XELR8 HOLDINGS, INC.
Form S-3/A
July 13, 2007
As filed with the Securities and Exchange Commission on July 13, 2007

Registration No. 333-144340

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2 to

Form S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

XELR8 Holdings, Inc.

(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	**84-1575085** (I.R.S. Employer Identification Number)

480 S. Holly Street
Denver, Colorado 80246
(303) 316-8577

(Address, including zip code, and telephone number,
including area code, of registrant s principal executive offices)

John D. Pougnet
Chief Executive Officer
XELR8 Holdings, Inc.
480 S. Holly Street
Denver, Colorado 80246
(303) 316-8577

(Name, address, including zip code, and telephone number,
including area code, of agent for service)

Copies to:

Gary A. Agron

Law Office of Gary A. Agron

5445 DTC Parkway, Suite 520,
Greenwood Village, Colorado 80111

(303) 770-7254

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. o

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered**	**Proposed maximum offering price per unit**	**Aggregate offering price**	**Amount of registration fee**
Common Stock $.001 Par Value	1,300,000 shares	$ 1.85(1)	$ 2,405,000	$ 73.84
Common Stock $.001 Par Value Underlying the Common Stock Purchase Warrants	1,055,000 Shares	$ 1.85(1)	$ 1,951,750	$ 59.92
Totals			$ 4,356,750	$ 133.76

(1) Estimated solely for the purposes of calculating the registration fee pursuant to Section 6(b) of the Securities Act of 1933 and computed pursuant to Rule 457(c) promulgated under the Securities Act of 1933 based upon the closing price of $1.85 per share of the registrant s common stock on July 2, 2007 on the American Stock Exchange.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Preliminary Prospectus Dated July 13, 2007

THE INFORMATION CONTAINED IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING SHAREHOLDERS MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT COVERING THE SECURITIES AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

Subject to Completion

XELR8 Holdings, Inc.
1,300,000 Common Stock Shares
1,055,000 Shares of Common Stock Underlying Common Stock Purchase Warrants

This prospectus relates to the public offering by the selling shareholders of up to 1,300,000 shares of common stock and 1,055,000 shares of common stock underlying Class E and Class F common stock purchase warrants. None of the selling shareholders are an officer, director or 5% or greater shareholder of our company.

We will not receive any proceeds from the sale of the shares of common stock offered by the selling shareholders. Any funds we receive upon exercise of the 1,055,000 warrants will be added to our working capital.

Our common stock is traded on the American Stock Exchange under the symbol BZI On July 12, 2007, the last reported sale price of the common stock was $1.80 per share.

See Risk Factors beginning at page 5 to read about certain factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2007

TABLE OF CONTENTS

ABOUT US

We develop, sell, market and distribute nutritional supplement products primarily through a direct sales or network marketing system in which independent distributors sell our products, as well as purchase them for their own personal use. We also sell our products directly to professional and Olympic athletes and to professional sports teams.

We formulated our products in 2000 and 2001 for sale to professional and Olympic athletes. We launched our sales and marketing programs to the general public in early 2002 through our internal sales force targeting specialty retail stores, health clubs and personal trainers. During 2003, we refocused our marketing and sales strategy on direct selling through independent distributors. We believe, based upon our sales experience in 2001 and 2002, our products can be more effectively sold through the face-to-face sales method afforded by direct selling. During 2005, we formulated a new line of products that would have a wider appeal to the general public, as they were more functional foods than nutritional supplements, and began marketing them through our existing independent distributors in the latter part of 2005. In conjunction with this, we rebranded the network marketing company and all the products with the name of XELR8 WHAT MOVES YOU. In January 2007 we launched our latest product offering, Bazi , a dietary supplement drink.

We maintain our principal executive offices at 480 South Holly Street, Denver, Colorado 80246, and our telephone number is (303) 316-8577. Our website is located at http://www.XELR8.com. The information on our website does not constitute a part of this prospectus.

ABOUT OUR SELLING SHAREHOLDERS
AND THE SECURITIES BEING REGISTERED

On May 24, 2007, we completed a private sale of 1,000,000 units of our securities. Each unit consisted of one share of our common stock, one-half of one Class E common stock purchase warrant and one-half of one Class F common stock purchase warrant, for a total of 1,000,000 common shares, 500,000 Class E warrants to purchase common stock , (the E Warrants) and 500,000 Class F warrants to purchase common stock, (the F Warrants). In addition to the securities sold, we issued 55,000 warrants to purchase common stock to the selling agents in the private sale (Selling Agent Warrants). In addition, one of our principal stockholders sold 300,000 shares of his common stock to the selling shareholders.

The names of the 16 selling shareholders and the number of shares of common stock and warrants owned by each of them is set forth under Selling Shareholders. The prospectus registers for resale 1,300,000 shares of common stock and 1,055,000 shares of common stock underlying the Class E and F warrants. There are no officers, directors or 10 percent shareholders selling. Additionally, there are no NASD members selling, except, Matthew Balk, Joseph Reda, Daniel Schneiderman, Matt Gohd, John P Green, Brian Herman, Robert Dombrowski, and James StClair. Michael S. Liss and Jason T. Adelman, the Managing Members of Cipher 06 LLC, share voting and investment control over the shares. Michael S. Liss and Jason T. Adelman are Managing Directors of Burnham Hill Partners. Burnham Hill Partners is a division of Pali Capital, Inc., a member firm of the NASD.

Class E Warrants

Description of Warrants

Each entitles the holder to purchase one share of common stock for $2.00 per share at anytime until May 23, 2012.

Redemption of Warrants

At any time after the effective date of this registration statement, we may redeem some or all of the warrants at a price of $0.01 per warrant (subject to adjustment), upon 15 days notice so long as the last reported sales price of the common stock has been at least $4.50 for 20 consecutive trading days ending on the day on which notice is given. No other form of notice by publication or otherwise will be required. If we call any warrants for redemption, they will be exercisable until the close of business on the business day next preceding the specified redemption date.

Exercise of Warrants

A warrant holder may exercise our warrants at anytime from time of issue and if the shares of common stock underlying these warrants are qualified for sale under the securities laws of the state in which the holder resides. We are required to use our best efforts to maintain a current prospectus relating to such shares of our common stock at all times when the market price of our common stock exceeds the exercise price of the warrants until the expiration date of the warrants, although there can be no assurance that we will be able to do so. The warrants may be exercised by delivering to our office the applicable warrant certificate on or prior to the expiration date or the redemption date, as applicable, with the form on the reverse side of the certificate executed as indicated, accompanied by payment of the full exercise price for the whole number of warrants being exercised. The Warrants contain a cashless exercise provision commencing one (1) year following the issue date if the per share market value of one share of Common Stock is greater than the exercise price and a registration statement under the Securities Act providing for the resale of the underlying common stock is not then in effect by the date such registration statement is required to be effective. Warrants may only be exercised to purchase whole shares. Warrant holders will receive cash equal to the current market value of any fractional interest, will be the value of one whole interest multiplied by the fraction thereof, in the place of fractional warrants that remain after exercise if they would then hold warrants to purchase less than one whole share.

Adjustments of Exercise Price of Warrants

The exercise price and redemption price of the warrants are subject to adjustment in specified circumstances, including in the event we declare any stock dividend to shareholders or affect any split or reverse split with respect to our common stock after the effective date of this offering. Therefore, if we affect any stock split or reverse split with respect to our common stock, the exercise price in effect immediately prior to such stock split or reverse split will be proportionately reduced or increased, respectively. Any adjustment of the exercise price will also result in an adjustment of the number of shares purchasable upon exercise of a warrant or, if we elect, an adjustment of the number of warrants outstanding. The warrants do not contain provisions protecting against dilution resulting from the sale of additional shares of our common stock for less than the exercise price of the warrants or the current market price of our common stock.

No Voting and Dividend Rights of Warrant Holders

Until exercised, the warrants have no voting, dividend or other shareholder rights.

Class F Warrants

Description of Warrants

Each entitles the holder to purchase one share of common stock for $2.00 per share at anytime until May 23, 2012.

Redemption of Warrants

We may not redeem the F warrants.

Exercise of Warrants

A warrant holder may exercise our warrants at anytime from time of issue and if the shares of common stock underlying these warrants are qualified for sale under the securities laws of the state in which the holder resides. We are required to use our best efforts to maintain a current prospectus relating to such shares of our common stock at all times when the market price of our common stock exceeds the exercise price of the warrants until the expiration date of the warrants, although there can be no assurance that we will be able to do so. The warrants may be exercised by delivering to our office the applicable warrant certificate on or prior to the expiration date or the redemption date, as applicable, with the form on the reverse side of the certificate executed as indicated, accompanied by payment of the full exercise price for the whole number of warrants being exercised. The Warrants contain a cashless exercise provision commencing one year following the issue date if the per share market value of one share of Common Stock is greater than the exercise price and a registration statement under the Securities Act providing for the resale of the underlying common stock is not then in effect by the date such registration statement is required to be effective. Warrants may only be exercised to purchase whole shares. Warrant holders will receive cash equal to the current market value of any fractional interest, will be the value of one whole interest multiplied by the fraction thereof, in the place of fractional warrants that remain after exercise if they would then hold warrants to purchase less than one whole share.

Adjustments of Exercise Price of Warrants

The exercise price and redemption price of the warrants are subject to adjustment in specified circumstances, including in the event we declare any stock dividend to shareholders or affect any split or reverse split with respect to our common stock after the effective date of this offering. Therefore, if we affect any stock split or reverse split with respect to our common stock, the exercise price in effect immediately prior to such stock split or reverse split will be proportionately reduced or increased, respectively. Any adjustment of the exercise price will also result in an adjustment of the number of shares purchasable upon exercise of a warrant or, if we elect, an adjustment of the number of warrants outstanding. The warrants do not contain provisions protecting against dilution resulting from the sale of additional shares of our common stock for less than the exercise price of the warrants or the current market price of our common stock.

No Voting and Dividend Rights of Warrant Holders

Until exercised, the warrants have no voting, dividend or other shareholder rights.

Selling Agent Warrants

Description of Warrants

Each entitles the holder to purchase one share of common stock for $2.00 per share at anytime until May 23, 2012.

Redemption of Warrants

There are no rights allowing us to redeem these warrants.

Exercise of Warrants

A warrant holder may exercise our warrants at anytime from time of issue and if the shares of common stock underlying these warrants are qualified for sale under the securities laws of the state in which the holder resides. We are required to use our best efforts to maintain a current prospectus relating to such shares of our common stock at all times when the market price of our common stock exceeds the exercise price of the warrants until the expiration date of the warrants, although there can be no assurance that we will be able to do so. The warrants may be exercised by delivering to our office the applicable warrant certificate on or prior to the expiration date or the redemption date, as applicable, with the form on the reverse side of the certificate executed as indicated, accompanied by payment of the full exercise price for the whole number of warrants being exercised. The Warrants contain a cashless exercise provision commencing one year following the issue date if the per share market value of one share of Common Stock is greater than the exercise price and a registration statement under the Securities Act providing for the resale of the underlying common stock is not then in effect by the date such registration statement is required to be effective. Warrants may only be exercised to purchase whole shares. Warrant holders will receive cash equal to the current market value of any fractional interest, will be the value of one whole interest multiplied by the fraction thereof, in the place of fractional warrants that remain after exercise if they would then hold warrants to purchase less than one whole share.

Adjustments of Exercise Price of Warrants

The exercise price and redemption price of the warrants are subject to adjustment in specified circumstances, including in the event we declare any stock dividend to shareholders or affect any split or reverse split with respect to our common stock after the effective date of this offering. Therefore, if we affect any stock split or reverse split with respect to our common stock, the exercise price in effect immediately prior to such stock split or reverse split will be proportionately reduced or increased, respectively. Any adjustment of the exercise price will also result in an adjustment of the number of shares purchasable upon exercise of a warrant or, if we elect, an adjustment of the number of warrants outstanding. The warrants do not contain provisions protecting against dilution resulting from the sale of additional shares of our common stock for less than the exercise price of the warrants or the current market price of our common stock.

No Voting and Dividend Rights of Warrant Holders

Until exercised, the warrants have no voting, dividend or other shareholder rights.

RISK FACTORS

Investment in our securities involves a high degree of risk. You should carefully consider the risks described below together with all of the other information included in this prospectus before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our securities could decline, and you may lose all or part of your investment.

We have a history of operating losses and a significant accumulated deficit, and we may never achieve profitability.

We have not been profitable since inception in 2001. We had net losses for the year ending December 31, 2006 and year ended December 31, 2005 of $4,669,449 and $5,015,877, respectively, and a net loss of $1,364,109 for the quarter ended March 31, 2007. At March 31, 2007, we had an accumulated deficit of $18,614,390. We may never achieve or maintain profitability. Our ability to achieve and maintain a profit is dependent upon our attracting and maintaining a large base of independent distributors who generate significant sales.

We may need to raise additional funds to fund operations which cannot be assured and would result in dilution to the existing shareholders.

To date, our operating funds have been provided primarily from sales of our common stock ($13,086,991), and by loans from our founder, our chairman and by various stockholders ($4,239,209), through March 31, 2007, and to a lesser degree, cash flow provided by sales of our products. We used $2,992,028 of cash for operations in the year ended December 31, 2006, $4,936,422 of cash for operations in the year ended December 31, 2005 and $176,519 of cash for operations in the three months ended March 31, 2007. If our business operations do not result in increased product sales, our business viability, financial position, results of operations and cash flows will likely be adversely affected. Further, if we are not successful in achieving profitability, additional capital will be required to conduct ongoing operations. We cannot predict the terms upon which we could raise such capital or if any capital would be available at all, and what dilution will be casued to the existing shareholders.

We may be unable to continue as a going concern in which case our securities will have little or no value.

Our independent registered public accounting firm have noted in their reports concerning our financial statements as of December 31, 2006 and 2005 that we have incurred substantial losses since inception, which raises substantial doubt about our ability to continue as a going concern. In the event we are not able to continue operations, you will likely suffer a complete loss of your investment in our securities. See the auditors reports on our consolidated financial statements elsewhere in our Annual Report on Form 10-KSB.

Our limited operating history and recent change in marketing strategy make it difficult to evaluate our prospects.

We have a limited operating history on which to evaluate our business and prospects. Our products were formulated in 2000 and 2001, and we began selling our products to the general public in early 2002. In late 2003, we began to refocus our sales and marketing efforts on direct sales of products through our network of independent distributors. In 2005, we rebranded the network marketing company and launched new products. In January 2007, we continued the development of our product base, launching our latest product offering, a liquid dietary supplement drink. There is no assurance that we will achieve significant sales as a result of this new strategy.

We also may not be successful in addressing our operating challenges such as establishing a viable network of independent distributors, developing brand awareness and expanding our market presence. Our prospects for profitability must be considered in light of our evolving business model. These factors make it difficult to assess our prospects.

Our failure to recruit, maintain and motivate a large base of productive independent distributors could limit our ability to generate revenues.

To increase revenue, we must increase the sales and recruiting productivity of our independent distributors. We cannot assure you that we will be successful in recruiting and retaining productive independent distributors, particularly since direct sales organizations usually experience high turnover rates of independent distributors. Our independent distributors can terminate their relationships with us at any time. The distributors also typically work on a part-time basis and may engage in other business activities, which may reduce their efforts for us.

In recruiting and keeping independent distributors, we will be subject to significant competition from other direct sales organizations, both inside and outside our industry. Our ability to attract and retain independent distributors will be dependent on the attractiveness of our compensation plan, our product mix, and the support we offer to our independent distributors. Adverse publicity concerning direct sales marketing and public perception of direct selling businesses generally could negatively affect our ability to attract, motivate and retain independent distributors.

Based on our knowledge of the direct selling industry, we anticipate that our independent distributor organization will be headed by a relatively small number of key independent distributors who together with their downline network will be responsible for a disproportionate amount of revenues. We believe this structure is typical in the direct selling industry, as sales leaders emerge in these organizations, and it is the current situation with us. The loss of key independent distributors will adversely affect our revenues and could adversely affect our ability to attract other independent distributors, especially if an independent distributor takes other independent distributors of ours to a competitor or to any other organization.

A change in the amount of compensation paid to our independent distributors could reduce our ability to recruit and retain them and to realize a profit.

One of our significant expenses is the payment of compensation to our independent distributors. This compensation includes commissions, bonuses, awards and prizes. From the date we changed our sales method to direct sales through independent distributors, August 1, 2003, through March 31, 2007, compensation paid to our independent distributors represented 59% of our total revenues. We may change our independent distributor compensation plan in seeking to better manage these incentives, to monitor the amount of independent distributor compensation paid and to prevent independent distributor compensation from having a significant adverse effect on our revenues. Changes to our independent distributor compensation plan may make it difficult for us to recruit and retain qualified and motivated independent distributors. We do not have any current plans to change our distributor compensation plan.

We are not in a position to exert the same level of influence or control over our independent distributors as we could if they were our employees, and we may be subject to significant costs and reputational harm in the event our independent distributors violate any laws or regulations applicable to our operations.

Our independent distributors are independent contractors and, accordingly, we are not in a position to provide the same level of control and oversight as we would if independent distributors were our employees. While we have implemented independent distributor policies and procedures designed to govern independent distributor conduct and to protect our goodwill, there can be no assurance that our independent distributors will comply with our policies and procedures. Violations by our independent distributors of applicable law or of our policies and procedures dealing with customers could reflect negatively on our products and operations and harm our business reputation. To date, we have not experienced any significant problems affecting our products, operations or business reputation caused by distributor violations of our policies and procedures.

In addition, extensive federal, state and local laws regulate our direct selling program. The Federal Trade Commission (FTC) or a court could hold us liable for the actions of our independent distributors. The FTC could also find us liable civilly for deceptive advertising if health benefit representations made by our independent distributors are not supported by competent and reliable scientific evidence. If any of these representations made by our independent distributors were deemed fraudulent, the FTC could refer the matter to the Department of Justice for criminal fraud prosecution. Also, the Food and Drug Administration (FDA) could seek to hold us civilly and criminally liable for misbranding, for adulteration, or for sale of an unapproved new drug if an independent distributor were to make false or misleading claims, sell a product past its shelf life, or represent that any of our products were intended for use in the cure, treatment, or prevention of a disease or health-related condition. While we train our independent distributors and attempt to monitor our independent distributors marketing claims and sales materials, we cannot ensure that all of these materials comply with applicable law.

Our direct selling program through independent distributors could be found not to be in compliance with current or newly adopted laws or regulations, which could subject us to increased costs and reduced distributor participation in sales efforts, and our revenues would decrease significantly.

Our direct marketing program could be found to violate laws or regulations applicable to direct selling marketing organizations. These laws and regulations generally are directed at preventing fraudulent or deceptive schemes, often referred to as pyramid or chain sales schemes, by ensuring that product sales ultimately are made to consumers and that advancement within an organization is based on sales of the organization s products rather than investments in the organization or other non-retail sales-related criteria. The regulations concerning these types of marketing programs do not include bright line rules and are inherently fact-based. Thus, even in jurisdictions where we believe that our direct selling program is in full compliance with applicable laws or regulations governing direct selling programs, we are subject to the risk that these laws or regulations or the enforcement or interpretation of them by governmental agencies or courts can change. The failure of our direct selling program to comply with current or newly adopted laws or regulations could result in costs and fines to us and make our independent distributors reluctant to continue their sales efforts, which would reduce our revenues significantly.

We are also subject to the risk of private party challenges to the legality of our direct selling program. Direct selling programs of some other companies have been successfully challenged in the past. The challenges centered on whether the marketing programs of direct selling companies are investment contracts in violation of applicable securities laws and pyramid schemes in violation of applicable FTC rules and regulations. These challenges have caused direct selling companies to focus greater attention on generating product sales to non-participants or non-distributors. Direct selling companies have addressed these issues by promoting retail sales incentives, tying sales commissions more directly to retail sales and reclassifying those persons who enroll as distributors but do not make sales to other persons as retail customers. An adverse judicial determination with respect to our direct selling program, or in proceedings not involving us directly but which challenge the legality of direct selling systems, could have a material adverse effect on our sales efforts, leading to lower revenues. To date, we have not been subject to any adverse judicial determination with respect to our direct selling program.

During 2006, the FTC proposed a new business opportunity rule. It is currently in the comment period during which the FTC is accepting comments from those who wish to make a submission. The new rule proposes the following amendments to the way that network marketing companies do business:

1. The Disclosure Document. At least seven days before a new distributor can sign a distributor application or make any type of payment to join a program, the sponsor or parent company must provide the prospective distributor with a disclosure document. This document must disclose: (a) Identifying information: This includes the name, address and telephone number of the direct selling company, the name of the sponsor, and the date on which the disclosure document is provided to the prospect; (b) Earnings claim information: If the company or distributor makes earnings claims (which includes quality of life claims such as pictures of boats, expensive cars, homes, etc.), an earnings claim statement must be provided which discloses the beginning and ending dates when the represented earnings were achieved, the number and percentage of all distributors who achieved that level of earnings within such time period, and any specific characteristics applicable to the person making the earnings claim that differ from the characteristics of the prospect (e.g., a different geographic location); (c) Legal Claim Disclosures: If the seller, or any affiliate or prior business of the seller, or any of the seller s officers, directors, managers or similar individuals have been the subject of any civil or criminal action involving misrepresentation, fraud, securities law violations, or unfair or deceptive practices in the prior ten years, the seller must disclose the name of the action, the caption, the court, case number, and the names of the parties; (d) Refund Policy: The seller must disclose the terms of its refund policy; (e) Cancellation and Refund Requests: The seller must disclose the total number of purchasers who have cancelled their business within the preceding two years; (f) Reference List: The seller must state the name, city, state, and telephone numbers of ten people who have purchased the business opportunity within the last three years who are located nearest to the prospect s location. Otherwise, the company can disclose all of its distributors. The company s application must also disclose to prospects that if they join, their personal contact information may be disclosed to other future buyers.

2. Record Retention: The direct sales companies must archive for three years: (a) Each materially different version of all disclosure and earnings claim documents; (b) Each purchaser s disclosure receipt; (c) Each oral or written cancellation or refund request; (d) All substantiation upon which the seller relies for earnings claims.

The impact of the proposed rule could be: (1) the advance seven day disclosure will cause a reduction in enrollments; (2) providing 10 references closest to an applicant will require a significant investment in advanced software systems; (3) the reference requirement creates a confidentiality problem, as it completely ignores distributors right to have their personal information maintained confidential; the identity of our distributors is deemed a trade secret; and (4) the disclosure of legal claims within the specified categories applies to even those claims that were settled without admission of liability, and even applies to disclosure of claims in which the company prevailed on the claims.

We may be held responsible for taxes or assessments relating to the activities of our independent distributors resulting in greater costs to us.

We treat our independent distributors as independent contractors and do not pay social security or similar taxes with respect to compensation paid to them. In the event that we are required to treat our independent distributors as employees, rather than independent contractors, we may be held responsible for social security and related taxes, plus any related assessments and penalties, which could significantly increase our operating costs.

We are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints which can make compliance costly and subject us to enforcement actions by governmental agencies.

The formulation, manufacturing, packaging, labeling, holding, storage, distribution, advertising and sale of our products are affected by extensive laws, governmental regulations and policies, administrative determinations, court decisions and similar constraints at the federal, state and local levels. There can be no assurance that we or our independent distributors will be in compliance with all of these regulations. A failure by us or our distributors to comply with these laws and regulations could lead to governmental investigations, civil and criminal prosecutions, administrative hearings and court proceedings, civil and criminal penalties, injunctions against product sales or advertising, civil and criminal liability for the Company and/or its principals, bad publicity, and tort claims arising out of governmental or judicial findings of fact or conclusions of law adverse to the Company or its principals. In addition, the adoption of new regulations and policies or changes in the interpretations of existing regulations and policies may result in significant new compliance costs or discontinuation of product sales and may adversely affect the marketing of our products, resulting in decreases in revenues.

The FDA regulates our products and our product labeling. Among other matters, the FDA regulates nutrient content and ingredient information, claims of the effect of a dietary supplement or dietary ingredient on a body structure or function, and claims of the effect of a dietary supplement or dietary ingredient on disease or risk of disease. The FDA can initiate civil and criminal proceedings against persons who make false or misleading claims on labels or in labeling, who engage in misbranding, who evidence an intent to sell their products for a therapeutic use not approved by the agency, who sell misbranded products, or who sell adulterated products. The FDA can also require the recall of all products that are misbranded or adulterated.

The FTC has jurisdiction over our product advertising. The FTC can initiate civil proceedings for deceptive advertising and deceptive advertising practices. It can seek for companies to make payments to consumers or disgorgement of profits from the sale of any product held to have been deceptively advertised. The FTC or a federal court can require a company found liable to give notice of the availability of refunds in part or whole for the product purchase price for all products sold through use of advertising deemed deceptive.

State authorities may likewise bring enforcement actions for misbranding, adulteration, and deceptive advertising. Those actions may be pursued simultaneously with federal actions.

On March 13, 2003, the FDA proposed a new regulation to require current Good Manufacturing Practice guidelines (cGMPs) in the manufacture, packing, holding, and distribution of nutritional supplements. The proposed rules would establish minimum standards that must be met by all companies that manufacture, package, and hold nutritional supplements in the United States. Violation of those standards would render the products in question presumptively adulterated and unlawful to sell. The proposed cGMPs would require manufacturers to follow procedures that would track nutrients from source to finished product, test nutrients for identity, purity, quality, strength, and composition at each stage of production, and record full compliance with specific regulations governing production, manufacture, and holding of nutritional supplements. The cGMPs are expected to be adopted in 2007. We expect that the cGMPs will increase our product costs by requiring our various contract manufacturers to expend additional capital and resources on quality control testing, new personnel, plant redesign, new equipment, facilities placement, recordkeeping and ingredient and product testing.

The FDA and some state agencies invite the public to complain if they experience any adverse effects from the consumption of nutritional supplements. These complaints may be made public. Regardless of whether complaints of this kind are substantiated or proven, public release of complaints of this type may have an adverse effect upon public perception of us, the quality of our products or the prudence of taking our products. Changes in consumer attitudes based on adverse event reports could adversely affect the potential market for and sales of our products and make it more difficult to recruit and retain independent distributors and obtain endorsers.

We are dependent on a limited number of independent suppliers and manufacturers of our products, which may affect our ability to deliver our products in a timely manner. If we are not able to ensure timely product deliveries, potential distributors and customers may not order our products, and our revenues may decrease.

We rely entirely on a limited number of third parties to supply and manufacture our products. Our manufacturers produce our products on a purchase order basis only and can terminate their relationships with us at will. Our six primary manufacturers are New Sun Nutrition, LLC, FoodPharma, LLC, Valentine Industries, Inc., Natural Alternatives International Inc., Arizona Packaging and GMP Laboratories of America, Inc. These third parties may be unable to satisfy our supply requirements, manufacture our products on a timely basis, fill and ship our orders promptly, provide services at competitive costs or offer reliable products and services. The failure to meet of any of these critical needs would delay or reduce product shipment and adversely affect our revenues, as well as jeopardize our relationships with our independent distributors and customers. In the event any of our third party manufacturers were to become unable or unwilling to continue to provide us with products in required volumes and at suitable quality levels, we would be required to identify and obtain acceptable replacement manufacturing sources. There is no assurance that we would be able to obtain alternative manufacturing sources on a timely basis. An extended interruption in the supply of our products would result in decreased product sales and our revenues would likely decline. We believe that we can meet our current supply and manufacturing requirements with our current suppliers and manufacturers or with available substitute suppliers and manufacturers. Historically, we have not experienced any delays or disruptions to our business caused by difficulties in obtaining supplies.

We are dependent on our third party manufacturers to supply our products in the compositions we require, and we do not independently analyze our products. Any errors in our product manufacturing could result in product recalls, significant legal exposure, and reduced revenues and the loss of distributors.

While we require that our manufacturers verify the accuracy of the contents of our products, we do not have the expertise or personnel to monitor the production of products by these third parties. We rely exclusively, without independent verification, on certificates of analysis regarding product content provided by our third party suppliers and limited safety testing by them. We cannot be assured that these outside manufacturers will continue to supply products to us reliably in the compositions we require. Errors in the manufacture of our products could result in product recalls, significant legal exposure, adverse publicity, decreased revenues, and loss of distributors and endorsers.

We face significant competition from existing suppliers of products similar to ours. If we are not able to compete with these companies effectively, then we may not be profitable.

We face intense competition from numerous resellers, manufacturers and wholesalers of energy drinks, protein shakes and nutritional supplements similar to ours, including retail, online and mail order providers. We consider the significant competing products in the U.S. market to be Myoplex® for protein drinks, Gatorade®, Powerade®, Acclerade®, and All Sport® for energy drinks, and that Nature s Bounty, Inc. and General Nutrition Centers, Inc. are the significant producers of vitamins and Xango®

and Monavie® for a liquid nutrition drink. Most of our competitors have longer operating histories, established brands in the marketplace, revenues significantly greater than ours, more capital and better access to capital than us. We expect that these competitors may use their resources to engage in various business activities that could result in reduced sales of our products. Companies with greater capital and research capabilities could re-formulate existing products or formulate new products that could gain wide marketplace acceptance, which could have a depressive effect on our future sales. In addition, aggressive advertising and promotion by our competitors may require us to compete by lowering prices because we do not have the resources to engage in marketing campaigns against these competitors, and the economic viability of our operations likely would be diminished.

Customers and distributors may not be able to distinguish our products by name from competitor s products.

Due to the similarity of our products name to those of many of our competitor s products may result in the loss of customers and distributors as well as impair the recruiting efforts of our independent distributors. This could result in the loss of repeat business as well as the inability to generate increased revenue and attract future independent distributors.

Adverse publicity associated with our products, ingredients or direct selling program, or those of similar companies, could adversely affect our sales and revenues.

Adverse publicity concerning any actual or purported failure of our Company or our independent distributors to comply with applicable laws and regulations regarding any aspect of our business could have an adverse effect on the public perception of our Company. This, in turn, could negatively affect our ability to obtain endorsers and attract, motivate and retain independent distributors, which would have a material adverse effect on our ability to generate sales and revenues.

Our independent distributors and customers perception of the safety and quality of our products as well as similar products distributed by others can be significantly influenced by national media attention, publicized scientific research or findings, product liability claims and other publicity concerning our products or similar products distributed by others. Adverse publicity, whether or not accurate, that associates consumption of our products or any similar products with illness or other adverse effects, will likely diminish the public s perception of our products. Claims that any products are ineffective, inappropriately labeled or have inaccurate instructions as to their use, could have a material adverse effect on the market demand for our products, including reducing our sales and revenues.

The results of new nutritional dietary supplement studies could be contrary to general industry knowledge on which the formulation and marketing of our products are based and could materially and adversely impact our product sales. The federal government, research institutes, universities and others regularly conduct research into the use, effectiveness and potential for adverse results from the use of nutritional dietary supplements. Even if adverse studies are subject to substantial criticism or not supported by accepted scientific methodology, publicity surrounding the reports of these studies may result in flat or decreased sales of our products. In the past few years, the effectiveness of, and potential for harm from, some of the leading herbal supplements, which contain ingredients not in our products, have come into question as a result of research studies. These negative study results and other negative publicity could adversely affect the potential market and sales of our products, as well as increase our product returns, resulting in increased expenses to us.

While we have not received any direct negative publicity, the publicized studies associating increased mortality rates with high dosages of Vitamin E has increased awareness of our consumers relating to the safety of the ingredients in our supplements. Additionally, in 2007 there was a study published regarding increased mortality rates in higher doses of antioxidants other than those from natural fruit, berry and vegetable sources which again increased awareness amoung our consumers relating to the safety of the ingredients in our products.

Nutritional supplement products may be supported by only limited conclusive clinical studies resulting in less market acceptance of these products and lower revenues or lower growth rates in revenues.

Our nutritional supplement products are made from vitamins, minerals, amino acids, herbs, botanicals, fruits, berries and other substances for which there is a long history of human consumption. However, there is little long-term experience with human consumption of certain product ingredients or combinations of ingredients in concentrated form. Although we believe all of our products fall within the generally known safe limits for daily doses of each ingredient contained within them, nutrition science is imperfect. Moreover, some people have peculiar sensitivities or reactions to nutrients commonly found in foods and may have similar sensitivities or reactions to nutrients contained in our products. Furthermore, nutrition science is subject to change based on new research. New scientific evidence may disprove the efficacy of our products or prove our products to have effects not previously known. We could be adversely affected in the event that our products should prove to be or if they are asserted to be ineffective or harmful to consumers, or if adverse effects are associated with a competitor s similar products.

Our products may have higher prices than the products of most of our competitors, which may make it difficult for us to achieve significant revenues.

We may have difficulty in achieving market acceptance of our products because our products are among the highest priced in their categories due to the ingredients that we require in our products. While we believe that our products are superior to competing, lower priced products, consumers must be educated about our products. If we are unable to achieve market acceptance, we will have difficulty in achieving revenue growth, which would likely result in continuing operating losses.

The sale of our products involves product liability and related risks that could expose us to significant insurance and loss expenses.

We face an inherent risk of exposure to product liability claims if the use of our products results in, or is believed to have resulted in, illness or injury. Most of our products contain combinations of ingredients, and there is little long-term experience with the effect of these combinations. In addition, interactions of these products with other products, prescription medicines and over-the-counter drugs have not been fully explored or understood and may have unintended consequences. While our third party manufacturers perform tests in connection with the formulations of our products, these tests are not designed to evaluate the inherent safety of our products.

Although we maintain product liability insurance, it may not be sufficient to cover product liability claims and such claims could have a material adverse effect on our business. The successful assertion or settlement of an uninsured claim, a significant number of insured claims or a claim exceeding the limits of our insurance coverage would harm us by adding further costs to our business and by diverting the attention of our senior management from the operation of our business. Even if we successfully defend a liability claim, the uninsured litigation costs and adverse publicity may be harmful to our business.

Any product liability claim may increase our costs, and adversely affect our revenues and operating income. Moreover, liability claims arising from a serious adverse event may increase our costs through higher insurance premiums and deductibles, and may make it more difficult to secure adequate insurance coverage in the future. In addition, our product liability insurance may fail to cover future product liability claims, which if adversely determined could subject us to substantial monetary damages.

A slower growth rate in the nutritional supplement industry could lessen our sales and make it more difficult for us to achieve growth and become profitable.

According to the Nutrition Business Journal (June/July 2006), after a promising recovery in 2003, U.S. Supplement growth flattened overall from 5.7% in 2003 to growth rates of 4.5% and 2.9% in 2005 and 2004, respectively, for total dollar sales of $21.3 billion in 2005. The largest major channel for supplement sales remained natural & specialty retail, which rose 6.2% to $7.74 billion or 36% of the supplement consumer market, while the mass market continued to lose ground, declining 1.5% in 2005 to $6.04 billion. Other channels had more success, with multi-level marketers up 8.6% to $4.2 billion and practitioner and internet sales up 6.7% and 25%, respectively, to $1.54 billion and $0.5 billion, respectively. The negative impacts of Echinacea, Ephedra and low-carb products affected minerals and liquid meal replacements. The negative tide of media is no longer putting problematic categories like ephedra or prohormones at stake, but foundation categories like E, C and even multivitamins.

New products may render our products obsolete and our sales may suffer.

The nutritional supplement market historically has been influenced by fad products that became popular due to changing consumer tastes and media attention. Our products may be rendered obsolete by changes in popular tastes as well as media attention on new products or adverse media attention on nutritional supplements, which could reduce our sales. It may be difficult for us to change our product line to adapt to changing tastes. In addition, other fad food regimens, such as low carbohydrate diets, may decrease the overall popularity and use of our products, as well as result in higher returns of our products, thereby increasing our expenses.

We may from time to time write off obsolete inventories resulting in higher expenses and consequently greater net losses.

Because we maintain high levels of inventories to meet the product needs of our independent distributors and customers, a change by us of our product mix could result in write downs of our inventories. For example, in 2006 and 2005 we discontinued certain products and sales tools that we deemed obsolete, and we incurred a write-down against inventory for the year ended December 31, 2006 of $123,511 and a charge against obsolete inventory of $70,335 in 2005. Write downs and charges of this type have historically increased our net losses, and if experienced in the future, will make it more difficult for us to achieve profitability.

Product returns in excess of our estimates could require us to incur significant additional expenses, which would make it difficult for us to achieve profitability.

We have established a reserve in our financial statements for product returns which is based upon our limited historical experience. If this reserve were to be inadequate, we may incur significant expenses for product returns. As we gain more operating experience, we may need to revise our reserves for product returns.

If we are not able to adequately protect our intellectual property, then we may not be able to compete effectively and we may not be profitable.

Our existing proprietary rights may not afford remedies and protections necessary to prevent infringement, reformulation, theft, misappropriation and other improper use of our products by competitors. We own the formulations contained in some our products. We consider these product formulations our critical proprietary property, which must be protected from competitors. We do not have any patents because we do not believe they are necessary to protect our proprietary rights. Although trade secret, trademark, copyright and patent laws generally provide such protection and we may attempt to protect ourselves through contracts with manufacturers of our products, we may not be successful in enforcing our rights. In addition, enforcement of our proprietary rights may require lengthy and expensive litigation. We have attempted to protect some of the trade names and trademarks used for our products by registering them with the U.S. Patent and Trademark Office, but we must rely on common law trademark rights to protect our unregistered trademarks. Common law trademark rights do not provide the same remedies as are granted to federally registered trademarks and the rights of a common law trademark are limited to the geographic area in which the trademark is actually used. Our inability to protect our intellectual property could have a material adverse impact on our 10pt; margin-top: 6pt"> The Austin, Texas market, which is our largest concrete market, was negatively impacted by the market conditions affecting technology companies that began in 2000; however, there has been improvement in both pricing and demand during fiscal 2006. Our net readymix concrete sales were 883,000 cubic yards in fiscal 2006 and 769,000 cubic yards in fiscal 2005. We anticipate adding an additional plant in our Austin market during fiscal 2007.

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

Location	Types of Aggregates	Estimated Annual Production Capacity (Thousand tons)	Estimated Minimum Reserves (Years)
Northern California	Sand and Gravel	3,500	100+(1)
Austin, Texas	Limestone	2,500	60(2)
Total		6,000	

(1) Owned reserves through various subsidiaries.

(2) Leased reserves.

The Company s total net aggregate sales were 5.7 million tons in fiscal 2006 and 5.2 million tons in fiscal 2005. Total aggregates production was 5.8 million tons for fiscal 2006 and 5.4 million for fiscal 2005. A portion of the Company s total aggregates production is used internally by the Company s readymix concrete operations.

Raw Materials. The Company supplies approximately 100% and 50% of its cement requirements for its Austin and northern California concrete operations, respectively. The Company supplies approximately 34% and 52%, respectively, of its aggregates requirements for its Austin and northern California concrete operations. The Company obtains the balance of its cement and aggregates requirements from multiple sources in each of these areas.

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

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

Table of Contents

We sell aggregates to building contractors and other customers engaged in a wide variety of construction activities. Aggregates are delivered from our aggregate plants by common carriers and customer pick-up. One customer accounted for approximately 10% of our concrete sales, and another customer accounted for approximately 10% of our aggregate sales during fiscal 2006. Presently we are attempting to secure a rail link from our principal aggregates deposit north of Sacramento, California to extended markets in northern California.

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

Both concrete and aggregates are commodity products. Each type of aggregate is sold in competition with other types of aggregates and in competition with other producers of the same type of aggregates. Accordingly, competition in both the concrete and aggregates businesses is based principally on price and, to a lesser extent, on product quality and customer service.

Capital Expenditures. Capital expenditures during fiscal 2006 amounted to $11.1 million for the concrete and aggregates segment compared with $3.5 million and $1.0 million in fiscal 2005 and 2004, respectively. The increase in capital expenditures in fiscal 2006 relates primarily to the acquisition of a dredge at our northern California operation which began production during the fiscal year. Capital outlays in fiscal 2007 are estimated to be approximately $10.0 million. Approximately 10% of the estimated fiscal 2007 capital expenditures are related to compliance with environmental regulations.

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

EMPLOYEES

As of March 31, 2006, we had approximately 1,600 employees.

As of March 31, 2006, we had approximately 400 employees employed under collective bargaining agreements and various supplemental agreements with local unions.

WHERE YOU CAN FIND MORE INFORMATION

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

Table of Contents

ITEM 1A. RISK FACTORS

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

Levels of construction spending. Demand for the Company s products is directly related to the level of activity in the construction industry, which includes residential, commercial and infrastructure construction. Furthermore, activity in the infrastructure construction business is directly related to the amount of government funding available for such projects. Any decrease in the amount of government funds available for such projects or any decrease in construction activity in general, including continued slow down of home building activity, could have a material adverse effect on the Company s financial condition and results of operations.

Interest rates. The Company s business is significantly affected by the movement of interest rates. Interest rates have a direct impact on the level of residential, commercial and infrastructure construction activity put in place. Higher interest rates could have a material adverse effect on our business and results of operations. In addition, increases in interest rates could result in higher interest expense related to the Company s borrowings under its credit facilities.

Price fluctuations and supply/demand for our products. The products sold by the Company are commodities and competition among manufacturers is based largely on price. Prices are often subject to material changes in response to relatively minor fluctuations in supply and demand, general economic conditions and other market conditions beyond our control. Increases in the production capacity for products such as gypsum wallboard may create an oversupply of such products and negatively impact product prices. There can be no assurance that prices for products sold by the Company will not decline in the future or that such declines will not have a material adverse effect on our financial condition and results of operations.

Significant changes in the cost of, and the availability of, fuel, energy and other raw materials. Significant increases in the cost of fuel, energy or raw materials used in connection with our businesses or substantial decreases in their availability could materially and adversely 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. In the event of large or rapid increases in prices, we may not be able to pass the increases through to our customers in full, which would reduce our operating margin.

The seasonal nature of the Company s business. A majority of our business is seasonal with peak revenues and profits occurring primarily in the months of April through November. Quarterly results have varied significantly in the past and are likely to vary significantly from quarter to quarter in the future. Such variations could have a negative impact on the price of the Company s common stock.

National and regional economic conditions. A majority of our revenues are from customers who are in industries and businesses that are cyclical in nature and subject to changes in general economic conditions. In addition, since operations occur in a variety of geographic markets, our businesses are subject to the economic conditions in each such geographic market. General economic downturns or localized downturns in the regions where we have operations, including any downturns in the construction industry or increases in capacity in the gypsum wallboard, paperboard and cement industries, could have a material adverse effect on our business, financial condition and results of operations.

Table of Contents

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 its operations. Certain of our operations may from time-to-time involve the use of substances that are classified as toxic or hazardous substances within the meaning of these laws and regulations. Risk of environmental liability is inherent in the operation of our businesses. As a result, it is possible that environmental liabilities could have a material adverse effect on the Company in the future.

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

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

Significant changes in the cost and availability of transportation. Some of the raw materials used in our manufacturing processes, such as coal or coke, are transported to our facilities by truck or rail. In addition, the transportation costs associated with the delivery of our wallboard products are a significant portion of the variable cost of the wallboard division. Significant increases in the cost of fuel or energy can result in material increases in the cost of transportation which could materially and adversely affect our operating profits. In addition, reductions in the availability of certain modes of transportation such as rail or trucking could limit our ability to deliver product and therefore materially and adversely affect our operating profits.

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.

Table of Contents

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved staff comments.

ITEM 2. PROPERTIES

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

See Item 1. Business on pages 1-14 of this Report for additional information relating to the Company s properties.

ITEM 3. LEGAL PROCEEDINGS

We are a party to certain ordinary legal proceedings incidental to our business. In general, although the outcome of litigation is inherently uncertain, we believe that all of the pending litigation proceedings in which the Company or any subsidiary is currently involved are likely to be resolved without having a material adverse effect on the consolidated financial condition or operations of the Company.

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

Not applicable.

Table of Contents

PART II

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

STOCK PRICES AND DIVIDENDS

On April 11, 2006, the shareholders of the Company voted to eliminate our dual class capital structure by exchanging each share of our outstanding Common Stock and Class B Common Stock into a new class of common stock. Accordingly, all stock information has been retroactively restated as if the combination had taken place as of the earliest period presented. As of May 24, 2006 there were approximately 2,852 holders of record of our Common Stock which trades on the New York Stock Exchange under the symbol EXP.

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

	Fiscal Year Ended March 31, 2006			Fiscal Year Ended March 31, 2005		
Quarter ended:	High	Low	Dividends	High	Low	Dividends
June 30, 2005	$31.41	$24.19	$0.10	$24.04	$19.04	$0.10
September 30, 2005	$40.26	$30.13	$0.10	$23.98	$19.85	$0.10
December 31, 2005	$41.52	$31.62	$0.10	$29.02	$20.89	$0.10
March 31, 2006 (1)	$63.76	$37.76	$0.10	$28.95	$25.33	$0.10

(1) Quarterly dividend increased 75% to $0.175 per quarter payable in April 2006.

We currently expect that quarterly cash dividends comparable to the $0.175 per share quarterly dividend will continue to be paid throughout fiscal 2007.

SHARE REPURCHASES

The Company s Board of Directors has approved the repurchase of a cumulative total of 26,453,805 shares of the Company s Common Stock for repurchase since the Company became publicly held in April 1994. On January 24, 2006, the Board of Directors authorized the Company to repurchase up to an additional 2,749,563 shares, for a total authorization of 3,000,000 currently outstanding. The Company repurchased 4,547,163 shares, 1,986,600 shares and 175,500 shares of Common Stock at a cost of $165.3 million, $43.8 million and $3.1 million in the years ended March 31, 2006, 2005 and 2004, respectively.

The total number of shares purchased in the table below represents shares of Common Stock repurchased pursuant to the Board of Directors authorization dated November 29, 1998, as amended July 28, 2004 and January 24, 2006. Share repurchases may be made from time-to-time in the open market or in privately negotiated transactions. The timing and amount of any repurchases of shares will be determined by Company management, based on its evaluation of market and economic conditions and other factors.

Purchases of the Company s Common Stock during the quarter ended March 31, 2006 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs

January 1 through January 31, 2006	139,200	$40.92		
February 1 through February 28, 2006				
March 1 through March 31, 2006				
Quarter 4 Totals	139,200	$40.92	139,200	3,000,000

18

Table of Contents

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

ITEM 6. SELECTED FINANCIAL DATA

SUMMARY OF SELECTED FINANCIAL DATA[1]

(amounts in thousands, except per share data)

	For the Fiscal Years Ended March 31,				
	2006	2005	2004	2003	2002
Revenues	$859,702	$616,541	$502,622	$429,178	$395,188
Earnings Before Income Taxes	241,066	158,089	102,123	86,613	59,699
Net Earnings	160,984	106,687	66,901	57,606	39,706
Diluted Earnings Per Share	3.02	1.91	1.19	1.04	0.72
Cash Dividends Per Share	0.40	0.40	2.15(2)	0.07	0.07
Total Assets	888,916	780,001	692,975	706,355	737,323
Total Debt	200,000	84,800	82,880	80,927	182,380
Stockholders Equity	464,738	485,368	439,022(2)	479,611	427,832
Book Value Per Share At Year End	$ 9.24	$ 8.88	$ 7.80	$ 8.70	$ 7.77
Average Diluted Shares Outstanding	53,330	55,884	56,208	55,572	55,383

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

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

Table of Contents

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

EXECUTIVE SUMMARY

Strong residential construction and a recovering commercial construction demand in all of our markets helped to set record fiscal 2006 sales volume, revenues and earnings per share. Demand in all of our markets was strong as we reported increased sales volume in each of our segments for the fiscal year ended March 31, 2006. The majority of our earnings improvement was in the Gypsum Wallboard and Cement operations. Fiscal 2006 revenues increased 39% to $859.7 million, net earnings were up 51% to $161.0 million and diluted earnings per share were up 58% to $3.02.

Gypsum Wallboard sales volume was up 11% and represented record volume for the Company due to record industry demand while operating earnings increased 89% due to a 27% increase in average sales price. Fiscal 2006 was the 20th consecutive sold-out year for our cement operations. Cement sales volume increased 16%, and operating earnings increased 36% from last year due to higher average net sales prices offset primarily by the impact of increased purchased cement volumes and costs. Paperboard reported record sales volume, however operating earnings declined due to reduced sales price and increased production costs, mainly natural gas. Concrete and Aggregates operating earnings improved 24% over last fiscal year due primarily to a record sales volume in concrete. Corporate expenses increased $6.1 million due primarily to increased headcount and greater salary and benefit costs, including stock compensation.

Manufacturing costs in fiscal 2006 were negatively impacted by increased natural gas, coal, power, paper fiber and maintenance costs. Demand for energy related products continued at a high level and prices for these products are expected to level off in fiscal 2007. Ordinary maintenance costs are expected to remain flat in fiscal 2007, although there will be some additional maintenance costs related to the completion of the Illinois Cement expansion project.

We operate in cyclical commodity businesses. Downturns in overall economic activity usually have a significant adverse effect on these businesses due to decreased demand and reduced pricing. Recently, wallboard demand has been favorably impacted by strong residential construction. Recent increases in interest rates are expected to bring a reduction in new residential construction activity; however, commercial and industrial activity, which are showing signs of improvement, may help to offset reduced demand in the residential construction sector if interest rates continue to increase. Cement demand continues to be positively impacted by a strong national highway funding program. The funds allocated by Congress in the new highway bill exceed the prior highway funding program.

Strong demand from new housing and residential remodeling resulted in record wallboard consumption for calendar 2005. According to the Gypsum Association, national wallboard consumption of 36.2 billion square feet for calendar 2005, the highest level on record, was up 5.6% from last year s consumption. Industry utilization rates have been at the 95%+ level, resulting in a 27% increase in our net wallboard pricing for fiscal 2006. We implemented price increases in April, June, September and, December 2005 and March 2006.

U.S. cement consumption continues to be strong. Total U.S. cement shipments of approximately 139 million short tons for calendar 2005 were a record high and were 5.7% above calendar 2004. Cement imports for calendar 2005 were 37 million short tons, 23% above last year s imports. The U.S. Cement Industry has been sold out for the last 11 years as a result of a domestic capacity deficit. Current U.S. demand requires imports of over 25% to supplement domestic capacity. The U.S. Cement Industry is anticipating a tight supply of imported cement this year due to high freight rates and increasing consumption in world markets. Cement pricing has increased 17% over prior year, the second straight year of price increases, reversing a slight decline over the prior three years. We implemented cumulative price increases of between $10.00 and $20.00 per ton in all our markets during fiscal 2006.

Table of Contents

Our recycled paperboard mill continued operational improvements and is now producing at 150% above its original design capacity.

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

RESULTS OF OPERATIONS

Fiscal Year 2006 Compared to Fiscal Year 2005

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

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

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

(1) Prior to Corporate General and Administrative

and interest
expense.

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

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

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

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

Table of Contents

Net Income. As a result of the foregoing, pre-tax earnings of $241.1 million were 52% above fiscal 2005 pre-tax earnings of $158.1 million. Fiscal 2006 net earnings of $161.0 million increased 51% from net earnings of $106.7 million in fiscal 2005. Diluted earnings per share in fiscal 2006 of $3.02 were 58% higher than the $1.91 for fiscal 2005.

GYPSUM WALLBOARD OPERATIONS

	For the Fiscal Years Ended March 31, 2006	2005	Percentage Change
	(dollars in thousands)		
Gross Revenues, as reported	$ 479,134	$ 350,101	37%
Freight and Delivery Costs billed to customers	(89,374)	(73,140)	22%
Net Revenues	$ 389,760	$ 276,961	41%
Sales Volume (MMSF)	2,832	2,547	11%
Average Net Sales Price [(1)]	$ 137.65	$ 108.74	27%
Unit Costs	$ 83.17	$ 76.70	8%
Operating Margin	$ 54.48	$ 32.04	70%
Operating Earnings	$ 154,227	$ 81,616	89%
Freight per MSF	$ 31.57	$ 28.72	10%

(1) Net of freight per MSF.

Revenues: Price increases throughout the year and record Company wallboard shipments positively impacted revenues for fiscal 2006 as compared to fiscal 2005. Pricing has continued to strengthen as consumption was at an all-time high resulting in the near full capacity utilization of the U.S. wallboard industry. Our sales volume of 2,832 MMSF represents a record for the Company as the Company operated at full capacity.

Operating Margins: Operating margins were impacted by increasing paper costs and transportation costs for raw materials, as well as natural gas costs which increased 43% in fiscal 2006 as compared to fiscal 2005. On a per unit basis, freight costs, which are deducted to determine average net sales price, have increased 10% from fiscal 2005. Operating earnings for fiscal 2006 represented the highest earnings in Company history.

Outlook: Throughout fiscal 2006 industry utilization rates averaged about 95% and as a result pricing has remained strong in all of the markets we serve. We implemented a 10% price increase in late March 2006, which helped us achieve an average net sales price of approximately $165.00 during April 2006. Demand remains strong with supply being currently allocated. Single family residential housing is expected to decline during fiscal 2007 at an estimated rate of 5% to 10%; however we anticipate that commercial construction and repair and remodel demand will remain strong. Expected capacity additions during fiscal 2007 are not expected to be significant; therefore industry utilization, even with the anticipated decline in single family residential housing, is expected to remain high.

Table of Contents

CEMENT OPERATIONS

	For the Fiscal Years Ended March 31, 2006	2005	Percentage Change
	(dollars in thousands)		
Gross Revenues, including intersegment	$ 285,289	$ 211,343	35%
Freight and Delivery Costs billed to customers	(19,212)	(16,499)	16%
Net Revenues	$ 266,077	$ 194,844	37%
Sales Volume (M Tons)	3,200	2,753	16%
Average Net Sales Price	$ 83.15	$ 70.77	17%
Unit Costs (including imports and purchased cement)	$ 58.68	$ 49.84	18%
Operating Margin	$ 24.47	$ 20.93	17%
Operating Earnings	$ 78,311	$ 57,616	36%

Revenues: Price increases were implemented throughout the fiscal year, which resulted in a 17% increase in average sales prices for fiscal 2006 as compared to fiscal 2005. Sales volume was greater due to our purchase of the remaining 50% interest in Illinois Cement Company during January 2005, which resulted in our consolidating all of the sales revenue from Illinois in fiscal 2006, and only 50% for the majority of fiscal 2005. Additionally, consumption was at an all-time high due to several favorable market factors, such as increased construction spending and very favorable weather conditions in our markets.

Operating Margins: Operating margins increased during fiscal 2006 as compared to fiscal 2005, primarily due to increased sales prices. The increases in sales prices were slightly offset by increased volumes of low margin purchased cement, which increased to 675,000 tons in fiscal 2006 from 402,000 tons in fiscal 2005, an increase of 68%. Additionally, fuel and energy costs increased 20% over the prior year period due primarily to increased cost of petroleum coke and coal and electricity.

Outlook: U.S. cement consumption remains strong as a result of strong federal and state infrastructure projects, strong housing activity and a recovering commercial construction market. The passage of the $286.4 billion, six-year federal highway transportation bill SAFETEA LU in July of 2005 represents a 40% increase over the previous TEA 21 bill and is anticipated to further strengthen the long-term demand for cement in the U.S. The U.S. Government and the Government of Mexico have entered into an agreement providing for the elimination of the antidumping duties imposed by the U.S. on cement imported from Mexico. The agreement provides for a three year transition period during which the volume of Mexican cement imported into the southern tier of the U.S. will be limited to 3 million metric tons per year and the antidumping duty imposed on Mexican cement will be set at $3 per ton. This is not expected to impact cement prices in the short term as the Portland Cement Association estimates that the current industry wide domestic production capacity is 25% short of domestic consumption. Additionally the major Mexican cement producers also own a much larger percentage of US domestic production than previously when dumping occurred. In the near term, we expect U.S.

cement pricing to remain stable or increase due to strong domestic consumption, increasing world demand and historically high international freight costs for imported cement. The Company has sold 100% of its production for the last 20 years and anticipates selling all of its fiscal 2007 production.

Table of Contents

RECYCLED PAPERBOARD OPERATIONS

	For the Fiscal Years Ended March 31,		Percentage
	2006	2005	Change
	(dollars in thousands)		
Gross Revenues, including intersegment	$ 133,482	$ 125,184	7%
Freight and Delivery Costs billed to customers	(2,587)	(3,048)	-15%
Net Revenues	$ 130,895	$ 122,136	7%
Sales Volume (M Tons)	289	268	8%
Average Net Sales Price	$ 452.63	$ 455.73	-1%
Unit Costs	$ 383.12	$ 360.93	6%
Operating Margin	$ 69.51	$ 94.99	-27%
Operating Earnings	$ 20,087	$ 25,406	-21%

Revenues: Paperboard achieved price increases in gypsum paper, primarily as a result of previously established price escalators in its contracts; however, prices declined for trims, containerboard and B grade, which made up a larger percentage of total sales in fiscal 2006 compared to fiscal 2005. Due to the change in sales mix, average sales price declined slightly in fiscal 2006 as compared to fiscal 2005. Total sales volume increased 8% due to a 16,000 ton increase in non-gypsum paperboard and higher sales to our wallboard division. Paperboard sales to our wallboard division were 114,000 tons at $57.5 million compared to 109,000 tons at $54.1 million for last year.

Operating Margins: Our operating margin per ton was adversely impacted by increased sales of lower margin containerboard and B grade paper during fiscal 2006 as compared to fiscal 2005. Additionally, operating margins were adversely impacted by increased natural gas, electricity and repair costs, offset positively by reduced recovered fiber costs.

Outlook: As a result of strong market demand, capital improvements and improved operating efficiency, our paperboard mill is currently producing at 150% of its original design capacity. While we anticipate continued strong demand for our products over the next six to twelve months, continued increases in natural gas and electricity costs over the next six months may adversely affect operating earnings.

Table of Contents

CONCRETE AND AGGREGATES OPERATIONS

	For the Fiscal Years Ended March 31, 2006	2005	Percentage Change
	(dollars in thousands)		
CONCRETE			
Gross Revenues	$ 55,269	42,228	31%
Sales Volume (M Yards)	883	769	15%
Average Net Sales Price	$ 62.61	$ 54.92	14%
Unit Costs	$ 55.37	$ 51.01	9%
Operating Margin	$ 7.24	$ 3.91	85%
Operating Earnings	$ 6,395	$ 3,007	113%
AGGREGATES			
Gross Revenues, including intersegment	$ 34,509	$ 28,558	21%
Freight & Delivery Cost billed to customers	(831)	(1,071)	-22%
Net Revenues	$ 33,678	$ 27,487	23%
Sales Volume (M Tons)	5,714	5,196	10%
Average Net Sales Price	$ 5.89	$ 5.29	11%
Unit Costs	$ 5.33	$ 4.38	22%
Operating Margin	$ 0.56	$ 0.91	-38%
Operating Earnings	$ 3,218	$ 4,735	-32%

Revenues: Revenues increased in for both concrete and aggregates during fiscal 2006 due to increases in sales prices and volumes due to strong construction activity in both the Austin, Texas and Sacramento, California markets. Aggregate pricing in Austin has increased by 18% during fiscal 2006 from fiscal 2005.

Operating Margins: Increases in operating margins for concrete are due primarily to increased sales prices in fiscal 2006 as compared to fiscal 2005, partially offset by increased raw materials (cement and aggregates) and delivery costs. Operating margins for aggregates declined for fiscal 2006 as compared to fiscal 2005, primarily due to significantly higher mobile equipment maintenance costs, as well as the timing of other plant maintenance projects.

Outlook: Concrete pricing in the Austin, Texas market increased during fiscal 2006 as a result of increased construction activity in the region in both the commercial and residential sectors. We expect improved pricing in the Austin, Texas market and continued strong pricing in the northern California market in fiscal 2007.

Aggregates pricing in the Sacramento area is expected to continue to remain strong in the near term due primarily to demand outpacing capacity. Aggregates pricing in the Austin, Texas market is anticipated to increase moderately over the near term due to increased levels of construction activity in the Austin area and a changing mix in the products sold.

Fiscal Year 2005 Compared to Fiscal Year 2004

Consolidated Results. Consolidated net revenues for fiscal 2005 were up 23% from fiscal 2004 driven by higher sales prices and volumes in all segments, especially Gypsum Wallboard and Cement. Fiscal 2005 operating earnings of $171.7 million were up 49% from $115.2 million last fiscal year mainly due to increased Gypsum Wallboard and Cement operating earnings.

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

	Revenues For the Fiscal Years Ended March 31,		Operating Earnings[1] For the Fiscal Years Ended March 31	
	2005	2004	2005	2004
	(dollars in thousands)		(dollars in thousands)	
Gypsum Wallboard	$ 350,101	$ 272,924	$ 81,616	$ 35,604
Cement	211,343	181,846	57,616	50,450
Paperboard	125,184	112,366	25,406	20,942
Concrete & Aggregates	70,786	63,117	7,742	5,971
Other, net	193	2,242	(721)	2,242
Sub-total	757,607	632,495	$ 171,659	$ 115,209
Less: Intersegment Revenues	(58,812)	(53,567)		
Less: Joint Venture Revenues	(82,254)	(76,306)		
Total	$ 616,541	$ 502,622		

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

Corporate Overhead. Corporate general and administrative expenses for fiscal 2005 were $10.3 million compared to $9.3 million for last fiscal year. The increase was primarily the result of increased consulting expenses, higher compensation and benefit costs and costs associated with Sarbanes Oxley, partially offset by the absence of $2.5 million in direct expenses related to the spin-off transaction included in fiscal 2004.

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

Net Interest Expense. Net interest expense of $3.3 million for fiscal 2005 declined $0.6 million from fiscal 2004 due to lower debt balances and reduced borrowing costs.

Income Taxes. The effective tax rate for fiscal 2005 declined to 32.5% from 33.9% primarily due to legal, advisory and consultant costs incurred in fiscal 2004 related to the spin-off transaction which were not deductible for tax purposes and, a current year state tax benefit of $2.3 million as a result of a lower effective state tax rate applied to our anticipated state deferred tax balances.

Net Income. As a result of the foregoing, pre-tax earnings of $158.1 million were 55% above fiscal 2004 pre-tax earnings of $102.1 million. Fiscal 2005 net earnings of $106.7 million increased 59% from net earnings of $66.9 million in fiscal 2004. Diluted earnings per share in fiscal 2005 of $1.91 were 61% higher than the $1.19 for fiscal 2004.

Table of Contents

GYPSUM WALLBOARD OPERATIONS

	For the Fiscal Years Ended March 31, 2005	2004	Percentage Change
	(dollars in thousands)		
Gross Revenues, as reported	$ 350,101	$ 272,924	28%
Freight and Delivery Costs billed to customers	(73,140)	(60,977)	20%
Net Revenues	$ 276,961	$ 211,947	31%
Sales Volume (MMSF)	2,547	2,437	5%
Average Net Sales Price [1]	$ 108.74	$ 86.97	25%
Unit Costs	$ 76.70	$ 72.36	6%
Operating Margin	$ 32.04	$ 14.61	119%
Operating Earnings	$ 81,616	$ 35,604	129%
Freight per MSF	$ 28.72	$ 25.02	15%

(1) Net of freight per MSF.

Revenues: Price increases throughout the year and record Company wallboard shipments positively impacted revenues for fiscal 2005 as compared to prior year. Pricing strengthened as a result of record demand resulting in the near full capacity utilization of the U.S. wallboard industry. Our sales volume of 2,547 MMSF represented a record for the Company.

Operating Margins: Operating margins were impacted by increasing transportation costs, natural gas and paper costs. On a per unit basis, freight costs, which are deducted to determine average net sales price, increased 15% compared to fiscal 2004. Operating earnings represented the second highest earnings in Company history.

Outlook: Strong demand from new housing resulted in record wallboard consumption for calendar 2004. According to the Gypsum Association, calendar 2004 national wallboard consumption of 34.2 billion square feet was up 8% from last year s same period.

Throughout fiscal 2005 industry utilization rates trended upward in excess of 92% and as a result, pricing firmed up in all of the markets we serve. We implemented a 10% price increase in late April 2005 in all of the markets we serve and another 15% price increase was announced in May 2005 to be implemented in July of 2005. Wallboard pricing, however, has historically softened during the winter season due to lower levels of construction activity.

Table of Contents

CEMENT OPERATIONS

	For the Fiscal Years Ended March 31, 2005	2004	Percentage Change
	(dollars in thousands)		
Gross Revenues, including intersegment	$ 211,343	$ 181,846	16%
Freight and Delivery Costs billed to customers	(16,499)	(15,608)	6%
Net Revenues	$ 194,844	$ 166,238	17%
Sales Volume (M Tons)	2,753	2,518	9%
Average Net Sales Price	$ 70.77	$ 66.02	7%
Unit Costs (including imports and purchased cement)	$ 49.84	$ 45.98	8%
Operating Margin	$ 20.93	$ 20.04	4%
Operating Earnings	$ 57,616	$ 50,450	14%

Revenues: Price increases were implemented during the first and fourth quarters of fiscal 2005 in the majority of our markets resulting in record average sales prices for the Company. Additionally, fiscal 2005 sales volume was a record high due to high levels of construction activity and favorable weather conditions in our markets. The tight supply of cement in these markets resulted in sold out conditions at all of our plants for fiscal 2005.

Operating Margins: We continue to utilize purchased cement to supplement our production capacities in certain markets that we serve. Purchased cement tons were 402,000 tons in fiscal 2005 versus 219,000 tons in the prior year and impacted current year average cost per ton by $1.87 per ton. Fuel and power costs increased 9% over the prior year period due primarily to increased cost of petroleum coke and coal.

Outlook: U.S. cement consumption was strong as a result of strong housing activity, a recovering commercial construction market and federal and state infrastructure projects. U.S. cement pricing increased due to strong domestic consumption, increasing world consumption and high international freight costs for imported cement. Total U.S. shipments of 132 million short tons for calendar 2004, were 4% above the same period in calendar 2003. Cement imports for calendar 2004, were 30 million short tons or 17.5% above last year s imports. The Company has been sold out for the last 19 years and it is estimated that current industry-wide domestic production capacity is 20% short of domestic consumption.

Table of Contents

RECYCLED PAPERBOARD OPERATIONS

	For the Fiscal Years Ended March 31, 2005	2004	Percentage Change
	(dollars in thousands)		
Gross Revenues, including intersegment	$ 125,184	$ 112,366	11%
Freight and Delivery Costs billed to customers	(3,048)	(2,355)	29%
Net Revenues	$ 122,136	$ 110,011	11%
Sales Volume (M Tons)	268	264	2%
Average Net Sales Price	$ 455.73	$ 416.71	9%
Unit Costs	$ 360.93	$ 337.38	7%
Operating Margin	$ 94.99	$ 79.33	19%
Operating Earnings	$ 25,406	$ 20,942	21%

Revenues: Paperboard achieved price increases in each of the products it sells, primarily as a result of previously established contract escalators associated with the price of the waste paper. Paperboard sales to our wallboard division were 109 thousand tons at $54.1 million compared to 107 thousand tons at $49.3 million for last year.

Operating Margins: Cost-of-sales per ton was impacted primarily by higher recovered fiber costs of $20.00 per ton, higher fuel costs of $2.80 per ton, higher chemical costs of $3.50 per ton and higher inbound freight costs of $5.00 per ton, offset positively by the mix of products sold and lower 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, and we anticipate continued strong demand for our products over the next twelve months. However, announced recycled container board production expansion could place upward price pressure on recovered fiber as supply tightens.

Table of Contents

CONCRETE AND AGGREGATES OPERATIONS

	For the Fiscal Years Ended March 31, 2005	2004	Percentage Change
	(dollars in thousands)		
CONCRETE			
Gross Revenues	$ 42,228	$ 40,226	5%
Sales Volume (M Yards)	769	762	1%
Average Net Sales Price	$ 54.92	$ 52.79	4%
Unit Costs	$ 51.01	$ 48.87	4%
Operating Margin	$ 3.91	$ 3.92	
Operating Earnings	$ 3,007	$ 2,987	1%
AGGREGATES			
Gross Revenues, including intersegment	$ 28,558	$ 22,891	25%
Freight and Delivery Costs billed to customers	(1,071)	(558)	92%
Net Revenues	$ 27,487	$ 22,333	23%
Sales Volume (M Tons)	5,196	4,228	23%
Average Net Sales Price	$ 5.29	$ 5.24	1%
Unit Costs	$ 4.38	$ 4.53	(3%)
Operating Margin	$ 0.91	$ 0.71	28%
Operating Earnings	$ 4,735	$ 2,984	59%

Revenues: Concrete revenues were impacted primarily by increased average sales prices of $4.74 per cubic yard in the northern California market and $1.94 per cubic yard in the Austin, Texas market versus the prior year, offset by decreased volumes in the northern California market. We recorded record volumes throughout fiscal 2005; driven by the northern California market where demand outpaced supply. Pricing strengthened in northern California and was up 7% as compared to the prior year. Aggregates volumes for the Austin, Texas market increased 39% versus the prior year period due to higher sales of road base. Sales of road base were at lower prices than washed aggregates products and therefore negatively impacted the average Texas sales price of aggregates by 6% versus the prior year.

Operating Margins: Concrete margins were negatively impacted by increased raw materials (cement and aggregates) and delivery costs. In both of our markets the majority of such costs were passed through to customers via price increases reflected above. Costs were impacted negatively by higher contract mining costs and higher maintenance costs versus last year. Aggregates costs per ton remained essentially flat due to fixed costs being spread over larger sales volumes.

Outlook: While concrete pricing in the Austin, Texas market increased slightly, pricing was below the national average and well below pricing in the northern California market. We expect this trend to continue for the next twelve months. Additionally, we expect continued stable pricing in the northern California market. We expect that aggregates pricing in the northern California area will continue to strengthen due primarily to demand outpacing capacity. Aggregates pricing in the Austin, Texas market increased moderately in fiscal 2005 due to increased levels of construction activity in the Austin area and a changing mix in the products sold.

Table of Contents

CRITICAL ACCOUNTING POLICIES

Certain of our critical accounting policies require the use of judgment in their application or require estimates of inherently uncertain matters. Although our accounting policies are in compliance with generally accepted accounting principles, a change in the facts and circumstances of the underlying transactions could significantly change the application of the accounting policies and the resulting financial statement impact. Listed below are those policies that we believe are critical and require the use of complex judgment in their application.

Impairment of Long-Lived Assets. We assess long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. These evaluations for impairment are significantly impacted by estimates of revenues, costs and expenses and other factors. If these assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Goodwill. Pursuant to SFAS No. 142 Goodwill and Other Intangible Assets, goodwill is no longer subject to amortization. Rather, goodwill is subject to at least an annual assessment for impairment by applying a fair-value-based test. We have elected to test for goodwill impairment in the first quarter of each calendar year. The goodwill impairment test is a two-step process, which requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of each reporting unit based on a discounted cash flow model using revenues and profit forecasts and comparing those estimated fair values with the carrying value; a second step is performed to compute the amount of the impairment by determining a implied fair value of goodwill. Similar to the review for impairment of other long-lived assets, evaluations for impairment are significantly impacted by estimates of future prices for our products, capital needs, economic trends and other factors.

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 its operations. We record environmental accruals when it is probable that a reasonably estimable liability has been incurred. Environmental remediation accruals are based on internal studies and estimates, including shared financial liability with third parties. Environmental expenditures that extend the life, increase the capacity, improve the safety or efficiency of assets or mitigate or prevent future environmental contamination may be capitalized. Other environmental costs are expensed when incurred.

Estimation of Reserves and Valuation Allowances. We evaluate the collectibility of accounts receivable based on a combination of factors. In circumstances when we are aware of a specific customer s inability to meet its financial obligation to the Company, the balance in the reserve for doubtful accounts is evaluated, and if determined to be deficient, a specific amount will be added to the reserve. For all other customers, the reserve for doubtful accounts is determined by the length of time the receivables are past due or the status of the customer s financial condition.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Liquidity.

The following table provides a summary of our cash flows:

	For the Fiscal Years Ended March 31,	
	2006	2005
	(dollars in thousands)	
Net Cash Provided by Operating Activities:	$ 188,246	$ 157,202
Investing Activities:		
Acquisition of Illinois Cement 50% Interest		(72,000)
Capital Expenditures and Other Investing Activities, net	(72,929)	(20,991)
Net Cash Used in Investing Activities	(72,929)	(92,991)
Financing Activities:		
Excess Tax Benefits	1,662	
Addition to Note Payable		6,700
Addition to (Reduction in) Long-term Debt, net	115,200	(4,780)
Retirement of Common Stock	(165,335)	(43,754)
Dividends Paid	(21,312)	(22,203)
Proceeds from Stock Option Exercises	2,013	3,511
Net Cash Used in Financing Activities	(67,772)	(60,526)
Net Increase in Cash	$ 47,545	$ 3,685

The $31.0 million increase in cash flows from operating activities for fiscal 2006 was largely attributable to increased earnings. This increase was offset by the change in working capital, primarily the increase in accounts receivable.

Working capital at March 31, 2006 was $112.0 million compared to $19.8 million at March 31, 2005. The increase resulted primarily from a reduction of $30.8 million in notes payable and an increase of $43.9 million in cash related to the senior note borrowing during fiscal 2006. The remaining difference was due primarily to the $23.1 million increase in accounts and notes receivable.

Total debt increased from $84.8 million at March 31, 2005, to $200.0 million at March 31, 2006 due to the Senior Note borrowing. Debt-to-capitalization at March 31, 2006, was 30.1% compared to 14.9% at March 31, 2005.

Based on our financial condition and results of operations as of and for the year ended March 31, 2006, along with the projected net earnings for fiscal 2007, 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 2007. The Company was in compliance at March 31, 2006 and during the fiscal year ended March 31, 2006, 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 $54.8 million at March 31, 2006, 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 million to $350 million, modified certain financial and other covenants and extended the maturity date to 2009 (the Bank Credit Facility). The Bank Credit Facility expires on December 16, 2009, at which time all outstanding borrowings are due. The 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 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 Bank 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 March 31, 2006 the Company had $342.1 million of borrowings available under the Bank Credit Facility.

On November 15, 2005, we entered into a Note Purchase Agreement (the Note Purchase Agreement) related to our sale of $200 million of senior, unsecured notes, designated as Series 2005A Senior Notes (the Senior Notes) in a private placement transaction. The Senior Notes are guaranteed by substantially all of the Company s subsidiaries. The Senior Notes were sold at par on November 15, 2005 and were issued in three tranches, as follows:

	Principal	Maturity Date	Interest Rate
Tranche A	$40,000	November 15, 2012	5.25%
Tranche B	$80,000	November 15, 2015	5.38%
Tranche C	$80,000	November 15, 2017	5.48%

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

Our obligations under the Note Purchase Agreement and 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 Agreement contains 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.

The Company paid all outstanding amounts and terminated its trade receivables securitization facility (the Receivables Securitization Facility) in December 2005. The Receivables Securitization Facility had been fully consolidated on the accompanying consolidated balance sheets prior to cancellation.

Other than the Bank Credit Facility, the Company has no other source of committed external financing in place. In the event the Bank Credit Facility was 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 Bank 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, which was terminated in December 2005, the Company did 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 Bank Credit Facility a $25 million Letter of Credit Facility. At March 31, 2006, the Company had $7.9 million of letters of credit outstanding that renew annually. We are contingently liable for performance under $6.9 million in performance bonds relating primarily to our mining operations.

Cash used for Share Repurchases and Stock Repurchase Program

See table under Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities on pages 18 and 19.

On January 26, 2006, we announced that our Board of Directors authorized the repurchase of an additional 2,749,563 shares of common stock, raising our repurchase authorization to approximately 3,000,000

shares, which remain available at March 31, 2006. Share repurchases may be made from time-to-time in the open market or in privately negotiated transactions. The timing and amount of any repurchases of shares will be determined by the Company s management, based on its evaluation of market and economic conditions and other factors.

Dividends.

Dividends paid in fiscal years 2006 and 2005 were $21.3 million and $22.2 million, respectively. Each quarterly dividend payment is subject to review and approval by our Board of Directors, and we will continue to evaluate our dividend payment amount on an ongoing basis. During January 2006 we announced an increase in our annual dividend from $0.40 to $0.70 per share, beginning with the April 2006 dividend payment.

Capital Expenditures.

The following table compares capital expenditures:

	For the Fiscal Years Ended Ended March 31,	
	2006	2005
	(dollars in thousands)	
Land and Quarries	$ 2,067	$ 2,671
Plants	56,376	15,059
Buildings, Machinery and Equipment	14,486	4,643
Total Capital Expenditures	$ 72,929	$ 22,373

Historically, we have financed such expenditures with cash from operations and borrowings under our revolving credit facility. We expect to make capital expenditures of approximately $160.0 million during fiscal 2007. The increase in capital spending is due primarily to our beginning construction on the wallboard plant in South Carolina.

Contractual Obligations.

The Company has certain contractual obligations covering manufacturing, transportation and certain other facilities and equipment. Future payments due, aggregated by type of contractual obligation are set forth as follows:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(dollars in thousands)				
Contractual Obligations:					
Long-term Debt/Note Payable	$ 200,000	$	$	$	$ 200,000
Operating Leases	9,032	2,008	2,549	1,003	3,472
Purchase Obligations	47,339	37,985	9,354		
Total	$ 256,371	$ 39,993	$ 11,903	$ 1,003	$ 203,472

Purchase obligations are non-cancelable agreements to purchase coal and natural gas, to pay royalty amounts and capital expenditure commitments. The Company expects to sign a contract during fiscal 2007 relating to the construction of the wallboard plant in Georgetown, South Carolina.

Based on our current estimates, we do not anticipate making any additional contributions to our defined benefit plans for fiscal year 2007.

Inflation and Changing Prices

Inflation has not been a significant factor in the U.S. economy as the rate of increase has moderated during the last several years. The Consumer Price Index rose approximately 3.4% in calendar 2005, 3.3% in 2004, and 1.9% in 2003. Prices of materials and services, with the exception of power, natural gas, coal, coke, and transportation freight have remained relatively stable over the three-year period. During fiscal 2006, the Consumer Price Index for energy and transportation rose approximately 17.1% and 4.8%, respectively. Strict cost control and improved productivity have minimized the impact of inflation on our operations, as has the ability to recover increasing costs by obtaining higher sales prices. The ability to increase sales prices to cover future increases varies with the level of activity in the construction industry, the number, size, and strength of competitors and the availability of products to supply a local market.

GENERAL OUTLOOK

See outlook within Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations on pages 20-30.

RECENT ACCOUNTING PRONOUNCEMENTS

See Footnote (A) to the Consolidated Financial Statements on page 41.

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. We specifically disclaim any duty to update any of the information set forth in this report, including any forward-looking statements. Forward looking statements are made based on management s current expectations and beliefs concerning future events and, therefore, involve a number of risks and uncertainties. Management cautions that forward-looking statements are not guarantees, and our actual results could differ materially from those expressed or implied in the forward looking statements. See Item 1A for a more detailed discussion of specific risks and uncertainties.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks related to fluctuations in interest rates on our Bank Credit Facility. 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 March 31, 2006 there were no outstanding borrowings under the Bank Credit Facility. 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 changes in commodity prices by entering into contracts or increasing use of alternative fuels.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
Financial Information

Table of Contents

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

	For the Years Ended March 31,		
	2006	2005	2004
REVENUES			
Gypsum Wallboard	$ 479,134	$ 350,101	$ 272,924
Cement	213,980	125,480	102,250
Paperboard	75,935	71,076	63,110
Concrete and Aggregates	88,374	69,691	62,096
Other, net	2,279	193	2,242
	859,702	616,541	502,622
COSTS AND EXPENSES			
Gypsum Wallboard	324,907	268,484	237,320
Cement	162,586	94,785	75,711
Paperboard	55,848	45,671	42,168
Concrete and Aggregates	78,761	61,949	56,125
Other, net	740	914	
Corporate General and Administrative	16,370	10,280	9,272
Interest Expense, net	6,341	3,290	3,814
	645,553	485,373	424,410
EQUITY IN EARNINGS OF UNCONSOLIDATED JOINT VENTURES	26,917	26,921	23,911
EARNINGS BEFORE INCOME TAXES	241,066	158,089	102,123
Income Taxes	80,082	51,402	35,222
NET EARNINGS	$ 160,984	$ 106,687	$ 66,901
EARNINGS PER SHARE			
Basic	$ 3.06	$ 1.93	$ 1.20
Diluted	$ 3.02	$ 1.91	$ 1.19
DIVIDENDS PER SHARE	$ 0.40	$ 0.40	$ 2.15

See notes to consolidated financial statements.

37

Table of Contents

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

	March 31, 2006	March 31, 2005
ASSETS		
Current Assets -		
Cash and Cash Equivalents	$ 54,766	$ 7,221
Accounts and Notes Receivable, net	94,061	70,952
Inventories	67,799	63,482
Total Current Assets	216,626	141,655
Property, Plant and Equipment -	856,227	788,447
Less: Accumulated Depreciation	(298,665)	(264,088)
Property, Plant and Equipment, net	557,562	524,359
Investments in Joint Venture	27,847	28,181
Goodwill and Intangible Assets	67,854	66,960
Other Assets	19,027	18,846
	$ 888,916	$ 780,001
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Note Payable	$	$ 30,800
Accounts Payable	51,562	40,687
Accrued Liabilities	53,137	50,382
Total Current Liabilities	104,699	121,869
Long-term Debt	200,000	54,000
Deferred Income Taxes	119,479	118,764
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 50,318,797 and 54,675,834 Shares, respectively.	503	547
Capital in Excess of Par Value		
Accumulated Other Comprehensive Losses	(1,404)	(1,842)
Retained Earnings	465,639	486,663
Total Stockholders Equity	464,738	485,368
	$ 888,916	$ 780,001

See notes to consolidated financial statements.

38

Table of Contents

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

	For the Years Ended March 31, 2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Earnings	$ 160,984	$ 106,687	$ 66,901
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities, Net of Effect of Non-Cash Activity -			
Depreciation, Depletion and Amortization	38,599	34,496	33,022
Deferred Income Tax Provision	888	17,942	21,826
Stock Compensation Expense	2,820	1,470	
Equity in Earnings of Unconsolidated Joint Ventures	(26,916)	(26,921)	(23,911)
Distributions from Joint Ventures	27,250	30,917	26,149
Excess Tax Benefits from Share Based Payment Arrangements	(1,662)		
Changes in Operating Assets and Liabilities:			
Accounts and Notes Receivable	(23,109)	(12,483)	(12,028)
Inventories	(4,317)	(6,948)	248
Accounts Payable and Accrued Liabilities	11,711	12,967	1,936
Other Assets	2,119	868	(2,832)
Income Taxes Payable	(121)	(1,793)	1,374
Net Cash Provided by Operating Activities	188,246	157,202	112,685
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to Property, Plant and Equipment	(72,929)	(22,373)	(12,427)
Proceeds from Asset Dispositions		1,382	740
Purchase of Illinois Cement 50% J.V. Interest		(72,000)	
Net Cash Used in Investing Activities	(72,929)	(92,991)	(11,687)
CASH FLOWS FROM FINANCING ACTIVITIES			
Excess Tax Benefits from Share Based Payment Arrangements	1,662		
Proceeds from Note Payable, net		6,700	24,100
Repayment of Note Payable	(30,800)		(25,257)
Proceeds from Long-term Debt	200,000	54,000	92,000
Repayment of Long-term Debt	(54,000)	(58,780)	(88,380)
Redemption of Subordinated Debt			(510)
Dividends Paid to Stockholders	(21,312)	(22,203)	(116,580)
Retirement of Common Stock	(165,335)	(43,754)	(3,137)
Proceeds from Stock Option Exercises	2,013	3,511	13,507
Net Cash Used in Financing Activities	(67,772)	(60,526)	(104,257)
	47,545	3,685	(3,259)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,221	3,536	6,795
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 54,766	$ 7,221	$ 3,536

See notes to consolidated financial statements.

Eagle Materials Inc. and Subsidiaries
Consolidated Statements of Stockholders Equity
(dollars in thousands)

	For the Years Ended March 31, 2006	2005	2004
Common Stock -			
Balance at Beginning of Period	$ 547	$ 564	$ 552
Retirement of Common Stock	(46)	(21)	
Stock Option Exercises	2	4	12
Balance at End of Period	503	547	564
Capital In Excess of Par Value -			
Balance at Beginning of Period		27,847	13,864
Retirement of Common Stock	(7,361)	(33,606)	(3,137)
Share Based Activity	5,348		
Stock Option Exercises	2,013	5,759	17,120
Balance at End of Period			27,847
Retained Earnings -			
Balance at Beginning of Period	487,220	413,079	467,481
Retirement of Common Stock	(157,928)	(10,506)	
Dividends to Stockholders	(24,637)	(22,040)	(121,303)
Net Earnings	160,984	106,687	66,901
Balance at End of Period	465,639	487,220	413,079
Unamortized Restricted Stock -			
Balance at Beginning of Period	(557)	(591)	
Transfer to Capital in Excess of Par Value	548		
Issuance of Restricted Stock			(709)
Amortization	9	34	118
Balance at End of Period		(557)	(591)
Accumulated Other Comprehensive Losses -			
Balance at Beginning of Period	(1,842)	(1,877)	(2,282)
Unrealized Gain on Hedging Instruments, net of tax			579
Minimum Pension Liability, net of tax	438	35	(174)
Balance at End of Period	(1,404)	(1,842)	(1,877)
Total Stockholders Equity	$ 464,738	$ 485,368	$ 439,022

See notes to consolidated financial statements.

Table of Contents

Eagle Materials Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(dollars in thousands, except per share data)

(A) Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Eagle Materials Inc. and its majority-owned subsidiaries (EXP or the Company), which may be referred to as our , we or us . All intercompany balances and transactions have been eliminated. EXP is a holding company whose assets consist of its investments in its subsidiaries, joint ventures, intercompany balances and holdings of cash and cash equivalents. The businesses of the consolidated group are conducted through EXP s subsidiaries. The Company conducts one of its cement plant operations through a joint venture, Texas Lehigh Cement Company L.P., which is located in Buda, Texas (the Joint Venture). Investments in Joint Ventures and affiliated companies owned 50% or less are accounted for using the equity method of accounting. The Equity in Earnings of Unconsolidated Joint Ventures has been included for the same period as the Company s March 31 year end. As discussed further in Note (I) the Company completed the purchase of the other 50% of Illinois Cement Company on January 10, 2005 and amounts reflected herein include the operational results of Illinois Cement Company from that date forward.

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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.

Cash and Cash Equivalents

Cash equivalents include short-term, highly liquid investments with original maturities of three months or less, and are recorded at cost, which approximates market value.

Accounts and Notes Receivable

Accounts and notes receivable have been shown net of the allowance for doubtful accounts of $3.3 million and $3.6 million at March 31, 2006 and 2005, respectively. The Company performs ongoing credit evaluations of its customers financial condition and generally requires no collateral from its customers. The allowance for non-collection of receivables is based upon analysis of economic trends in the construction industry, detailed analysis of the expected collectibility of accounts receivable that are past due and the expected collectibility of overall receivables. The Company has no significant credit risk concentration among its diversified customer base.

Notes receivable at March 31, 2006 are collectible primarily over three years. The weighted-average interest rate at March 31, 2006 and 2005 was 4.5% and 7.8%, respectively.

Table of Contents

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:

	March 31, 2006	March 31, 2005
	(dollars in thousands)	
Raw Materials and Materials-in-Progress	$ 15,494	$ 16,073
Gypsum Wallboard	6,621	8,668
Finished Cement	10,978	5,680
Aggregates	3,536	3,651
Paperboard	5,579	5,401
Repair Parts and Supplies	23,962	22,414
Fuel and Coal	1,629	1,595
	$ 67,799	$ 63,482

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized and depreciated. Repairs and maintenance are expensed as incurred. Depreciation is provided on a straight-line basis over the estimated useful lives of depreciable assets. Depreciation expense was $37.3 million, $33.7 million and $31.5 million for the years ended March 31, 2006, 2005 and 2004, respectively. Raw material deposits are depleted as such deposits are extracted for production utilizing the units-of-production method. Costs and accumulated depreciation applicable to assets retired or sold are eliminated from the accounts and any resulting gains or losses are recognized at such time. The estimated lives of the related assets are as follows:

Plants	20 to 30 years
Buildings	20 to 40 years
Machinery and Equipment	3 to 20 years

The Company periodically evaluates whether current events or circumstances indicate that the carrying value of its depreciable assets may not be recoverable. At March 31, 2006 and 2005, management believes no events or circumstances indicate that the carrying value may not be recoverable.

Impairment or Disposal of Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. Such evaluations for impairment are significantly impacted by estimates of future prices for the Company s products, capital needs, economic trends in the construction sector and other factors. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Assets to be disposed of by sale are reflected at the lower of their carrying amount or fair value less cost to sell.

Table of Contents

Goodwill and Intangible Assets

Goodwill. Pursuant to SFAS No. 142 Goodwill and Other Intangible Assets, goodwill is no longer subject to amortization. Rather, goodwill is subject to at least an annual assessment for impairment by applying a fair-value-based test. We have elected to test for goodwill impairment in the first quarter of each calendar year. The goodwill impairment test is a two-step process, which requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of each reporting unit based on a discounted cash flow model using revenues and profit forecasts and comparing those estimated fair values with the carrying value; a second step is performed, if necessary, to compute the amount of the impairment by determining an implied fair value of goodwill. Similar to the review for impairment of other long-lived assets, evaluations for impairment are significantly impacted by estimates of future prices for our products, capital needs, economic trends and other factors.

	March 31, 2006			
	Amortization Period	Cost	Accumulated Amortization	Net
	(dollars in thousands)			
Intangible Assets Subject to Amortization:				
Customer contracts	15 years	$ 1,300	$ (463)	$ 837
Permits	40 years	22,000	(630)	21,370
Goodwill		45,647		45,647
Total intangible assets and goodwill		$ 68,947	$ (1,093)	$ 67,854

	March 31, 2005			
	Amortization Period	Cost	Accumulated Amortization	Net
	(dollars in thousands)			
Intangible Assets Subject to Amortization:				
Customer contracts	15 years	$ 1,300	$ (376)	$ 924
Permits	40 years	22,000	(80)	21,920
Goodwill		44,116		44,116
Total intangible assets and goodwill		$ 67,416	$ (456)	$ 66,960

Amortization expense of intangibles for the years ended March 31, 2006, 2005 and 2004 was $637,000, $167,000 and $87,000, respectively.

Other Assets

Other assets are primarily composed of prepaid assets, loan fees and financing costs, other deferred expenses, and deposits.

Income Taxes

The Company provides for deferred taxes on the differences between the financial reporting basis and tax basis of assets and liabilities using existing tax laws and rates. Additionally, as applicable we recognize future tax benefits such as operating loss carry forwards, to the extent that realization of such benefits is more likely than not.

Stock Repurchases

The Company s Board of Directors has approved a cumulative total of 26,453,805 shares for repurchase. There are approximately 3,000,000 shares remaining under the Company s current repurchase authorization at March 31, 2006. The Company repurchased and retired 4,547,163, 1,986,600 and 175,500 shares of Common Stock at a cost of $165.3 million, $43.8 million and $3.1 million during the years ended March 31, 2006, 2005 and 2004, respectively.

Revenue Recognition

Revenue from the sale of cement, gypsum wallboard, paperboard, concrete and aggregates is recognized when title and ownership are transferred upon shipment to the customer. Fees for shipping and handling are recorded as revenue, while costs incurred for shipping and handling are recorded as expenses.

The Company classifies its freight revenue as sales and freight costs as cost of goods sold, respectively. Approximately $112.0 million, $85.9 million and $72.3 million were classified as cost of goods sold in the years ended March 31, 2006, 2005 and 2004, respectively.

Comprehensive Income/Losses

A summary of comprehensive income for the fiscal years ended March 31, 2006, 2005 and 2004 is presented below:

	For the Years Ended March 31,		
	2006	2005	2004
	(dollars in thousands)		
Net Earnings	$ 160,984	$ 106,687	$ 66,901
Other Comprehensive Income (Loss), net of tax:			
Unrealized Gain on Hedging Instruments			579
Minimum Pension Liability Adjustments	438	35	(174)
Comprehensive Income	$ 161,422	$ 106,722	$ 67,306

The unrealized gain on hedging instruments represents the deferral in other comprehensive earnings of the unrealized loss on swap agreements designated as cash flow hedges. During fiscal 2004, the Company had an interest rate swap agreement with a bank for a total notional amount of $55.0 million. This interest rate swap agreement expired on August 28, 2003 resulting in the reversal of the comprehensive loss recorded at March 31, 2003, and such amounts were reclassified to earnings. The accounting for interest rate swaps and other derivative financial instruments is discussed in Note (P). The unrealized gains and losses, net of tax, are excluded from earnings and reported in a separate component of stockholders equity as Accumulated Other Comprehensive Losses.

As of March 31, 2006, the Company has an accumulated other comprehensive loss of $1.4 million net of income taxes of $0.8 million, in connection with recognizing a 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 discussed in Note (N).

Statements of Consolidated Earnings Supplemental Disclosures

Selling, general and administrative expenses of the operating units are included in costs and expenses of each segment. Corporate general and administrative expenses include administration, financial, legal, employee benefits and other corporate activities not allocated to the segment and are shown separately in the statements of consolidated earnings. Total selling, general and administrative expenses for each of the periods are summarized as follows:

	For the Years Ended March 31,		
	2006	2005	2004
	(dollars in thousands)		
Operating Units Selling G&A	$ 37,698	$ 30,414	$ 23,383
Corporate G&A	16,370	10,280	9,272
	$ 54,068	$ 40,694	$ 32,655

Corporate G&A includes stock compensation expense. See Note (K) for more information.

Maintenance and repair expenses are included in each segment s costs and expenses. The Company incurred $58.5 million, $40.9 million and $38.9 million in the years ended March 31, 2006, 2005 and 2004, respectively.

Other net revenues include lease and rental income, asset sale income, non-inventoried aggregates sales income, distribution center income and trucking income as well as other miscellaneous revenue items and costs which have not been allocated to a business segment.

Statements of Consolidated Cash Flows Supplemental Disclosures

Interest payments made during the years ended March 31, 2006, 2005 and 2004 were $4.0 million, $2.4 million and $2.7 million, respectively.

The Company made net payments of $76.7 million, $32.4 million and $10.3 million for federal and state income taxes in the years ended March 31, 2006, 2005 and 2004, respectively.

Earnings Per Share

	For the Years Ended March 31,		
	2006	2005	2004
Weighted-Average Shares of Common Stock Outstanding	52,599,080	55,241,025	55,753,197
Common Equivalent Shares:			
Assumed Exercise of Outstanding Dilutive Options	1,816,865	1,755,357	2,088,306
Less Shares Repurchased from Proceeds of Assumed Exercised Options[1]	(1,142,793)	(1,127,793)	(1,633,308)
Restricted Shares	57,152	14,685	909
Weighted-Average Common and Common Equivalent Shares Outstanding	53,330,304	55,883,274	56,209,104

(1) Includes unearned compensation related to outstanding stock options.

There were 65,000 shares of stock at an average price of $42.85 that were excluded from the computation of diluted earnings per share for the year ended March 31, 2004. There were no anti-dilutive options for the years ended March 31, 2006 and 2005.

Accounting For Stock-Based 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, is 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 the Company accounted for employee stock options using the intrinsic value method of accounting prescribed by APB Opinion 25, Accounting for Stock Issued to Employees, as allowed by SFAS 123.

In accordance with SFAS No. 123, as amended by SFAS No. 148, the Company discloses compensation cost based on the estimated fair value at the date of grant. For disclosure purposes employee stock options are valued at the grant date using the Black-Scholes option-pricing model and compensation expense is recognized ratably over the vesting period. The weighted-average assumptions used in the Black-Scholes model to value the option awards in fiscal 2005 and 2004, respectively, are as follows: dividend yield of 1.2% and 0.50%; expected volatility of 26.5% and 31.7%; risk-free interest rates of 5.5% and 3.2%; and expected lives of 10 years for 2005 and 2004 grants.

If the Company had recognized compensation expense for the stock options plans based on the fair value at the grant dates for awards, pro forma net earnings would be as follows:

	For the Years Ended March 31,	
	2005	2004
	(dollars in thousands)	
Net Earnings -		
As reported	$ 106,687	$ 66,901
Add stock-based employee compensation included in the determination of net income as reported, net of tax	1,091	77
Deduct fair value of stock-based employee compensation, net of tax	(3,334)	(402)
Pro forma	$ 104,444	$ 66,576
Basic Earnings Per Share -		
As reported	$ 1.93	$ 1.20
Pro forma	$ 1.89	$ 1.19
Diluted Earnings Per Share -		
As reported	$ 1.91	$ 1.19
Pro forma	$ 1.87	$ 1.18

Prior to adopting SFAS 123(R), all tax benefits of deductions resulting from the exercise of nonqualified stock options were presented as operating cash flows (reflected in income taxes payable). SFAS 123(R) requires the cash flows resulting from excess tax benefits be classified as cash flows provided by financing activities. As a result of adopting FAS 123(R), excess tax benefits have been classified as cash flows provided by financing activities.

New Accounting Standards

Inventory Costs. In November 2004, the FASB issued SFAS No. 151, Inventory Costs , an amendment of APB No. 43, Chapter 4. The amendments made by SFAS No. 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 No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, or fiscal 2007 for the Company. The Company has evaluated the impact associated with the adoption of SFAS No. 151 and believes that the adoption will not have a material impact on our financial position and results of operations.

SFAS No. 109-1. In December 2004, the FASB issued FASB Staff Position (FSP) SFAS No. 109-1 Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004. This FSP, which became effective upon issuance, provides that the tax deduction for income with respect to qualified domestic production activities, as part of the American Jobs Creation Act of 2004 that was enacted on October 22, 2004, will be treated as a special deduction as described in SFAS No. 109. As a result, this deduction has no effect on our deferred tax assets and liabilities existing at the date of enactment. Instead, the impact of this deduction, which was effective January 1, 2005, will be reported in the period or periods in which the deduction is claimed on our income tax returns.

EITF 04-6. During March 2005 the Emerging Issues Task Force reached a consensus that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of inventory produced during the period such costs are incurred. The consensus is effective for the Company beginning April 1, 2006, and application of the Issue is not expected to have a material impact on our financial position and results of operations.

Reclassifications -

Certain prior year balances have been reclassified to be consistent with the fiscal 2006 presentation.

(B) Stock Reclassification

On April 11, 2006, the shareholders of the Company voted to eliminate our dual class capital structure by exchanging each share of our outstanding Common Stock and Class B Common Stock into a new class of common stock. Accordingly, all stock information has been retroactively restated as if the combination had taken place as of the earliest period presented.

(C) Stock Split

On January 24, 2006, the Board of Directors declared a 3-for-1 stock split in the form of a 200% stock dividend on the Company s Common Stock and its Class B Common Stock. The stock dividend was distributed on February 24, 2006 to stockholders of record on February 10, 2006. All share and per share information, including dividends, for the years ended March 31, 2006, 2005 and 2004 has been retroactively adjusted for this split.

(D) Spin-Off by Centex Corporation

In January 2004, the Company and Centex Corporation (Centex) completed a series of transactions that resulted in the spin-off by Centex of its entire equity interest in the Company (the Spin-off). As a result of the Spin-off, the Company is no longer affiliated with Centex.

On January 29, 2004, in connection with the Spin-off, the Company paid a special one-time cash dividend of $2.00 per share ($112.9 million total) to the holders of record of its common stock (including Centex) as of January 13, 2004. The Company used borrowings under its credit facility and cash on hand to fund the special dividend, and, consequently, immediately after payment of the dividend, the Company s debt was $92.0 million.

Table of Contents

(E) Property, Plant and Equipment

Cost by major category and accumulated depreciation are summarized as follows:

	March 31, 2006	March 31, 2005
	(dollars in thousands)	
Land and Quarries	$ 56,327	$ 53,941
Plants	734,853	710,394
Buildings, Machinery and Equipment	31,813	24,112
Construction in Progress	33,234	
	856,227	788,447
Accumulated Depreciation	(298,665)	(264,088)
	$ 557,562	$ 524,359

Construction in progress relates primarily to our expansion of the Illinois Cement Company facility. The expansion is expected to be completed during November 2006, and require additional capital expenditures of approximately $25.8 million.

(F) Indebtedness

Notes Payable and Long-term Debt is set forth below:

	March 31, 2006	March 31, 2005
	(dollars in thousands)	
Senior Notes	$ 200,000	$
Bank Debt, Due December 2009, Unsecured		54,000
Less Current Maturities		
Total Long-term Debt	$ 200,000	$ 54,000
Receivables Securitization Facility		30,800
Total Notes Payable	$	$ 30,800

The weighted-average interest rate of Senior Notes during fiscal 2006, and at March 31, 2006 was 5.4%.

The weighted-average interest rate of bank debt borrowings during fiscal 2006, 2005 and 2004 was 4.2%, 2.9% and 2.3%, respectively. The interest rate on the bank debt was 0% at March 31, 2006 and 3.8% at March 31, 2005.

The weighted-average interest rate of the note payable borrowings during fiscal 2006, 2005 and 2004 was 3.9%, 2.2% and 1.4%, respectively. The interest rate on note payable debt was 0% and 1.5% at March 31, 2006 and 2005, respectively. The amount of accounts receivable pledged under the receivables securitization program at March 31, 2005 was $62.4 million.

Table of Contents

Maturities of long-term debt during the next five fiscal years are as follows:

2007	$
2008	
2009	
2010	
2011	
Thereafter	$ 200,000
Total	$ 200,000

Senior Notes -

On November 15, 2005, we entered into a Note Purchase Agreement (the Note Purchase Agreement) related to our sale of $200 million of senior, unsecured notes, designated as Series 2005A Senior Notes (the Senior Notes) in a private placement transaction. The Senior Notes are guaranteed by substantially all of the Company s subsidiaries. The Senior Notes were sold at par on November 15, 2005 and were issued in three tranches, as follows:

	Principal	Maturity Date	Interest Rate
Tranche A	$ 40,000	November 15, 2012	5.25%
Tranche B	$ 80,000	November 15, 2015	5.38%
Tranche C	$ 80,000	November 15, 2017	5.48%

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

Our obligations under the Note Purchase Agreement and 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 Agreement contains 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. The Company was in compliance with all financial ratios and tests at March 31, 2006 and throughout the fiscal year.

Pursuant to a Subsidiary Guaranty Agreement, substantially all of our subsidiaries have guaranteed the punctual payment of all principal, interest, and Make-Whole Amounts (as defined in the Note Purchase Agreement) on the Senior Notes and the other payment and performance obligations of the Company contained in the Senior Notes and in the Note Purchase Agreement. We are permitted, at our option, 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.

Bank Debt -

On December 16, 2004, the Company amended its existing credit facility to increase the facility amount from $250 million to $350 million, modified certain financial and other covenants and extended the maturity date to 2009 (the Bank Credit Facility). The Bank Credit Facility expires on December 16, 2009, at which time all borrowings outstanding are due. The 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 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 Bank 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. The Company was in compliance with all financial ratios and tests at March 31, 2006 and throughout the fiscal year. At March 31, 2006 the Company had $342.1 million of borrowings available under the Bank Credit Facility.

The Credit Facility has a $25 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 March 31, 2006, the Company had $7.9 million of letters of credit outstanding.

Prior to December 15, 2004, the Company maintained a $250 million credit agreement (the Prior Credit Facility) with a scheduled maturity of December 18, 2006. The borrowings under the Prior Credit Facility were guaranteed by all major operating subsidiaries of the Company. At the option of the Company, outstanding principal amounts on the Prior Credit Facility bore interest at a variable rate equal to: (i) LIBOR, plus an agreed margin (ranging from 125 to 200 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 Prior Credit Facility, the Company was required to adhere to a number of financial and other covenants, including covenants relating to the Company s interest coverage ratio, consolidated funded indebtedness ratio and minimum tangible net worth.

Receivables Securitization Facility

On February 20, 2004, the Company entered into a $50 million trade receivable securitization facility (the Receivables Securitization Facility), which was funded through the issuance of commercial paper and backed by a 364-day committed bank liquidity arrangement. The Receivables Securitization Facility had a termination date of February 20, 2007, subject to a 364-day bank commitment. The Receivables Securitization Facility was fully consolidated on the balance sheet. Subsidiary company receivables were 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 pledged the receivables as security for advances under the facility. The purpose of the Receivables Securitization Facility was to obtain financing at a lower interest rate by pledging accounts receivable. The Company terminated the Receivables Securitization Facility on December 9, 2005.

Table of Contents

(G) Income Taxes

The provision for income taxes includes the following components:

	For the Years Ended March 31, 2006	2005	2004
	(dollars in thousands)		
Current Provision -			
Federal	$ 73,341	$ 31,178	$ 12,549
State	5,853	2,282	847
	79,194	33,460	13,396
Deferred Provision -			
Federal	630	19,359	20,325
State	258	(1,417)	1,501
	888	17,942	21,826
Provision for Income Taxes	$ 80,082	$ 51,402	$ 35,222

The effective tax rates vary from the federal statutory rates due to the following items:

	For the Years Ended March 31, 2006	2005	2004
	(dollars in thousands)		
Earnings Before Income Taxes	$ 241,066	$ 158,089	$ 102,123
Income Taxes at Statutory Rate	$ 84,373	$ 55,331	$ 35,743
Increases (Decreases) in Tax Resulting from -			
State Income Taxes, net	3,972	(232)	1,526
Statutory Depletion in Excess of Cost	(4,544)	(3,955)	(3,148)
Domestic Production Activities Deduction	(2,281)		
Other	(1,438)	258	1,101
Provision for Income Taxes	$ 80,082	$ 51,402	$ 35,222
Effective Tax Rate	33%	33%	34%

The deferred income tax provision results from the following temporary differences in the recognition of revenues and expenses for tax and financial reporting purposes:

	For the Years Ended March 31, 2006	2005	2004
	(dollars in thousands)		
Excess Tax Depreciation and Amortization	$ 3,458	$ 8,885	$ 10,134
Net Operating Loss Carryover			12,115
Bad Debts	90	7,394	810
Uniform Capitalization	(80)	187	19
Accrual Changes	(666)	601	(1,566)
Other	(1,914)	875	314

	$ 888	$ 17,942	$ 21,826

51

Components of deferred income taxes are as follows:

	March 31, 2006	March 31, 2005
	(dollars in thousands)	
Items Giving Rise to Deferred Tax Liabilities -		
Excess Tax Depreciation and Amortization	$ 133,624	$ 129,661
Other	3,923	6,441
	137,547	136,102
Items Giving Rise to Deferred Tax Assets -		
Accrual Changes	(15,340)	(14,594)
Bad Debts	(2,119)	(2,210)
Uniform Capitalization	(609)	(534)
	(18,068)	(17,338)
Net Deferred Income Tax Liability	$ 119,479	$ 118,764

In fiscal 2004, the Company fully utilized its regular and alternative minimum tax carryovers from fiscal 2002. In fiscal 2005, the Company offset all of its $4.7 million alternative minimum tax credit carryover against its regular tax liability.

(H) Business Segments

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 U.S. 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 five gypsum wallboard reload centers, a gypsum wallboard distribution center, four cement plants, ten cement distribution terminals, four gypsum wallboard plants, 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 U.S. Concrete and aggregates are sold to local readymix producers and paving contractors in the Austin, Texas area and northern California.

During the periods covered by this report up to January 10, 2005, we conducted two out of four of our cement plant operations through joint ventures, Texas Lehigh Cement Company L.P., which is located in Buda, Texas and Illinois Cement Company, which is located in LaSalle, Illinois (collectively, the Joint Ventures). 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. On 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 from January 11, 2005 through March 31, 2005, and all of fiscal 2006. See Note (I) Purchase of Illinois Cement Joint Venture for further discussion.

Table of Contents

The Company accounts for inter-segment sales at market prices. The following table sets forth certain financial information relating to the Company s operations by segment:

	For the Years Ended March 31,		
	2006	2005	2004
	(dollars in thousands)		
Revenues -			
Gypsum Wallboard	$ 479,134	$ 350,101	$ 272,924
Cement	285,289	211,343	181,846
Paperboard	133,482	125,184	112,366
Concrete and Aggregates	89,778	70,786	63,117
Other, net	2,279	193	2,242
	989,962	757,607	632,495
Less: Intersegment Revenues	(65,096)	(58,812)	(53,567)
Less: Joint Venture Revenues	(65,164)	(82,254)	(76,306)
	$ 859,702	$ 616,541	$ 502,622

	For the Years Ended March 31,		
	2006	2005	2004
	(dollars in thousands)		
Intersegment Revenues -			
Cement	$ 6,146	$ 3,609	$ 3,290
Paperboard	57,546	54,108	49,256
Concrete and Aggregates	1,404	1,095	1,021
	$ 65,096	$ 58,812	$ 53,567
Cement Sales Volumes (M tons) -			
Wholly Owned	2,381	1,566	1,340
Joint Ventures	819	1,187	1,178
	3,200	2,753	2,518

53

Table of Contents

	For the Years Ended March 31,		
	2006	2005	2004
	(dollars in thousands)		
Operating Earnings (Loss) -			
Gypsum Wallboard	$ 154,227	$ 81,616	$ 35,604
Cement	78,311	57,616	50,450
Paperboard	20,087	25,406	20,942
Concrete and Aggregates	9,613	7,742	5,971
Other, net	1,539	(721)	2,242
Sub-Total	263,777	171,659	115,209
Corporate General and Administrative	(16,370)	(10,280)	(9,272)
Earnings Before Interest and Income Taxes	247,407	161,379	105,937
Interest Expense, net	(6,341)	(3,290)	(3,814)
Earnings Before Income Taxes	$ 241,066	$ 158,089	$ 102,123
Cement Operating Earnings -			
Wholly Owned	$ 51,394	$ 30,694	$ 26,539
Joint Ventures	26,917	26,922	23,911
	$ 78,311	$ 57,616	$ 50,450
Identifiable Assets (1) -			
Gypsum Wallboard	$ 335,985	$ 331,367	$ 327,137
Cement	257,976	212,022	133,165
Paperboard	179,776	181,854	184,447
Concrete and Aggregates	46,799	37,135	33,603
Corporate and Other	68,380	17,623	14,623
	$ 888,916	$ 780,001	$ 692,975
Capital Expenditures (1) -			
Gypsum Wallboard	$ 3,271	$ 5,791	$ 8,208
Cement	48,175	8,509	1,834
Paperboard	4,936	4,502	1,263
Concrete and Aggregates	11,110	3,467	1,035
Other, net	5,437	104	87
	$ 72,929	$ 22,373	$ 12,427
Depreciation, Depletion and Amortization[1]			
Gypsum Wallboard	$ 16,755	$ 16,923	$ 15,571
Cement	9,955	6,064	5,039
Paperboard	8,075	8,026	7,808

Concrete and Aggregates	2,986	2,810	2,982
Other, net	828	673	1,622
	$ 38,599	$ 34,496	$ 33,022

(1) Basis conforms with equity method accounting.

54

Table of Contents

Segment operating earnings, including the proportionately consolidated 50% interest in the revenues and expenses of the Joint Venture(s), represent revenues less direct operating expenses, segment depreciation, and segment selling, general and administrative expenses. The Company accounts for intersegment sales at market prices. Corporate assets consist primarily of cash and cash equivalents, general office assets and miscellaneous other assets. The segment breakdown of goodwill at March 31, 2006 and 2005 is as follows:

	For the Years Ended March 31,	
	2006	2005
	(dollars in thousands)	
Cement	$ 5,359	$ 3,826
Gypsum Wallboard	37,842	37,844
Paperboard	2,446	2,446
	$ 45,647	$ 44,116

Combined summarized financial information for the Joint Venture that is not consolidated is set out below (this combined summarized financial information includes the total combined amounts for the Joint Venture and not the Company s 50% interest in those amounts). As discussed previously, amounts reflected for fiscal 2004 and through January 10, 2005 included the results of Illinois Cement; however as of January 11, 2005 Illinois Cement became a wholly-owned subsidiary of the Company.

	For the Years Ended March 31,		
	2006	2005	2004
	(dollars in thousands)		
Revenues	$138,331	$170,223	$158,002
Gross Margin	$ 57,637	$ 59,750	$ 54,439
Earnings Before Income Taxes	$ 53,833	$ 53,844	$ 47,823

	March 31,	
	2006	2005
	(dollars in thousands)	
Current Assets	$36,056	$33,979
Non-Current Assets	$29,104	$32,022
Current Liabilities	$10,503	$10,293

(I) Purchase of Illinois Cement Joint Venture

On January 11, 2005 we completed the purchase of the other 50% interest in Illinois Cement Company Joint Venture for approximately $72 million in cash. An additional $3 million cash payment is due upon commencement prior to January 11, 2010 of commercial production of an expanded Illinois Cement. We anticipate that the expansion of the Illinois Cement Company plant, and related startup will occur during fiscal 2007. Upon payment, the additional $3 million will be recorded as an adjustment to the purchase price through goodwill.

Table of Contents

The allocation of the purchase price to the fair values of assets acquired and liabilities assumed is summarized below (in thousands).

Accounts Receivable, Inventories, and Other Current Assets	$ 6,493
Furniture, Fixtures, and Equipment	42,138
Intangible Assets permits	22,000
Goodwill (tax deductible)	5,359
Accounts Payable and Accrued Liabilities	(3,990)
	$ 72,000

(J) Commitments and Contingencies

The Company, in the ordinary course of business, has various litigation, commitments and contingencies. 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 the consolidated financial condition or results of operations of the Company.

The Company s operations and properties are subject to extensive and changing federal, state and local laws, regulations and ordinances governing the protection of the environment, as well as laws relating to worker health and workplace safety. The Company carefully considers the requirements mandated by such laws and regulations and has procedures in place at all of its operating units to monitor compliance. Any matters which are identified as potential exposures under these laws and regulations are carefully reviewed by management to determine the Company s potential liability. Although management is not aware of any exposures which would require an accrual under generally accepted accounting principles, there can be no assurance that prior or future operations will not ultimately result in violations, claims or other liabilities associated with these regulations.

The Company s tax returns are subject to periodic examination by the Internal Revenue Service (IRS) and State Taxing Authorities. At March 31, 2006, the IRS was in the process of conducting an audit of the Company s tax returns. We expect the IRS to complete its audit during fiscal 2007.

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. The Company has entered into standby letter of credit agreements relating to workers compensation and auto and general liability self-insurance. At March 31, 2006, the Company had contingent liabilities under these outstanding letters of credit of approximately $7.9 million.

The following table compares insurance accruals and payments for the Company s operations:

	For the Years Ended March 31,	
	2006	2005
	(dollars in thousands)	
Accrual Balances at Beginning Period	$ 4,905	$ 3,883
Insurance Expense Accrued	4,603	3,655
Payments	(4,052)	(3,567)
Acquired from Illinois Cement		934
Accrual Balance at End of Period	$ 5,456	$ 4,905

Table of Contents

The Company is currently contingently liable for performance under $6.9 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. The Company has 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, the Company executes 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, construction contractor 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 the Company s consolidated financial position or results of operations. The Company currently has no outstanding guarantees of third party debt.

The Company s paperboard operation, Republic Paperboard Company LLC (Republic), is a party to a long-term paper supply agreement with St. Gobain pursuant to which Republic is obligated to sell to St. Gobain 95% of the gypsum-grade recycled paperboard requirements for three of St. Gobain s wallboard plants. This amounts to approximately 35% to 40% of Republic s output of gypsum-grade recycled paperboard.

The Company has certain operating leases covering manufacturing, transportation and certain other facilities and equipment. Rental expense for fiscal years 2006, 2005, and 2004 totaled $2.4 million, $2.9 million and $2.8 million, respectively. Minimum annual rental commitments as of March 31, 2006, under noncancellable leases are set forth as follows (in thousands):

Fiscal Year	Total
2007	$2,008
2008	$1,617
2009	$ 466
2010	$ 466
2011	$ 431
Thereafter	$4,044

(K) Stock Option Plans

The Company accounts for its stock option plans under FAS 123(R) and the associated interpretations. Pro-forma footnote disclosure in accordance with SFAS 148 is presented in Note (A) Summary of Significant Accounting Policies.

Prior to January 2004, the Company had two stock option plans for certain directors, officers and key employees of the Company: the Eagle Materials Inc. Amended and Restated Stock Option Plan (the 1994 Plan) and the Eagle Materials Inc. 2000 Stock Option Plan (the 2000 Plan). Although the 1994 Plan and the 2000 Plan provided that option grants may be at less than fair market value at the date of grant, the Company consistently followed the practice of issuing options at or above fair market value at the date of grant. Under both plans, option periods and exercise dates may vary within a maximum period of 10 years. Until fiscal 2005, nearly all option grants have been issued with vesting occurring near the end of the option grants 10-year life; however, the option grants may qualify for early vesting, on an annual basis, if certain predetermined performance criteria are met. The Company records proceeds from the exercise of options as additions to common stock and capital in excess of par value. The federal tax benefit, if any, is considered

Table of Contents

additional capital in excess of par value. No charges or credits would be made to earnings unless options were to be granted at less than fair market value at the date of grant.

On January 8, 2004, the Company s stockholders approved a new incentive plan (the Plan) that is a combined amendment and restatement of the two existing stock option plans discussed above. The number of shares available for issuance under the Plan has not increased from, and is the same as, the total combined number of shares available for issuance under the two stock plans listed above.

Long-Term Compensation Plans

Options. During the first quarter of fiscal 2006, the Company granted a target number of stock options to certain individuals that would be earned, in whole or in part, by meeting certain performance conditions related to both financial and operational performance. These stock options were valued at the grant date using the Black-Scholes option pricing model. The weighted-average assumptions used in the Black-Scholes model to value the option awards in fiscal 2006 are as follows: dividend yield of 1.2 %, expected volatility of 23%, risk free interest rate of 4.1% and expected life of 7 years. At the end of fiscal 2006, one third of the options earned became immediately vested, with the remaining options vesting ratably on March 31, 2007 and 2008. The Company is expensing the fair value of the options granted over a three year period, as adjusted for forfeitures. For the year ended March 31, 2006, we expensed approximately $1.9 million. At March 31, 2006 there was approximately $5.4 million of unrecognized compensation cost related to outstanding stock options which is expected to be recognized over a weighted-average period of 2.9 years.

Options granted in fiscal 2005 are earned based on the achievement of certain performance conditions, with one third exercisable when earned and the rest becoming exercisable ratably over a two year period subsequent to vesting. Prior to the adoption of FAS 123(R) on April 1, 2005, these awards were determined to be variable awards and related expense was being 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. For the year ended March 31, 2005, we expensed approximately $406,000. No such costs were incurred in the previous corresponding periods.

The following table represents stock option activity for the years presented:

	For the Years Ended March 31,					
	2006		2005		2004	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding Options at Beginning of Year	1,755,357	$ 12.57	1,885,380	$ 10.43	2,818,734	$ 10.75
Granted	346,191	$ 30.84	279,600	$ 23.01	391,500	$ 13.30
Exercised	(175,156)	$ 11.49	(409,623)	$ 9.82	(1,297,320)	$ 10.35
Cancelled	(109,527)	$ 19.76			(208,746)	$ 11.59
Modification(1)					181,212	
Outstanding Options at End of Year	1,816,865	$ 15.74	1,755,357	$ 12.57	1,885,380	$ 10.43
Options Exercisable at End of Year	1,225,955		1,402,713		997,986	
Weighted-Average Fair Value of Options Granted during the Year		$ 8.88		$ 7.41		$ 5.59

(1) In connection with the Spin-off, in order to ensure that the economic value of outstanding stock options was preserved, but not increased, a modification was made to the number of shares and their exercise price so that the award s intrinsic value immediately after the modification was not greater than its intrinsic value immediately before and the ratio of exercise price per share to market value per share was not reduced.

Table of Contents

The following table summarizes information about stock options outstanding at March 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares Outstanding	Weighted Average Exercise Price
$6.80 - $8.15	343,242	4.6 years	$ 7.35	308,016	$ 7.26
$9.57 - $10.54	219,765	3.6 years	$ 10.29	205,035	$ 10.33
$11.04 - $18.88	695,837	5.8 years	$ 12.08	504,899	$ 12.01
$21.52 - $29.59	474,030	8.7 years	$ 26.01	160,314	$ 22.96
$34.67 - $39.54	83,991	9.4 years	$ 36.60	47,691	$ 35.00
	1,816,865	6.2 years	$ 15.74	1,225,955	$ 12.86

As of March 31, 2006 the aggregate intrinsic value of stock options outstanding was approximately $87.1 million. The aggregate intrinsic value of exercisable stock options at that date was approximately $62.4 million.

During the year ended March 31, 2006, the total intrinsic value of options exercised was approximately $4.9 million.

Restricted Stock Units. Below is a summary of restricted stock units awarded by the Company:

	Awarded	Earned	Vested	Unearned
2004	45,000	45,000		
2005	51,951	51,951	34,634	
2006	70,895	55,046	18,349	15,849

During fiscal 2005 and 2006, the Company granted a target level of restricted stock units to employees during the first quarter of the fiscal year. The ultimate number of restricted stock units earned from the grant was based on the achievement of certain criteria during the fiscal year, similar to the stock option grants described above. Unearned shares are treated as forfeitures. The value of the shares granted is being amortized over five and three year periods, respectively. Expense related to restricted stock units was $910,000, $969,000 and $101,000 in fiscal years 2006, 2005 and 2004, respectively. At March 31, 2006 there was approximately $2.7 million of unrecognized compensation cost from restricted stock units that will be recognized over a weighted-average period of 2.5 years.

Shares available for future stock option and restricted stock unit grants were 1,375,476 at March 31, 2006. During fiscal 2004, the Company issued 45,000 shares of restricted stock pursuant to the Plan. The restricted shares have a seven year vesting period and the value of the shares is being amortized over the term of the grant.

(L) Fair Value of Financial Instruments

The fair value of the Company s long-term debt has been estimated based upon the Company s current incremental borrowing rates for similar types of borrowing arrangements. The carrying value of the Company s Senior Notes at March 31, 2006 is as follows:

Table of Contents

	Fair Value
Tranche A	$ 39,197
Tranche B	77,717
Tranche C	77,268
	$ 194,182

All assets and liabilities which are not considered financial instruments have been valued using historical cost accounting. The carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term maturities of these assets and liabilities.

(M) Agreements with Centex Corporation

On January 30, 2004, the Spin-off of all of the Company shares owned by Centex was completed. At the time of the Spin-off, the Company entered into the following agreements with Centex:

Administrative Services: In connection with the January 2004 Spin-off from Centex, the Company entered into an amended and restated administrative services agreement with Centex Service Company (CSC) that amended and restated a similar agreement with Centex entered into in 1994. The Company paid CSC a fee of $16,750 per month for such services and reimbursed CSC for its out-of-pocket expenses incurred in connection with the performance of such services. The administrative services agreement expired on December 31, 2005.

Intellectual Property*:* Under the terms of the intellectual property agreement, Centex granted to the Company an exclusive, perpetual and royalty-free license to use all trademarks held by Centex which relate primarily or exclusively to the Company s business.

Tax Matters: In connection with the Spin-off from Centex, the Company has agreed to certain undertakings, including that, for a period of two years after the date of the distribution of Common Stock by Centex, it will maintain its status as a company engaged in the active conduct of a trade or business, and will take no action to facilitate certain acquisitions of the Company s stock. In addition, under Section 335(e) of the Internal Revenue Code, the distribution will be taxable to Centex if the distribution is part of a plan or series of related transactions pursuant to which one or more persons acquire directly or indirectly stock representing a 50% or greater interest, based on either vote or value, in Centex or the Company. Acquisitions that occur during the period beginning two years before the distribution and ending two years after the distribution are subject to a rebuttable presumption that they are part of such a plan. If Centex becomes subject to tax under Section 355(e), its tax liability will be based upon the difference between the fair market value of the shares of Common Stock at the time of the distribution and its adjusted basis in such stock at that time and this tax liability will be a significant amount.

If the Company fails to comply with any such undertakings, or takes any other action or fails to take any other required action, and that failure to comply, action or omission contributes to a determination that the distribution fails to qualify as a tax free distribution, the Company will be required to indemnify Centex and the other members of the Centex group for all federal, state and local taxes, including any interest, penalty or additions to tax, incurred or imposed upon Centex or any other members of the Centex group and for any established tax liabilities of Centex stockholders resulting from the distribution.

Table of Contents

(N) Pension and Profit Sharing Plans

The Company has several defined benefit and defined contribution retirement plans which together cover substantially all of its employees. The Company is not a party to any multi-employer pension plan. 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 Company s funding policy is to generally contribute amounts that are deductible for income tax purposes.

The annual measurement date is March 31 for the benefit obligations, fair value of plan assets and the funded status of the defined benefit plans.

As of January 10, 2005, the Company completed the acquisition of the other 50% of Illinois Cement Company Joint Venture further discussed in Note (I). In conjunction with the preliminary purchase price allocation the Company recorded an approximate $791,000 liability associated with the difference between the Illinois Cement Company s plan s projected benefit obligation and the fair value of plan assets at the date of acquisition.

The following table provides a reconciliation of the obligations and fair values of plan assets for all of the Company s defined benefit plans over the two-year period ended March 31, 2006 and a statement of the funded status as of March 31, 2006 and 2005:

	For the Years Ended March 31,	
	2006	2005
	(dollars in thousands)	
Reconciliation of Benefit Obligations -		
Benefit Obligation at April 1,	$ 13,411	$ 7,936
Service Cost Benefits Earned During the Period	497	366
Acquisition of Illinois Cement Joint Venture		4,791
Interest Cost on Projected Benefit Obligation	767	512
Plan Amendments		166
Actuarial Gain	(358)	(72)
Benefits Paid	(386)	(288)
Benefit Obligation at March 31,	13,931	13,411
Reconciliation of Fair Value of Plan Assets -		
Fair Value of Plan Assets at April 1,	10,455	5,449
Actual Return on Plan Assets	1,190	189
Acquisition of Illinois Cement Joint Venture		4,000
Employer Contributions	987	1,105
Benefits Paid	(386)	(288)
Fair Value of Plans at March 31,	12,246	10,455
Funded Status -		
Funded Status at March 31,	(1,685)	(2,956)
Unrecognized Loss from Past Experience Different than that Assumed and Effects of Changes in Assumptions	2,116	3,063
Unrecognized Prior-Service Cost	629	769
Net Amount Recognized	$ 1,060	$ 876

Table of Contents

	For the Years Ended March 31,	
	2006	2005
	(dollars in thousands)	
Amounts Recognized in the Balance Sheet Consist of -		
Accrued Benefit Liability	$ (2,646)	$ (3,593)
Prepaid Benefit Cost	1,060	876
Intangible Asset	486	760
Accumulated Other Comprehensive Income	2,160	2,833
Net Amount Recognized	$ 1,060	$ 876

The accumulated benefit obligation for the defined benefit pension plan was $13.7 million and $13.2 million at March 31, 2006 and 2005, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	March 31,	
	2006	2005
	(dollars in thousands)	
Projected Benefit Obligation	$13,931	$13,411
Accumulated Benefit Obligation	$13,667	$13,172
Fair Value of Plan Assets	$12,246	$10,455

Net periodic pension cost for the fiscal years ended March 31, 2006, 2005 and 2004, included the following components:

	For the Years Ended March 31,		
	2006	2005	2004
	(dollars in thousands)		
Service Cost Benefits Earned During the Period	$ 497	$ 366	$ 300
Interest Cost of Projected Benefit Obligation	767	512	420
Expected Return on Plan Assets	(842)	(529)	(286)
Recognized Net Actuarial Loss	241	239	125
Amortization of Prior-Service Cost	139	120	296
Net Periodic Pension Cost	$ 802	$ 708	$ 855

The following table sets forth the assumptions used in the actuarial calculations of the present value of net periodic benefit cost and benefit obligations;

	March 31,		
	2006	2005	2004
Net Periodic Benefit Costs -			
Discount Rate	5.8%	5.8%	5.8%
Expected Return on Plan Assets	8.0%	8.0%	8.0%
Rate of Compensation Increase	3.5%	3.5%	3.5%

Table of Contents

	March 31, 2006	March 31, 2005
Benefit Obligations -		
Discount Rate	6.0%	5.8%
Rate of Compensation Increase	3.5%	3.5%

The expected long-term rate of return on plan assets is an assumption reflecting the anticipated weighted-average rate of earnings on the portfolio over the long-term. To arrive at this rate, the Company developed estimates of the key components underlying capital asset returns including: market-based estimates of inflation, real risk-free rates of return, yield curve structure, credit risk premiums and equity risk premiums. As appropriate, these components were used to develop benchmark estimates of the expected long-term management approach employed by the Company, and a return premium was added to the weighted-average benchmark portfolio return.

The pension plans weighted-average asset allocation at March 31, 2006 and 2005 and the range of target allocation are as follows:

	Range of Target Allocation	Percentage of Plan Assets at March 31, 2006	Percentage of Plan Assets at March 31, 2005
Asset Category -			
Equity Securities	40 60%	70%	70%
Debt Securities	35 60%	30%	30%
Other	0 5%		
Total		100%	100%

The Company s pension investment strategies have been developed as part of a comprehensive asset/liability management process that considers the interaction between both the assets and liabilities of the plan. These strategies consider not only the expected risk and returns on plan assets, but also the detailed actuarial projections of liabilities as well as plan-level objectives such as projected contributions, expense and funded status.

The principal pension investment strategies include asset allocation and active asset management. The range of target asset allocations have been determined after giving consideration to the expected returns of each asset class, the expected variability or volatility of the asset class returns over time, and the complementary nature or correlation of the asset classes within the portfolio. The Company also employs an active management approach for the portfolio. Each asset class is managed by one or more external money managers with the objective of generating returns, net of management fees that exceed market-based benchmarks. None of the plans hold any EXP stock.

The Company does not expect to contribute to its defined benefit plans during fiscal 2007.

The Company had at March 31, 2006, a minimum pension liability of $2.2 million related to the accumulated benefit obligation in excess of the fair value of the plan assets.

The Company also provides a profit sharing plan, which covers substantially all salaried and certain hourly employees. The profit sharing plan is a defined contribution plan funded by employer discretionary contributions and also allows employees to contribute on an after-tax basis up to 10% of their base annual salary. Employees are fully vested to the extent of their contributions and become fully vested in the

Company s contributions over a seven-year period. Costs relating to the employer discretionary contributions for the Company s defined contribution plan totaled $2.6 million, $2.4 million and $2.2 million in fiscal years 2006, 2005 and 2004, respectively.

Employees who became employed by the Company as a result of a previous transaction are provided benefits substantially comparable to those provided under the seller s welfare plans. These welfare plans included the seller s 401(k) plan which included employer matching percentages. As a result, the Company made matching contributions to its 401(k) plan totaling $0.1 million for these employees during each of the fiscal years 2006, 2005 and 2004.

(O) Net Interest Expense

The following components are included in interest expense, net:

	For the Years Ended March 31,		
	2006	2005	2004
	(dollars in thousands)		
Interest Income	$ (898)	$ (36)	$ (13)
Interest Expense	7,747	2,852	2,517
Interest Capitalized	(1,051)		
Other Expenses	543	474	1,310
Interest Expense, net	$ 6,341	$ 3,290	$ 3,814

Interest income includes interest on investments of excess cash and interest on notes receivable. Components of interest expense primarily include interest associated with the Prior Credit Facility, the Bank Credit Facility, the Receivables Securitization Facility, the Senior Notes and commitment fees based on the unused portion of the Prior Credit Facility and Bank Credit Facility. Other expenses include amortization of debt issue costs and costs associated with the Prior Credit Facility, the Bank Credit Facility, the Senior Notes and the Receivables Securitization Facility.

(P) Hedging Activities

The Company does not use derivative financial instruments for trading purposes, but has utilized them in the past to convert a portion of its variable-rate debt to fixed-rate debt and to manage its fixed to variable-rate debt ratio. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income (loss) and are recognized in the statement of earnings when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are immediately recognized in earnings.

During fiscal 2004, the Company had an interest rate swap agreement with a bank for a total notional amount of $55.0 million. This agreement expired on August 28, 2003 and the amount recorded in accumulated other comprehensive losses at March 31, 2003 was reclassified to earnings. The Company currently is not a party to any interest rate swap agreement.

(Q) Stockholders Equity

On January 8, 2004, the Company s stockholders approved an amendment to the Company s certificate of incorporation to increase the authorized number of shares of capital stock that the Company may issue from 50,000,000 shares of common stock and 2,000,000 shares of preferred stock to 100,000,000 shares of common stock and 5,000,000 shares of preferred stock. The amendment to the Certificate of Incorporation became effective on January 30, 2004. The Company s Board of Directors designated 40,000 shares of preferred stock for use in connection with the Rights Plan discussed below. As discussed in Note B, the Company combined each share of its Common Stock (the Common Stock).

Effective February 2, 2004, the Company entered into a Rights Agreement as amended and restated on April 11, 2006 (as amended and restated, Rights Agreement) that was approved by stockholders at the Special Meeting of Stockholders held on January 8, 2004. In connection with the Rights Agreement, the Board authorized and declared a dividend of one right per share of Common Stock. The Rights entitle the Company s stockholders to purchase Common Stock (the Rights) in the event certain efforts are made to acquire control of the Company. There are no separate certificates or market for the Rights.

The Rights are represented by and trade with the Company s Common Stock. The Rights will separate from the Common Stock upon the earlier of: (1) a public announcement that a person has acquired beneficial ownership of shares of Common Stock representing in the aggregate 15% or more of the total number of votes entitled to be cast generally by the holders of Common Stock then outstanding, or (2) the commencement of a tender or exchange offer that would result in a person beneficially owning shares of Common Stock representing in the aggregate 15% or more of the total number of votes entitled to be cast generally by the holders of Common Stock then outstanding. Should either of these conditions be met and the Rights become exercisable, each Right will entitle the holder to buy 1/1,000th of a share of the Company s Preferred Stock at an exercise price of $140.00. Each 1/1,000th of a share of the Preferred Stock will essentially be the economic equivalent of three shares of Common Stock.

Under certain circumstances, the Rights entitle the holders to buy the Company s stock or shares of the acquirer s stock at a 50% discount. The Rights may be redeemed by the Company for $0.001 per Right at any time prior to the first public announcement of the acquisition of beneficial ownership of shares of Common Stock representing 15% or more of the total number of votes entitled to be cast generally by the holders of Common Stock then outstanding. If not redeemed, the Rights will expire on January 7, 2014.

Table of Contents

(R) Quarterly Results (unaudited)

	For the Years Ended March 31, 2006	2005
	(dollars in thousands, except per share data)	
First Quarter -		
Revenues	$ 204,798	$ 150,291
Earnings Before Income Taxes	50,182	35,434
Net Earnings	34,908	23,213
Diluted Earnings Per Share	0.64	0.41
Second Quarter -		
Revenues	221,784	163,112
Earnings Before Income Taxes	65,729	45,977
Net Earnings	43,322	30,119
Diluted Earnings Per Share	0.80	0.54
Third Quarter -		
Revenues	211,515	149,802
Earnings Before Income Taxes	58,866	37,935
Net Earnings	38,987	25,867
Diluted Earnings Per Share	0.73	0.47
Fourth Quarter -		
Revenues	221,605	153,336
Earnings Before Income Taxes	66,289	38,743
Net Earnings	43,767	27,488
Diluted Earnings Per Share	$ 0.86	$ 0.49

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Eagle Materials Inc.:

We have audited the accompanying consolidated balance sheets of Eagle Materials Inc. and subsidiaries (the Company) as of March 31, 2006 and 2005, and the related consolidated statements of earnings, cash flows and stockholders equity, for each of the three years in the period ended March 31, 2006. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note A to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation effective April 1, 2005.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of March 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 25, 2006 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Dallas, Texas,
May 25, 2006

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company, under the supervision and with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), has evaluated the effectiveness of our disclosure controls and procedures as defined in Securities and Exchange Commission (SEC) Rule 13a-15(e) as of the end of the period covered by this report. Based on these evaluations, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms.

During the Company s fourth quarter, there were no significant changes in internal controls over financial reporting that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Eagle Materials Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company s internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to that risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company s management assessed the effectiveness of the Company s internal control over financial reporting as of March 31, 2006. In making this assessment, management used the criteria set forth by

Table of Contents

the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*.

Based on its assessment using the COSO criteria, management believes that the Company maintained, in all material respects, effective internal control over financial reporting, as of March 31, 2006.

The Company s independent registered public accounting firm has issued an attestation report on management s assessment of the Company s internal control over financial reporting, which immediately follows this report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Eagle Materials Inc.

We have audited management s assessment, included in the accompanying Management Report on Internal Control over Financial Reporting, that Eagle Materials Inc. and subsidiaries maintained effective internal control over financial reporting as of March 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Eagle Materials Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Table of Contents

In our opinion, management s assessment that Eagle Materials Inc. and subsidiaries maintained effective internal control over financial reporting as of March 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Eagle Materials Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Eagle Materials Inc. as of March 31, 2006 and 2005, and the related consolidated statements of earnings, cash flows, and stockholders equity for each of the three years in the period ended March 31, 2006 of Eagle Materials Inc. and our report dated May 25, 2006 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Dallas, Texas
May 25, 2006

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Except for the information below regarding our code of ethics, the information called for by Items 10, 11, 12, 13 and 14 is incorporated herein by reference to the information included and referenced under the following captions in the Company s Proxy Statement for the Company s July 27, 2006 Annual Meeting of Stockholders (the 2006 EXP Proxy Statement):

Items	Caption in the 2006 EXP Proxy Statement
10	Named Executive Officers who are not Directors
10	Election of Directors
10	Stock Ownership-Section 16(a) Beneficial Ownership Reporting Compliance
11	Executive Compensation
12	Stock Ownership
13	Certain Transactions
14	Relationship with Independent Public Accountants

Code of Ethics. The policies comprising the Company s code of ethics (*Eagle Ethics A Guide to Decision Making on Business Conduct Issues*) will represent both the code of ethics for the principal executive officer, principal financial officer, and principal accounting officer under SEC rules, and the code of business conduct and ethics for directors, officers, and employees under NYSE listing standards. The code of ethics is published on the corporate governance section of the Company s website at www.eaglematerials.com.

Although the Company does not envision that any waivers of the code of ethics will be granted, should a waiver occur for the principal executive officer, principal financial officer, the principal accounting officer or controller, it will be promptly disclosed on our internet site. Also, any amendments of the code will be promptly posted on our internet site.

Table of Contents

ITEM 11. EXECUTIVE COMPENSATION

See Item 10 above.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

See Item 10 above.

EQUITY COMPENSATION PLANS

The following table shows the number of outstanding options and shares available for future issuance of options under all of the Company s equity compensation plans as of March 31, 2006. All of the Company s equity compensation plans have been approved by the Company s shareholders.

Plan Category	Incentive Plan	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a) (c)
Equity compensation plans approved by stockholders	2004	1,816,865	$ 15.74	1,375,476
Equity compensation plans not approved by shareholders				
		1,816,865	$ 15.74	1,375,476

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See Item 10 above.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

See Item 10 above.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a) The following documents are filed as part of this Report:

(1) Financial Statements

Reference is made to the Index to Financial Statements under Item 8 in Part II hereof, where these documents are listed.

(2) Schedules

Schedules are omitted because they are not applicable or not required or the information required to be set forth therein is included in the consolidated financial statements referenced above in section (a) (1) of this Item 15.

(3) Exhibits

The information on exhibits required by this Item 15 is set forth in the Eagle Materials Inc. Index to Exhibits appearing on pages 75 - 76 of this Report.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

	EAGLE MATERIALS INC.
	Registrant
June 2, 2006	/s/ STEVEN R. ROWLEY
	Steven R. Rowley, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

June 2, 2006	/s/ STEVEN R. ROWLEY
	Steven R. Rowley Chief Executive Officer
June 2, 2006	/s/ ARTHUR R. ZUNKER, JR.
	Arthur R. Zunker, Jr., Senior Vice President Finance and Treasurer (principal financial and accounting officer)
June 2, 2006	/s/ F. WILLIAM BARNETT
	F. William Barnett, Director
June 2, 2006	/s/ ROBERT L. CLARKE
	Robert L. Clarke, Director
June 2, 2006	/s/ O. GREG DAGNAN
	O. Greg Dagnan, Director

Table of Contents

June 2, 2006	/s/ LAURENCE E. HIRSCH
	Laurence E. Hirsch, Director
June 2, 2006	/s/ FRANK W. MARESH
	Frank W. Maresh, Director
June 2, 2006	/s/ MICHAEL R. NICOLAIS
	Michael R. Nicolais, Director
June 2, 2006	/s/ DAVID W. QUINN
	David W. Quinn, Director

Table of Contents

INDEX TO EXHIBITS
EAGLE MATERIALS INC.
AND SUBSIDIARIES

Exhibit Number	Description of Exhibits
2.1	Amended and Restated Agreement and Plan of Merger, dated as of November 4, 2003, among Centex Corporation, Centex Construction Products, Inc. (now known as Eagle Materials Inc.) and ARG Merger Corporation filed as Exhibit 2.1 to the Company s Current Report on Form 8-K/A filed with the Securities Exchange Commission (the Commission) on November 12, 2003 and incorporated herein by reference.
2.2	Amended and Restated Distribution Agreement dated as of November 4, 2003 between Centex Corporation and Centex Construction Products, Inc. (now known as Eagle Materials Inc.) filed as Exhibit 2.2 to the Company s Current Report on Form 8-K/A filed with the Commission on November 12, 2003 and incorporated herein by reference.
3.1	Restated Certificate of Incorporation filed as Exhibit 3.1 to the Company s Current Report on Form 8-K for the filed with the Commission on April 11, 2006 and incorporated herein by reference.
3.2	Amended and Restated Bylaws filed as Exhibit B to the Registration Statement on Form 8-A of the Company filed with the Commission on January 9, 2004 and incorporated herein by reference.
4.1	Amended and Restated Credit Agreement dated as of December 16, 2004 among Eagle Materials Inc., the lenders party thereto, JPMorgan Chase Bank, N.A. as Administrative Agent, Bank of America, N.A. and PNC Bank, N.A. as Co-Syndication Agents, and Sun Trust Bank and Wells Fargo Bank, N.A. as Co-Documentation Agents, filed as Exhibit 4.1 to the Quarterly Report on Form 10-Q for the quarter ended December 31, 2005 filed with the Commission on February 6, 2006 and incorporated herein by reference.
4.2	Note Purchase Agreement dated as of November 15, 2005, among the Company and the purchasers named therein filed as Exhibit 10.1 to the Company s Current Report on Form 8-K filed with the Commission on November 18, 2005 and incorporated herein by reference.
4.3	Amended and Restated Rights Agreement, dated as of April 11, 2006, between Eagle Materials Inc. and Mellon Investor Services LLC, as Rights Agent, filed as Exhibit 99.1 to the Amendment No. 1 to the Registration Statement on Form 8-A/A of the Company filed with the Commission on April 11, 2006 and incorporated herein by reference.
10.1	Joint Venture Interest Purchase Agreement, dated as of November 28, 2004, by and between Eagle ICC LLC, Texas Cement Company and RAAM Limited Partnership filed as Exhibit 2.1 to the Company s Current Report on Form 8-K filed with the Commission on November 29, 2004 and incorporated herein by reference.
10.2	Limited Partnership Agreement of Texas Lehigh Cement Company LP by and between Texas Cement Company and Lehigh Portland Cement Company effective as of October 1, 2000 filed as Exhibit 10.2 to the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2001 filed with the Commission on June 27, 2001 (the 2001 10-K) and incorporated herein by reference.

10.2(a)	Amendment No. 1 to Agreement of Limited Partnership by and among Texas Cement Company, TLCC LP LLC, TLCC GP LLC, Lehigh Portland Cement Company, Lehigh Portland Investments, LLC and Lehigh Portland Holdings, LLC effective as of October 2, 2000 filed as Exhibit 10.2(a) to the 2001 10-K and incorporated herein by reference.
10.3	The Eagle Materials Inc. Incentive Plan filed as Exhibit 10.3 to the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2005 filed with the Commission on June 10, 2005. (1)

Table of Contents

Exhibit Number	Description of Exhibits
10.3(a)	Form of Restricted Stock Unit Agreement filed as Exhibit 10.1 to the Company s Current Report on Form 8-K filed with the Commission on August 30, 2004 and incorporated herein by reference.
10.3(b)	Form of Non-Qualified Stock Option Agreement (EBIT) filed as Exhibit 10.2 to the Company s Current Report on Form 8-K filed with the Commission on August 30, 2004 and incorporated herein by reference.
10.3(c)	Form of Non-Qualified Stock Option Agreement (ROE) filed as Exhibit 10.3 to the Company s Current Report on Form 8-K filed with the Commission on August 30, 2004 and incorporated herein by reference.
10.3(d)	Form of Non-Qualified Director Stock Option Agreement filed as Exhibit 10.4 to the Company s Current Report on Form 8-K filed with the Commission on August 30, 2004 and incorporated herein by reference.
10.3(e)	Form of Restricted Stock Unit Agreement filed as Exhibit 10.5 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 filed with the Commission on August 9, 2005 and incorporated herein by reference.
10.3(f)	Form of Non-Qualified Stock Option Agreement filed as Exhibit 10.6 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 filed with the Commission on August 9, 2005 and incorporated herein by reference.
10.4	The Eagle Materials Inc. Amended and Restated Supplemental Executive Retirement Plan filed as Exhibit 10.4 to the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2000 and incorporated herein by reference.[(1)]
10.4(a)*	First Amendment to the Eagle Materials Inc. Amended and Restated Supplemental Executive Retirement Plan, dated as of May 11, 2004.[(1)]
10.5	Trademark License and Name Domain Agreement dated January 30, 2004 between the Company and Centex Corporation filed as Exhibit 10.5 to the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2004 filed with the Commission on June 14, 2004 (the 2004 Form 10-K) and incorporated herein by reference.
10.6	Tax Separation Agreement dated as of April 1, 1994, among Centex, the Company and its subsidiaries filed as Exhibit 10.6 to the 1995 Form 10-K and incorporated herein by reference.
10.7	Paperboard Supply Agreement, dated May 14, 1998, by and among Republic Paperboard Company (n/k/a Republic Paperboard Company LLC), Republic Group, Inc., and James Hardie Gypsum, Inc. filed as Exhibit 10.11 to the 2001 10-K and incorporated herein by reference. Portions of this Exhibit were omitted pursuant to a request for confidential treatment filed with the Office of the Secretary of the Securities and Exchange Commission.
10.8	

	Form of Indemnification Agreement between the Company and each of its directors filed as Exhibit 10.9 to the 2004 Form 10-K and incorporated herein by reference.
21*	Subsidiaries of the Company.
23.1*	Consent of Registered Independent Public Accounting Firm Ernst & Young LLP.
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.

Exhibit Number	Description of Exhibits
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.

* Filed herewith.

(1) Required to be identified as a management contract or a compensatory plan or arrangement pursuant to Item 14(a)(3) of Form 10-K.