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JUSTIN INDUSTRIES 1991 ANNUAL REPORT

PROUD OF THE PAST.
PREPARED FOR THE FUTURE

VERSITY OF TEXAS AT ARLINGTON LIBRA

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Front Cover: Solid new "skyscrapers" in turn-of-the-century Fort Worth were built with Acme brick. *Back Cover:* San Antonio, proud of its history and tradition, is home to this historic Police and Fire Station, made of Acme brick.

FINANCIAL HIGHLIGHTS

	1991	**%Change**	1990	%Change	1989	%Change
Net Sales	**$ 368,350**	**+ 22.7**	$ 300,313	+ 17.1	$ 256,369	+ 10.4
Income from Continuing Operations	**8,453**	**+ 11.6**	7,576	+ 43.5	5,281	− 11.3
Net Income	**19,233**	**+ 163.7**	7,293	+ 1.3	7,198	− 3.6
Earnings Per Share from Continuing Operations	**.96**	**+ 11.6**	.86	+ 38.7	.62	− 12.7
Earnings Per Share	**2.19**	**+ 163.9**	.83	− 1.2	.84	− 5.6
Return on Shareholders' Equity*	**7.6%**	**+ 6.9**	7.1%	+ 31.5	5.4%	− 16.5
Capital Expenditures*	**10,666**	**− 15.7**	12,646	+ 70.8	7,405	− 14.7
Working Capital	**155,975**	**+ 3.5**	150,679	+ 53.8	97,983	− 6.8
Total Assets	**295,947**	**+ 1.0**	292,923	+ 38.6	211,308	− 1.4
Long-Term Debt	**116,040**	**− 7.0**	124,724	+ 121.8	56,238	− 19.2
Shareholders' Equity	**127,549**	**+ 14.8**	111,135	+ 4.4	106,431	+ 7.8
Book Value Per Share	**14.75**	**+ 14.3**	12.91	+ 3.7	12.45	+ 4.4
Cash Dividends Per Share	**.40**	**− —**	.40	+ 33.3	.30	+ 11.1
Average Number of Shares Outstanding	**8,794**	**− .1**	8,804	+ 2.9	8,556	+ 2.1

**continuing operations*

in thousands, except per share data

CORPORATE PROFILE

JUSTIN INDUSTRIES, headquartered in Fort Worth, Texas, is a leader in each of its principal businesses:

Building Materials—with Acme Brick Company, one of the nation's largest producers of face brick, Featherlite Building Products Corporation, the Southwest leader in manufactured concrete building products, and Tradewinds Technologies, Inc., producer of Tradewinds evaporative coolers for home and light commercial applications; and

Footwear—consisting of Justin Boot Company, Nocona Boot Company, and Tony Lama Company, whose products give Justin Industries a national identity as the preeminent producer of quality Western boots.

Northland Publishing, a distinguished publisher of Western and Southwestern Americana, art, and Native American culture, is also part of Justin Industries.

Justin Industries common stock is traded in the NASDAQ National Market System using the symbol "JSTN."

Acme Brick Company supported the nation's favorite pastime with its own company-sponsored baseball team, circa 1906.

BUSINESSES BUILT ON ONE HUNDRED YEARS OF QUALITY...

In celebration of Acme Brick Company's centennial, the 1991 Justin Industries Annual Report is illustrated with photographs that recall images from two of the company's long-lived subsidiaries, Acme Brick Company and Justin Boot Company (which, in 1991, marked 112 years in the boot business). The faces, machinery, and buildings reflect the pride and commitment to product integrity that have made Acme and Justin the standards of excellence in their respective industries.

TO OUR SHAREHOLDERS

JANUARY 27, 1992

WE ARE PLEASED TO REPORT that your company achieved net income of $19.2 million, $2.19 a share, on net sales of $368.4 million, for the year 1991. Included in net income is the gain resulting from the sale of Ceramic Cooling Tower Company.

The beginning of 1991 saw both positive and negative activity. Resolution of the attempted hostile takeover of the company was concluded in February; with that unfortunate distraction removed, management and other employees were able to focus their full attention on operating the company. This attention was particularly needed in regard to the Building Materials segment, where severe winter weather interrupted brick shipments and resulted in a slow start for Acme Brick Company. The weather-related problems were compounded by the slump in both residential and commercial construction, the fifth year in a row of unprecedented weakness in the industry. Offsetting this, however, and as a result of an aggressive sales and marketing effort, Acme Brick recorded its ninth consecutive year of gains in market share, while setting new all-time records in the months of July and October for brick shipments.

These records were in part achievable due to the completion in 1991 of the expansion of Acme's San Felipe Plant near Houston, which was undertaken in response to the thriving growth of the upper Gulf Coast region. Additionally, Acme's presence in the architectural brick markets of Central and South Texas was enhanced by the strategic acquisition in October of the brick-manufacturing assets of Elgin-Butler Brick Company. Acme was thus able to end 1991 with revenues that exceeded those of the prior year.

Although the nation was firmly in the grip of the Great Depression in 1931 when this photograph was taken, the Justin "salesmobile" made it's rounds selling Western boots.

Ed Stout, Acme Brick Company's president, was honored by the Brick Institute of America, which awarded him its 1991 Outstanding Achievement Award in recognition of his leadership and contributions to Acme, as well as to the entire brick industry, during his more than forty-year career.

The Footwear segment accomplished record-setting sales: the three boot companies—Justin, Nocona, and Tony Lama—shipped more than 3.2 million pair in 1991. We feel that this conclusively demonstrates that (a) Western-oriented products continue to grow in consumer popularity and (b) the softness in retail sales has not affected high-quality Western footwear. Justin Boot Company's Carthage, Missouri, plant, its fourth in that state, came on-line in January 1991 and supported this remarkable growth effort.

Tony Lama Company, acquired in October 1990, has been a turnaround project. Fundamental changes were made throughout the organization: non-contributing activities were curtailed or eliminated, production efficiency was dramatically improved, and dealer and consumer confidence were restored through improved product quality and more-reliable distribution.

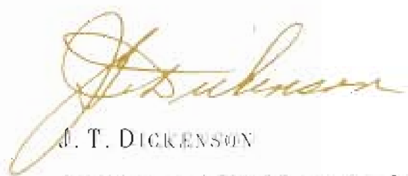
With the disposition of CCT at year-end, and the proceeds of that transaction, we were able to reduce our debt and significantly improve our financial condition. Further reduction of debt is one of our goals for 1992 and subsequent years.

We expect that Justin Industries will henceforth be a more focused company in its two primary business segments: Building Materials and Footwear. There is solid growth potential in both: market-share gains in Acme Brick and Featherlite Building Products have positioned the company well to capitalize on the resurgence of the construction industry, as it occurs; and the resounding success of Justin Boot and Nocona Boot, plus the revitalization of Tony Lama Company, forecast a very bright future for growth in profit contribution in the Footwear business.

Justin Industries enters 1992 with further strength through the election of J. T. Dickenson, formerly Executive Vice President, to the position of President and Chief Operating Officer. Mr. Dickenson also joined the Board as a director, as did Ben J. Fortson, a prominent Fort Worth businessman.

Over the course of the year, the market viewed our stock favorably, from a low of $12.75 in January to a close of $18.00 on December 31. The book value rose slightly more than 14%, from $12.91 to $14.75 per share. We continue to be very confident in the company and its future prospects, and expect to fully justify the confidence of our shareholders in 1992 and the years that follow.

John Justin
Chairman and Chief Executive Officer



J. T. Dickenson
President and Chief Operating Officer

BUILDING MATERIALS

REPORT ON OPERATIONS

Acme Brick Company recorded its ninth consecutive year of market share improvement in 1991. The company shipped close to an all-time record volume of brick and continued to operate profitably despite enduring the fifth year of severely depressed markets and further declines in the number of housing starts.

Market acceptance of innovative quality programs and equipment associated with architectural brick has been excellent. As a result of these programs, the company has been able to significantly improve customer satisfaction.

The year was also highlighted by the following milestones:

- Completion of the final phase of the expansion of the San Felipe plant near Houston; this multimillion-dollar investment was made in response to the market's demand for clay brick, and brought the plant to its full capacity of 100 million brick annually.
- Acquisition of Elgin-Butler Brick Company's brick manufacturing operations. This plant, located near Austin, Texas, in the heart of Acme's direct-sales territory, produces both architectural and residential products. Also acquired in this transaction were certain exclusive sales rights to Elgin-Butler's quality line of glazed tile and related products. The synergies created by this October acquisition promise to put Acme in an even stronger position to serve the Southwestern building materials market.
- Implementation of the company's Central Arkansas Wetlands Project, created to organically treat run-off water. This system, the first of its kind in the structural clay industry, will function in an environmentally sound manner with very low operating costs.
- Conclusion of Acme's first full year

Acme Brick Company

Acme brick has been setting the standard of elegance in residential construction for decades, as can be seen in these photographs of an early twentieth-century Fort Worth home (above) and a contemporary Texas dwelling (below).

Brick was set by hand in the early 1900s at Acme's Perla, Arkansas, plant (opposite). Today, specialty brick (opposite, inset) are made by very sophisticated machinery at Acme's state-of-the-art manufacturing facilities.

as worldwide agent for I.B.P.'s patented glass block grid framing system. This innovative product has multiple applications: windows, skylights, doors, floors, shower partitions, and walls. The market's acceptance of this system has been excellent, and it appears to have a bright future. To give the product wider exposure, it was featured by the company at its exhibit at the 1992 National Association of Homebuilders Convention in Las Vegas.

•Recognition as "Vendor of the Year" by two of the nation's largest builders, as well as further acknowledgement of Acme's quality products by various homebuilders' associations.

Glass block set using I.B.P.'s patented grid framing system brings natural light into an Irving, Texas, home (above). Acme brick has long been a popular material for municipal buildings, such as these Tarrant County court and jail facilities (above left).

Employee safety continued to be one of Acme's high-priority issues, and in 1991, for the fourth consecutive year, a decrease in injuries was recorded. Despite the fact that the injury-frequency rate was one-tenth of the national industry average, workers' compensation insurance premiums continued to be a high cost.

During 1991, Acme celebrated its centennial with special observances at forty-seven operating locations in seven states. Customers, local dignitaries, and media representatives joined the company in celebrating this historic event. As

When Acme Brick opened its doors in 1891, they manufactured approximately 2.5 million brick annually, many in beehive kilns such as those at the Perla plant (below). Today, the company has the capacity to produce almost 800,000,000 brick, fired in kilns longer than a football field.

part of the commemoration, highlights of Acme's first one hundred years of operation were sent to a variety of news media and industry journals.

As it enters its second century, Acme Brick is poised and prepared to meet the needs of the rebounding residential and commercial markets.

Featherlite Building Products Corporation

Featherlite Building Products Corporation experienced a year of stabilization in 1991 after undergoing two years (1989, 1990) of major reorganization. The elimination of locations with low profit potential and the reduction of its work force left Featherlite with those operations that historically have produced good earnings or that show earnings potential as markets recover. Currently, Featherlite operates eight concrete block plants, three masonry supply offices, and one architectural limestone plant.

Although commercial construction activity did not increase during 1991 in Featherlite's market area (portions of Texas, southern New Mexico, and southwestern Louisiana), aggressive marketing programs improved market share, and a slight improvement in block sales was also effected. Higher profit margins make Featherlite's line of architectural products, such as burnished, glazed, and custom-colored and -textured block, an important part of its business. Greater marketing emphasis was placed on those products during 1991, and should result in further significant increases in sales during the coming year.

Strong backs and sturdy brickbarrows were the "tools" required to move brick before the advent of the forklift (above).

The beauty and durability of Featherlite concrete block are evident in this contemporary photograph (left).

With its currently smaller sales and administrative staff and the elimination of certain other costs experienced in 1989 and 1990, Featherlite was successful in improving its operating profit contribution. Portable block crushing machines, introduced in 1990 to reclaim raw material from production waste and obsolete inventory, have proven to be extremely cost-effective to operate, and in addition, have reduced material costs and cash outlays. Increased production efficiency and new sources of raw materials were two other reasons for the year's lower manufacturing costs.

Texas Quarries, Featherlite's architectural limestone production facility, operating in a wide geographic market, also reacted swiftly to the national construction recession, which had a severe impact on the company's 1991 sales volume. Reducing its work force by half, restructuring its production line, and searching

JOE M. ROADS
15 AUTO SALES & 17
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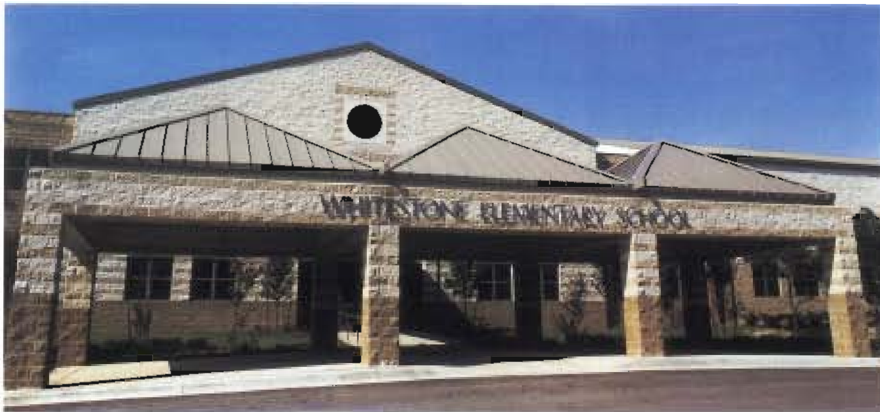
DRUGS



Featherlite's products were selected by the architects who designed this new Texas elementary school (left).

Horse-drawn wagons delivered clay to the plant in the early days, as shown in this circa 1910 photograph (opposite) taken at the Acme Brick yard in Oklahoma City, Oklahoma; now, diesel-power carries the load.

for new market opportunities resulted in profitability being achieved in the last half of 1991. Although volume improvements may be difficult to achieve in 1992, it is anticipated that efficient production and selective marketing will sustain Texas Quarries' profitability.

Tradewinds Technologies, Inc.

Tradewinds Technologies improved its market share and maintained profitability for the year in the face of an overall industry decline in the number of evaporative coolers sold. Sales through retail channels represented a significant percentage of total business, and this percentage is expected to increase in the coming year.

Greater acceptance of the more durable and lower-maintenance units has made Tradewinds the evaporative cooler specified by both residential and light commercial users. Quality molding and precision assembly have enhanced the value of Tradewinds models in the marketplace, while training of plant personnel and adherence to a policy of zero defects have helped reduce product cost.

With the introduction of newly designed polypropylene components—pad retainers, leg kits, and an improved window duct kit in 1992 models—both product cost and maintenance will be improved. Further, in 1992, Tradewinds will introduce a versatile single-inlet cooler. These innovations are expected to position Tradewinds as the leader in the evaporative cooler industry.

Each year, Tradewinds evaporative coolers' well-crafted features gain increasing marketplace recognition.

FOOTWEAR

REPORT ON OPERATIONS

Justin Boot Company experienced another record-setting year in both sales and earnings in 1991. New styles and color variations helped both the Roper and the Lace-R lines achieve healthy sales increases, while "Diamond J by Justin," which competes with less-expensive boots in the marketplace, witnessed rapid growth. As predicted, this more economically priced line provides the company with greater opportunities for market expansion.

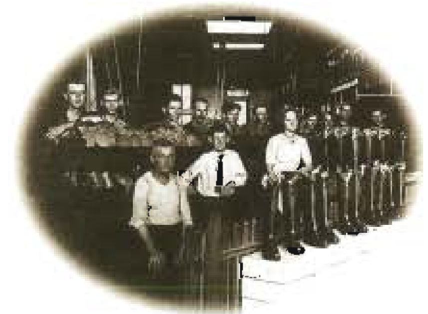
New leather types and textures and close attention to fashion styles resulted in an increase in the number of ladies' boots sold in 1991. Both the East and West Coast markets demonstrated strong growth in this category.

Carefully considered expansion of production capacity was dictated by strong demand for Justin footwear. A major factor in the boot company's success in meeting the demand for its Roper line was the opening of a new factory in January 1991 in Carthage, Missouri. Increased capacity enabled the company to realign production and improve manufacturing efficiencies, which contributed not only to profit, but also to increased quality and product availability. This new factory reached its break-even production level early in the year, following start-up costs that were less than had been budgeted for and which had no significant impact on earnings.

Justin's Fort Worth Distribution Center was also expanded at mid-year to handle increased demand and to maintain timely turnaround time from date of customer order to date of delivery. This operation has proven to be one of the most efficient warehousing and shipping facilities in the industry.

To maintain the high level of service that is one of Justin's hallmarks, enhanced data processing systems were installed in 1991 to more efficiently manage and schedule production. The use of this computerized Inventory Management System to control inventory turnover and reduce the amount of on-hand inventory places Justin Boot Company closer to its goal of "just-in-time" delivery to its cus-

Justin Boot Company



H. J. Justin and some of his crew (above) were justifiably proud of the Justin product line. The Justin "Acorn" style (below, left) was featured on the cover of the 1941 catalog

Justin bootmakers of yesterday (opposite) and today are linked by a long tradition of quality craftsmanship. The well-made Original Roper (opposite, inset), like all the Justin styles, reflects this heritage.

tomers. In 1992, those responsible for the system will focus on optimizing inventory levels while continuing to meet customer demand.

Product quality is another of Justin Boot Company's vital benchmarks. An experienced and dedicated management team will persevere in its efforts to pursue significant growth opportunities and to ensure that the company's quality and service remain the best in the industry.

Captain Tom Hickman of the legendary Texas Rangers chased many an outlaw; here he poses proudly, his outfit completed by his Justin boots.

Nocona Boot Company

Nocona Boot Company again set new records in 1991 for both sales and profits, sustained primarily by its aggressive marketing efforts in Northeast and West Coast fashion centers. The shoe-boot, Nocona's best-selling fashion product, continues to grow in popularity, as have ladies' fashion boots. Nocona Boot Company maintains its emphasis on quality and comfort, and this was carried through to the fashion line, giving it the edge in the fashion districts of New York and Los Angeles. In the traditional sales areas, its attributes are well known and served as the catalyst for continued growth as well as gain in market share.

Western-wear dealers seemed to escape the worst of the recession, and business throughout the United States was strong. The international market for basic cowboy boots and fashion boots also continued to demonstrate growth potential over the course of the year. Sales started out briskly in January and avoided the traditional seasonal slumps.

During 1991, Nocona steadily increased production in order to provide timely deliveries. The company's newly completed finished goods warehouse provides ample inventory storage to better serve customers. Because of shortages in the supply of certain exotic skins, the company expanded its basic Western-boot product line using traditional leathers.

New styling, a larger customer base, enhanced distribution capabilities, and continuation of the marketing momentum achieved in 1991 make the new year bright with promise for Nocona Boot Company.

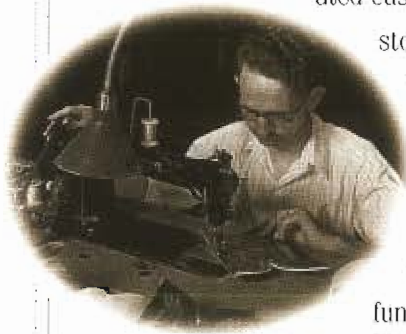
Tony Lama Company

Tony Lama Company made significant progress in only a little more than a year as part of Justin Industries' Footwear group. As anticipated, the process of turning around this operation required a great effort by many qualified people.

Production efficiency was dramatically improved. The boot manufacturing facility underwent major changes during the year, which resulted in reduced direct labor and overhead expenses and improved quality. A major emphasis was placed on

developing procedures to efficiently move product through the manufacturing process. To this end, the factory was reconfigured to maximize space utilization; the existing material-tracking system was abandoned in favor of a simpler system that follows each product as it completes the various cost centers. These and other adjustments allowed the company to reduce the work force while increasing the number of units produced.

In the area of external distribution, virtually all of the company's retail stores have been closed. The existence of these outlets in certain Western markets alienated customers; with the closing of these operations, specialty stores are once again carrying the Tony Lama brand. The company plans to operate only three stores, all in the El Paso area, to sell factory defects and slow-moving and/or discontinued products.



Vane Justin (left) stitched intricate patterns on boot tops more than 50 years ago.

The company closed its 88,000-square-foot east-side El Paso plant and moved or eliminated all functions performed there. Belt operations were moved to the boot-manufacturing facility, and the jacket operations were eliminated. Excess equipment was sold, leased to others, or used in Tony Lama's main plant.

Coupled with the reorganization of the manufacturing process, safety programs were implemented, as were additional controls to monitor injuries and workers' compensation expenses. As a result, these costs were reduced to about one-third of their level at the date of acquisition.

Administrative functions were also evaluated and any inefficiency or duplications eliminated. Accounting and information systems were greatly streamlined, and currently provide management with more accurate, timely, and meaningful information.

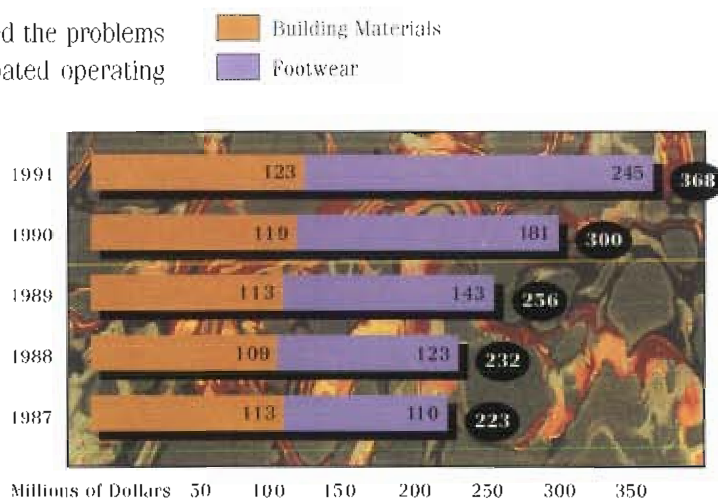
While significant strides have been made in a relatively short period, there are still opportunities for further gains. Marketing, distribution, and operating costs are targeted for improvement. The result of already-accomplished goals and anticipated improvements previously noted will be the achievement of profitability margins commensurate with Justin Industries' other Footwear companies.

FINANCIAL DISCUSSION

ANOTHER RECORD-SETTING PERFORMANCE by the company's Footwear operations highlighted one of the more challenging years in Justin Industries' recent history. While management was optimistic that earnings growth would be realized in spite of a weak economy, the year began with many uncertainties. Among the concerns facing the company were the prolonged regional slump in residential and commercial construction, the crisis in the Persian Gulf, the ongoing attempt by a group of minority shareholders to take control of the company, high debt levels, and the imposing task of turning around the newly acquired Tony Lama Company. These conditions affected the performance of the company to varying degrees throughout 1991.

Unusually harsh weather conditions early in 1991 exacerbated the problems of a soft construction industry, resulting in worse-than-anticipated operating results for the Building Materials businesses in the first quarter. Adding to these difficulties were costs associated with the settlement of litigation arising from the hostile takeover attempt. These factors, along with the expected early losses at Tony Lama, combined to produce the company's worst first quarter performance in many years. Results improved significantly in the second quarter of 1991. Although net income for the period was slightly lower than the prior year, increased brick shipments and margin improvements at Tony Lama helped offset the effects of higher interest costs arising from increased debt levels. While net income for the first six months of 1991 was less than 1990, earnings in the last half of 1991 significantly exceeded those of the prior year, as both brick and boot shipments surpassed those of any previous July-to-December period.

Net Sales by Line of Business
Continuing Operations

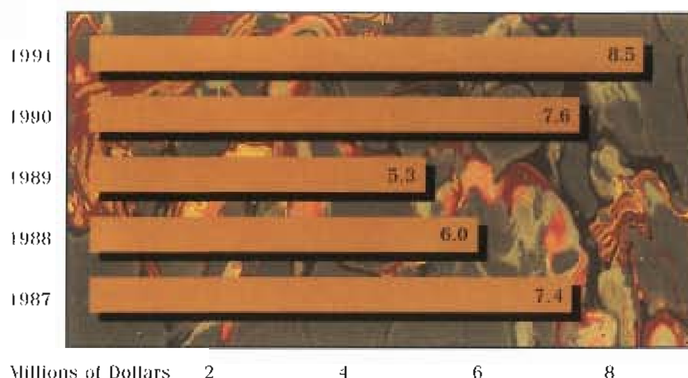


Effective December 31, 1991, the net assets and business of the company's wholly owned subsidiary, Ceramic Cooling Tower Company, were sold for $20 million cash and a net gain of $9.8 million was recorded. In accordance with generally accepted accounting principles, this gain, along with the operating results of CCT, are shown in the statement of income as discontinued operations. Also, the Industrial Equipment business segment has been eliminated and operations of Tradewinds Technologies, Inc., are included in the Building Materials segment. All prior periods' results have been restated to consistently present this information.

Operations

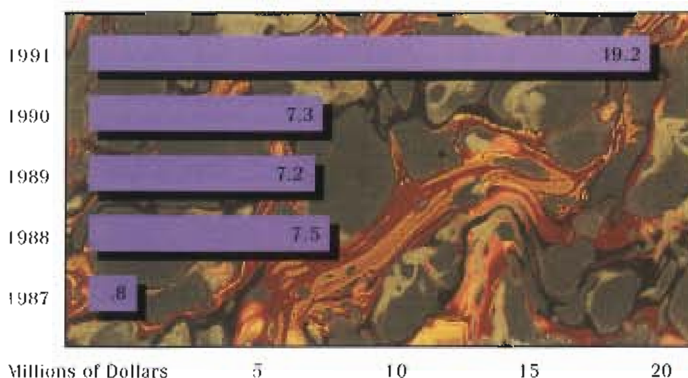
Net sales from continuing operations were $368.4 million in 1991 compared to $300.3 million and $256.4 million in 1990 and 1989, respectively. Revenues in the Building Materials segment increased 3.4% in 1991, following a 4.6% increase in 1990 from 1989. A 7% gain in net sales at Acme Brick Company more than offset small declines in the other Building Materials operations. Acme's 1991 improvement resulted from a combination of increased brick shipments, modest pricing gains, and additional revenues generated from products purchased for resale. Additional revenues from concrete block operations were not sufficient to offset sales declines of cut stone products at Featherlite Building Products, as total revenues fell for the second straight year. However, after two years of losses, in 1991, Featherlite recorded an operating profit, a result of production gains and expense cutbacks. Net sales in the company's Footwear operations increased over 35% in 1991 following an approximate 27% increase in 1990 over the prior year. The Tony Lama acquisition in October 1990 accounts for about one-half of the percentage increase in both years, with the strong growth at Justin and Nocona boot companies accounting for the remainder of the gains. While higher levels of Footwear unit shipments accounted for most of the increase in sales, the average price-per-pair was up approximately 2.5% in 1991. Tony Lama's inclusion for the full year, with its overall product line priced similarly to that of Nocona Boot Company and above Justin Boot Company's, is the main reason for the average selling price gain.

Income from Continuing Operations



As a percentage of net sales, cost of goods sold was 70.8% in 1991, compared to 70.4% in 1990 and 71.1% in 1989. Footwear gross profit margins fell slightly in 1991 due primarily to the inclusion of Tony Lama Company in operations for the entire year. Although Tony Lama's manufacturing improved throughout the year, its overall production costs were higher than those of Justin and Nocona due to the many changes made in 1991. In the Building Materials segment, gross profit margins improved again in 1991 as gains at Featherlite—due to more efficient manufacturing—more than offset a slight decline in brick margins that resulted from production cutbacks implemented to lower inventory levels.

Net Income



Selling, general, and administrative expenses were 22.8% of net sales in 1991, compared to 23.5% in both 1990 and 1989. In both 1991 and 1990, costs were incurred to defend and settle litigation resulting from a hostile takeover attempt of the company. The decline in operating expenses as a percentage of sales from continuing operations is due primarily to growth in sales, as expenses other than sales commissions are generally fixed in nature.

The average effective interest rate on interest-bearing debt in 1991 was 6.8%, compared to 8.5% in 1990 and 8.9% in 1989. Interest rates on a significant portion of the company's borrowings fluctuate based upon various money

market indices. The lower effective rates in 1991 are a reflection of the downward trend in rates over the last year. Note 5 to the Consolidated Financial Statements on page 24 describes the company's borrowing arrangements.

Income tax expense from continuing operations as a percentage of pre-tax income was 38.4% in 1991, compared to 32.8% in 1990 and 31.5% in 1989. The federal statutory rate for all three years was 34%. The table in Note 8 to the Consolidated Financial Statements on page 26 presents a reconciliation of the actual tax rate to the federal statutory tax rate.

Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (issued in December 1987), established new financial accounting and reporting standards for the effects of income taxes that result from the company's activities during the current and preceding years. The effective date of FASB 96 has been delayed to 1993, and a revision to that accounting standard is expected to be issued in the near future. The company has not determined the effects of the proposed revision on its financial position and results of operations.

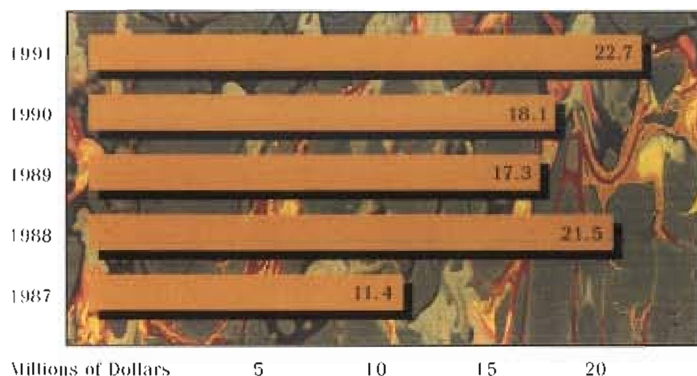
Inflation has not had a significant impact on company operations in recent years; however, the company attempts to recover any cost increases through improvement to its manufacturing processes and price increases where competitively feasible.

Financial Condition, Source of Funds, and Liquidity

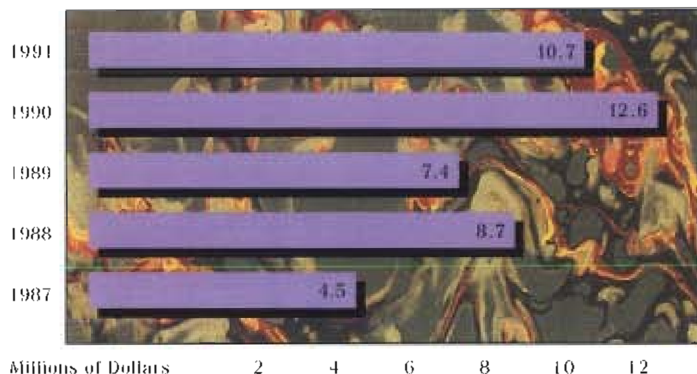
Justin Industries' financial condition improved in 1991. Earnings growth in the company's core businesses, the sale of Ceramic Cooling Tower Company at year-end, and reduced capital spending were key factors in strengthening the balance sheet. In 1991, total assets grew to $296 million, an approximate 1% increase. Asset increases in the brick business resulting from the Elgin-Butler acquisition and the Footwear business due to its steady growth were mostly offset by the disposition of CCT. A gain of $5.3 million in working capital had the effect of raising the current ratio from 4.1 to 1 at December 31, 1990, to a year end high of 4.5 to 1 at the end of 1991. The cash proceeds and resulting gain from the CCT disposition significantly affected the financial leverage by reducing borrowings and increasing equity. At December 31, 1991, the ratio of long-term debt to equity was .91 to 1, down from 1.12 to 1 at the end of 1990, while the ratio of total interest-bearing debt to equity at year-end 1991 was .93 to 1 versus 1.14 to 1 at December 31, 1990. The record net income of $19.2 million increased book value per share of common stock to $14.75, an all-time high.

While it is difficult to reduce working capital, and hence borrowings required to support it, in the growing Footwear businesses, management intends to further lower borrowing levels in 1992. Additional cutbacks in capital spending, along with anticipated earnings growth

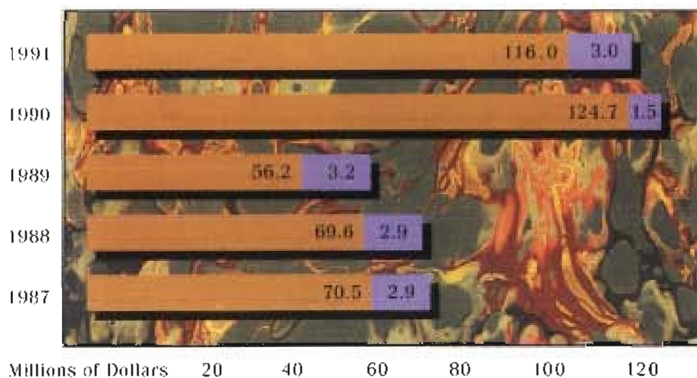
Cash Provided from Operations



Capital Expenditures
Continuing Operations

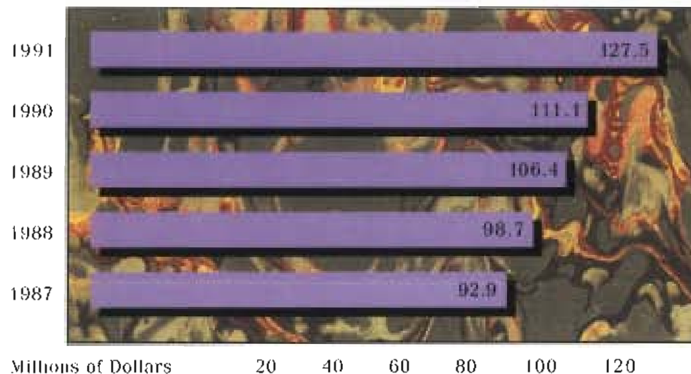


Interest-Bearing Debt



and depreciation, should more than offset the working capital needs of expanding operations. The seasonal nature of Justin Industries' operations results in peak borrowing levels occurring during the fourth quarter of the year. In addition to cash flow from operations, funds are obtained from commercial banks, primarily through the company's $72 million revolving credit agreement. Borrowings may also be obtained from short-term credit facilities. At the end of 1991, a total of $44 million in unused credit facilities was available to the company. These facilities are considered adequate for the company's needs.

Shareholders' Equity



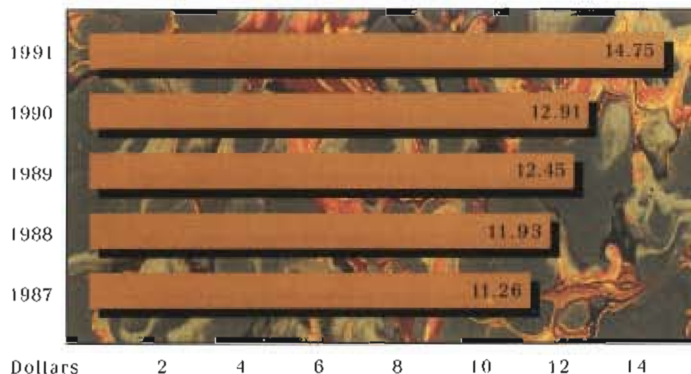
Backlogs

The company maintains information on sales backlogs in order to plan for future production levels and to project sales volume. At December 31, 1991, the backlog for clay brick was $9.8 million, compared to $7.3 million at year-end 1990. The sales backlog for footwear products at year-end 1991 was $17.9 million, compared to $21.6 million in 1990.

Management's Responsibilities for the Financial Statements

The Consolidated Financial Statements for Justin Industries, Inc., and its subsidiaries are prepared by the company in conformity with consistently applied, generally accepted accounting principles. Management selects appropriate accounting principles, makes necessary estimates, and uses its judgement to ensure the objectivity, accuracy, and integrity of the data presented. The company has established and maintains systems of management reporting and internal controls that are designed to provide reasonable assurance that company policies are followed and that company assets are safeguarded. These systems are constantly monitored and revised where necessary to meet changing requirements and to strengthen controls while maintaining a cost-effective method of providing credible and timely information necessary to the operations of Justin Industries.

Book Value Per Share



The Board of Directors carries out its oversight responsibility for the financial statements through its Audit Committee. This committee is composed of directors who are neither officers nor employees of the company. The committee meets periodically with the independent auditors and representatives of management to assure that each is carrying out its responsibilities. To ensure the integrity of the Audit Committee function, the company's outside auditors have complete access to the committee, without company representatives present. The results of their audits and their opinions on the adequacy of internal controls and the quality of financial reporting can be freely discussed during these conferences.

BALANCE SHEET TRENDS

Percent of Total Assets

Assets:	**1991**	1990	1989	1988	1987
Receivables	**24%**	25%	24%	25%	27%
Inventories	**41**	40	37	38	34
Fixed assets	**28**	29	31	32	35
All other assets	**7**	6	8	5	4
	100%	100%	100%	100%	100%
Liabilities and Equity:					
Equity	**43%**	38%	50%	46%	43%
Interest-bearing debt	**40**	43	28	34	33
All other liabilities	**17**	19	22	20	24
	100%	100%	100%	100%	100%

OPERATING TRENDS

Percent of Net Sales

	1991	1990	1989	1988	1987
Net sales	**100.0%**	100.0%	100.0%	100.0%	100.0%
Cost of sales	**70.8**	70.4	71.1	70.8	69.4
Gross profit	**29.2**	29.6	28.9	29.2	30.6
Operating expenses	**25.4**	25.9	26.0	25.4	26.0
Gain on sale of real estate	**—**	—	(.1)	—	(.1)
Income taxes	**1.4**	1.2	.9	1.2	1.4
Income from continuing operations	**2.4**	2.5	2.1	2.6	3.3
Discontinued operations	**2.8**	(.1)	.7	.6	(3.0)
Net income	**5.2%**	2.4%	2.8%	3.2%	.3%

FIVE-YEAR ANALYSIS OF SALES AND OPERATING PROFIT FROM CONTINUING OPERATIONS BY PRODUCT LINES

(in thousands of dollars)

	1991		1990		1989		1988		1987	
	Amount	**Percent**	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Building Materials:										
Net sales	**$123,004**	**33%**	$118,943	40%	$113,662	44%	$108,864	47%	$113,204	51%
Profit	**4,979**	**18**	3,698	17	604	4	4,369	26	6,685	40
Footwear:										
Net sales	**245,346**	**67**	181,370	60	142,707	56	123,455	53	109,662	49
Profit	**22,934**	**82**	17,748	83	15,650	96	12,223	74	10,184	60
Totals:										
Net sales	**$368,350**	**100%**	$300,313	100%	$256,369	100%	$232,319	100%	$222,866	100%
Profit	**$ 27,913**	**100%**	$ 21,446	100%	$ 16,254	100%	$ 16,592	100%	$ 16,869	100%
Less interest and parent company operations	**14,180**		10,173		8,541		7,942		6,366	
Income from continuing operations before income taxes	**$ 13,733**		$ 11,273		$ 7,713		$ 8,650		$ 10,503	

Note: As a result of the sale of Ceramic Cooling Tower Company, the Industrial Equipment segment has been eliminated, and operations of Tradewinds Technologies, Inc., previously included in the Industrial Equipment segment, are now included in the Building Materials segment. All prior periods have been restated.

Consolidated Balance Sheet

In Thousands of Dollars, Except Share Data, at December 31,	1991	1990
Assets		
Current assets:		
Cash	$ 4,125	$ 1,498
Accounts receivable, less allowance for doubtful accounts of $2,652 and $2,558, respectively	69,823	73,597
Inventories	120,347	116,512
Federal and state income taxes	—	1,559
Prepaid expenses	6,620	5,446
Total current assets	200,915	198,612
Investments and other assets, at cost	13,541	9,658
Property, plant, and equipment, at cost:		
Land	18,439	19,713
Buildings and equipment	176,914	170,856
Construction in progress	1,132	2,630
	196,485	193,199
Less accumulated depreciation	114,994	108,546
Net property, plant, and equipment	81,491	84,653
	$ 295,947	$ 292,923

	1991	1990
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable	$ 10,640	$ 18,802
Accrued payroll items	5,855	5,411
Accrued insurance	8,248	9,330
Accrued state and local taxes	2,401	1,039
Other accrued expenses	9,300	11,028
Federal and state income taxes	4,570	—
Dividends payable	864	861
Current portion of long-term debt	3,062	1,462
Total current liabilities	44,940	47,933
Long-term debt, less current portion	116,040	124,724
Deferred income taxes	7,418	9,131
Shareholders' equity:		
Voting preferred stock, $2.50 par value; 1,000,000 shares authorized —Series Two convertible, 100 shares issued and outstanding	—	—
Common stock, $2.50 par value; 20,000,000 shares authorized, 9,290,155 shares issued	23,225	23,225
Capital in excess of par value	12,409	12,359
Retained earnings	98,311	82,528
Treasury stock, at cost, 643,942 and 682,689 shares, respectively	(5,896)	(6,227)
ESOP loan guarantee	(500)	(750)
Total shareholders' equity	127,549	111,135
	$ 295,947	$ 292,923

See accompanying notes.

CONSOLIDATED STATEMENT OF INCOME

In Thousands of Dollars, Except Per Share Data, for Years Ending on December 31.	**1991**	1990	1989
Net sales	**$ 368,350**	$ 300,313	$ 256,369
Gain on sale of real estate	**—**	32	362
	368,350	300,345	256,731
Costs and expenses:			
Cost of goods sold	**260,968**	211,559	182,365
Selling, general, and administrative expenses	**84,167**	70,698	60,251
Interest expense	**9,482**	6,815	6,402
	354,617	289,072	249,018
Income from continuing operations before income taxes	**13,733**	11,273	7,713
Income taxes	**5,280**	3,697	2,432
Income from continuing operations	**8,453**	7,576	5,281
Discontinued operations:			
Income (loss) from discontinued operations, net of taxes of $527, $(87), and $1,086, respectively	**955**	(283)	1,917
Gain on sale of discontinued operations, net of taxes of $4,931	**9,825**	—	—
Income (loss) from discontinued operations	**10,780**	(283)	1,917
Net income	**$ 19,233**	$ 7,293	$ 7,198
Earnings (loss) per share:			
Continuing operations	**$ .96**	$ .86	$ .62
Discontinued operations	**1.23**	(.03)	.22
	$ 2.19	$ .83	$ .84

See accompanying notes.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

In Thousands of Dollars, Except Share Data, for Years Ending on December 31, 1991, 1990, and 1989	Preferred stock	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	ESOP loan guarantee
Balance January 1, 1989	$ —	$ 15,484	$ 11,754	$ 81,735	$ (9,086)	$ (1,200)
Issuance of 3,096,510 shares of common stock in connection with a 3-for-2 stock split effected in the form of a 50% stock dividend	—	7,741	—	(7,741)	—	—
Purchase of 3,266 shares of stock for treasury	—	—	—	—	(67)	—
Issuance of 188,688 shares of stock from treasury upon exercise of stock options	—	—	543	—	2,394	—
Repayment of ESOP debt	—	—	—	—	—	200
Net income	—	—	—	7,198	—	—
Cash dividends declared—$.30 per share	—	—	—	(2,524)	—	—
Balance December 31, 1989	—	23,225	12,297	78,668	(6,759)	(1,000)
Purchase of 904 shares of stock for treasury	—	—	—	—	(14)	—
Issuance of 59,905 shares of stock from treasury upon exercise of stock options	—	—	62	—	546	—
Repayment of ESOP debt	—	—	—	—	—	250
Net income	—	—	—	7,293	—	—
Cash dividends declared—$.40 per share	—	—	—	(3,433)	—	—
Balance December 31, 1990	—	23,225	12,359	82,528	(6,227)	(750)
Purchase of 5,068 shares of stock for treasury	—	—	—	—	(72)	—
Issuance of 43,815 shares of stock from treasury upon exercise of stock options	—	—	50	—	403	—
Repayment of ESOP debt	—	—	—	—	—	250
Net income	—	—	—	19,233	—	—
Cash dividends declared—$.40 per share	—	—	—	(3,450)	—	—
Balance December 31, 1991	**$ —**	**$ 23,225**	**$ 12,409**	**$ 98,311**	**$ (5,896)**	**$ (500)**

See accompanying notes.

Consolidated Statement of Cash Flows

In Thousands of Dollars for Years Ending on December 31,	1991	1990	1989
Cash Flows from Operating Activities:			
Net income	$ 19,233	$ 7,293	$ 7,198
Adjustments to reconcile net income to cash provided from operations:			
Depreciation	12,818	10,875	10,508
Provision for losses on accounts receivable	1,564	1,634	1,177
Gain on sale of property, plant, and equipment	(201)	(274)	(425)
Deferred income taxes	(901)	(1,387)	(1,181)
Gain on sale of discontinued operations, net of taxes	(9,825)	—	—
Cash provided from operations	22,688	18,141	17,277
Changes in current assets and liabilities:			
(Increase) decrease in accounts receivable	(1,758)	(6,816)	2,207
(Increase) decrease in inventories	(7,307)	(2,895)	2,523
(Increase) decrease in other current assets	377	(2,054)	(455)
Increase (decrease) in accounts payable and accrued expenses	(7,723)	(9,923)	3,158
Net changes in current assets and liabilities	(16,411)	(21,688)	7,433
Net cash provided from (used in) operating activities	6,277	(3,547)	24,710
Cash Flows from Investing Activities:			
Proceeds from the sale of property, plant, and equipment	484	728	2,651
Purchase of property, plant, and equipment	(11,017)	(13,195)	(9,013)
(Increase) decrease in investments and other assets (including reclassifications)	1,210	343	(4,843)
Other	—	—	(9)
Payment for purchase of businesses, net of cash acquired	(1,500)	(18,447)	—
Proceeds from sale of discontinued operations	20,000	—	—
Net cash provided by (used in) investing activities	9,177	(30,571)	(11,214)
Cash Flows from Financing Activities:			
Borrowings	55,500	91,250	8,250
Repayment of borrowings	(65,261)	(56,136)	(21,087)
Dividends paid	(3,447)	(3,427)	(2,220)
Purchase of treasury stock	(72)	(14)	(67)
Proceeds from exercise of stock options	453	608	2,937
Net cash provided from (used in) financing activities	(12,827)	32,281	(12,187)
Net increase (decrease) in cash	2,627	(1,837)	1,309
Cash at beginning of year	1,498	3,335	2,026
Cash at end of year	$ 4,125	$ 1,498	$ 3,335
Supplemental Disclosures of Cash Information:			
Cash paid during the year for:			
Interest	$ 8,813	$ 5,755	$ 5,107
Income taxes, net of refunds	$ 1,269	$ 3,196	$ 2,972
Supplemental Schedule of Non-cash Investing and Financing Activities:			
Purchase of businesses (See Note 3):			
Fair value of assets acquired	$ 4,527	$ 71,582	$ —
Cash paid for assets or common stock and related costs	(1,500)	(18,787)	—
Subordinated debt issued	(2,927)	—	—
Liabilities assumed	$ 100	$ 52,795	$ —
Decrease in ESOP loan guarantee	$ (250)	$ (250)	$ (200)

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ending on December 31

1. Summary of Significant Accounting Policies

A summary of the company's significant accounting policies is presented to assist the reader in evaluating the financial statements and other information contained in this report. Certain reclassifications have been made in December 31, 1990 and 1989 amounts to conform with 1991 presentation.

Principles of Consolidation. The consolidated financial statements include the accounts of the company and its subsidiaries. All material intercompany accounts and transactions are eliminated upon consolidation.

Inventories. Inventories are valued at the lower of cost or market. Finished products and work-in-process are costed using an average cost method, while raw materials and manufacturing supplies are costed on the first-in, first-out method.

Property, Plant, and Equipment. Depreciation is computed principally by the straight-line method for financial reporting purposes. The annual depreciation provision has been based upon the following estimated lives:

Buildings	10 to 33 years
Equipment	3 to 20 years

Revenue Recognition. Revenue from sale of manufactured products is recognized primarily upon passage of title to the customer, which generally coincides with physical delivery and acceptance. Revenue from large, long-term contracts, included in discontinued operations, is recognized by the percentage-of-completion method.

Income Taxes. Deferred income taxes are provided for timing differences in reporting certain income and expense items for financial reporting purposes in different periods than for tax reporting purposes. The principal items that cause timing differences are accelerated depreciation methods, income recognition on long-term contracts, valuation allowances, and installment sales of certain products.

Earnings Per Share. Earnings per share is determined by dividing net income by the average number of common shares outstanding plus common stock equivalents. Common stock equivalents include shares issuable under outstanding stock options reduced by shares assumed to be purchased from the proceeds of such options and the effect of the possible conversion of the voting preferred stock. Earnings per share, as presented, is both primary and fully diluted.

The average number of shares outstanding used to calculate earnings per share was 8,794,000 in 1991, 8,804,000 in 1990, and 8,556,000 in 1989.

Pension Plans. The company and its subsidiaries have pension plans for the benefit of substantially all employees. Benefits are based on years of service and the employees' compensation during the last five years of employment. The company's policy is to fund pension cost accrued, but not in excess of the maximum allowable deduction for federal income tax purposes.

Employee Stock Options. Proceeds from common stock issued under employee stock options are credited to common stock or treasury stock and capital in excess of par value at the time an option is exercised. No charges are made against income in accounting for stock options.

Statement of Cash Flows. For purposes of reporting cash flows, cash includes cash on hand and unrestricted time deposits.

Effects of Future Accounting Standards. In December 1990, the Financial Accounting Standards Board (FASB) issued Statement No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Since the company does not provide health care, life insurance, or other non-pension benefits for its retired employees, this new standard will have no impact on the company's financial statements.

FASB 96, "Accounting for Income Taxes," was issued in December 1987 and established new financial accounting and reporting standards for the effects of income taxes that result from the company's activities during the current and preceding years. The effective date of FASB 96 has been delayed to 1993, and a revision to that accounting standard is expected to be issued in the near future. The company has not determined the effects of the proposed revision on its financial position and results of operations.

2. Discontinued Operations

On November 27, 1991, the company entered into an agreement to sell substantially all of the net assets of its subsidiary, Ceramic Cooling Tower Company, for $20,000,000. The sale was completed on December 31, 1991. The company will continue to be liable for certain warranty and other claims. Management believes adequate provision has been made to cover such future obligations.

In December 1987, the company adopted a plan to discontinue operations of its precast/prestressed concrete business (Featherlite Precast Corporation) and its earthmoving and road-building equipment business (MEGA Equipment Company). Operating income (losses) and phase-out costs incurred in 1991 and 1990 related to these discontinued operations amounted to approximately $27,000 and ($49,000), respectively, net of taxes. At December 31, 1991, management estimates that no additional reserves are necessary since the estimated gain on disposal of remaining assets is sufficient to absorb costs incurred in excess of previous estimates and future phase-out costs associated with the remaining assets.

At December 31, 1991 and 1990, identifiable assets of all discontinued operations amounted to $5,692,000 and $15,522,000, respectively. Such assets remaining at December 31, 1991, relate primarily to the net realizable value of idled facilities, long-term notes receivable, and certain accounts receivable collectible within one year. It is the company's intent to sell the idled facilities to third parties. Revenues from discontinued operations in 1991, 1990, and 1989 amounted to $14,563,000, $14,621,000, and $21,561,000, respectively.

3. Acquisitions

On October 7, 1991, the company purchased the brick manufacturing operations of Elgin-Butler Brick Company. The total purchase price of the acquisition was approximately $4,527,000. Operations of the business, which are immaterial to consolidated operations, are included in the Consolidated Statement of Income from date of acquisition.

Effective October 1, 1990, the company acquired all of the outstanding shares of common stock of Tony Lama Company, Inc. (Tony Lama) at a price of $9.00 per share in cash, with the aggregate purchase price for such shares and related costs totaling approximately $18,787,000. The acquisition was financed by cash and borrowings under the company's revolving credit agreement.

The acquisition has been accounted for as a purchase transaction, and accordingly, the purchase price was allocated to assets and liabilities based on their estimated fair value as of the date of acquisition. As allowed by generally accepted accounting principles, the original allocation of the purchase price was refined during 1991 and certain adjustments were made. The effect of the revisions was to lower the amounts assigned to receivables, inventories, and idle facilities; increase the reserve for discontinued retail operations; and increase the assigned value of trade names. The Consolidated Statement of Income includes the results of Tony Lama from the purchase date of October 1, 1990.

4. Inventories

Inventories include the following: (in thousands of dollars)

	1991	1990
Finished products	**$ 85,737**	$ 82,097
Work-in-process	**9,428**	8,863
Raw materials and supplies	**25,182**	25,552
	$120,347	$116,512

5. Borrowings

Long-term debt consists of the following: (in thousands of dollars)

	1991	1990
Revolving credit loans	**$ 48,000**	$ 59,000
Term loan	**35,000**	35,000
Industrial Revenue Bonds	**20,330**	21,075
Notes payable to banks	**12,150**	6,150
Notes payable to insurance companies	—	3,000
Other, unsecured	**3,622**	1,961
	119,102	126,186
Less current portion	**3,062**	1,462
	$116,040	$124,724

The company may borrow up to a total of $72,000,000 in revolving credit loans pursuant to an agreement among five commercial banks originally entered into in May 1989. The revolving credit loans are repayable beginning in April 1993 when outstanding amounts are converted to term loans payable over four years. The conversion date may be exended annually for an additional twelve months by consent of all participating banks.

The $35,000,000 term loan is an eight-year agreement among four commercial banks providing for annual principal reductions beginning in November 1992 of $2,000,000, increasing $1,000,000 each year thereafter until 1998, when the final payment is due.

Borrowings under the revolving credit and term loan agreements bear interest at rates determined on certain margins based on prime, certificates of deposit, and Eurodollar auction rates. At December 31, 1991, the average rate on outstanding revolving credit and term loans was 5.6%. The loans are unsecured; however, the loan agreements contain certain minimum requirements as to working capital, cash flow from operations, and tangible net worth and restrictions on capital expenditures, redemption of outstanding stock, and change in control of the company. As of December 31, 1991, the company was in compliance with all such requirements and restrictions.

The Industrial Revenue Bonds are payable in varying amounts through 2014, plus interest at fixed rates of 5% to 10% and varying rates based on certain indices (approximately 5.9% at December 31, 1991), secured by property, plant, and equipment with a net book value of approximately $16,552,000. In certain circumstances, the company may be required to purchase up to $16,250,000 of its Industrial Revenue Bonds prior to their maturity. In such circumstances, the company may borrow the purchase price under long-term standby letter of credit agreements and also has the right to resell the bonds.

Notes payable to banks are unsecured borrowings due in varying amounts through 1993. Interest is based on fixed and floating rates ranging from 5.7% to 7.3% at December 31, 1991.

At December 31, 1991 and 1990, the Justin Industries, Inc., Employee Stock Ownership Plan (ESOP) had loans of $500,000 and $750,000, respectively, outstanding to a commercial bank. The loans were for the purchase of shares of common stock of the company in the open market. The stock (43,363 shares at December 31, 1991) is collateral for the loan. The company has guaranteed repayment of the loan through future contributions to the ESOP. As a result of this guarantee, the indebtedness is considered a liability of the company and is therefore included in other long-term debt with a corresponding amount, classified as ESOP loan guarantee, recorded as a separate reduction of shareholders' equity.

The aggregate maturities of long-term debt through 1996 are as follows: 1992, $4,955,000; 1993, $18,129,000; 1994, $19,417,000; 1995, $18,024,000; and 1996, $18,390,000. Approximately $1,893,000 of certain notes payable maturing in 1992 have been classified as long-term in the Consolidated Balance Sheet since these obligations will be paid at maturity with funds from long-term revolving credit loans.

At December 31, 1991, unused lines of credit for short-term, revolving, and term credit agreements were approximately $44,000,000. Outstanding standby letters of credit at December 31, 1991, amounted to approximately $10,620,000.

6. Shareholders' Equity

The company has outstanding options to purchase its common stock under qualified incentive stock option plans and non-qualified stock option agreements (the Plans) with certain of its employees. The Plans, as amended, provide for the granting of either incentive stock options or stock options

which are not qualified under the Internal Revenue Code, at the discretion of the Compensation Committee of the Board of Directors. The Plans, as amended, provide for exercise of stock options without regard to the sequence of dates of original grants. All outstanding stock options are non-qualified. Options are granted at the fair market value at the date of grant and expire over a period of ten years. At December 31, 1991, options were outstanding on 889,038 shares at prices totaling $10,630,000. In 1991, options were granted covering 121,350 shares with an aggregate market value on the date of grant of $1,984,000. During the year, options were exercised to purchase 43,815 shares, and options to purchase 2,365 shares expired or were terminated. At December 31, 1991, no additional shares were reserved for future grants. However, on December 18, 1991, the Board of Directors approved a new non-qualified stock option plan. This plan is subject to approval of shareholders in April 1992. The plan provides for an additional 500,000 shares to be reserved for grants.

The preferred stock is convertible into 942 shares of common stock at December 31, 1991. The Board of Directors is empowered to set the dividend, redemption, and liquidation rights pertaining to the preferred stock and to establish the voting rights and any special rights or restrictions.

On October 6, 1989, the Board of Directors declared a dividend distribution of one Common Stock Purchase Right on each outstanding share of common stock. Each right entitles stockholders to buy one share of common stock at an exercise price of $40. The rights expire on October 6, 1999. Following Board of Directors approval, the rights will be exercisable if a person or group acquires 20% or more of the company's common stock or announces a tender offer that would result in ownership of 30% or more of the common stock. The rights may be redeemed at five cents per right at any time before a 20% position has been acquired.

7. Retirement Plans

The following table sets forth the plan's funded status and amounts recognized in the company's balance sheet at December 31, 1991 and 1990 related to the company's pension plans: (in thousands of dollars)

	1991	1990
Actuarial present value of benefit obligations:		
Vested	**$ 28,018**	$ 22,767
Non-vested	**1,284**	2,229
	$ 29,302	$ 24,996
Projected benefit obligations for service rendered to date	**$ (35,597)**	$ (30,568)
Plan assets at fair value	**55,928**	46,225
Plan assets in excess of projected benefit obligations	**20,331**	15,657
Unrecognized net gain from past experience different from that assumed and effects of changes in assumptions	**(10,373)**	(5,606)
Prior service cost not yet recognized in net periodic pension cost	**787**	471
Unrecognized net asset at January 1, 1985, being recognized over 15 years	**(6,326)**	(7,117)
Prepaid pension cost	**$ 4,419**	$ 3,405

Plan assets at December 31, 1991, are invested primarily in listed stocks and bonds or cash equivalents. The company's own common stock accounts for approximately 14.9% of plan assets.

Net pension credit includes the following components: (in thousands of dollars)

	1991	1990	1989
Service cost—benefits earned during the period	**$ 1,322**	$ 1,331	$ 1,330
Interest cost on projected benefit obligation	**2,724**	2,494	2,492
Actual (return) loss on plan assets	**(11,062)**	1,197	(10,664)
Net amortization and deferral	**6,011**	(6,136)	6,148
Net periodic pension credit	**$ (1,005)**	$ (1,114)	$ (694)

The weighted-average discount rate used in determining the actuarial present value of the projected benefit obligation was 8.5% in 1991 and 9% in 1990. The rate of increase in future compensation was 5.5% in 1991 and 6.5% in 1990. The expected long-term rate of return on assets was 9% for all years.

Contributions to the plan, limited by federal income tax regulations, for 1991, 1990, and 1989, were $10,000, $22,000, and $23,000, respectively.

The company also has an Employee Stock Ownership Plan (ESOP) for the benefit of substantially all employees. Eligible employees may contribute up to the lesser of 15% of their compensation or $5,000 to this plan for the purchase of company stock. During 1991 and 1990, 50% of

the amount contributed up to 5% of total compensation was matched by the company. The company matched 25% in 1989. Pursuant to Internal Revenue Service Regulation 401(k), the employees' contributions are on a pre-tax basis.

The amount of company contributions made to the ESOP and charged to expense was $667,000, $605,000, and $259,000 in 1991, 1990, and 1989, respectively.

8. INCOME TAXES

The provision for income taxes includes deferred taxes resulting from the following differences in tax accounting procedures: (in thousands of dollars)

	1991	1990	1989
Depreciation methods	**$ (878)**	$ (387)	$ (169)
Employee benefit plans	**323**	266	243
Valuation allowances	**640**	(1,057)	146
Installment sales	**(474)**	(121)	(121)
Other items	**172**	203	(33)
Total continuing operations	**(217)**	(1,096)	66
Discontinued operations	**(684)**	(291)	(1,247)
Total deferred taxes	**$ (901)**	$(1,387)	$(1,181)

Tax expense from continuing operations of $5,280,000 in 1991, $3,697,000 in 1990, and $2,432,000 in 1989 is different from the amounts obtained by applying the U. S. Federal Corporate Income Tax rate to income before taxes. The reasons for these differences are as follows:

	% of Pre-tax Income		
	1991	1990	1989
Statutory tax rate	**34.0**	34.0	34.0
Statutory depletion	**(1.0)**	(.8)	(2.2)
State taxes	**4.5**	.5	(.4)
Other	**.9**	(.9)	.1
Effective tax rate	**38.4**	32.8	31.5

In connection with the acquisition of Tony Lama, the company acquired a tax net operating loss carryforward. At December 31, 1991, approximately $3,750,000 of such carryforward is available to offset future taxable income. The carryforward will expire in 2004. Future utilization of such carryforward will be recognized through adjustment of Tony Lama's net assets values at date of acquisition.

9. FINANCIAL INFORMATION BY PRODUCT LINES

The five-year analysis of sales and operating profit from continuing operations by product lines on page 18, as it pertains to the last three years, is an integral part of the company's consolidated financial statements. A discussion of the company's products and business is located on pages 4 to 13. The following additional information is presented by industry segments: (in thousands of dollars)

Product Line	Identifiable assets	Depreciation expense	Capital expenditures
1991			
Building Materials	**$ 103,147**	**$ 7,932**	**$ 7,268**
Footwear	**173,609**	**4,043**	**3,377**
Corporate assets	**13,499**	**363**	**21**
Discontinued operations	**5,692**	**480**	**351**
Total	**$ 295,947**	**$ 12,818**	**$ 11,017**
1990			
Building Materials	$ 98,435	$ 7,514	$ 9,259
Footwear	167,638	2,321	3,345
Corporate assets	11,328	329	42
Discontinued operations	15,522	711	549
Total	$ 292,923	$ 10,875	$ 13,195
1989			
Building Materials	$ 94,818	$ 7,494	$ 4,599
Footwear	87,660	2,148	2,360
Corporate assets	12,564	361	446
Discontinued operations	16,266	505	1,608
Total	$ 211,308	$ 10,508	$ 9,013

10. Lease Commitments

At December 31, 1991, approximate future minimum rental commitments for all noncancellable operating leases are as follows: (in thousands of dollars)

1992	$ 3,443
1993	2,416
1994	1,728
1995	1,162
1996	401
Thereafter	282
	$ 9,432

Total rent expense for all operating leases amounted to approximately $3,748,000, $3,084,000, and $3,022,000 in 1991, 1990, and 1989, respectively.

Report of Ernst & Young
Independent Auditors

Board of Directors and Shareholders
Justin Industries, Inc.

We have audited the accompanying consolidated balance sheets of Justin Industries, Inc., as of December 31, 1991 and 1990, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1991. 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 generally accepted auditing standards. 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 Justin Industries, Inc., at December 31, 1991 and 1990, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles.

Ernst & Young

Fort Worth, Texas
January 27, 1992

ELEVEN YEAR FINANCIAL SUMMARY

Years Ending on December 31,	**1991**	1990	1989	1988
Summary of operations: (see note)				
(in thousands of dollars)				
Net sales:				
Building Materials	**123,004**	118,943	113,662	108,864
Footwear	**245,346**	181,370	142,707	123,455
	368,350	300,313	256,369	232,319
Operating profit (loss):				
Building Materials	**4,979**	3,698	604	4,369
Footwear	**22,934**	17,748	15,650	12,223
	27,913	21,446	16,254	16,592
Selected costs and expenses:				
Cost of goods sold	**260,968**	211,559	182,365	164,596
Selling, general, and administrative	**84,167**	70,698	60,251	54,590
Interest	**9,482**	6,815	6,402	4,574
Depreciation	**12,338**	10,164	10,003	10,263
Income taxes	**5,280**	3,697	2,432	2,696
Income (loss):				
From continuing operations	**8,453**	7,576	5,281	5,954
Including discontinued operations	**19,233**	7,293	7,198	7,469
Income (loss) per share:				
From continuing operations	**.96**	.86	.62	.71
Including discontinued operations	**2.19**	.83	.84	.89
Dividends declared per share	**.40**	.40	.30	.27
Capital expenditures*	**10,666**	12,646	7,405	8,681
Year-end statistics:				
(in thousands of dollars)				
Working capital	**155,975**	150,679	97,983	105,114
Net property, plant, and equipment	**81,491**	84,653	64,261	67,682
Total assets	**295,947**	292,923	211,308	214,403
Long-term debt	**116,040**	124,724	56,238	69,590
Shareholders' equity	**127,549**	111,135	106,431	98,687
Key financial ratios:				
Pre-tax profit margin (%)*	**3.73**	3.75	3.01	3.72
Income—return on sales (%)*	**2.29**	2.52	2.06	2.56
Return on shareholders' equity (%)*	**7.61**	7.12	5.35	6.41
Return on assets (%)*	**2.87**	3.00	2.48	2.75
Effective income tax rate (%)*	**38.4**	32.8	31.5	31.2
Ratio of long-term debt to shareholders' equity	**.91:1**	1.12:1	.53:1	.71:1
Ratio of total debt to shareholders' equity	**.93:1**	1.14:1	.56:1	.73:1
Ratio of current assets to current liabilities	**4.5:1**	4.1:1	3.5:1	3.9:1
Shareholders' statistics:				
Number of shareholders of record	**4,965**	4,886	5,091	4,309
Average number of shares outstanding (in thousands)	**8,794**	8,804	8,556	8,378
Book value per share	**14.75**	12.91	12.45	11.93
Dividends as a percent of net income	**17.9**	47.1	35.1	29.5
Market price of common stock:				
High	**18¼**	17¾	16¾	11⅛
Low	**10¾**	11	9⅞	7⅞

Continuing Operations

Note: Effective December 31, 1991, the net assets and business of the company's wholly-owned subsidiary Ceramic Cooling Tower Company (CCT) were sold. All summary of operations data and key financial ratios based on such data have been restated to reflect the operations of CCT as discontinued. CCT had been the principal component of the company's Industrial Equipment business segment. The remaining Industrial Equipment operation, Tradewinds Technologies, Inc. (Tradewinds), is less than 2% of consolidated revenues. Because of the relative immateriality of Tradewinds, its results are now included in the Building Materials segment and the Industrial Equipment

1987	1986	1985	1984	1983	1982	1981
113,204	119,104	134,454	139,750	133,561	99,749	96,918
109,662	101,195	103,892	91,525	82,914	94,326	94,074
222,866	220,299	238,346	231,275	216,475	194,075	190,992
6,685	7,437	17,861	22,969	17,199	9,119	8,913
10,184	9,946	9,997	8,204	6,820	(8,926)	9,465
16,869	17,383	27,858	31,173	24,019	193	18,378
154,600	148,503	158,231	153,172	152,893	157,137	139,509
53,590	57,682	53,565	48,751	41,613	43,087	36,992
4,369	4,140	4,975	4,347	6,111	13,630	10,771
10,152	10,218	8,839	8,236	8,505	8,235	7,918
3,121	4,131	8,980	10,200	6,317	(9,747)	351
7,382	5,843	16,131	13,861	10,739	(8,449)	3,369
752	5,033	15,050	13,720	7,685	(6,345)	5,430
.87	.53	1.84	1.56	1.17	(.93)	.37
.09	.27	1.71	1.55	.84	(.70)	.61
.27	.27	.27	.20	—	.13	.27
4,540	5,922	30,047	11,987	5,076	5,646	15,111
90,206	87,407	78,873	67,421	70,841	68,405	77,950
75,205	80,362	84,743	62,357	64,591	71,462	73,636
219,013	224,608	231,119	199,863	173,105	197,929	208,423
70,509	69,489	68,089	64,154	57,054	67,104	71,342
92,938	96,321	95,382	84,053	75,563	67,851	76,358
4.71	3.47	10.54	10.40	7.88	(9.38)	1.95
3.31	2.08	6.77	5.99	4.96	(4.35)	1.76
7.66	4.81	19.19	18.34	15.83	(11.06)	5.24
3.33	2.01	7.49	7.43	5.79	(4.16)	1.84
29.7	40.0	35.8	42.4	37.0	(53.6)	9.4
.76:1	.72:1	.71:1	.76:1	.76:1	.99:1	.93:1
.79:1	.75:1	.77:1	.82:1	.83:1	1.46:1	1.31:1
2.9:1	2.8:1	2.4:1	2.6:1	3.2:1	2.3:1	2.5:1
4,063	4,018	4,150	4,064	3,983	4,005	4,338
8,469	8,739	8,786	8,880	9,167	9,111	8,855
11.26	11.33	11.11	9.74	8.38	7.53	8.30
296.7	45.5	15.3	12.7	—	—	44.2
11 7/8	13 7/8	13 5/8	10 3/4	10 1/8	8 1/8	12 1/2
6 7/8	8 5/8	9 1/8	7 3/8	7 3/4	4 3/8	7 1/8

segment has been eliminated. Prior years have been restated to reflect this change. Per share income amounts have been computed on the average number of common and common equivalent shares outstanding during each year and include preferred stock as common share equivalents. Book value per equivalent share of common stock has been computed on the number of common shares outstanding at December 31. All per share information has been adjusted for the 3-for-2 stock splits in 1984 and 1989. Operating profit for the various business segments is income before interest, allocation of parent-company overhead expenses, and income taxes.

SHAREHOLDER INFORMATION

ANNUAL MEETING ANNOUNCED

The annual meeting of shareholders will be held on Friday, April 3, 1992, at the Fort Worth Club Building, twelfth floor, 306 West Seventh Street, Fort Worth, Texas, at 10:30 a.m. All shareholders are cordially invited to attend and are urged to be represented by proxy if unable to attend.

DIVIDEND REINVESTMENT AND SHAREHOLDER SAVINGS PROGRAM

Any shareholder of record may have dividends automatically reinvested, or make voluntary investments in the company's common stock through a service offered by Ameritrust Company, N.A. For additional information, contact Vice President–Finance, Justin Industries, Inc., P. O. Box 425, Fort Worth, Texas 76101 (817) 336-5125; or Ameritrust Company, N.A., P. O. Box 2320, Dallas, Texas 75221 (214) 712-3483.

FORM 10-K/10-Q

Investors who wish to receive a copy of the company's annual report on Form 10-K or quarterly 10-Q reports, filed with the Securities and Exchange Commission, or other shareholder mailings, may obtain them upon request to Investor Relations, Justin Industries, Inc., P. O. Box 425, Fort Worth, Texas 76101 (817) 336-5125.

STOCK LISTING

Justin Industries, Inc., common stock is traded over-the-counter using the symbol "JSTN." Justin Industries common stock is included in the NASDAQ national market system (NMS).

STOCK TRANSFER AND DIVIDEND DISBURSING AGENT

Ameritrust Company, N.A., P. O. Box 2320, Dallas Texas 75221 (214) 712-3483.

INDEPENDENT AUDITORS

Ernst & Young, 2200 Team Bank Building, Fort Worth, Texas 76102.

EXECUTIVE OFFICES

Justin Industries, Inc., 2821 West Seventh Street, Fort Worth, Texas 76107 (817) 336-5125.

QUARTERLY FINANCIAL DATA

The following table presents summarized quarterly operating results for the two-year period ending December 31, 1991. Amounts previously reported have been restated to present the results of Ceramic Cooling Tower Company as discontinued operations. Net income for the fourth quarter of 1991 includes a net gain of $9,825,000 from the sale of this subsidiary, effective December 31, 1991. Operating results for the first quarter of 1991 include a pre-tax charge of approximately $1.1 million relating to legal and other expenses incurred in the settlement of litigation related to a hostile takeover attempt of the company. First quarter operations are historically affected by the seasonal nature of the construction industry.

Unaudited—In thousands, except per share data

	Quarter Ended							
	1991				1990			
	3/31	6/30	9/30	12/31	3/31	6/30	9/30	12/31
Net sales	$73,817	$86,487	$91,476	$116,570	$60,876	$67,688	$68,985	$102,764
Gross profit	20,636	25,439	27,542	33,765	17,774	20,426	21,604	28,950
Income from continuing operations	(1,351)	1,606	3,061	5,137	758	1,756	2,236	2,826
Net income	(1,175)	1,662	3,250	15,496	529	1,819	2,009	2,936
Per share:								
Continuing operations	(.15)	.18	.35	.58	.09	.20	.25	.32
Net income	(.13)	.19	.37	1.76	.06	.21	.23	33
Dividends paid	.10	.10	.10	.10	.10	.10	.10	.10

MARKET MAKERS

as of January 27, 1992

Eppler, Guerin & Turner, Inc.
First Southwest Company
Herzog, Heine, Geduld, Inc.
Howard, Weil, Labouisse, Friedrichs, Inc.
Kidder, Peabody & Co., Inc.
Kirkpatrick, Pettis, Smith, Polian, Inc.
Legg Mason Wood Walker, Inc.
Lehman Brothers
Paine Webber, Inc.
Rauscher Pierce Refsnes, Inc.
Sherwood Securities Corp.
Troster, Singer Corp.

MARKET PRICE OF COMMON STOCK

Year Quarter	PRICE High	Low	Close
1989			
1	10⅝	9⅞	10½
2	11¾	9⅞	11½
3	14⅝	11⅜	13¼
4	16¾	12	15⅝
1990			
1	17¾	13⅞	15¾
2	16½	14½	16
3	17½	12¾	14¼
4	14¾	11	13½
1991			
1	14¼	10¾	13½
2	13½	11¼	11¼
3	14	11¼	13¾
4	18¼	13½	18

DIRECTORS

John Justin
Chairman and Chief Executive Officer of Justin Industries

J. T. Dickenson
President and Chief Operating Officer of Justin Industries

Ben J. Fortson
Oil and Gas Producer

Bayard H. Friedman
Senior Chairman of Team Bank

Marvin Gearhart
Chairman of the Board of Rock Bit Industries, Inc.

Robert E. Glaze
Personal Investments

Dee J. Kelly
Shareholder and Director of the law firm of Kelly, Hart & Hallman

Joseph R. Musolino
Vice Chairman of NationsBank Texas

Oran F. Needham
Chairman of the Executive Committee of the Millers Group (insurance companies)

John V. Roach
Chairman, President, and Chief Executive Officer of Tandy Corporation

Dr. William E. Tucker
Chancellor of Texas Christian University

COMMITTEES

Audit Committee

Bayard H. Friedman
Robert E. Glaze
Dr. William E. Tucker

Compensation Committee

Bayard H. Friedman
Oran F. Needham

OFFICERS

John Justin
Chairman of the Board and Chief Executive Officer

J. T. Dickenson
President and Chief Operating Officer

Richard J. Savitz
Vice President-Finance and Treasurer

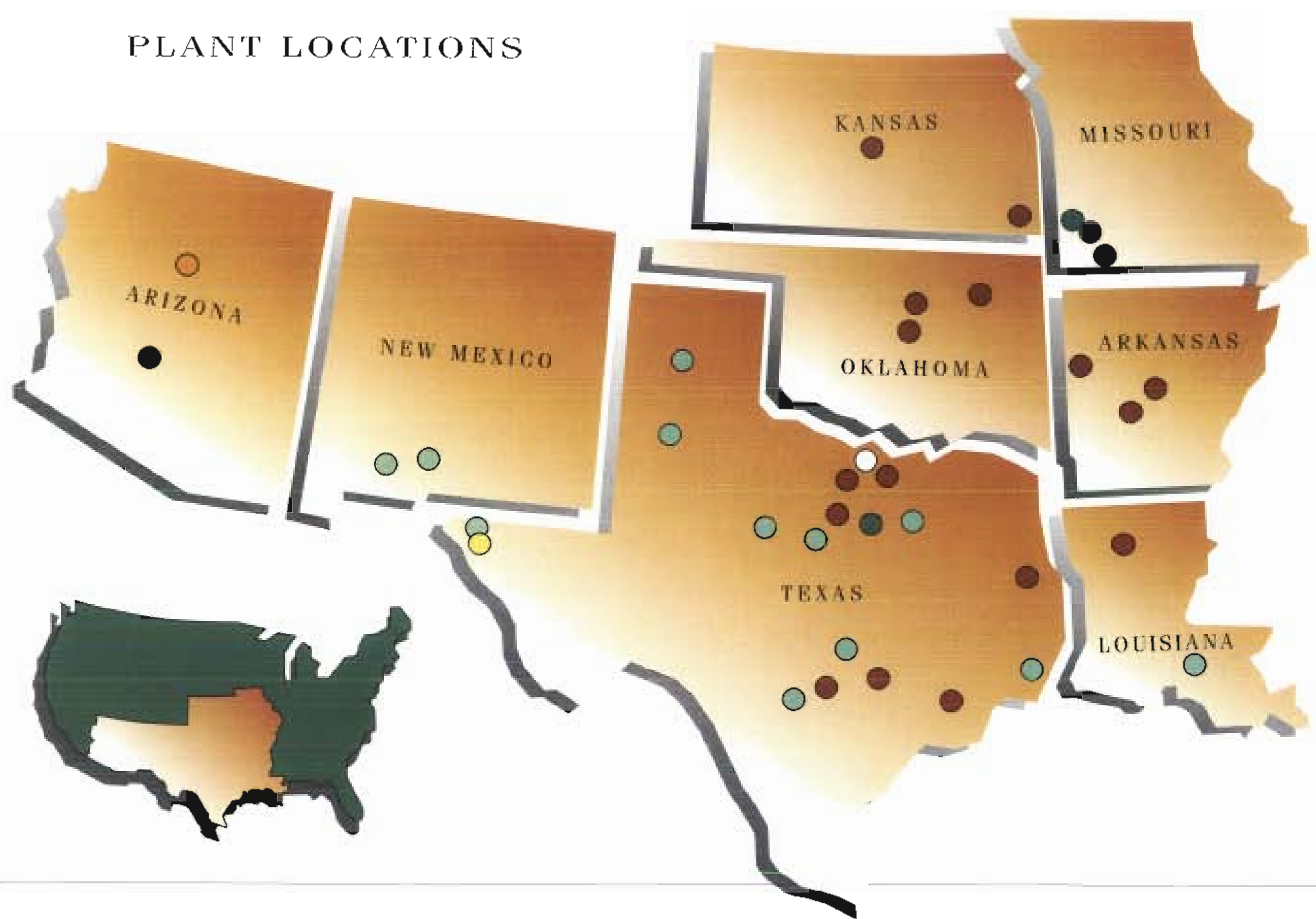
Jon M. Bennett
Vice President-Administration and Secretary

Edward L. Stout, jr.
Vice President-Brick Operations and President, Acme Brick Company

Judy B. Hunter
Controller

W. O. Burrough
Assistant Treasurer

PLANT LOCATIONS



ACME BRICK COMPANY
- Bennett, Texas
- Bridgeport, Texas
- Denton, Texas
- Elgin, Texas
- Garrison, Texas
- McQueeney, Texas
- San Felipe (Houston), Texas
- Fort Smith, Arkansas
- Malvern, Arkansas
- Perla, Arkansas (2)
- Kanopolis, Kansas
- Weir, Kansas
- Jamestown, Louisiana
- Edmond, Oklahoma
- Oklahoma City, Oklahoma
- Tulsa, Oklahoma

TRADEWINDS TECHNOLOGIES, INC.
- Phoenix, Arizona

FEATHERLITE BUILDING PRODUCTS CORPORATION

Concrete Block
- Abilene, Texas
- Amarillo, Texas
- Austin, Texas
- Beaumont/Port Arthur, Texas
- Dallas, Texas
- El Paso, Texas
- Lubbock, Texas
- San Antonio, Texas
- Las Cruces, New Mexico

d/b/a VOLCANIC CINDER COMPANY

Volcanic Cinders
- New Mexico

d/b/a LOUISIANA CONCRETE PRODUCTS

Concrete Block
- Baton Rouge, Louisiana

d/b/a TEXAS QUARRIES

Architectural Stone
- Cedar Park, Texas

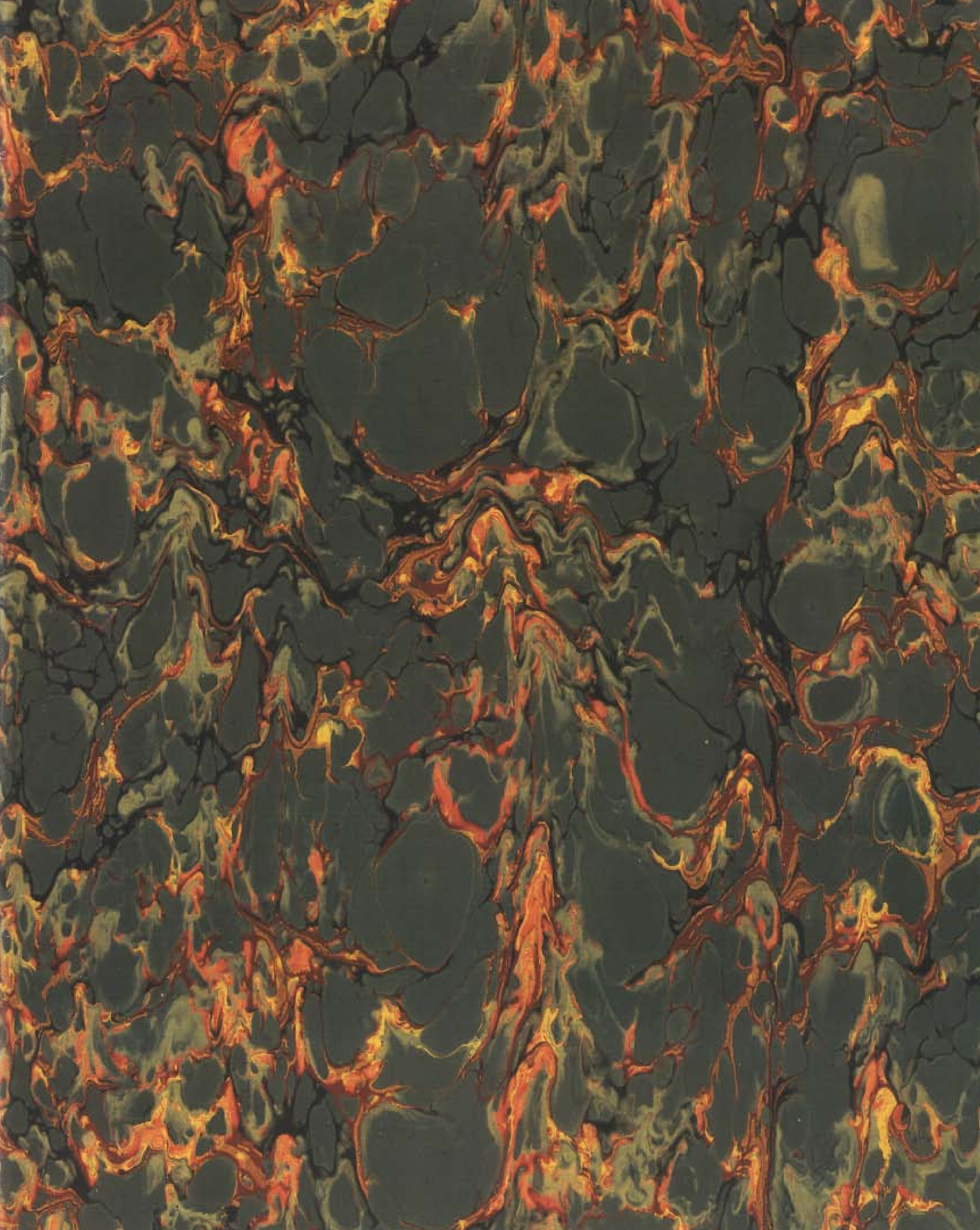
Justin Boot Company
- Fort Worth, Texas
- Cassville, Missouri (2)
- Sarcoxie, Missouri
- Carthage, Missouri

Nocona Boot Company
- Nocona, Texas

Tony Lama Company
- El Paso, Texas

Northland Publishing Company, Inc.
- Flagstaff, Arizona

This report was designed by Northland Publishing Co., Inc., a Justin Company. Primary photographer Britt Stokes, Acme Brick Co.



JUSTIN
INDUSTRIES, INC.

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