fiscal 2006, we believe that our internally generated cash flow coupled with funds available under various credit facilities will enable us to provide adequately for our current operations, dividends, capital expenditures and future growth through the end of Fiscal 2006. The Company was in compliance at June 30, 2005 and during the three months ended June 30, 2005, with all the terms and covenants of its credit agreements and expects to be in compliance during the next 12 months.

Cash and cash equivalents totaled \$14.6 million at June 30, 2005, compared to \$7.2 million at March 31, 2005.

### ***Debt Financing Activities.***

On December 16, 2004, we amended our existing credit facility to increase the facility amount from \$250.0 million to \$350.0 million, modified certain financial and other covenants and extended the maturity date to 2009. The principal balance of the facility was paid off and replaced with a new \$350.0 million credit agreement (the "New Credit Facility"). The New Credit Facility expires on December 16, 2009, at which time all borrowings outstanding are due. The borrowings under the New Credit Facility are guaranteed by all major operating subsidiaries of the Company. At the option of the Company, outstanding principal amounts on the New Credit Facility bear interest at a variable rate equal to: (i) LIBOR, plus an agreed margin (ranging from 87.5 to 162.5 basis points), which is to be established quarterly based upon the Company's ratio of consolidated EBITDA to its consolidated indebtedness; or (ii) an alternate base rate which is the higher of (a) the prime rate or (b) the federal funds rate plus 1/2% per annum, plus an agreed margin (ranging from 25 to 100 basis points). Interest payments are payable monthly or at the end of the LIBOR advance periods, which can be up to a period of six months at the option of the Company. Under the New Credit Facility, we are required to adhere to a number of financial and other covenants, including covenants relating to the Company's interest coverage ratio and consolidated funded indebtedness ratio. At June 30, 2005 the Company had \$342 million of borrowings available under the New Credit Facility.

Our \$50.0 million trade receivables securitization facility (the "Receivables Securitization Facility"), was funded through the issuance of commercial paper and backed by a 364-day committed bank liquidity arrangement. The Receivables Securitization Facility has a termination date of February 20, 2007, subject to a 364-day bank commitment. The Receivables Securitization Facility has been fully consolidated on the accompanying unaudited consolidated balance sheet. Subsidiary company receivables are sold on a revolving basis first to the Company and then to a wholly owned special purpose bankruptcy remote entity of the Company. This entity pledges the receivables as security for advances under the facility. Initially, the borrowed funds have been used to pay down borrowings under the prior credit facility. Outstanding principal amounts under the Receivables Securitization Facility bear interest at the commercial paper rate plus a facility fee. Under the Receivables Securitization Facility, we are required to adhere to certain financial and other covenants that are similar to those in the New Credit Facility. The Company had \$39.4 million of borrowings outstanding at June 30, 2005, under the Receivables Securitization Facility.

Other than the Receivables Securitization Facility and the New Credit Facility, the Company has no other source of committed external financing in place. In the event the Receivables Securitization

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Facility is terminated, funds should be available under the New Credit Facility to repay borrowings. However, if the New Credit Facility were terminated, no assurance can be given as to the Company's ability to secure a new source of financing. Consequently, if a balance is outstanding on the New Credit Facility at the time of termination, and an alternative source of financing cannot be secured, it would have a material adverse impact on the Company. None of the Company's debt is rated by the rating agencies.

The Company does not have any off balance sheet debt except for operating leases. Other than the Receivables Securitization Facility, the Company does not have any other transactions, arrangements or relationships with "special purpose" entities. Also, the Company has no outstanding debt guarantees. The Company has available under the New Credit Facility a \$25.0 million Letter of Credit Facility. At June 30, 2005, the Company had \$7.9 million of letters of credit outstanding that renew annually. We are contingently liable for performance under \$5.5 million in performance bonds relating primarily to our mining operations.

### *Cash used for Share Repurchases.*

	Common Stock		Class B Common Stock	
	Shares Purchased	Average Price Paid Per Share	Shares Purchased	Average Price Paid Per Share
April 1 through April 30, 2005	—	\$ —	25,800	\$80.44
May 1 through May 31, 2005	31,000	79.96	55,650	82.66
June 1 through June 30, 2005	<u>164,054</u>	<u>91.58</u>	<u>138,547</u>	<u>88.95</u>
	<u>195,054</u>	<u>\$89.74</u>	<u>219,997</u>	<u>\$86.36</u>

As of June 30, 2005, we had remaining authorization to purchase 1,184,165 shares. Share repurchases may be made from time-to-time in the open market or in privately negotiated transactions. The timing and amount of any repurchases of shares will be determined by the Company's management, based on its evaluation of market and economic conditions and other factors. The repurchase authorization applies to both classes of the Company's common stock.

**Dividends.** Dividends paid in the three months ended June 30, 2005 and 2004 were \$5.5 million and \$5.6 million, respectively. Each quarterly dividend payment is subject to review and approval by our Board of Directors, and we intend to evaluate our dividend payment amount on an ongoing basis.

### *Capital Resources.*

The following table compares capital expenditures:

	For the Three Months Ended June 30,	
	2005	2004
	(dollars in thousands)	
Land and Quarries	\$ 169	\$ 377
Plants	11,817	2,324
Buildings, Machinery and Equipment	<u>4,185</u>	<u>2,357</u>
Total Capital Expenditures	<u>\$16,171</u>	<u>\$5,058</u>

For Fiscal 2006, we expect expenditures of the following: approximately \$75 million (\$52.6 million higher than our 2005 levels), with the year-over-year increase due primarily to the expansion of Illinois Cement. Historically, we have financed such expenditures with cash from operations and borrowings under our revolving credit facilities.

## GENERAL OUTLOOK

See Outlook discussions in each of our segment operations.

## FORWARD-LOOKING STATEMENTS

Certain sections of this report, including Management's Discussion and Analysis of Results of Operations and Financial Condition contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Litigation Reform Act of 1995. Forward-looking statements may be identified by the context of the statement and generally arise when the Company is discussing its beliefs, estimates or expectations. 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 our 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 could have a material adverse effect on our business, financial condition and results of operations.
- **Interest rates.** Our business is significantly affected by the movement of interest rates. Interest rates have a direct impact on the level of residential, commercial and infrastructure construction activity 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 borrowings under our credit facilities.
- **Price fluctuations and supply/demand for our products.** The products sold by us are commodities and competition among manufacturers is based largely on price. The prices for our principal products, gypsum wallboard and cement, are currently at levels higher than those experienced in recent years. 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 or cement may create an oversupply of such products and negatively impact product prices. There can be no assurance that prices for products sold by us will not decline in the future or that such declines will not have a material adverse effect on our business, financial condition and results of operations.
- **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 affect 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. Prices for natural gas and electrical power, which are significant components of the costs associated with our gypsum wallboard and cement businesses, have increased significantly in recent years and are expected to increase in the future. In the event of large or rapid increases in prices, we may not be able to pass the increases through to our customers in full, which would reduce our operating margin.
- **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

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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.

- ***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.
- ***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 cleanup 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 our operations. Certain of our operations may from time-to-time involve the use of substances that are classified as toxic or hazardous substances within the meaning of these laws and regulations. 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 such matters and 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 adversely affected by regulatory issues affecting its customers.
- ***Events that may disrupt the U.S. or world economy.*** Future terrorist attacks, and 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.

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 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risks related to fluctuations in interest rates on our direct debt obligations and receivables securitizations classified as debt. From time-to-time we have utilized derivative instruments, including interest rate swaps, in conjunction with our overall strategy to manage the debt outstanding that is subject to changes in interest rates. At June 30, 2005, the Company had approximately \$94.4 million in variable rate debt (\$55 million in bank debt and \$39.4 million in a note payable under the Company's accounts receivable securitization program). Accordingly, using the balance of the Company's variable rate debt as of June 30, 2005, of \$94.4 million, if the applicable interest rate on such debt (LIBOR or commercial paper rate) increases by 100 basis points (1%) for a full year, the Company's pre-tax earnings and cash flows would decrease by approximately \$944,000 for such period. On the other hand, if such interest rates decrease by 100 basis points for a full year, the Company's pre-tax earnings and cash flows would increase by approximately \$944,000 for such period. Presently, we do not utilize derivative financial instruments.

The Company is subject to commodity risk with respect to price changes principally in coal, coke, natural gas and power. We attempt to limit our exposure to change in commodity prices by entering into contracts or increasing use of alternative fuels.

### **Item 4. Controls and Procedures**

An evaluation has been performed under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2005. Based on that evaluation, the Company's management, including its Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2005, to provide reasonable assurance that the information required to be disclosed in the Company's reports filed or submitted under the Securities Exchange Act of 1934 is processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. There have been no changes in the Company's internal controls over financial reporting during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

## **Part II. Other Information**

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

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

### **Item 6. Exhibits**

- 10.1 Eagle Materials Inc. Salaried Incentive Compensation Program for Fiscal Year 2006 (filed as Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 15, 2005, and incorporated herein by reference).
- 10.2 Eagle Materials Inc. Cement Companies Salaried Incentive Compensation Program for Fiscal Year 2006 (filed as Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 15, 2005, and incorporated herein by reference).

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- 10.3 Eagle Materials Inc. Concrete and Aggregates Companies Salaried Incentive Compensation Program for Fiscal Year 2006 (filed as Exhibit 10.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 15, 2005, and incorporated herein by reference).
- 10.4 Republic Paperboard Company Salaried Incentive Compensation Program Fiscal Year 2006 (filed as Exhibit 10.4 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 15, 2005, and incorporated herein by reference).
- 10.5\* Form of Restricted Stock Unit Agreement for senior executives.
- 10.6\* Form of Non-Qualified Stock Option Agreement for senior executives.
- 31.1\* Certification of the Chief Executive Officer of Eagle Materials Inc. pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934, as amended.
- 31.2\* Certification of the Chief Financial Officer of Eagle Materials Inc. pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934, as amended.
- 32.1\* Certification of the Chief Executive Officer of Eagle Materials Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification of the Chief Financial Officer of Eagle Materials Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* Filed herewith.

**SIGNATURES**

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

EAGLE MATERIALS INC.

Registrant

August 9, 2005

/s/ STEVEN R. ROWLEY

Steven R. Rowley  
President and Chief Executive Officer  
(principal executive officer)

August 9, 2005

/s/ARTHUR R. ZUNKER, JR.

Arthur R. Zunker, Jr.  
Senior Vice President, Treasurer and  
Chief Financial Officer  
(principal financial and chief accounting officer)



**PLEASE SIGN & RETURN**

**EAGLE MATERIALS INC.**  
**INCENTIVE PLAN**  
**RESTRICTED STOCK UNIT AGREEMENT**

This restricted stock unit agreement (the "Restricted Stock Unit Agreement" or "Agreement") entered into between EAGLE MATERIALS INC., a Delaware corporation (the "Company"), and \_\_\_\_\_ (the "Grantee"), an employee of the Company or its Affiliates, with respect to a right (the "Award") of \_\_\_\_\_ units ("Restricted Stock Units") representing shares of Class B Common Stock (as defined in the Eagle Materials Inc. Incentive Plan, as amended and restated July 27, 2004 (the "Plan")) granted to the Grantee under the Plan on \_\_\_\_\_ (the "Award Date"), such number of units subject to adjustment as provided in the Plan, and further subject to the following terms and conditions:

1. *Relationship to Plan.*

This Award is subject to all of the terms, conditions and provisions of the Plan and administrative interpretations thereunder, if any, which have been adopted by the Company's Compensation Committee ("Committee") and are in effect on the date hereof. Except as defined herein, capitalized terms shall have the same meanings ascribed to them under the Plan. For the purposes of this Restricted Stock Unit Agreement:

(a) "Capitalization" means stockholders' equity (as such term is reported by the Company in its annual report to stockholders for the fiscal year ended March 31, 2006) plus Net Debt.

(b) "Debt to Capitalization Ratio" means the ratio of: (i) Net Debt; over (ii) Capitalization, as adjusted by the Committee in its reasonable discretion to take into account events and circumstances not contemplated at the time of the award.

(c) "EBIT" for any fiscal year means the Company's earnings before interest and taxes as reported by the Company in its annual report to stockholders for such fiscal year, as adjusted by the Committee in its reasonable discretion to take into account events and circumstances not contemplated at the time of this Award.

(d) "Net Debt" means notes payable, plus long term debt, minus cash and cash equivalents (as such terms are reported by the Company in its annual report to stockholders for the fiscal year ended March 31, 2006).

(e) "Vesting Date" means for EBIT RSUs March 31 of any given fiscal year in which EBIT RSUs vest, if any, in accordance with Section 2(a) and for Operational Excellence RSUs and Balance Sheet Improvement RSUs March 31, 2006.

(f) "Vesting Period" means the period commencing on the Award Date and ending on March 31, 2008 for the portion of the Award subject to Section 2(a) and March 31, 2006 for the portions of the Award subject to Sections 2(b) and 2(c).

## 2. Vesting and Payment.

(a) *EBIT Vesting Schedule.* \_\_\_\_\_ Restricted Stock Units of the Award (the “EBIT RSUs”) shall vest based on the trailing three year average EBIT for the three consecutive fiscal years ending with the applicable fiscal year in accordance with the following schedule:

Vesting Percentage	3 Year Average EBIT Targets at FYE (in Millions)		
	March 31, 2006	March 31, 2007	March 31, 2008
0%	less than \$125.0	less than \$145.0	less than \$170.0
50%	\$125.0	\$145.0	\$170.0
60%	\$129.0	\$150.0	\$175.0
70%	\$133.0	\$155.0	\$180.0
75%	\$135.0	\$157.5	\$182.5
80%	\$137.0	\$160.0	\$185.0
85%	\$139.0	\$162.5	\$187.5
90%	\$141.0	\$165.0	\$190.0
95%	\$143.0	\$167.5	\$192.5
100%	\$145.0	\$170.0	\$195.0

The exact vesting percentage attained from the vesting schedule above shall be calculated based on straight-line interpolation between the percentages shown in the vesting schedule above with fractional percentages rounded to the nearest tenth of one percent; provided, however, in no event shall the EBIT RSUs vest below fifty percent.

If the three year average EBIT for any fiscal year subsequent to the initial fiscal year within the Vesting Period results in a vesting percentage, the applicable percentage of EBIT RSUs which shall vest on the applicable Vesting Date shall equal (i) the vesting percentage derived from the vesting schedule above for the given fiscal year end less (ii) the vesting percentage previously attained in prior fiscal year(s), if any. At the end of the Vesting Period, if any EBIT RSUs remain unvested, such EBIT RSUs shall be forfeited.

The Grantee must be in continuous employment with the Company or any of its Affiliates or serve as a Director from the Award Date through the Vesting Date in order for the EBIT RSUs to vest as provided in this Section 2(a).

(b) *Operational Excellence Vesting Schedule.* \_\_\_ Restricted Stock Units of the Award (the “Operational Excellence RSUs”) shall vest on the Vesting Date based on the number of points achieved at the end of the 2006 fiscal year based on the Fiscal Year 2006 Operational Excellence Goals (as described in [Exhibit B](#) to this Agreement) in accordance with the following schedule:

Points Achieved	Percentage of Additional Restricted Stock Units Vested
100	100%
94	90%
88	80%
82	70%
76	60%
70	50%
64	40%
58	30%
52	20%
46	10%
40	0%

The determination of the number of points achieved shall be made and approved by the Committee. The Committee shall have the sole authority to determine the number of points achieved for purposes of this schedule, and its determination shall be final, conclusive and binding on all parties. The exact vesting percentage attained from the schedule shall be calculated based on straight-line interpolation between the percentages shown in the schedule with fractional percentages rounded to the nearest tenth of one percent. At the end of the Vesting Period, if any Operational Excellence RSUs remain unvested, such Operational Excellence RSUs shall be forfeited.

The Grantee must be in continuous employment with the Company or any of its Affiliates or serve as a Director from the Award Date through the Vesting Date in order for the Operational Excellence RSUs to vest as provided in this Section 2(b).

(c) *Balance Sheet Improvement Vesting.* \_\_\_ Restricted Stock Units (the "Balance Sheet Improvement RSUs") shall fully vest on March 31, 2006 if the Company achieves a Debt-to-Capitalization Ratio between 0.2 and 0.45 as of March 31, 2006. At the end of the Vesting Period, if any Balance Sheet Improvement RSUs remain unvested, such Balance Sheet Improvement RSUs shall be forfeited.

The Grantee must be in continuous employment with the Company or any of its Affiliates or serve as a Director from the Award Date through the Vesting Date in order for the Balance Sheet Improvement RSUs to vest as provided this Section 2(c).

(d) *Payment.* One-third of the Restricted Stock Units that vest in accordance with the provisions of Section 2(a), 2(b) or 2(c) shall become payable as soon as administratively practicable following the applicable Vesting Date. The remaining two-thirds shall become payable one-third on the first anniversary of such Vesting Date and one-third on the second anniversary of such Vesting Date.

The Grantee must be in continuous employment with the Company or any of its Affiliates or serve as a Director from the Award Date through the date the portion of the Award would otherwise become payable in order for the portion of the Award to become payable with

respect to additional Restricted Stock Units, otherwise such portion of the Award shall be forfeited.

(e) *Calculations.* Calculations of EBIT, the points achieved under the Operational Excellence Goals and the Balance Sheet Improvement criteria shall be made and approved by the Committee. The Committee shall have the sole authority to approve the calculations for purposes of the vesting schedules, and its approval of such calculations shall be final, conclusive, and binding on all parties.

(f) *Change in Control.* This Award shall become fully vested and payable without regard to the limitations set forth in subparagraph (a), (b), (c) or (d) above, provided that the Grantee has been in continuous employment with the Company or any of its Affiliates or served as a Director since the Award Date, upon the occurrence of a Change in Control (as defined in Exhibit A to this Agreement), and fully payable (without regard to the limitations set forth in subparagraph (d) above) upon a Change in Control with respect to any Restricted Stock Units which have not been theretofore forfeited, unless either (i) the Committee determines that the terms of the transaction giving rise to the Change in Control provide that the Award is to be replaced within a reasonable time after the Change in Control with an award of equivalent value of shares of the surviving parent corporation or (ii) the Award is to be settled in cash in accordance with the last sentence of this subparagraph (f). Upon a Change in Control, pursuant to Section 16 of the Plan, the Company may, in its discretion, settle the Award by a cash payment that the Committee shall determine in its sole discretion is equal to the fair market value of the Award on the date of such event.

### *3. Forfeiture of Award.*

Except as provided in any other agreement between the Grantee and the Company, if the Grantee's employment terminates, all unvested and vested (but not yet payable) Restricted Stock Units, and all Dividend Equivalent Amounts (as defined in Section 4) attributable thereto, as of the termination date shall be forfeited.

### *4. Dividend Equivalent Payments.*

During the period of time between the Award Date and the earlier of the date the Restricted Stock Units paid or are settled, the Restricted Stock Units will be evidenced by book entry registration. As of each date that dividends are paid with respect to Class B Common Stock after the end of the applicable Vesting Period, the Grantee shall have a number of additional Restricted Stock Units credited to his or her account with respect to such dividends. The additional Restricted Stock Units credited with respect to such dividends shall be equal to: (i) the amount of the dividend paid per share of Class B Common Stock as of such dividend payment date multiplied by the number of Restricted Stock Units credited to the Grantee's account immediately prior to such dividend payment date; divided by (ii) the Fair Market Value of the Class B Common Stock on such dividend payment date.

### *5. Timing and Form of Payment.*

The Grantee may elect on or before \_\_\_\_\_, 2005 to receive the Award at a time permitted in and pursuant to an election form, subject to such terms and conditions set

forth in such form, as prescribed by the Committee (“Election Form”). The Grantee may timely elect to further defer receipt of the Award in such time and manner, if any, as prescribed by the Committee in its sole and absolute discretion.

Notwithstanding anything herein to the contrary including the Grantee’s election pursuant to the Election Form, the Company reserves the right to pay the value of the vested Restricted Stock Units, to the extent not yet paid, to the Grantee in the form of shares of Class B Common Stock or an equivalent cash payment at any time following vesting of the Award.

*6. Delivery of Shares.*

The Company shall not be obligated to deliver any shares of Class B Common Stock if counsel to the Company determines that such sale or delivery would violate any applicable law or any rule or regulations of any governmental authority or any rule or regulation of, or agreement of the Company with, any securities exchange or association upon which the Class B Common Stock is listed or quoted. The Company shall in no event be obligated to take any affirmative action in order to cause the delivery of shares of Class B Common Stock to comply with any such law, rule, regulations or agreement.

*7. Notices.*

Notice or other communication to the Company with respect to this Award must be made in the following manner, using such forms as the Company may from time to time provide:

(a) by electronic means as designated by the Committee;

(b) by registered or certified United States mail, postage prepaid, to Eagle Materials Inc., Attention: Secretary, 3811 Turtle Creek Blvd, Suite 1100, Dallas, Texas 75219; or

(c) by hand delivery or otherwise to Eagle Materials Inc., Attention: Secretary, 3811 Turtle Creek Blvd, Suite 1100, Dallas, Texas 75219.

Notwithstanding the foregoing, in the event that the address of the Company is changed, any such notice shall instead be made pursuant to the foregoing provisions at the Company’s current address.

Any notices provided for in this Restricted Stock Unit Agreement or in the Plan shall be given in writing or by such electronic means, as permitted by the Committee, and shall be deemed effectively delivered or given upon receipt or, in the case of notices delivered by the Company to the Grantee, five days after deposit in the United States mail, postage prepaid, addressed to the Grantee at the address specified at the end of this Agreement or at such other address as the Grantee hereafter designates by written notice to the Company.

8. *Assignment of Award.*

Except as otherwise permitted by the Committee, the Grantee's rights under the Plan and this Restricted Stock Unit Agreement are personal; no assignment or transfer of the Grantee's rights under and interest in this Award may be made by the Grantee other than by will, by beneficiary designation, by the laws of descent and distribution or by a qualified domestic relations order; and this Award is payable only to the Grantee during his lifetime.

After the death of the Grantee, payment of the Award shall be permitted only to the Grantee's executor or the personal representative of the Grantee's estate (or by his assignee, in the event of a permitted assignment) and only to the extent that the Award was payable on the date of the Grantee's death.

9. *Stock Certificates.*

Certificates representing the Class B Common Stock issued pursuant to the Award will bear all legends required by law and necessary or advisable to effectuate the provisions of the Plan and this Award. The Company may place a "stop transfer" order against shares of the Class B Common Stock issued pursuant to this Award until all restrictions and conditions set forth in the Plan or this Agreement and in the legends referred to in this Section 9 have been complied with.

10. *Withholding.*

No certificates representing shares of Class B Common Stock awarded hereunder shall be delivered to or in respect of an Grantee unless the amount of all federal, state and other governmental withholding tax requirements imposed upon the Company with respect to the issuance of such shares of Class B Common Stock has been remitted to the Company or unless provisions to pay such withholding requirements have been made to the satisfaction of the Committee. The Committee may make such provisions as it may deem appropriate for the withholding of any taxes which it determines is required in connection with this Award. The Grantee may pay all or any portion of the taxes required to be withheld by the Company or paid by the Grantee in connection with this Award by delivering cash, or, with the Committee's approval, by electing to have the Company withhold shares of Class B Common Stock, or by delivering previously owned shares of Common Stock, having a Fair Market Value equal to the amount required to be withheld or paid. The Grantee must make the foregoing election on or before the date that the amount of tax to be withheld is determined.

11. *Shareholder Rights.*

The Grantee shall have no rights of a shareholder with respect to shares of Class B Common Stock subject to the Award unless and until such time as the Award has been paid pursuant to Section 5 and shares of Class B Common Stock have been transferred to the Grantee.

12. *Successors and Assigns.*

This Agreement shall bind and inure to the benefit of and be enforceable by the Grantee, the Company and their respective permitted successors and assigns (including personal

representatives, heirs and legatees), except that the Grantee may not assign any rights or obligations under this Agreement except to the extent and in the manner expressly permitted herein.

13. *No Employment Guaranteed.*

No provision of this Restricted Stock Unit Agreement shall confer any right upon the Grantee to continued employment with the Company or any Affiliate.

14. *Governing Law.*

This Restricted Stock Unit Agreement shall be governed by, construed, and enforced in accordance with the laws of the State of Texas.

15. *Amendment.*

This Agreement cannot be modified, altered or amended except by an agreement, in writing, signed by both the Company and the Grantee.

**EAGLE MATERIALS INC.**

Date: \_\_\_\_\_ By: \_\_\_\_\_  
Name:  
Title: President and CEO

The Grantee hereby accepts the foregoing Restricted Stock Unit Agreement, subject to the terms and provisions of the Plan and administrative interpretations thereof referred to above.

**GRANTEE:**

Date: \_\_\_\_\_

Grantee's Address:  
Eagle Materials Inc.  
3811 Turtle Creek Blvd #1100  
Dallas, TX 75219



**Exhibit A**  
**Change in Control**

For the purpose of this Agreement, a “Change of Control” shall mean the occurrence of any of the following events:

(a) The acquisition by any Person of beneficial ownership of securities of the Company (including any such acquisition of beneficial ownership deemed to have occurred pursuant to Rule 13d-5 under the Exchange Act) if, immediately thereafter, such Person is the beneficial owner of (i) 50% or more of the total number of outstanding shares of any single class of Company Common Stock or (ii) 40% or more of the total number of outstanding shares of all classes of Company Common Stock, unless such acquisition is made (a) directly from the Company in a transaction approved by a majority of the members of the Incumbent Board or (b) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company;

(b) Individuals who, as of the date hereof, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (or who is otherwise designated as a member of the Incumbent Board by such a vote) shall be considered as though such individual were a member of the Incumbent Board, except that any such individual shall not be considered a member of the Incumbent Board if his or her initial assumption of office occurs as a result of either an actual or threatened election contest (as such term is used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(c) The consummation of a Business Combination, unless, immediately following such Business Combination, (i) more than 50% of both the total number of then outstanding shares of common stock of the parent corporation resulting from such Business Combination and the combined voting power of the then outstanding voting securities of such parent corporation entitled to vote generally in the election of directors will be (or is) then beneficially owned, directly or indirectly, by all or substantially all of the Persons who were the beneficial owners, respectively, of the outstanding shares of Company Common Stock immediately prior to such Business Combination in substantially the same proportions as their ownership immediately prior to such Business Combination of the outstanding shares of Company Common Stock, (ii) no Person (other than any employee benefit plan (or related trust) of the Company or any corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 40% or more of the total number of then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (iii) at least a majority of the members of the board of directors of the parent corporation resulting from such Business Combination were members of the Incumbent Board immediately prior to the consummation of such Business Combination; or

(d) Approval by the Board and the shareholders of the Company of (i) a complete liquidation or dissolution of the Company or (ii) a Major Asset Disposition (or, if there is no such approval by shareholders, consummation of such Major Asset Disposition) unless, immediately following such Major Asset Disposition, (A) Persons that were beneficial owners of the outstanding shares of Company Common Stock immediately prior to such Major Asset Disposition beneficially own, directly or indirectly, more than 50% of the total number of then outstanding shares of common stock and the combined voting power of the then outstanding shares of voting stock of the Company (if it continues to exist) and of the Acquiring Entity in substantially the same proportions as their ownership immediately prior to such Major Asset Disposition of the outstanding shares of Company Common Stock; (B) no Person (other than any employee benefit plan (or related trust) of the Company or such entity) beneficially owns, directly or indirectly, 40% or more of the then outstanding shares of common stock or the combined voting power of the then outstanding voting securities of the Company (if it continues to exist) and of the Acquiring Entity entitled to vote generally in the election of directors and (C) at least a majority of the members of the Board of the Company (if it continues to exist) and of the Acquiring Entity were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board providing for such Major Asset Disposition.

For purposes of the foregoing,

(i) the term “Person” means an individual, entity or group;

(ii) the term “group” is used as it is defined for purposes of Section 13(d)(3) of the Exchange Act;

(iii) the terms “beneficial owner”, “beneficial ownership” and “beneficially own” are used as defined for purposes of Rule 13d-3 under the Exchange Act;

(iv) the term “Business Combination” means (x) a merger, consolidation or share exchange involving the Company or its stock or (y) an acquisition by the Company, directly or through one or more subsidiaries, of another entity or its stock or assets;

(v) the term “Company Common Stock” shall mean the Common Stock, par value \$.01 per share, of the Company and the Class B Common Stock, par value \$.01 per share, of the Company (or, if the context requires, shall mean either such class);

(vi) the term “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(vii) the phrase “parent corporation resulting from a Business Combination” means the Company if its stock is not acquired or converted in the Business Combination and otherwise means the entity which as a result of such Business Combination owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries;

(viii) the term “Major Asset Disposition” means the sale or other disposition in one transaction or a series of related transactions of 50% or more of the assets of the Company and its subsidiaries on a consolidated basis; and any specified percentage or portion of the assets of the Company shall be based on fair market value, as determined by a majority of the members of the Incumbent Board;

(ix) the term “Acquiring Entity” means the entity that acquires the largest portion of the assets sold or otherwise disposed of in a Major Asset Disposition (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity entitled to vote generally in the election of directors or members of a comparable governing body); and

(x) the phrase “substantially the same proportions,” when used with reference to ownership interests in the parent corporation resulting from a Business Combination or in an Acquiring Entity, means substantially in proportion to the number of shares of Company Common Stock beneficially owned by the applicable Persons immediately prior to the Business Combination or Major Asset Disposition, but is not to be construed in such a manner as to require that the same ratio or number of shares of such parent corporation or Acquiring Entity be issued, paid or delivered in exchange for or in respect of the shares of each class of Company Common Stock.

**Exhibit B**  
**Summary of**  
**Eagle Materials Inc.**  
**FY 2006 Operational Excellence Goals**

**Gypsum Companies**

1. Goal related to combined annual average 1/2" Eagleroc (#1 MSF/Net hour)
  2. Goal related to combined annual average 5/8" Firebloc (#1 MSF/Net hour)
  3. Goal related to combined annual plant efficiencies
  4. Goal related to the commencement of the Georgetown facility by fiscal year end.
  5. Goal related to current and potential synthetic sources for gypsum in North America.
  6. Develop a plan to maximize the payload on all outbound trucks and rail cars of gypsum wallboard.
  7. Goal related to additional gypsum reserves for the Duke facility.
-

**Cement Companies**

8. Goal related to combined annual average type I/II clinker production rate.
9. Goal related to combined annual average kiln utilization (based on 8760 available hours).
10. Goal related to timely completion of construction of the 80,000 ton dome for the Illinois Cement expansion project within budget.
11. Goal related to the Illinois Cement expansion project being on budget and on timeline.
12. Continue to develop project echo:
13. Goal related to additional limestone reserves for Illinois Cement.

**Paperboard Company**

14. Goal related to net winder tons/calendar day
-

15. Goal related to annual 54” gypsum facing paper sales.
16. Goal related to quality returns and allowances \$ per ton.
17. Goal related to new boiler completion.

**Concrete and Aggregates Companies**

18. Goal related to new mining equipment for Western Aggregates.
19. Goal related to CER proposal to increase production capacity at Centex Materials Buda quarry.

**Safety — All Companies**

20. Goal related to safety.

**PLEASE SIGN & RETURN**

**EAGLE MATERIALS INC.  
INCENTIVE PLAN**

**NON-QUALIFIED STOCK OPTION AGREEMENT**

This option agreement (the "Option Agreement" or "Agreement") entered into between EAGLE MATERIALS INC., a Delaware corporation (the "Company"), and \_\_\_\_\_ (the "Optionee"), an employee of the Company or its Affiliates, with respect to a right (the "Option") awarded to the Optionee under the Eagle Materials Inc. Incentive Plan, as amended and restated July 27, 2004 (the "Plan") on \_\_\_\_\_ (the "Award Date") to purchase from the Company up to but not exceeding in the aggregate \_\_\_\_\_ shares of Class B Common Stock (as defined in the Plan) at a price of \$ \_\_\_\_\_ per share (the "Exercise Price"), such number of shares and such price per share being subject to adjustment as provided in the Plan, and further subject to the following terms and conditions:

1. *Relationship to Plan.*

This Option is subject to all of the terms, conditions and provisions of the Plan and administrative interpretations thereunder, if any, which have been adopted by the Company's Compensation Committee ("Committee") and are in effect on the date hereof. Except as defined herein, capitalized terms shall have the same meanings ascribed to them under the Plan. For purposes of this Option Agreement:

(a) "Capitalization" means stockholders' equity (as such term is reported by the Company in its annual report to stockholders for the fiscal year ended March 31, 2006) plus Net Debt.

(b) "Debt to Capitalization Ratio" means the ratio of: (i) Net Debt; over (ii) Capitalization, as adjusted by the Committee in its reasonable discretion to take into account events and circumstances not contemplated at the time of the award.

(c) "EBIT" for any fiscal year means the Company's earnings before interest and taxes as reported by the Company in its annual report to stockholders for such fiscal year, as adjusted by the Committee in its reasonable discretion to take into account events and circumstances not contemplated at the time of this Award.

(d) "Net Debt" means notes payable, plus long term debt, minus cash and cash equivalents (as such terms are reported by the Company in its annual report to stockholders for the fiscal year ended March 31, 2006).

(e) "Option Shares" means EBIT Option Shares, Operational Excellence Option Shares, and/or Balance Sheet Improvement Option Shares as appropriate.

(f) “Vesting Date” means for the EBIT Option Shares March 31 of any given fiscal year in which the EBIT Option Shares vest, if any, in accordance with Section 2(a) and for the portion of the Option Shares subject to Sections 2(b) and 2(c) March 31, 2006.

(g) “Vesting Period” means the period commencing on the Award Date and ending on March 31, 2008 for the portion of the Option Shares subject to Section 2(a) and March 31, 2006 for the portion of the Option Shares subject to Sections 2(b) and 2(c).

2. *Vesting and Exercise Schedules.*

(a) *EBIT Vesting Schedule.* \_\_\_ of the shares of Class B Common Stock covered by this Option (the “EBIT Options Shares”) shall vest based on the trailing three year average EBIT for the three consecutive fiscal years ending with the applicable fiscal year in accordance with the following schedule:

Vesting Percentage	3 Year Average EBIT Targets at FYE (in Millions)		
	March 31, 2006	March 31, 2007	March 31, 2008
0%	less than \$125.0	less than \$145.0	less than \$170.00
50%	\$125.0	\$145.0	\$170.0
60%	\$129.0	\$150.0	\$175.0
70%	\$133.0	\$155.0	\$180.0
75%	\$135.0	\$157.5	\$182.5
80%	\$137.0	\$160.0	\$185.0
85%	\$139.0	\$162.5	\$187.5
90%	\$141.0	\$165.0	\$190.0
95%	\$143.0	\$167.5	\$192.5
100%	\$145.0	\$170.0	\$195.0

The exact vesting percentage attained from the vesting schedule above shall be calculated based on straight-line interpolation between the percentages shown in the vesting schedule above with fractional percentages rounded to the nearest tenth of one percent; provided, however, in no event shall the EBIT Option Shares vest below fifty percent.

If the three year average EBIT for any fiscal year subsequent to the initial fiscal year within the Vesting Period results in a vesting percentage, the applicable percentage of EBIT Option Shares which shall vest on the applicable Vesting Date shall equal (i) the vesting percentage derived from the vesting schedule above for the given fiscal year end less (ii) the vesting percentage previously attained in prior fiscal year(s), if any. At the end of the Vesting Period, if any EBIT Option Shares remain unvested, such EBIT Option Shares shall be forfeited.

The Optionee must be in continuous employment with the Company or any of its Affiliates or serve as a Director from the Award Date through the Vesting Date in order for the EBIT Option Shares to vest as provided in this Section 2(a).



(b) *Operational Excellence Vesting Schedule.* \_\_\_ shares of Class B Common Stock covered by this Option (the “Operational Excellence Option Shares”) shall vest on March 31, 2006 based on the number of points achieved at the end of the 2006 fiscal year based on the Fiscal Year 2006 Operational Excellence Goals (as described in Exhibit B to this Agreement) in accordance with the following schedule:

Points Achieved	Percentage of Additional Restricted Stock Units Vested
100	100%
94	90%
88	80%
82	70%
76	60%
70	50%
64	40%
58	30%
52	20%
46	10%
40	0%

The determination of the number of points achieved shall be made and approved by the Committee. The Committee shall have the sole authority to determine the number of points achieved for purposes of this schedule, and its determination shall be final, conclusive and binding on all parties. The exact vesting percentage attained from the schedule shall be calculated based on straight-line interpolation between the percentages shown in the schedule with fractional percentages rounded to the nearest tenth of one percent. At the end of the Vesting Period, if any Operational Excellence Option Shares remain unvested, such Operational Excellence Option Shares shall be forfeited.

The Optionee must be in continuous employment with the Company or any of its Affiliates or serve as a Director from the Award Date through the Vesting Date in order for the Operational Excellence Option Shares to vest as provided in this Section 2(b).

(c) *Balance Sheet Improvement Vesting.* \_\_\_\_\_ shares of the Class B Common Stock covered by this Option (the “Balance Sheet Improvement Option Shares”) shall fully vest on March 31, 2006 if the Company achieves a Debt-to-Capitalization Ratio between 0.2 and 0.45 as of March 31, 2006. At the end of the Vesting Period, if any Balance Sheet Improvement Option Shares remain unvested, such Balance Sheet Improvement Option Shares shall be forfeited.

The Optionee must be in continuous employment with the Company or any of its Affiliates or serve as a Director from the Award Date through the Vesting Date in order for the Balance Sheet Improvement Option Shares to vest as provided in this Section 2(c).

(d) *Exercisability.* One-third of the Option Shares that vest in accordance with the provisions of Section 2(a), 2(b) or 2(c) shall become exercisable as soon as administratively practicable following the applicable Vesting Date. The remaining two-thirds

shall become exercisable with one-third on the first anniversary of such Vesting Date and one-third on the second anniversary of such Vesting Date.

The Optionee must be in continuous employment with the Company or any of its Affiliates or serve as a Director from the Award Date through the date the portion of the Option Shares would otherwise become exercisable in order for the Option to become exercisable with respect to additional Option Shares, otherwise such Option Shares shall be forfeited.

To the extent the Option becomes exercisable, such Option may be exercised in whole or in part (at any time or from time to time, except as otherwise provided herein) until expiration of the Option pursuant to the terms of this Agreement or the Plan.

*(e) Calculations.* Calculations of EBIT, the points achieved under the Operational Excellence Goals and the Balance Sheet Improvement criteria shall be made and approved by the Committee. The Committee shall have the sole authority to approve the calculations for purposes of the vesting schedules, and its approval of such calculations shall be final, conclusive, and binding on all parties.

*(f) Change in Control.* This Option shall become fully vested and exercisable, without regard to the limitations set forth in subparagraph (a), (b), (c), or (d) above, provided that the Optionee has been in continuous employment with the Company or any of its Affiliates or served as a Director since the Award Date, upon the occurrence of a Change in Control (as defined in Exhibit A to this Agreement), and fully exercisable (without regard to the limitations set forth in subparagraph (d) above) upon a Change in Control with respect to any Option Shares which have not been theretofore forfeited, unless either (i) the Committee determines that the terms of the transaction giving rise to the Change in Control provide that the Option is to be replaced within a reasonable time after the Change in Control with an option of equivalent value to purchase shares of the surviving parent corporation or (ii) the Option is to be settled in cash in accordance with the last sentence of this subparagraph (f). Upon a Change in Control, pursuant to Section 16 of the Plan, the Company may, in its discretion, settle the Option by a cash payment equal to the difference between the Fair Market Value per share of Class B Common Stock on the settlement date and the Exercise Price for the Option, multiplied by the number of shares then subject to the Option.

### *3. Termination of Option.*

The Option hereby granted shall terminate and be of no force and effect with respect to any shares of Class B Common Stock not previously purchased by the Optionee at the earliest time specified below:

(a) the seventh anniversary of the Award Date;

(b) if Optionee's employment with the Company and its Affiliates (and service as a Director) is terminated by the Company or a Subsidiary for "cause" (as determined by the Committee) at any time after the Award Date, then the Option shall terminate immediately upon such termination of Optionee's employment;

(c) if Optionee's employment with the Company and its Affiliates (and service as a Director) is terminated for any reason other than death or termination for "cause," then the Option shall terminate on the first business day following the expiration of the 90-day period beginning on the date of termination of Optionee's employment; or

(d) if Optionee's employment with the Company and its Affiliates (and service as a Director) is terminated due to the death of the Optionee at any time after the Award Date and while in the employ of the Company or its Affiliates or within 90 days after termination of such employment then the Option shall terminate on the first business day following the expiration of the one-year period which began on the date of Optionee's death.

In the event the Option remains exercisable for a period of time following the date of termination of Optionee's employment, the Option may be exercised during such period of time only to the extent it was exercisable as provided in Section 2 on such date of termination of Optionee's employment. The portion of the Option not exercisable upon termination shall terminate and be of no force and effect upon the date of the Optionee's termination of employment.

#### *4. Exercise of Option.*

Subject to the limitations set forth herein and in the Plan, this Option may be exercised by notice provided to the Company as set forth in Section 5. The payment of the Exercise Price for the Class B Common Stock being purchased pursuant to the Option shall be made (a) in cash, by check or cash equivalent, (b) by tender to the Company, or attestation to the ownership, of Common Stock owned by the Optionee having a Fair Market Value (as determined by the Company without regard to any restrictions on transferability applicable to such Common Stock by reason of federal or state securities laws or agreements with an underwriter for the Company) not less than the Exercise Price, (c) by delivery of a properly executed notice together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System), (d) by such other consideration as may be approved by the Board from time to time to the extent permitted by applicable law, or (e) by any combination thereof. Such notice shall be accompanied by cash or Common Stock in the full amount of all federal and state withholding or other employment taxes applicable to the taxable income of such Participant resulting from such exercise (or instructions to satisfy such withholding obligation by withholding Option Shares in accordance with Section 8). For the purpose of determining the amount, if any, of the purchase price satisfied by payment in Common Stock, such Common Stock shall be valued at its Fair Market Value on the date of exercise.

If the Optionee desires to pay the purchase price for the Option Shares by tendering Common Stock using the method of attestation, the Optionee may, subject to any such conditions and in compliance with any such procedures as the Committee may adopt, do so by attesting to the ownership of Common Stock of the requisite value, in which case the Company shall issue or otherwise deliver to the Optionee upon such exercise a number

of Option Shares equal to the result obtained by dividing (a) the excess of the aggregate Fair Market Value of the total number shares of Class B Common Stock subject to the Option for which the Option (or portion thereof) is being exercised over the purchase price payable in respect of such exercise by (b) the Fair Market Value per Option Share subject to the Option, and the Optionee may retain the shares of Common Stock the ownership of which is attested.

Notwithstanding anything to the contrary contained herein, the Optionee agrees that he will not exercise the Option granted pursuant hereto, and the Company will not be obligated to issue any Option Shares pursuant to this Option Agreement, if the exercise of the Option or the issuance of such shares would constitute a violation by the Optionee or by the Company of any provision of any law or regulation of any governmental authority or any stock exchange or transaction quotation system. The Optionee agrees that, unless the options and shares covered by the Plan have been registered pursuant to the Securities Act of 1933, as amended (the "Act"), the Company may, at its election, require the Optionee to give a representation in writing in form and substance satisfactory to the Company to the effect that he is acquiring such shares for his own account for investment and not with a view to, or for sale in connection with, the distribution of such shares or any part thereof.

If any law or regulation requires the Company to take any action with respect to the shares specified in such notice, the time for delivery thereof, which would otherwise be as promptly as reasonably practicable, shall be postponed for the period of time necessary to take such action.

#### *5. Notices.*

Notice of exercise of the Option must be made in the following manner, using such forms as the Company may from time to time provide:

(a) by electronic means as designated by the Committee, in which case the date of exercise shall be the date when receipt is acknowledged by the Company;

(b) by registered or certified United States mail, postage prepaid, to Eagle Materials Inc., Attention: Secretary, 3811 Turtle Creek, Suite 1100, Dallas, Texas 75219, in which case the date of exercise shall be the date of mailing; or

(c) by hand delivery or otherwise to Eagle Materials Inc., Attention: Secretary, 3811 Turtle Creek, Suite 1100, Dallas, Texas 75219, in which case the date of exercise shall be the date when receipt is acknowledged by the Company.

Notwithstanding the foregoing, in the event that the address of the Company is changed prior to the date of any exercise of this Option, notice of exercise shall instead be made pursuant to the foregoing provisions at the Company's current address.

Any other notices provided for in this Agreement or in the Plan shall be given in writing or by such electronic means, as permitted by the Committee, and shall be deemed effectively delivered or given upon receipt or, in the case of notices delivered by the Company to the Optionee, five days after deposit in the United States mail, postage prepaid, addressed to the

Optionee at the address specified at the end of this Agreement or at such other address as the Optionee hereafter designates by written notice to the Company.

*6. Assignment of Option.*

Except as otherwise permitted by the Committee, the rights of the Optionee under the Plan and this Award Agreement are personal; no assignment or transfer of the Optionee's rights under and interest in this Option may be made by the Optionee otherwise than by will, by beneficiary designation, by the laws of descent and distribution or by a qualified domestic relations order; and this Option is exercisable during his lifetime only by the Optionee.

After the death of the Optionee, exercise of the Option shall be permitted only by the Optionee's executor or the personal representative of the Optionee's estate (or by his assignee, in the event of a permitted assignment) and only to the extent that the Option was exercisable on the date of the Optionee's death.

*7. Stock Certificates.*

Certificates representing the Class B Common Stock issued pursuant to the exercise of the Option will bear all legends required by law and necessary or advisable to effectuate the provisions of the Plan and this Option. The Company may place a "stop transfer" order against shares of the Class B Common Stock issued pursuant to the exercise of this Option until all restrictions and conditions set forth in the Plan or this Agreement and in the legends referred to in this Section 7 have been complied with.

*8. Withholding.*

No certificates representing shares of Class B Common Stock purchased hereunder shall be delivered to or in respect of an Optionee unless the amount of all federal, state and other governmental withholding tax requirements imposed upon the Company with respect to the issuance of such shares of Class B Common Stock has been remitted to the Company or unless provisions to pay such withholding requirements have been made to the satisfaction of the Committee. The Committee may make such provisions as it may deem appropriate for the withholding of any taxes which it determines is required in connection with this Option. The Optionee may pay all or any portion of the taxes required to be withheld by the Company or paid by the Optionee in connection with the exercise of all or any portion of this Option by delivering cash, or, with the Committee's approval, by electing to have the Company withhold shares of Class B Common Stock, or by delivering previously owned shares of Common Stock, having a Fair Market Value equal to the amount required to be withheld or paid. The Optionee must make the foregoing election on or before the date that the amount of tax to be withheld is determined.

*9. Shareholder Rights.*

The Optionee shall have no rights of a shareholder with respect to shares of Class B Common Stock subject to the Option unless and until such time as the Option has been exercised and ownership of such shares of Class B Common Stock has been transferred to the Optionee.

10. *Successors and Assigns.*

This Agreement shall bind and inure to the benefit of and be enforceable by the Optionee, the Company and their respective permitted successors and assigns (including personal representatives, heirs and legatees), except that the Optionee may not assign any rights or obligations under this Agreement except to the extent and in the manner expressly permitted herein.

11. *No Employment Guaranteed.*

No provision of this Option Agreement shall confer any right upon the Optionee to continued employment with the Company or any Subsidiary.

12. *Governing Law.*

This Option Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Texas.

13. *Amendment.*

This Agreement cannot be modified, altered or amended except by an agreement, in writing, signed by both the Company and the Optionee.

**EAGLE MATERIALS INC.**

Date: \_\_\_\_\_ By: \_\_\_\_\_

Name: Steven R. Rowley  
Title: President and CEO

The Optionee hereby accepts the foregoing Option Agreement, subject to the terms and provisions of the Plan and administrative interpretations thereof referred to above.

**OPTIONEE:**

Date: \_\_\_\_\_

Optionee's Address:  
Eagle Materials Inc.  
3811 Turtle Creek Blvd #1100  
Dallas, TX 75219

## Exhibit A

### Change in Control

For the purpose of this Agreement, a “Change of Control” shall mean the occurrence of any of the following events:

(a) The acquisition by any Person of beneficial ownership of securities of the Company (including any such acquisition of beneficial ownership deemed to have occurred pursuant to Rule 13d-5 under the Exchange Act) if, immediately thereafter, such Person is the beneficial owner of (i) 50% or more of the total number of outstanding shares of any single class of Company Common Stock or (ii) 40% or more of the total number of outstanding shares of all classes of Company Common Stock, unless such acquisition is made (a) directly from the Company in a transaction approved by a majority of the members of the Incumbent Board or (b) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company;

(b) Individuals who, as of the date hereof, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (or who is otherwise designated as a member of the Incumbent Board by such a vote) shall be considered as though such individual were a member of the Incumbent Board, except that any such individual shall not be considered a member of the Incumbent Board if his or her initial assumption of office occurs as a result of either an actual or threatened election contest (as such term is used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(c) The consummation of a Business Combination, unless, immediately following such Business Combination, (i) more than 50% of both the total number of then outstanding shares of common stock of the parent corporation resulting from such Business Combination and the combined voting power of the then outstanding voting securities of such parent corporation entitled to vote generally in the election of directors will be (or is) then beneficially owned, directly or indirectly, by all or substantially all of the Persons who were the beneficial owners, respectively, of the outstanding shares of Company Common Stock immediately prior to such Business Combination in substantially the same proportions as their ownership immediately prior to such Business Combination of the outstanding shares of Company Common Stock, (ii) no Person (other than any employee benefit plan (or related trust) of the Company or any corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 40% or more of the total number of then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (iii) at least a majority of the members of the board of directors of the parent corporation resulting from such Business Combination were members of the Incumbent Board immediately prior to the consummation of such Business Combination; or

(d) Approval by the Board and the shareholders of the Company of (i) a complete liquidation or dissolution of the Company or (ii) a Major Asset Disposition (or, if there is no such approval by shareholders, consummation of such Major Asset Disposition) unless, immediately following such Major Asset Disposition, (A) Persons that were beneficial owners of the outstanding shares of Company Common Stock immediately prior to such Major Asset Disposition beneficially own, directly or indirectly, more than 50% of the total number of then outstanding shares of common stock and the combined voting power of the then outstanding shares of voting stock of the Company (if it continues to exist) and of the Acquiring Entity in substantially the same proportions as their ownership immediately prior to such Major Asset Disposition of the outstanding shares of Company Common Stock; (B) no Person (other than any employee benefit plan (or related trust) of the Company or such entity) beneficially owns, directly or indirectly, 40% or more of the then outstanding shares of common stock or the combined voting power of the then outstanding voting securities of the Company (if it continues to exist) and of the Acquiring Entity entitled to vote generally in the election of directors and (C) at least a majority of the members of the Board of the Company (if it continues to exist) and of the Acquiring Entity were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board providing for such Major Asset Disposition.

For purposes of the foregoing,

(i) the term “Person” means an individual, entity or group;

(ii) the term “group” is used as it is defined for purposes of Section 13(d)(3) of the Exchange Act;

(iii) the terms “beneficial owner”, “beneficial ownership” and “beneficially own” are used as defined for purposes of Rule 13d-3 under the Exchange Act;

(iv) the term “Business Combination” means (x) a merger, consolidation or share exchange involving the Company or its stock or (y) an acquisition by the Company, directly or through one or more subsidiaries, of another entity or its stock or assets;

(v) the term “Company Common Stock” shall mean the Common Stock, par value \$.01 per share, of the Company and the Class B Common Stock, par value \$.01 per share, of the Company (or, if the context requires, shall mean either such class);

(vi) the term “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(vii) the phrase “parent corporation resulting from a Business Combination” means the Company if its stock is not acquired or converted in the Business Combination and otherwise means the entity which as a result of such Business Combination owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries;



(viii) the term “Major Asset Disposition” means the sale or other disposition in one transaction or a series of related transactions of 50% or more of the assets of the Company and its subsidiaries on a consolidated basis; and any specified percentage or portion of the assets of the Company shall be based on fair market value, as determined by a majority of the members of the Incumbent Board;

(ix) the term “Acquiring Entity” means the entity that acquires the largest portion of the assets sold or otherwise disposed of in a Major Asset Disposition (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity entitled to vote generally in the election of directors or members of a comparable governing body); and

(x) the phrase “substantially the same proportions,” when used with reference to ownership interests in the parent corporation resulting from a Business Combination or in an Acquiring Entity, means substantially in proportion to the number of shares of Company Common Stock beneficially owned by the applicable Persons immediately prior to the Business Combination or Major Asset Disposition, but is not to be construed in such a manner as to require that the same ratio or number of shares of such parent corporation or Acquiring Entity be issued, paid or delivered in exchange for or in respect of the shares of each class of Company Common Stock.

**Exhibit B**  
**Summary of**  
**Eagle Materials Inc.**  
**FY 2006 Operational Excellence Goals**

**Gypsum Companies**

1. Goal related to combined annual average 1/2" Eagleroc (#1 MSF/Net hour)
  2. Goal related to combined annual average 5/8" Firebloc (#1 MSF/Net hour)
  3. Goal related to combined annual plant efficiencies
  4. Goal related to the commencement of the Georgetown facility by fiscal year end.
  5. Goal related to current and potential synthetic sources for gypsum in North America.
  6. Develop a plan to maximize the payload on all outbound trucks and rail cars of gypsum wallboard.
  7. Goal related to additional gypsum reserves for the Duke facility.
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**Cement Companies**

8. Goal related to combined annual average type I/II clinker production rate.
9. Goal related to combined annual average kiln utilization (based on 8760 available hours).
10. Goal related to timely completion of construction of the 80,000 ton dome for the Illinois Cement expansion project within budget.
11. Goal related to the Illinois Cement expansion project being on budget and on timeline.
12. Continue to develop project echo:
13. Goal related to additional limestone reserves for Illinois Cement.

**Paperboard Company**

14. Goal related to net winder tons/calendar day
-

15. Goal related to annual 54” gypsum facing paper sales.
16. Goal related to quality returns and allowances \$ per ton.
17. Goal related to new boiler completion.

**Concrete and Aggregates Companies**

18. Goal related to new mining equipment for Western Aggregates.
19. Goal related to CER proposal to increase production capacity at Centex Materials Buda quarry.

**Safety — All Companies**

20. Goal related to safety.







