

EAGLE MATERIALS INC  
Form 10-Q/A  
February 09, 2012  
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**United States**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q/A**

**(Amendment No. 1)**

**QUARTERLY REPORT**

**Pursuant to Section 13 or 15(d) of the**

**Securities Exchange Act of 1934**

**For the Quarterly Period Ended**

**September 30, 2011**

**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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

As of November 2, 2011, the number of outstanding shares of common stock was:

Class	Outstanding Shares
Common Stock, \$.01 Par Value	44,899,310

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**EXPLANATORY NOTE**

Eagle Materials Inc., (the Company) is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, which was originally filed with the Securities and Exchange Commission (SEC) on November 4, 2011 (Original Form 10-Q), to revise the previous accounting treatment related to the reversing of a \$3.0 million accrual, which was made in a prior year and was originally recorded as a contra-account in the fixed asset subledger, during the quarter ended June 30, 2011. This amendment to the Original Form 10-Q is being made in response to correspondence received from the SEC. We are restating our financial statements for the six month period ended September 30, 2011 to treat the \$3.0 million as a correction of an error in the prior year, rather than a reduction of cost of goods sold in the quarter ended June 30, 2011. **This restatement had no impact on our earnings before taxes, net earnings or earnings per share for the three month period ended September 30, 2011.** Except for the above reversal of the accrual, the information in this Form 10-Q/A has not been updated to reflect events that occurred after November 4, 2011, the filing date of the Original Form 10-Q. Accordingly, this Form 10-Q/A should be read in conjunction with the Company's filings made with the SEC subsequent to the filing of the Original Form 10-Q. The following sections have been amended and restated as a result of the foregoing:

Part I

Item 1. Financial Statements

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

Item 4. Controls and Procedures

Part II

Item. 6. Exhibits

Except as set forth above, all other information in the Company's Original Form 10-Q remains unchanged. The Company has re-filed the entire Form 10-Q in order to provide more convenient access to the amended information in context.

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**Eagle Materials Inc. and Subsidiaries**

**Form 10-Q/A**

**September 30, 2011**

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## Consolidated Statements of Earnings

(dollars in thousands, except share data)

(unaudited)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2011	2010	2011 (restated) <sup>(1)</sup>	2010
Revenues	\$ 134,819	\$ 132,135	\$ 254,626	\$ 262,929
Cost of Goods Sold	126,102	118,586	241,536	232,949
Gross Profit	8,717	13,549	13,090	29,980
Equity in Earnings of Unconsolidated Joint Venture	7,936	4,160	13,384	10,672
Other Income	115	175	36	892
Operating Earnings	16,768	17,884	26,510	41,544
Corporate General and Administrative	(4,472)	(4,415)	(8,590)	(8,118)
Earnings Before Interest and Taxes	12,296	13,469	17,920	33,426
Interest Expense, Net	(4,557)	(3,148)	(9,142)	(8,438)
Earnings Before Income Taxes	7,739	10,321	8,778	24,988
Income Tax Expense	(1,714)	(691)	(1,946)	(4,831)
Net Earnings	\$ 6,025	\$ 9,630	\$ 6,832	\$ 20,157
<b>EARNINGS PER SHARE:</b>				
Basic	\$ 0.14	\$ 0.22	\$ 0.15	\$ 0.46
Diluted	\$ 0.14	\$ 0.22	\$ 0.15	\$ 0.46
<b>AVERAGE SHARES OUTSTANDING:</b>				
Basic	44,200,291	43,855,326	44,190,220	43,843,912
Diluted	44,325,277	44,169,251	44,433,809	44,200,303
<b>CASH DIVIDENDS PER SHARE:</b>				
	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20

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<sup>(1)</sup> See Note (B) Restatement of Consolidated Financial Statements.

*See notes to unaudited consolidated financial statements.*

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

## Consolidated Balance Sheets

(dollars in thousands)

	September 30, 2011 (unaudited)	March 31, 2011 (restated) <sup>(1)</sup>
<b>ASSETS</b>		
Current Assets -		
Cash and Cash Equivalents	\$ 10,692	\$ 1,874
Accounts and Notes Receivable	64,447	43,855
Inventories	108,156	115,237
Income Tax Receivable	6,688	9,088
Prepaid and Other Assets	2,856	4,572
Total Current Assets	192,839	174,626
Property, Plant and Equipment -	1,122,895	1,115,058
Less: Accumulated Depreciation	(536,057)	(512,228)
Property, Plant and Equipment, net	586,838	602,830
Notes Receivable	5,005	5,326
Investment in Joint Venture	35,545	33,661
Goodwill and Intangible Assets	151,221	151,539
Other Assets	18,685	17,828
	\$ 990,133	\$ 985,810
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities -		
Accounts Payable	\$ 35,285	\$ 30,339
Accrued Liabilities	42,189	40,011
Total Current Liabilities	77,474	70,350
Long-term Debt	285,000	287,000
Other Long-term Liabilities	38,097	37,807
Deferred Income Taxes	128,127	129,139
Total Liabilities	528,698	524,296
Stockholders Equity -		
Preferred Stock, Par Value \$0.01; Authorized 5,000,000 Shares; None Issued		
Common Stock, Par Value \$0.01; Authorized 100,000,000 Shares; Issued and Outstanding 44,899,310 and 44,447,428 Shares, respectively	449	444
Capital in Excess of Par Value	26,882	24,859
Accumulated Other Comprehensive Losses	(2,893)	(2,893)
Retained Earnings	436,997	439,104
Total Stockholders Equity	461,435	461,514

\$ 990,133 \$ 985,810

(1) See Note B Restatement of Consolidated Financial Statements.

*See notes to the unaudited consolidated financial statements.*



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

## Consolidated Statements of Cash Flows

(unaudited dollars in thousands)

	For the Six Months Ended September 30,	
	2011 (restated) <sup>(1)</sup>	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Earnings	\$ 6,832	\$ 20,157
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities -		
Depreciation, Depletion and Amortization	24,683	24,839
Gain on Sale of Property, Plant and Equipment		(485)
Deferred Income Tax Provision	(1,012)	4,157
Stock Compensation Expense	2,293	2,061
Excess Tax Benefits from Share Based Payment Arrangements	(30)	(375)
Equity in Earnings of Unconsolidated Joint Venture	(13,384)	(10,672)
Distributions from Joint Venture	11,500	14,250
Changes in Operating Assets and Liabilities:		
Accounts and Notes Receivable	(20,271)	(4,294)
Inventories	7,081	2,919
Accounts Payable and Accrued Liabilities	5,677	971
Other Assets	2,402	(1,864)
Income Taxes Payable	1,773	(24,701)
Net Cash Provided by Operating Activities	27,544	26,963
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Property, Plant and Equipment Additions	(7,516)	(5,467)
Proceeds from Sale of Property, Plant and Equipment		600
Net Cash Used in Investing Activities	(7,516)	(4,867)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (Decrease) in Bank Credit Facility	(2,000)	7,000
Repayment of Senior Notes		(15,000)
Dividends Paid to Stockholders	(8,975)	(8,797)
Proceeds from Stock Option Exercises	128	911
Shares Redeemed to Settle Employee Taxes on Stock Compensation	(393)	
Excess Tax Benefits from Share Based Payment Arrangements	30	375
Net Cash Used in Financing Activities	(11,210)	(15,511)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	8,818	6,585
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	1,874	1,416
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$ 10,692	\$ 8,001

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<sup>(1)</sup> See Note B Restatement of Consolidated Financial Statements.

*See notes to the unaudited consolidated financial statements.*

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**Eagle Materials Inc. and Subsidiaries**

**Notes to Unaudited Consolidated Financial Statements**

**September 30, 2011**

**(A) BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements as of and for the three and six month periods ended September 30, 2011 include the accounts of Eagle Materials Inc. and its majority owned subsidiaries (the Company, us or we) and have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on May 26, 2011.

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

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

We evaluated all events or transactions that occurred after September 30, 2011 through the filing of these financial statements.

**Recent Accounting Pronouncements**

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

**(B) RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS**

During January, 2012, we determined that our previous treatment of a reversal of a \$3.0 million accrual, which related to a prior year, should have been treated as a correction of an error in the prior period rather than a reduction of Cost of Goods Sold during the three month period ended June 30, 2011, as it was previously reported. The accrual was originally recorded in fiscal 2001 as a contra-account in the fixed asset subledger, and related to costs to improve certain manufacturing equipment at our Duke, Oklahoma gypsum wallboard facility in connection with our purchase of the facility. The amount was recorded in order to properly state the acquired assets at fair value; however the accrual was not released as the original assets were depreciated over their useful life. These assets were fully depreciated at March 31, 2011; therefore, the accrual was no longer necessary.

We have restated our consolidated financial statements to reflect this reversal of the \$3.0 million accrual as an adjustment to prior year retained earnings. **This restatement did not impact the Company's cash flows provided by operating activities for the three or six month periods ended September 30, 2011.** A summary of the changes to our financial statements follows:

**Changes in Beginning Retained Earnings:**

Retained Earnings at Beginning of Period	437,154
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Adjustment for Reversal of Accrual 1,950

Retained Earnings at Beginning of Period 439,104

In addition to the above adjustment, we increased our property, plant and equipment and deferred tax liability accounts, respectively, as of March 31, 2011.

### Changes in the Consolidated Balance Sheet:

	As previously reported	September 30, 2011	
		Adjustment (dollars in thousands)	As Restated
Accrued Expenses	\$ (42,939)	\$ 750	\$ (42,189)
Deferred Income Taxes	(127,077)	(1,050)	(128,127)
Retained Earnings	(437,297)	300	(436,997)

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The difference between the adjustment to deferred income taxes and accrued expenses relates to the impact of the adjustment to the fiscal 2012 effective tax rate.

### Changes in the Consolidated Statement of Earnings:

	For the six months ended September 30, 2011		
	As previously reported	Adjustment	As Restated
(dollars in thousands, except per share date)			
Cost of Goods Sold	\$ 238,536	\$ 3,000	\$ 241,536
Gross Profit	16,090	(3,000)	13,090
Operating Earnings	29,510	(3,000)	26,510
Earnings Before Interest and Income Taxes	20,920	(3,000)	17,920
Earnings Before Income Taxes	11,778	(3,000)	8,778
Income Taxes	(2,696)	750	(1,946)
Net Earnings	9,082	(2,250)	6,832
Earnings per Share - Basic	0.21	(0.06)	0.15
Earnings per Share - Diluted	0.20	(0.05)	0.15

### (C) CASH FLOW INFORMATION - SUPPLEMENTAL

Cash payments made for interest were \$8.9 million and \$9.0 million for the six months ended September 30, 2011 and 2010, respectively. Net payments made for federal and state income taxes during the six months ended September 30, 2011 and 2010, were \$1.2 million and \$33.5 million, respectively.

### (D) COMPREHENSIVE INCOME

Comprehensive income for the six month periods ended September 30, 2011 and 2010 was identical to net income for the same periods.

As of September 30, 2011, we had an accumulated other comprehensive loss of \$2.9 million, in connection with recognizing the difference between the fair value of the pension assets and the projected benefit obligation.

**Table of Contents****(E) ACCOUNTS AND NOTES RECEIVABLE**

Accounts and notes receivable have been shown net of the allowance for doubtful accounts of \$5.0 million and \$4.6 million at September 30, 2011 and March 31, 2011, respectively. We perform ongoing credit evaluations of our customers' financial condition and generally require no collateral from our customers. The allowance for non-collection of receivables is based upon analysis of economic trends in the construction industry, detailed analysis of the expected collectability of accounts receivable that are past due and the expected collectability of overall receivables. We have no significant credit risk concentration among our diversified customer base.

We had notes receivable totaling approximately \$6.2 million at September 30, 2011, of which approximately \$1.2 million has been classified as current and presented with accounts receivable on the balance sheet. We lend funds to certain companies in the ordinary course of business, and the notes bear interest, on average, at the prime rate plus 1.5%. Remaining unpaid amounts, plus accrued interest, mature on various dates between 2011 and 2017. The notes are collateralized by certain assets of the borrowers, namely property and equipment and are generally payable monthly. We monitor the credit risk of each borrower by focusing on the timeliness of payments, review of credit history and credit metrics and interaction with the borrowers. At September 30, 2011, approximately \$0.6 million of our allowance for doubtful accounts is related to our notes receivable.

**(F) STOCKHOLDERS EQUITY**

A summary of changes in stockholders' equity follows:

	For the Six Months Ended September 30, 2011 (restated) <sup>(1)</sup> (dollars in thousands)	
<b>Common Stock</b>		
Balance at Beginning of Period	\$	444
Stock Option Exercises		5
Balance at End of Period	\$	449
<b>Capital in Excess of Par Value</b>		
Balance at Beginning of Period		24,859
Stock Compensation Expense		2,293
Shares Redeemed to Settle Employee Taxes		(393)
Stock Option Exercises		123
Balance at End of Period		26,882
<b>Retained Earnings</b>		
Balance at Beginning of Period		437,154
Adjustment for Reversal of Accrual (See Footnote B)		1,950
Balance at Beginning of Period		439,104
Dividends Declared to Stockholders		(8,939)
Net Earnings		6,832
Balance at End of Period		436,997
<b>Accumulated Other Comprehensive Loss -</b>		
Balance at Beginning of Period		(2,893)

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Balance at End of Period (2,893)

<b>Total Stockholders Equity</b>	\$	461,435
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<sup>(1)</sup> See Note B Restatement of Consolidated Financial Statements.

There were no open market share repurchases during the three and six month periods ended September 30, 2011. As of September 30, 2011, we have authorization to purchase an additional 717,300 shares.

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

	As of	
	September 30, 2011	March 31, 2011
	(dollars in thousands)	
Raw Materials and Material-in-Progress	\$ 37,567	\$ 35,118
Finished Cement	7,191	11,540
Gypsum Wallboard	6,573	6,347
Aggregates	11,797	12,419
Paperboard	2,090	5,274
Repair Parts and Supplies	39,486	41,659
Fuel and Coal	3,452	2,880
	\$ 108,156	\$ 115,237

**(H) ACCRUED EXPENSES**

Accrued expenses consist of the following:

	As of	
	September 30, 2011 (restated) <sup>(1)</sup>	March 31, 2011
	(dollars in thousands)	
Payroll and Incentive Compensation	\$ 6,546	\$ 7,712
Benefits	8,036	7,988
Interest	7,003	7,003
Insurance	6,294	6,639
Property Taxes	5,507	4,033
Other	8,803	6,636
	\$ 42,189	\$ 40,011

<sup>(1)</sup> See Note (B) Restatement of Consolidated Financial Statements.



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

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

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2011	2010	2011	2010
Weighted-Average Shares of Common Stock Outstanding	44,200,291	43,855,326	44,190,220	43,843,912
Common Equivalent Shares:				
Assumed Exercise of Outstanding Dilutive Options	330,646	653,322	798,081	1,155,453
Less: Shares Repurchased from Assumed Proceeds of Assumed Exercised Options	(224,231)	(444,133)	(656,517)	(893,527)
Restricted Shares	18,571	104,736	102,025	94,465
Weighted-Average Common and Common Equivalent Shares Outstanding	44,325,277	44,169,251	44,433,809	44,200,303
Shares Excluded Due to Anti-dilution Effects	3,340,271	2,942,059	2,772,812	2,392,784

**(J) PENSION AND EMPLOYEE BENEFIT PLANS**

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

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

	For the Three Months Ended September 30,		For the Six Months ended September 30,	
	2011	2010	2011	2010
	(dollars in thousands)		(dollars in thousands)	
Service Cost - Benefits Earned During the Period	\$ 139	\$ 135	\$ 278	\$ 270
Interest Cost of Benefit Obligations	265	256	530	512
Expected Return on Plan Assets	(291)	(206)	(582)	(412)
Recognized Net Actuarial Loss	86	194	172	388
Amortization of Prior-Service Cost	20	32	40	64
Net Periodic Pension Cost	\$ 219	\$ 411	\$ 438	\$ 822

**(K) 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, we will, when appropriate, include certain items treated as discrete events to arrive at an estimated overall tax amount. The effective tax rate for the six months ended September 30, 2011 was approximately 22%.

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

On January 8, 2004, our stockholders approved a new incentive plan (the Plan ) that combined and amended the two previously existing stock option plans. In August 2009, our shareholders approved an amendment to the Plan which, among other things, increased the number of shares available for award under the Plan by 3 million shares. Under the terms of the Plan, we can issue equity awards, including stock options, restricted stock units ( RSUs ), restricted stock and stock appreciation rights (collectively, the Equity Awards ) to employees of the Company and members of the Board of Directors. The Compensation Committee of our Board of Directors specifies the terms for grants of Equity Awards under the Plan.

*Long-Term Compensation Plans -*

*Options.* In June 2011, the Compensation Committee of the Board of Directors approved an incentive equity award of an aggregate of 352,829 stock options pursuant to the Plan to certain individuals that vest ratably over a three year period (the Fiscal 2012 Employee Stock Option Grant ). The options have a term of ten years from the date of grant. In August 2011, we granted 121,295 options to members of the Board of Directors (the Fiscal 2012 Board of Directors Grant ). Options granted under the Fiscal 2012 Board of Directors Grant vested immediately, and can be exercised from the date of grant until their expiration at the end of ten years. The Fiscal 2012 Employee Stock Option Grant and Fiscal 2012 Board of Directors Grant were both valued at the grant date using the Black-Scholes option pricing model.

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The weighted-average assumptions used in the Black-Scholes model to value the option awards in fiscal 2012 are as follows:

Dividend Yield	2.0%
Expected Volatility	41.9%
Risk Free Interest Rate	2.5%
Expected Life	8.0 years

Stock option expense for all outstanding stock option awards totaled approximately \$0.3 million and \$0.6 million for the three and six month periods ended September 30, 2011, respectively, and \$0.4 million and \$1.2 million for the three and six month periods ended September 30, 2010, respectively. The expense for the three month period ended September 30, 2011 reflects a credit of \$1.3 million resulting from our updated assessment of future satisfaction of performance conditions associated with certain stock option grants. At September 30, 2011, there was approximately \$4.7 million of unrecognized compensation cost related to outstanding stock options, net of estimated forfeitures, which is expected to be recognized over a weighted-average period of 2.5 years.

The following table represents stock option activity for the six month period ended September 30, 2011:

	Number of Shares	Weighted- Average Exercise Price
Outstanding Options at Beginning of Period	3,323,786	\$ 35.60
Granted	474,124	\$ 26.41
Exercised	(8,751)	\$ 14.60
Cancelled	(65,279)	\$ 34.61
<b>Outstanding Options at End of Period</b>	<b>3,723,880</b>	<b>\$ 34.50</b>
Options Exercisable at End of Period	1,913,049	
<b>Weighted-Average Fair Value of Options Granted during the Period</b>	<b>\$ 10.29</b>	

The following table summarizes information about stock options outstanding at September 30, 2011:

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Number of Shares Outstanding	Average Remaining Contractual Life	Weighted - Average Exercise Price	Number of Shares Outstanding	Weighted - Average Exercise Price
\$ 11.56 - \$ 13.43	321,552	1.25	\$ 12.34	321,552	\$ 12.34
\$ 23.17 - \$ 30.74	1,693,473	5.81	\$ 26.88	1,243,917	\$ 26.44
\$ 34.09 - \$ 40.78	310,170	2.17	\$ 37.88	279,770	\$ 38.04
\$ 47.53 - \$ 62.83	1,398,685	2.78	\$ 48.06	67,810	\$ 58.46
	<b>3,723,880</b>	<b>3.97</b>	<b>\$ 34.50</b>	<b>1,913,049</b>	<b>\$ 26.90</b>

At September 30, 2011, there was no aggregate intrinsic value for both outstanding and exercisable options. The total intrinsic value of options exercised during the six month period ended September 30, 2011 was approximately \$0.1 million.



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*Restricted Stock Units.* Expense related to RSUs was approximately \$0.4 million and \$0.7 million for the three and six month periods ended September 30, 2011, respectively, and \$0.2 million and \$0.3 million for the three and six month periods ended September 30, 2010, respectively. At September 30, 2011, there was approximately \$2.6 million of unearned compensation from RSUs, net of estimated forfeitures, which will be recognized over a weighted-average period of 1.7 years.

*Restricted Stock.* In June 2011, the Compensation Committee also approved the granting of an aggregate of 412,164 shares of restricted stock to certain key employees at both the corporate and subsidiary level that will be earned if our ten year average return on invested capital exceeds 12% at March 31, 2012. If this criterion is not met, all of the shares will be forfeited. If the criterion is met, restrictions on the shares will lapse ratably over five years, with the first fifth lapsing immediately, and the remaining restrictions lapsing on March 31, 2013 through 2016. The value of the restricted shares, net of estimated forfeitures, is being expensed over a five year period. Expense related to restricted shares was \$0.8 million and \$1.1 million for the three and six month periods ended September 30, 2011, respectively, and \$0.3 million and \$0.5 million for the three and six month periods ended September 30, 2010, respectively. At September 30, 2011, there was approximately \$16.3 million of unearned compensation from restricted stock, net of estimated forfeitures, which will be recognized over a weighted-average period of 5.5 years.

The number of shares available for future grants of stock options, restricted stock units, stock appreciation rights and restricted stock under the Plan was 1,732,614 at September 30, 2011.

**(M) LONG-TERM DEBT**

Long-term debt consists of the following:

	As of	
	September 30, 2011	March 31, 2011
	(dollars in thousands)	
Bank Credit Facility	\$	\$ 2,000
Senior Notes	285,000	285,000
Long-term Debt	\$ 285,000	\$ 287,000

*Bank Credit Facility -*

On December 16, 2010, we amended our existing credit facility, modifying certain financial and other covenants and extending the maturity date to 2015. The principal balance of the existing facility was repaid, and replaced with a new \$300.0 million credit agreement ( the Bank Credit Facility ). The Bank Credit Facility expires on December 16, 2015. Borrowings under the Bank Credit Facility are guaranteed by all major operating subsidiaries of the Company. At the option of the Company, outstanding principal amounts on the Bank Credit Facility bear interest at a variable rate equal to (i) LIBOR, plus an agreed margin (ranging from 100 to 225 basis points), which is to be established quarterly based upon the Company's ratio of consolidated EBITDA, which is defined as earnings before interest, taxes, depreciation and amortization, to its consolidated indebtedness, or (ii) an alternative 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 0 to 125 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. The Bank Credit Facility contains customary covenants that restrict our ability to incur additional debt, encumber our assets, sell assets, make or enter into certain investments, loans or guaranties and enter into sale and leaseback arrangements. The Bank Credit Facility also requires us to maintain a consolidated funded indebtedness ratio (consolidated indebtedness to consolidated earnings before interest, taxes, depreciation, amortization and other non-cash deductions) of 3.5 or less and an interest coverage ratio (consolidated earnings before interest, taxes, depreciation, amortization and other non-cash deductions to

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interest expense) of at least 2.5. The Bank Credit Facility also limits our ability to make certain restricted payments, such as paying cash dividends; however, there are several exceptions to this restriction, including: (i) the Company may pay cash dividends in an aggregate amount of up to \$50.0 million each fiscal year; and (ii) the Company may make restricted payments not otherwise permitted so long as no default would result therefrom and our consolidated funded indebtedness ratio does not exceed 3.0.

The Bank Credit Facility has a \$50.0 million letter of credit facility. Under the letter of credit facility, the Company pays a fee at a per annum rate equal to the applicable margin for Eurodollar loans in effect from time to time plus a one-time letter of credit fee in an amount equal to 0.125% of the initial stated amount. At September 30, 2011, we had \$10.2 million of letters of credit outstanding. We had \$289.8 million of borrowings available under the Bank Credit Facility at September 30, 2011.

*Senior Notes -*

We entered into a Note Purchase Agreement on November 15, 2005 (the 2005 Note Purchase Agreement) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2005A Senior Notes (the Series 2005A Senior Notes) in a private placement transaction. The Series 2005A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in three tranches on November 15, 2005. Since entering into the 2005 Note Purchase Agreement, we have repurchased \$22.0 million in principal of the Series 2005A Senior Notes during prior periods. Following these repurchases, the amounts outstanding for each of the three tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche A	\$ 38.6 million	November 15, 2012	5.25%
Tranche B	\$ 77.2 million	November 15, 2015	5.38%
Tranche C	\$ 62.2 million	November 15, 2017	5.48%

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

We entered into an additional Note Purchase Agreement on October 2, 2007 (the 2007 Note Purchase Agreement) related to our sale of \$200 million of senior, unsecured notes, designated as Series 2007A Senior Notes (the Series 2007A Senior Notes) in a private placement transaction. The Series 2007A Senior Notes, which are guaranteed by substantially all of our subsidiaries, were sold at par and issued in four tranches on October 2, 2007. Since entering into the 2007 Note Purchase Agreement, we have repurchased \$93.0 million in principal of the Series 2007A Senior Notes during prior periods. Following the repurchase, the amounts outstanding for each of the four tranches are as follows:

	Principal	Maturity Date	Interest Rate
Tranche A	\$ 9.5 million	October 2, 2014	6.08%
Tranche B	\$ 11.0 million	October 2, 2016	6.27%
Tranche C	\$ 50.0 million	October 2, 2017	6.36%
Tranche D	\$ 36.5 million	October 2, 2019	6.48%

Interest for each tranche of Notes is payable semi-annually on April 2 and October 2 of each year until all principal is paid for the respective tranche.

Our obligations under the 2005 Note Purchase Agreement and the 2007 Note Purchase Agreement (collectively referred to as the Note Purchase Agreements) and the Series 2005A Senior Notes and the Series 2007A Senior Notes (collectively referred to as the Senior Notes) are equal in right of payment with all other senior, unsecured debt of the Company, including our debt under the Bank Credit Facility. The Note Purchase Agreements contain customary restrictive covenants, including covenants that place limits on our ability to encumber our assets, to incur additional debt, to sell assets, or to merge or consolidate with third parties, as well as certain cross covenants with the Bank Credit Facility. We were in compliance with all financial ratios and covenants at September 30, 2011.

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Pursuant to a Subsidiary Guaranty Agreement, substantially all of our subsidiaries have guaranteed the punctual payment of all principal, interest, and Make-Whole Amounts (as defined in the Note Purchase Agreements) on the Senior Notes and the other payment and performance obligations of the Company contained in the Senior Notes and in the Note Purchase Agreements. We are permitted, at our option and without penalty, to prepay from time to time at least 10% of the original aggregate principal amount of the Senior Notes at 100% of the principal amount to be prepaid, together with interest accrued on such amount to be prepaid to the date of payment, plus a Make-Whole Amount. The Make-Whole Amount is computed by discounting the remaining scheduled payments of interest and principal of the Senior Notes being prepaid at a discount rate equal to the sum of 50 basis points and the yield to maturity of U.S. treasury securities having a maturity equal to the remaining average life of the Senior Notes being prepaid.

On August 31, 2011, we entered into an Uncommitted Master Shelf Agreement (the Shelf Agreement) with John Hancock Life Insurance Company (U.S.A.) ( Hancock ). The Shelf Agreement provides the terms under which the Company may offer up to \$75 million of its senior unsecured notes for purchase by Hancock or Hancock's affiliates that become bound by the Shelf Agreement (collectively, Purchasers). The Shelf Agreement does not obligate the Company to sell, or the Purchasers to buy, any such notes, and has a term of two years. We have not sold any notes pursuant to the Shelf Agreement as of September 30, 2011.

**(N) COMMITMENTS AND CONTINGENCIES**

We have certain deductible limits under our workers' compensation and liability insurance policies for which reserves are established based on the undiscounted estimated costs of known and anticipated claims. We have entered into standby letter of credit agreements relating to workers compensation and auto and general liability self-insurance. At September 30, 2011, we had contingent liabilities under these outstanding letters of credit of approximately \$10.2 million.

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

	As of and For the Three Months Ended September 30, 2011      2010 (dollars in thousands)		As of and For the Six Months Ended September 30, 2011      2010 (dollars in thousands)	
Accrual Balances at Beginning of Period	\$ 6,264	\$ 6,448	\$ 6,639	\$ 6,384
Insurance Expense Accrued	187	792	1,153	1,546
Payments	(157)	(394)	(1,498)	(1,084)
Accrual Balance at End of Period	\$ 6,294	\$ 6,846	\$ 6,294	\$ 6,846

In the ordinary course of business, we execute contracts involving indemnifications that are standard in the industry and indemnifications specific to a transaction such as sale of a business. These indemnifications 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; construction contracts and financial matters. While the maximum amount to which the Company may be exposed under such agreements cannot be estimated, it is the opinion of management that these indemnifications are not expected to have a material adverse effect on our consolidated financial position or results of operations. We currently have no outstanding guarantees.

We are currently contingently liable for performance under \$10.3 million in performance bonds required by certain states and municipalities, and their related agencies. The bonds are principally for

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certain reclamation obligations and mining permits. We have indemnified the underwriting insurance company against any exposure under the performance bonds. In our past experience, no material claims have been made against these financial instruments.

The Internal Revenue Service (the "IRS") completed the examination of our federal income tax returns for all of the fiscal years ended March 31, 2001 through 2006. The IRS issued Exam Reports and Notices of Proposed Adjustment on November 9, 2007 for the examination of the 2001, 2002 and 2003 tax years, and on February 5, 2010 for the examination of the 2004, 2005 and 2006 tax years, in which it proposes to deny certain depreciation deductions claimed by us with respect to assets acquired by us from Republic Group LLC in November 2000 (the "Republic Assets"). The examination of our federal income tax return for fiscal years ended March 31, 2007 through March 31, 2011 is currently in progress.

In June 2010, we received a Notice of Deficiency ("Notice") of \$71.5 million of taxes and penalties for the fiscal years ended March 31, 2001 through 2006, inclusive, related to the IRS audit of the Republic Asset Acquisition. The Notice was in substantial agreement with our financial accruals; including interest. The total amount related to the Notice, including interest, was approximately \$98.7 million, of which \$75 million had previously been deposited with the IRS. We deposited the remaining \$23.7 million with the IRS in July 2010 and asked the IRS to apply all \$98.7 million of deposits to the payment of the tax, penalties and interest. Subsequent review of the IRS interest billing produced a refund of \$0.8 million reducing the net outlay to \$97.9 million. On May 4, 2011 we filed a lawsuit in Federal District Court to recover the \$97.9 million of taxes, penalties and interest paid to the IRS.

In the event we reach a settlement through negotiation or in the courts, we will reverse any amounts in excess of the settlement through the Consolidated Statement of Earnings. At this time, we are unable to predict with certainty the ultimate outcome or how much of the amounts paid for tax, interest, and penalties to the IRS and state taxing authorities will be recovered, if any.

We have various litigation, commitments and contingencies in the ordinary course of business. Management believes that none of the litigation in which it or any subsidiary is currently involved is likely to have a material adverse effect on our consolidated financial condition or results of operations.

## **(O) 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: Cement, Gypsum Wallboard, Recycled Paperboard, and Concrete and Aggregates, with Gypsum Wallboard and Cement being our principal lines of business. These operations are conducted in the U.S. and include the mining of limestone and the manufacture, production, distribution and sale of Portland cement (a basic construction material which is the essential binding ingredient in concrete), the mining of gypsum and the manufacture and sale of gypsum wallboard, the manufacture and sale of recycled paperboard to the gypsum wallboard industry and other paperboard converters, the sale of readymix concrete and the mining and sale of aggregates (crushed stone, sand and gravel). 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, eleven cement distribution terminals, five gypsum wallboard plants, including the plant temporarily idled in Bernalillo, N.M., a gypsum wallboard distribution center, a recycled paperboard mill, nine 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 U.S. Concrete and aggregates are sold to local readymix producers and paving contractors in the Austin, Texas area and northern California.



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

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

	For the Three Months Ended September 30, 2011		For the Six Months Ended September 30, 2011	
	2011	2010	2011	2010
	(dollars in thousands)		(dollars in thousands)	
<b>Revenues -</b>				
Cement	\$ 72,554	\$ 67,813	\$ 132,698	\$ 130,275
Gypsum Wallboard	50,981	50,314	102,323	108,514
Paperboard	31,737	29,204	60,413	57,928
Concrete and Aggregates	13,882	12,940	25,782	24,263
Sub-total	169,154	160,271	321,216	320,980
Less: Intersegment Revenues	(11,875)	(10,208)	(22,736)	(21,283)
Net Revenues, including Joint Venture	157,279	150,063	298,480	299,697
Less: Joint Venture	(22,460)	(17,928)	(43,854)	(36,768)
Net Revenues	\$ 134,819	\$ 132,135	\$ 254,626	\$ 262,929

	For the Three Months Ended September 30, 2011		For the Six Months Ended September 30, 2011	
	2011	2010	2011	2010
	(dollars in thousands)		(dollars in thousands)	
<b>Intersegment Revenues -</b>				
Cement	\$ 1,202	\$ 1,164	\$ 2,241	\$ 2,156
Paperboard	10,452	8,857	20,134	18,820
Concrete and Aggregates	221	187	361	307
	\$ 11,875	\$ 10,208	\$ 22,736	\$ 21,283

<b>Cement Sales Volume (M Tons) -</b>				
Wholly owned Operations	588	576	1,037	1,074
Joint Venture	229	199	454	403
	817	775	1,491	1,477

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For the Three Months  
Ended September 30,

(dollars in thousands)

in the Consolidated Balance Sheets in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The allocat

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-K for the year ended December 31, 2014. The purchase price allocation remains open and may be adjusted as a result of the finalization

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s in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The purchase price allocation remains open and

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er 30, 2015 remain unchanged from the balances reflected in the Consolidated Balance Sheets in the Company's Annual Report on Form

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certain circumstances. If such circumstances are met, the Company may obtain the additional borrowings under the Revolving Credit Facility of \$16 million if the pro forma leverage ratio is less than or equal to 2.25 to 1.00. As of September 30, 2015 and December 31, 2014, the fixed charge

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...e realized upon reversal of deductible temporary differences and the utilization of net operating loss and tax credit carryforwards.  
...n, the projected future utilization of foreign tax credit carryforwards, the history of utilizing all deferred tax assets including net operati

...esolved or settled within the next twelve months.

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to previously sold operations.

ons regarding those issues with all relevant parties and is working diligently to resolve those issues in a manner that will be reasonable

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s and build business relationships. Viad's retail shopping center customers include major developers, owners and management compan

Glacier National Park.

late development projects, both from a valuation and return perspective.

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es, impairment charges or recoveries, and the effects of accounting changes and discontinued operations. Because Adjusted EBITDA, A

ble GAAP financial measure may be materially different from the corresponding non-GAAP financial measure.

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Percentage Change

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Acquisitions<sup>(1)</sup>

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\$	1,932

\$	—
470	
\$	470

Acquisitions<sup>(1)</sup>

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1,932	
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\$	470



Acquisitions

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Acquisitions<sup>(2)</sup>

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\$ 4,597

\$ 1,734

% Change

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nting standards regarding the realization of those assets. Accordingly, Viad recorded a tax benefit of \$10.1 million to income tax expen

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customers, consumer demand patterns, labor relations, purchasing decisions related to customer demand for exhibition and event servi

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translation losses recorded in stockholders' equity of \$10.7 million as of September 30, 2015 and gains of \$12.4 million as of December

FX Impact (in t

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Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

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