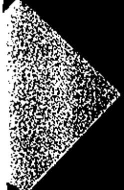
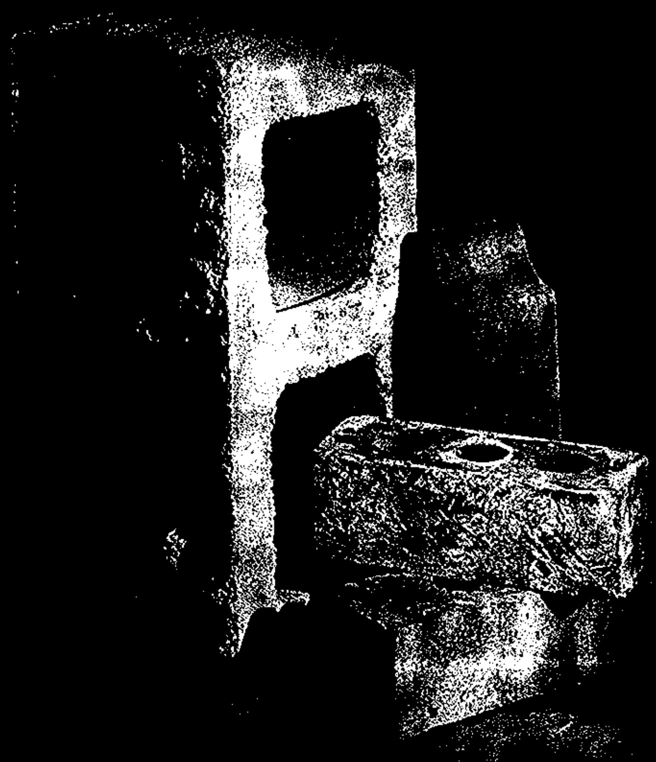


JUSTIN INDUSTRIES

1996 Annual Report



An Enduring Tradition of Quality

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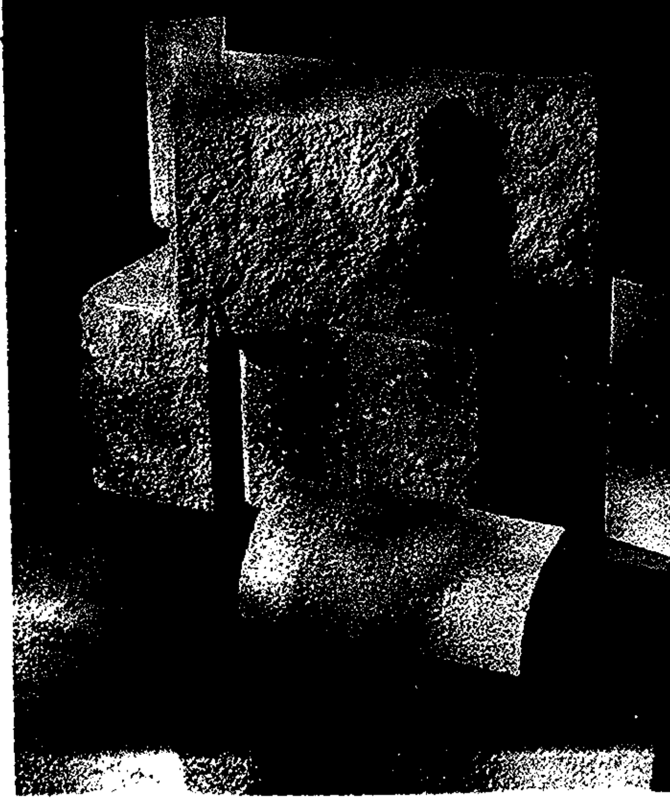

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TO OUR Shareholders

JANUARY 29, 1997

THE GENERAL BUSINESS TRENDS of the last few years continued for Justin Industries in 1996. We expected the year to have relatively stable interest rates and low inflation, providing a good economic environment for our Building Materials operations. These conditions prevailed, and construction levels increased in the Company's markets. As a result, sales of our building materials products grew to record levels in 1996, and earnings from those operations were the second highest in our history.

The Building Materials segment was again led by Acme Brick Company. In 1996, Acme sold over three-quarters of a billion bricks, a total greater than any previous year in its 105-year history. In addition to shipping record amounts of brick, Acme saw double-digit revenue gains in its purchased products business. American Tile Supply Company, acquired in 1994, completed its second year as a member of Justin Industries' Building Materials group. Sales at American Tile also reached new highs in 1996, and the prospects are very good for further gains in 1997 as new locations are added to their network. Featherlite Building Products Corporation completed an outstanding year as earnings reached a record high in 1996. Featherlite has expanded its line by offering a variety of profitable products to its customers to complement its basic concrete block business.

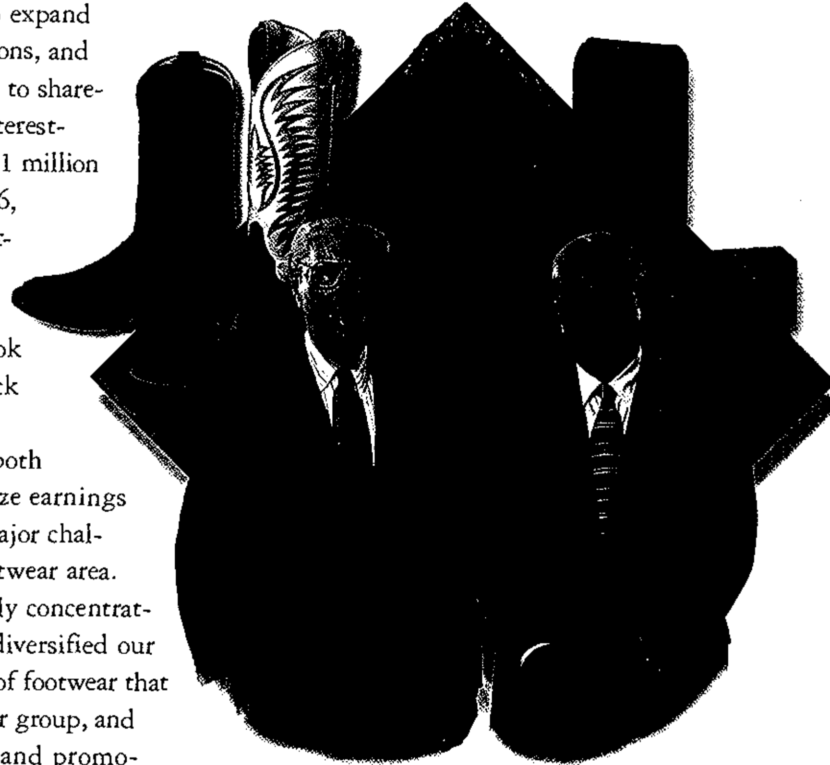
While we anticipated improved results in Justin Industries' Building Materials businesses, we entered 1996 concerned about the prospects for our Footwear companies. Since the peak periods of 1992 and 1993, when record sales and profitability were achieved, revenues have fallen 37 percent, with an even greater decline in earnings.

The year began slowly for our western boot business. Many of our dealers had large inventories due to a soft Christmas 1995 selling season. Apparel sales in general have been weak, with consumers spending more on automobiles and homes due to low interest rates and unemployment levels. The downward sales trend continued throughout the year, although the rate of decline was not as great in the just-completed fourth quarter.

Because of the diminished sales of western boots, additional adjustments were made to the Footwear operations to further lower the break-even level and reduce expenses. When the business stabilizes and historical growth patterns resume, our companies will be positioned to capitalize on their strength as industry leaders. Our adjustments included plant and warehouse shutdowns, extensive production cutbacks that lowered inventories by over $30 million, further major decreases in employment, and elimination of the Western European sales facility. While the costs associated with these actions were significant, the Footwear group managed to record a modest profit for the year.

Overall, the Company's earnings were less than our forecast because gains in Building Materials did not offset the Footwear decline. We were extremely pleased,

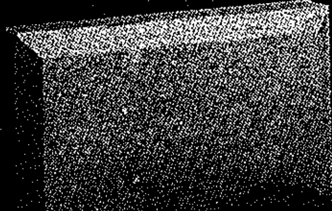
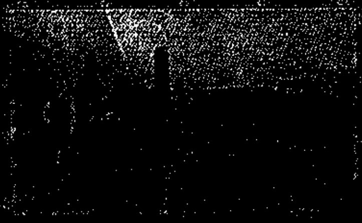
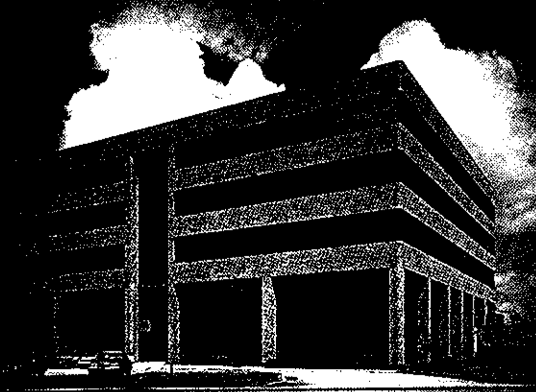
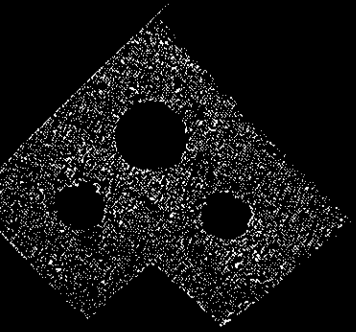
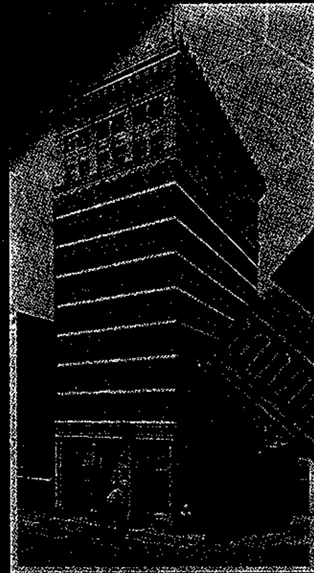
however, with the significant improvement in the Company's financial condition. Net cash provided by operating activities exceeded $63 million in 1996, an amount greater by far than in any previous year. A significant portion of this total was from the Footwear inventory reduction. After investing $25 million in capital assets to expand production and upgrade operations, and paying $8 million for dividends to shareholders and stock buy-backs, interest-bearing debt was reduced over $31 million during the year. At year-end 1996, borrowings made up only 14 percent of total capital. Shareholders' equity climbed past the $250 million mark and book value per share of common stock increased to $9.56.



We are well positioned in both of our business segments to realize earnings improvements in 1997. The major challenge continues to be in the footwear area. With western boot sales currently concentrated in the core market, we have diversified our product line to add new styles of footwear that will appeal to a broader consumer group, and we have expanded advertising and promotional activities. We enter 1997 with greater manufacturing and distribution capacity in our building materials operations following eight consecutive years of revenue growth. While our success is somewhat dependent on factors beyond our control, including fashion trends and general economic conditions, we believe that the groundwork has been laid for gains in 1997 and future years.

John Justin
Chairman and Chief Executive Officer

J. T. Dickenson
President and Chief Operating Officer

BUILDING MATERIALS *Segment*

REPORT ON OPERATIONS

JUSTIN INDUSTRIES' BUILDING MATERIALS companies completed another outstanding year in 1996. Revenues increased 9 percent to a record high as a strong regional economy led to further growth in residential and commercial construction.

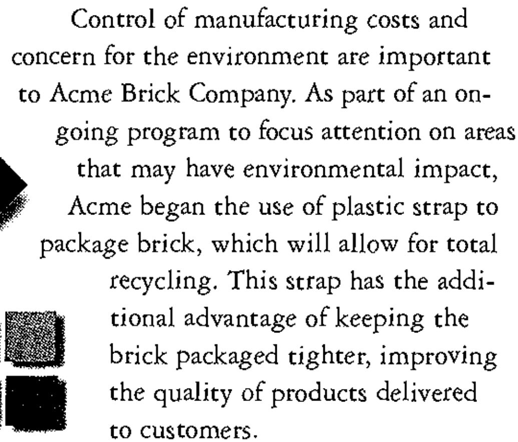
ACME BRICK COMPANY completed one of the most successful years in its 105-year history, establishing new records for the sale of brick and purchased products. Higher natural gas costs and the anticipated start-up expenses of a new brick plant kept profits only slightly below the all-time high achieved in 1994.

An increase in residential housing starts in Acme's market area enabled the company to sell 12 percent more brick than in 1995, while maintaining or improving prices to generate very good profit margins. The housing market has been fairly good over the last few years, despite earlier predictions of a decline in residential construction in the 1990s. Forecasters had predicted that the rate of housing starts would fall as the aging baby boom generation was replaced by a much smaller population group. This has not occurred nationally, and particularly in Acme's home territory, for two major reasons. First, immigration and migration in the '90s is at the highest level since the turn of the century; and second, the highest percentage of home ownership is found among the country's older population (those over 65), with this age group growing rapidly. So far in the 1990s, these factors have created a stronger demand than anticipated.

Acme's strategic plan calls for improving its distribution network by adding new sales offices and expanding existing locations. In the last year, new showrooms, warehouses, and/or sales offices were either completed or under construction in Little Rock and Fort Smith, Arkansas; Monroe, Louisiana; and Lubbock, Midland, and Corpus Christi, Texas. Additional expansion is planned for 1997.

In 1996, Acme concentrated advertising efforts on reinforcing Acme brand awareness, and promoting the one hundred–year limited guarantee for homeowners, the Acme reputation for quality, and Acme's tremendous 105-year history. For the fourth consecutive year, radio ads, billboards, print ads, and point-of-sale pieces featured Troy Aikman, quarterback for the Dallas Cowboys. In 1996, seven thousand architects within Acme's primary territory received a series of thirteen separate mailings promoting the beauty and versatility of Acme brick. In Acme's major markets, these messages served to reinforce Acme brick as the building material of preference. Acme again received publicity through many local and national publications, which is invaluable to the development of a national identity for Acme Brick. Acme also continued its participation in numerous brick marketing councils throughout the United States. Employees of the company proudly hold key positions in several of these organizations.

In addition to the expansion and upgrade of sales facilities, a major capital project in 1996 was completed with the start-up of a totally new brick plant at Bennett, Texas—the site of Acme's original plant, opened in 1891. This plant will add over 8 percent to Acme's total production capacity and will strengthen the company's position in the important Dallas–Fort Worth and North Texas markets.



Control of manufacturing costs and concern for the environment are important to Acme Brick Company. As part of an ongoing program to focus attention on areas that may have environmental impact, Acme began the use of plastic strap to package brick, which will allow for total recycling. This strap has the additional advantage of keeping the brick packaged tighter, improving the quality of products delivered to customers.

AMERICAN TILE SUPPLY COMPANY, acquired in 1994, operates as a subsidiary of Acme Brick Company. American Tile and Acme work closely together in all areas related to ceramic and marble floor and wall tile. Sales of those products reached an all-time high in 1996, as the per-capita use of ceramic tile in the United States continued its rapid growth. American Tile's business should see further growth in 1997. A third Houston, Texas, location is planned for the coming year, as well as a new warehouse/ showroom in Little Rock, Arkansas. American Tile Supply Company is currently developing aggressive new marketing programs to target major home builders and the retail market. Tile outlet stores have proven to be a profitable vehicle for disposing of discontinued styles. The company plans to open three new outlet locations in 1997.

With brick backlogs 34 percent higher than year-end 1995 and exciting new programs for expansion and growth of the purchased products and tile business, the prospects for another outstanding year in 1997 appear bright.

FEATHERLITE BUILDING PRODUCTS CORPORATION completed another year of solid volume and profit contribution in 1996. Declines in non-residential construction activity in Featherlite's smaller West Texas territories were offset by the continued strong market in the larger metropolitan areas of Dallas–Fort Worth, Austin, and San Antonio. Price improvements and sales of more profitable specialty products helped raise overall gross profit margins.

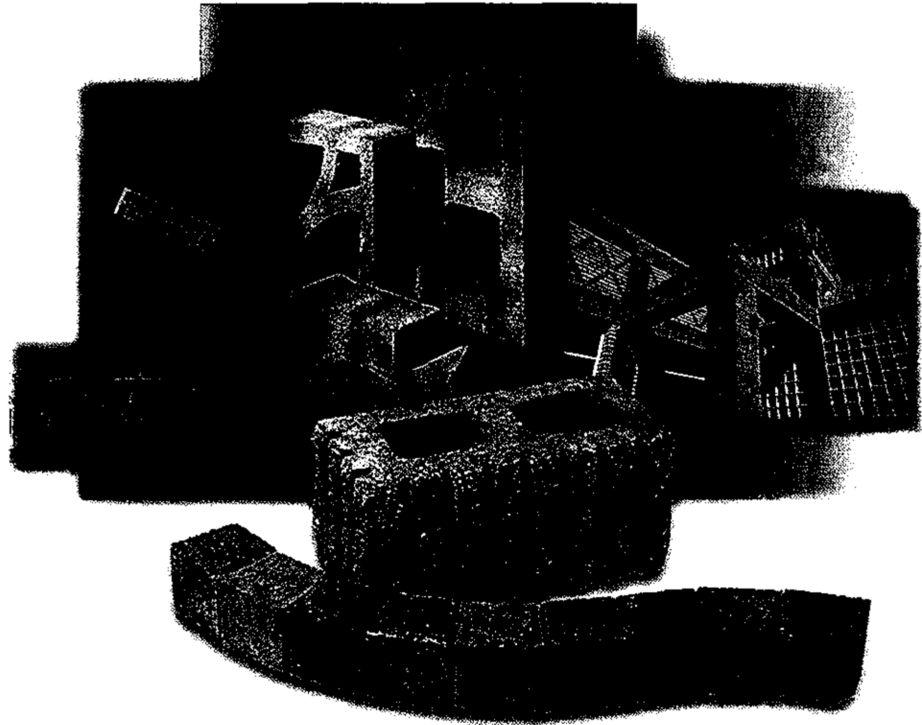
A key to Featherlite's success is its program of maintaining efficient up-to-date production facilities. In 1996, a new block machine was installed at the Lubbock plant. The new equipment, with increased capacity and reduced operating cost, will more profitably service the Lubbock, Midland, and Amarillo markets. The old Amarillo production facility was closed when the Lubbock expansion was completed. Work also began on Featherlite's Dallas plant expansion in 1996. The new operation will dramatically increase production efficiency, volume, and flexibility. It will now be possible to produce a wide assortment of concrete masonry products including block,

pavers, concrete brick, and landscape products, and Featherlite will be able to more aggressively pursue the large dealer and residential markets in the Dallas–Fort Worth metroplex. Planning is under way for similar improvements in San Antonio.

Featherlite is dedicated to maintaining excellent customer service and has strived to complement its core business with a wide variety of quality products, such as bagged masonry items, steel reinforcing material, insulation, and surface coatings. Most of these products are purchased for resale, but when feasible, Featherlite manufactures them itself. In West Texas, Featherlite has been successful in manufacturing its own line of masonry mixes. A new bagging plant was installed in Lubbock in 1996, and the existing operation in El Paso was enlarged in order to expand capacity and reduce costs.

Texas Quarries, Featherlite's architectural limestone division, continued to set sales and production records in 1996. This division's reputation as a producer of quality limestone products allowed it to attain record-high sales volume and profits. With the continued modernization of production facilities, manufacturing costs were lowered and margins were improved. In addition, Texas Quarries expanded its production capacity for residential stone products in 1996, and those products have become a major source of revenue.

The outlook for Featherlite appears to be good. With the expanded product line, aggressive marketing programs, and excellent customer service, Featherlite should experience continued success in 1997.



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FOOTWEAR *segment*

REPORT ON OPERATIONS

JUSTIN INDUSTRIES' FOOTWEAR OPERATIONS experienced further declines in 1996, as continued softness in the western apparel business impacted revenues and profitability for the third year in a row. During this challenging year, measures were taken to reduce costs in order to maintain profitability and to significantly reduce inventories. Early in the year, the Justin factory in Sarcoxie, Missouri, was closed, and in April, production at two factories in Cassville, Missouri, was combined to teduce overhead costs. Production at all other facilities was significantly reduced and employment levels were brought down an additional 30 percent. Costs were further reduced by closing one of four finished goods warehouses. These changes helped to lower inventories by over 500,000 pairs in 1996, a 40 percent reduction. In addition, break-even levels were lowered and cash flow was improved.

The Company's European operations were discontinued in mid-1996 because the level of sales did not support the cost of doing business with a physical presence in Europe. Direct sales to European customers were maintained by mail campaigns and did improve in the second half of the year.

Western footwear remains very popular in the core markets of Texas and the southern and southwestern states. Among the goals of the Footwear group in 1997 is developing products that find favor with consumers rather than those that are driven just by price. The focus will be on a quality product with improved margins. Comfort, functionality, and quality are the market trends. Justin, Tony Lama, and Nocona plan to capitalize on these trends by providing quicker response time and better styling, and maintaining lower costs to be competitive.

New products and advertising programs have been developed and are ready to make 1997 a successful year. Newer technology will be used in several areas. Product development is aided by computer systems in pattern and design development. Electronic data interface (EDI) will be available to all customers in 1997. Salesmen's laptop computers will be upgraded, and the information available will be improved to better service customers.

The Company's Footwear brands—Justin, Nocona, Tony Lama, and Chippewa—are concentrating on market niches that they can control and operate profitably, and they are planning to introduce products that will compete successfully in new markets.

The Justin boot division had the most significant reduction in inventory in 1996 and will benefit greatly in 1997 from reduced unit costs as production levels are increased to meet demands. A broader marketing approach is planned in 1997 to capitalize on the brand equity and to position Justin Boot Company as a premier manufacturer and trendsetter in western, leisure, and work footwear. Justin will continue to control inventory and maximize market delivery by releasing new styles three times a year, coinciding with seasonal styling and awareness.

In 1997, Justin will introduce a new footwear product designed to compete against work boots in the western markets as well as non-traditional Justin markets. This product is designed to take advantage of new technology to enhance comfort and

CHIPPEWA

durability. An advertising program is being developed for introduction in late spring. Justin will also continue to seek additional areas of potential growth. Specifically, crepe soles with double-stitched welts are expanding beyond the equestrian circles, and footwear profiles resembling boots made in the 1940s and 1950s are resurfacing. Other advertising programs will include timely events tied to Father's Day and the back-to-school and holiday seasons. Brand awareness will be maintained by event marketing at a broad spectrum of events. Additional brand awareness will be created through newspapers, broadcast news stories, and exposure through strategically placed signs and logos at events such as the National Finals Rodeo and the Professional Bullfighter Association Finals, which ate televised on ESPN and TNN.

Nocona Boot Company will capitalize on its ability to be the boot company that offers the retail industry the largest availability of toes and heels, the largest selection of sizes (3–16), and the widest selection of widths (AAAA–EEE), delivered in a short period of time. Nocona provides the retailers the opportunity to fit every foot. In 1997, Nocona will continue to market this concept through its "fit centers" and expand the message that Nocona Boot Company "fits any foot."

In 1997, Nocona will also introduce a new Mobile Fit Center, a 35-foot self-contained customized trailer. A sample of all styles, sizes, and widths manufactured will be on display. This fit center will be marketed as a company-sponsored traveling trunk show specializing in fitting, and will be driven to pre-approved retail locations to participate in special promotions. Fitting seminars, conducted by a Nocona boot specialist, will be held with store owners and employees prior to the event. The mission of this program is to educate the consumer and retailer about proper fit in western footwear. Nocona also plans to institute a telemarketing program in 1997 to reach small, remote customers.

Tony Lama Company believes that its greatest strength is in its brand name, along with its reputation for producing a high-quality product. In 1997, the company's marketing efforts will be focused on these strengths. Early in the year, Tony Lama will introduce the "Cushion Comfort" line of boots, which have been engineered to preserve all the quality of a hand-crafted ¾-welt boot while providing an unparalleled level of comfort and ease of fit. This line of boots was test matketed in 1996 and received an enthusiastic reception from dealers and their customers.

Tony Lama is also developing a new line of non-western footwear for mid-year release. This product will feature new toe styles and bonded unit bottoms and will be made along the lines of traditional footwear.

The Company's Chippewa Shoe line fated much better in 1996 than the western boot divisions. Chippewa manufactures premier quality footwear for work and outdoor sports and is the chosen boot for today's rugged individual. Sales of Chippewa products grew modestly in 1996, but majot improvements were realized in gtoss profit margins. These boots and shoes also grew in popularity in Japan and Western Europe because of their quality and durability, and Chippewa plans to further penetrate those markets in 1997.

While 1996 was a disappointing year in many respects, the adjustments made to lower costs and thus reduce the break-even point for profitability will prove beneficial in 1997 and future years.

MANAGEMENT'S *Discussion and Analysis*

JUSTIN INDUSTRIES' NET INCOME fell for the second consecutive year in 1996 as the Company experienced further declines in revenue and profitability from its Footwear operations. While the Building Materials segment posted record sales and solid gains in earnings, overall softness in the apparel industry, and in particular in the western fashion segment, adversely affected the performance of the Company's Footwear businesses. For the year, consolidated net income was $23.4 million, a decline of 8.9% from 1995. Operating profit for the Building Materials group improved approximately 5%, while Footwear's profits were down 83% from 1995.

OPERATIONS

In 1996, consolidated net sales totaled $447.8 million, a decrease of 3.0% from 1995. Revenues of $461.4 million in 1995 were 4.5% below those of 1994.

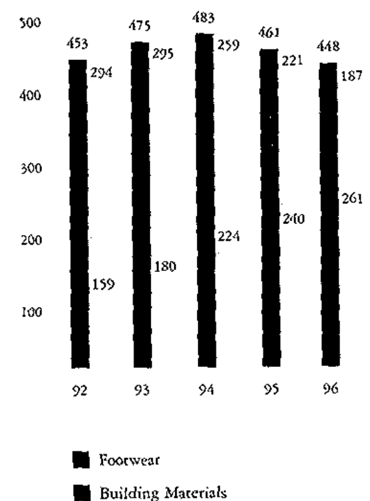
Building Materials net sales were a record high $261.3 million, an increase of 8.8% from 1995 revenues of $240.1 million. Revenues in 1995 were 7.1% greater than 1994's total of $224.2 million. Included in the Building Materials segment for 1996, 1995, and 1994 were Acme Brick Company and its subsidiary, American Tile Supply Company (acquired in August 1994); Featherlite Building Products Corporation; and Tradewinds Technologies, Inc. Sales of Acme bricks comprise just over one-half of total Building Materials revenues, and in 1996, Acme's unit brick shipments increased 12.5% to an all-time high. The average price of brick sold in 1996 remained unchanged from the 1995 price. In 1995, Acme sold 10.3% fewer bricks than in 1994 due to lower levels of residential construction; however, the average selling price in 1995 was 3.6% greater than in 1994, as price increases in mid- and late-1994 were fully realized in 1995. Sales of purchased products at Acme increased 14.8% in 1996 over 1995, in contrast to a 4% decline in 1995 from the previous year. In 1996, American Tile Supply revenues were 7.3% higher than in 1995. The sales contribution from American Tile in 1995 was significantly greater than 1994, since its operations were only included in total revenues for the last five months of 1994.

Revenues at Featherlite in 1996 were virtually unchanged from 1995. In 1996, the company sold 7.9% fewer concrete blocks. This unit decline was offset by an average price increase of 3.2% and an increase in revenues from Featherlite's Texas Quarries limestone division. Featherlite's 1995 net sales exceeded those of 1994 by 7.6%. This increase was attributable to greater unit sales of all products as well as improved pricing over 1994.

Tradewinds Technologies represents less than 1% of Justin Industries' consolidated net sales. In 1996, Tradewinds' sales were approximately 14% below those of 1995.

Revenues in the Company's Footwear operations fell from $221.4 million in 1995 to $186.5 million in 1996—a drop of 15.8%. Sales in 1995 were 14.5% less than in 1994. Unit sales of Footwear products in 1996 declined 10.4% from 1995, and the average selling price per unit fell 8%. The decline in average selling price is due primarily to

NET SALES BY LINE OF BUSINESS
(millions of dollars)

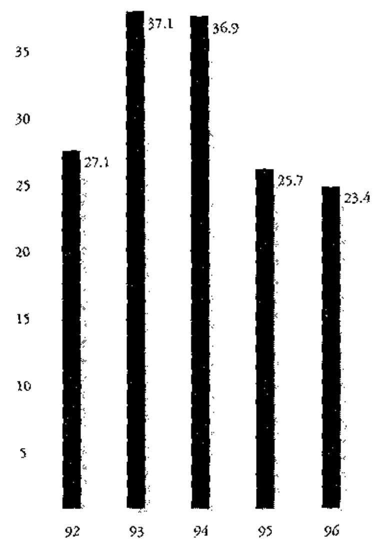


the mix of products sold. Higher-priced western boots comprised a smaller percentage of total sales in 1996, as sales of the lower-priced Chippewa, Diamond J, and Sport Lace-R lines either improved over 1995 or declined at a lower rate. In addition, the average price was affected by discounts given in order to sell slower-moving styles and reduce inventories. In 1995, unit sales of footwear products were 19.8% below those of 1994, while the average selling price was 6.5% greater. Change in product mix was also the reason for this price fluctuation.

Justin Industries' Building Materials business operates primarily in a seven-state region in the central and southwestern United States, while Footwear segment sales are made to customers nationwide.

As a percentage of sales, cost of sales company-wide was 65.4% in 1996 compared to 65.2% in 1995 and 65.1% in 1994. The Building Materials businesses have overall higher gross profit margins, and the growth in this segment's revenues over the last few years as a percentage of consolidated sales has tended to offset the Footwear decline in gross profit margins.

NET INCOME
(millions of dollars)



The gross profit margin in Building Materials was 41.2% in 1996 and 1995, and 41.7% in 1994. Acme Brick Company margins declined slightly in 1996 from those of 1995, as gains from the increase in brick unit sales were offset by increased fuel costs and start-up expenses associated with the new brick plant. The company generally buys natural gas on the spot market for fueling its brick plants. The last year was unusually volatile for spot market gas pricing, resulting in an average increase in the company's fuel costs of about 37% over 1995, or an average increase of 4% in the total cost of manufactured brick. The company is evaluating various measures to reduce the impact of higher-than-normal fuel costs. As noted above, brick selling prices were virtually unchanged from 1995. Both American Tile and Featherlite realized improvements in gross profit margins in 1996. American Tile's gain was attributed to increased volume, while Featherlite's improvement came from higher block selling prices and sales of cut limestone products. Tradewinds' margins were lower due to reduced volume. The decline in the segment gross profit margin in 1995 from 1994 was due to variations in product mix. Brick is the company's most profitable product, and in 1995, brick sales were a smaller percentage of total Building Materials revenues than in 1994.

Footwear gross profit margins were 25.4% in 1996, compared to 27.9% in 1995 and 29.0% in 1994. As noted above, Footwear revenues have declined since 1993, and the reduced volume has been the primary reason for the margin deterioration. Production levels were lowered dramatically in 1996 in order to bring down inventories. The additional per-unit overhead—resulting from reduced production as well as discounts given in order to sell slower-moving styles—adversely affected profit margins. Realignment of manufacturing operations also impacted gross profits. In 1995, margins were also weakened by $700,000 in expenses associated with the reconfiguration of the Fort Worth Justin boot plant. These expenses were related to the temporary closure of the plant, layoffs, and changes to production lines to accommodate more efficient manufacturing techniques.

Selling, general, and administrative expenses as a percentage of net sales were 25.7% in 1996, compared to 25.0% in 1995 and 22.1% in 1994. The increase in 1996 was due primarily to the reduced level of revenues, as the total spent on these costs declined slightly in 1996. In the Building Materials segment, selling, general, and administrative expenses increased in 1996

primarily due to revenue growth at Acme and expansion at American Tile. Footwear expenses were significantly lower in 1996 due to reduced sales commissions and lower administrative expenses resulting from consolidation programs completed in late 1995. Also impacting Footwear expenses in 1996 were additional provisions to the allowance for doubtful accounts, as the western-wear industry continues to be weak. In 1995, selling, general, and administrative expenses were $8.6 million greater than 1994. Approximately $6 million of the increase was from the inclusion of American Tile for the full year, versus the five months of 1994. Also in 1995, advertising expenses were $2.8 million more than in 1994, and the Footwear group spent approximately $2 million to complete the consolidation of administrative departments.

Interest expense in 1996 was $3.37 million, compared to $5.03 million in 1995 and $4.06 million in 1994. The decline in 1996 was due to both lower average interest rates and lower borrowing levels throughout the year. Based on the average month-end borrowings outstanding, the average effective interest rate was 5.5% in 1996, 6.3% in 1995, and 4.7% in 1994. Note 4 to the Consolidated Financial Statements on page 22 describes the Company's borrowing arrangements.

Income tax expense, as a percentage of pre-tax income, was 36.2% in 1996 and 1995, and 35.8% in 1994. The federal statutory rate was 35% for all three years. See Note 7 to the Consolidated Financial Statements on page 25 for a reconciliation of the actual tax rate to the federal statutory tax rate, and other information relating to income tax.

The table on page 30, Quarterly Financial Data, presents summarized operating results for each quarter in the two years ended December 31, 1996. The Company's businesses are seasonal in nature, with Building Materials operations generating greater activity in the second and third quarters and Footwear operations accelerating in the third and fourth. As a result, first quarter earnings are generally the lowest, which was the case in 1996. Quarterly net income in 1996 was less than the comparable quarters of the prior year in the first, second, and fourth quarter, while third quarter earnings in 1996 exceeded those of 1995.

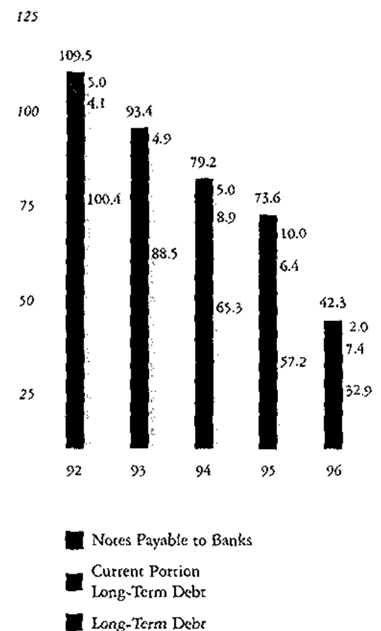
The Company's Building Materials operations are dependent on levels of construction activity that are influenced somewhat by interest rates. Changes in interest rates, therefore, can affect the Company's future earnings prospects.

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

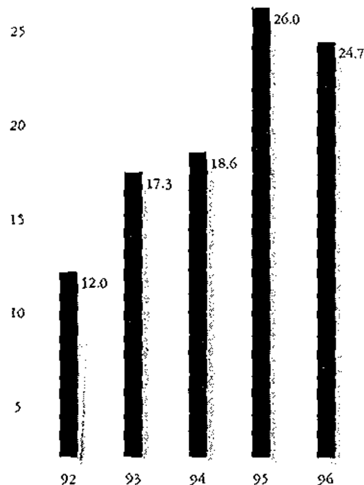
FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Justin Industries' financial condition improved further in 1996. In addition to earnings and depreciation, a significant amount of cash was generated from reductions in working capital, primarily from reducing inventories in the Footwear operations. In 1996, total interest-bearing debt declined $31.3 million and shareholders' equity

INTEREST-BEARING DEBT
(millions of dollars)



CAPITAL EXPENDITURES
(millions of dollars)

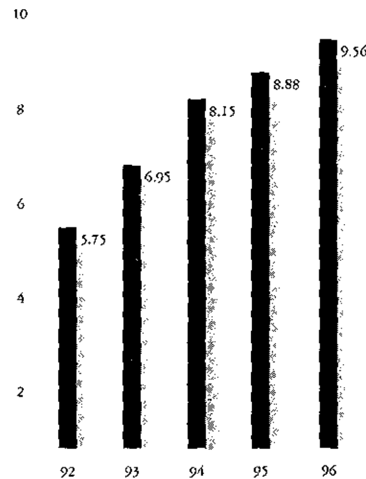


grew $16.4 million. The year ended with a ratio of total interest-bearing debt to equity of .17:1 compared to .31:1 at December 31, 1995. The ratio of long-term debt to equity was lowered from .24:1 at December 31, 1995 to .13:1 at year-end 1996.

The Balance Sheet Trends table on page 17 presents the percentage relationship of the major asset, liability, and equity accounts to total assets. Total assets declined 4.3% in 1996 to $360.1 million. Working capital of $165.1 million at December 31, 1996, was 9% less than the prior year-end. The declines in total assets and working capital were due to the significant inventory reductions. The current ratio at year-end improved to 3.7:1 from 3.6:1 at December 31, 1995.

BOOK VALUE PER SHARE

(dollars)



Net cash provided by operating activities in 1996 was $63.8 million, an amount significantly greater than in any previous year. In 1995 and 1994, net cash provided from operating activities was $38.5 million and $46.2 million, respectively. The reduction in inventory was a major component of the 1996 amount. The Company expended $24.7 million in 1996 investing in property, plant, and equipment. Of this total, 95% was spent by the Building Materials operations, with the most significant expenditures of approximately $10.4 million for the completion of Acme's new brick plant. Other fixed asset expenditures were primarily for equipment replacement and upgrades. During the year, the Company spent $3.8 million to purchase treasury stock, completing the one million-share buy-back program begun in 1995. Dividends per share were unchanged from 1995 at $.16, for total payments of $4.2 million.

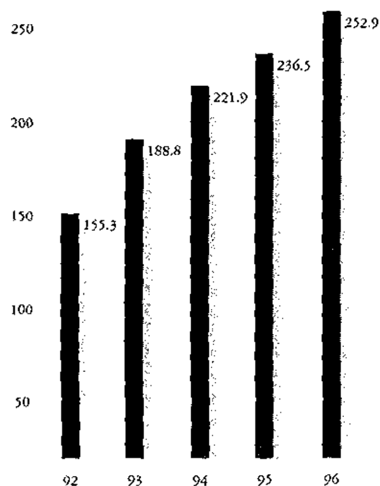
The Company's primary source of cash is from operations. In addition, the Company has credit facilities available from commercial banks. The Company believes that its borrowing arrangements are adequate to support its requirements for the foreseeable future. Unused lines of credit available to the Company at December 31, 1996, totalled $75 million.

BACKLOGS

The Company maintains information on sales backlogs in order to plan for future production levels and to project sales volume. At December 31, 1996, the backlog for clay brick was $22.1 million, compared with $16.5 million at year-end 1995. The sales backlog for Footwear products at year-end 1996 was $7.4 million, compared with $8.3 million in 1995.

SHAREHOLDERS' EQUITY

(millions of dollars)



SAFE HARBOR PROVISIONS

In accordance with the recently enacted safe harbor provisions of the securities law regarding forward-looking statements, except for the historical information contained herein, this Annual Report contains forward-looking statements that involve risks and uncertainties. Justin's actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences could include, but are not limited to, changes in demand, prices, and raw materials costs; changes in the economic conditions of the various markets the company serves; and changes in the amount and severity of inclement weather; as well as the other risks detailed herein and in the Company's reports filed with the Securities and Exchange Commission.

BALANCE SHEET TRENDS

Percent of Total Assets

Assets:	1996	1995	1994	1993	1992
Receivables	22%	21%	22%	22%	26%
Inventories	36	42	43	42	41
Property, plant, and equipment	29	26	23	23	24
All other assets	13	11	12	13	9
	100%	100%	100%	100%	100%
Liabilities and Equity:					
Interest-bearing debt	12%	19%	21%	27%	35%
All other liabilities	18	18	20	19	16
Equity	70	63	59	54	49
	100%	100%	100%	100%	100%

OPERATING TRENDS

Percent of Net Sales

	1996	1995	1994	1993	1992
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	65.4	65.2	65.1	66.2	69.3
Gross profit	34.6	34.8	34.9	33.8	30.7
Operating expenses	26.4	26.1	23.0	22.0	21.4
Income taxes	3.0	3.1	4.3	4.2	3.3
Income before accounting change	5.2	5.6	7.6	7.6	6.0
Cumulative effect on prior years of change in accounting for income taxes	—	—	—	.2	—
Net income	5.2%	5.6%	7.6%	7.8%	6.0%

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

(in thousands of dollars)

	1996		1995		1994		1993		1992	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Building Materials:										
Net sales	$261,315	58%	$240,094	52%	$224,213	46%	$179,740	38%	$158,808	35%
Operating profit	44,233	97	42,107	82	44,600	66	31,445	48	16,423	31
Footwear:										
Net sales	186,457	42	221,354	48	258,796	54	295,191	62	294,459	65
Operating profit	1,591	3	9,234	18	22,871	34	34,168	52	36,054	69
Totals:										
Net sales	$447,772	100%	$461,448	100%	$483,009	100%	$474,931	100%	$453,267	100%
Operating profit	$ 45,824	100%	$ 51,341	100%	$ 67,471	100%	$ 65,613	100%	$ 52,477	100%
Less interest and parent company operations	9,202		11,137		9,995		9,583		10,080	
Income before income taxes	$ 36,622		$ 40,204		$ 57,476		$ 56,030*		$ 42,397	

** before cumulative effect on prior years of change in accounting for income taxes*

CONSOLIDATED *Balance Sheet*

In Thousands of Dollars, Except Share Data, at December 31,	1996	1995
ASSETS		
Current assets:		
Cash	$ 3,215	$ 2,180
Accounts receivable, less allowance for doubtful accounts of $3,069 and $3,340, respectively	80,315	78,213
Inventories	129,146	158,330
Federal and state income taxes	11,758	9,800
Prepaid expenses	1,527	2,155
Total current assets	225,961	250,678
Other assets, at cost	25,815	24,195
Assets held for sale	2,805	4,879
Property, plant, and equipment, at cost:		
Land	19,908	18,558
Buildings and equipment	247,285	222,576
Construction in progress	3,902	11,069
	271,095	252,203
Less accumulated depreciation	165,598	155,546
Net property, plant, and equipment	105,497	96,657
	$ 360,078	$ 376,409
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks	$ 2,000	$ 10,000
Trade accounts payable	14,056	14,152
Accrued payroll items	11,393	11,786
Accrued insurance	11,818	15,283
Accrued state and local taxes	1,822	2,141
Other accrued expenses	11,366	8,424
Dividends payable	1,058	1,071
Current portion of long-term debt	7,395	6,436
Total current liabilities	60,908	69,293
Long-term debt, less current portion	32,890	57,137
Deferred income taxes	13,424	13,490
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; 100,000,000 shares authorized, 27,869,888 shares issued	69,674	69,674
Capital in excess of par value	16,477	16,800
Retained earnings	181,068	161,932
Treasury stock, at cost, 1,416,800 and 1,234,585 shares, respectively	(14,363)	(11,917)
Total shareholders' equity	252,856	236,489
	$ 360,078	$ 376,409

See accompanying notes.

CONSOLIDATED *Statement of Income*

In Thousands of Dollars, Except per Share Data, for Years Ending on December 31,	1996	1995	1994
Net sales	$ 447,772	$ 461,448	$ 483,009
Costs and expenses:			
Cost of goods sold	292,858	300,842	314,661
Selling, general, and administrarive expenses	114,925	115,370	106,814
Interest expense	3,367	5,032	4,058
	411,150	421,244	425,533
Income before income taxes	36,622	40,204	57,476
Income taxes	13,257	14,553	20,571
Net income	$ 23,365	$ 25,651	$ 36,905
Earnings per share	$ .87	$ .94	$ 1.33

See accompanying notes.

CONSOLIDATED *Statement of Shareholders' Equity*

In Thousands of Dollars, Except Share Data, for Years Ending on December 31, 1996, 1995, and 1994	Preferred stock	Common stock	Capital in excess of par value	Retained earnings	Treasury stock
Balance January 1, 1994	$ —	$ 69,674	$ 17,047	$ 108,038	$ (5,956)
Issuance of 76,165 shares of stock from treasury upon exercise of stock options	—	—	(88)	—	630
Net income	—	—	—	36,905	—
Cash dividends declared — $.16 per share	—	—	—	(4,350)	—
Balance December 31, 1994	$ —	$ 69,674	$ 16,959	$ 140,593	$ (5,326)
Purchase of 677,000 shares of stock for treasury	—	—	—	—	(7,259)
Issuance of 79,652 shares of stock from treasury upon exercise of stock options	—	—	(159)	—	668
Net income	—	—	—	25,651	—
Cash dividends declared — $.16 per share	—	—	—	(4,312)	—
Balance December 31, 1995	$ —	$ 69,674	$ 16,800	$ 161,932	$ (11,917)
Purchase of 323,000 shares of stock for treasury	—	—	—	—	(3,821)
Issuance of 140,785 shares of stock from treasury upon exercise of stock options	—	—	(323)	—	1,375
Net income	—	—	—	23,365	—
Cash dividends declared — $.16 per share	—	—	—	(4,229)	—
Balance December 31, 1996	$ —	$ 69,674	$ 16,477	$ 181,068	$ (14,363)

See accompanying notes.

CONSOLIDATED *Statement of Cash Flows*

In Thousands of Dollars for Years Ending on December 31,	1996	1995	1994
Cash Flows from Operating Activities:			
Net income	$ 23,365	$ 25,651	$ 36,905
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	15,792	14,742	13,852
Amortization	496	689	569
Provision for losses on accounts receivable	2,707	1,347	866
Gain on sale of property, plant, and equipment	(238)	(167)	(122)
Deferred income taxes	411	(1,198)	(3,190)
Changes in current assets and liabilities:			
(Increase) decrease in accounts receivable	(4,809)	2,706	(1,624)
(Increase) decrease in inventories	29,184	2,564	(7,398)
Increase in other current assets	(1,807)	(776)	(240)
Increase (decrease) in accounts payable and accrued expenses	(1,331)	(7,043)	6,628
Net cash provided by operating activities	63,770	38,515	46,246
Cash Flows from Investing Activities:			
Proceeds from the sale of property, plant, and equipment	710	261	841
Purchase of property, plant, and equipment	(24,738)	(26,020)	(18,627)
(Increase) decrease in other long-term assets	(408)	114	(684)
Payment for purchase of business, net of cash acquired	—	—	(9,332)
Net cash used in investing activities	(24,436)	(25,645)	(27,802)
Cash Flows from Financing Activities:			
Borrowings	43,000	41,000	57,500
Repayment of borrowings	(74,288)	(46,681)	(76,655)
Dividends paid	(4,242)	(4,330)	(4,347)
Purchase of treasury stock	(3,821)	(7,259)	—
Proceeds from exercise of stock options	1,052	509	542
Net cash used in financing activities	(38,299)	(16,761)	(22,960)
Net increase (decrease) in cash	1,035	(3,891)	(4,516)
Cash at beginning of year	2,180	6,071	10,587
Cash at end of year	$ 3,215	$ 2,180	$ 6,071
Supplemental Disclosures of Cash Information:			
Cash paid during the year for:			
Interest	$ 3,296	$ 5,129	$ 4,105
Income taxes, net of refunds	$ 15,242	$ 16,140	$ 23,286
Supplemental Schedule of Non-Cash Investing and Financing Activities:			
Purchase of business:			
Fair value of assets acquired	$ —	$ —	$ 17,757
Cash paid for assets and related costs	—	—	(9,332)
Subordinated debt issued	—	—	(5,000)
Liabilities assumed	$ —	$ —	$ 3,425

See accompanying notes.

NOTES to Consolidated Financial Statements

YEARS ENDING ON DECEMBER 31

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS. Justin Industries, Inc. (the "Company") is a manufacturing and distribution company whose principal lines of business are 1) building materials—including face brick, concrete block, and floor and wall tile; and 2) footwear products, primarily western-style boots. In 1996, revenues in the building materials segment were 58% of consolidated net sales, and the footwear segment comprised 42% of the total. Building materials are sold directly through company sales offices primarily in a seven-state area consisting of Texas, Oklahoma, Arkansas, Louisiana, Kansas, Missouri, and Tennessee. Approximately 67% of Building Materials' sales are in Texas. Building Materials' sales are dependent upon construction levels within market areas served, with face brick sales specifically influenced by housing starts. Footwear products are sold primarily through independent western-wear retailers in the United States, with sales in Texas of approximately 36%.

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. Certain reclassifications have been made in December 31, 1995 and 1994 amounts to conform with the 1996 presentation.

USE OF ESTIMATES. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

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 20 years
Equipment	3 to 15 years

INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS. Intangible assets resulting from business acquisitions consist of trademarks/tradenames and the excess of the acquisition cost over the fair value of the net assets of businesses acquired. Intangibles are amortized on a straight-line basis over 40 years. As of December 31, 1996 and 1995, intangibles were $14.4 million and $14.9 million, respectively, net of accumulated amortization of $1.8 million and $1.3 million, respectively.

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.

ADVERTISING. The Company's policy is to expense advertising costs as incurred. Total advertising expense for the years ended December 31, 1996, 1995, and 1994, was $15,989,000, $16,999,000, and $14,242,000, respectively.

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 upon exercise and the effect of the possible conversion of the voting preferred stock. Earnings per share, as presented, is both primary and fully diluted.

PENSION AND EMPLOYEE BENEFIT PLANS. The Company and its subsidiaries have pension

plans for the benefit of substanrially all employees. Benefits are primarily based on years of service and the employees' average compensation during the last five years of employmenr. The Company's policy is to fund pension cost accrued, but not in excess of the maximum allowable deduction for federal income tax purposes.

The Company grants stock options for a fixed number of shares to employees and non-employee directors with an exercise price equal to the fair value of the underlying common stock at the date of grant. The Company has elected ro follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations in accounting for its employee stock options because, as discussed in Note 5, the alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Proceeds from common stock issued pursuant to the Company's employee stock option plans are credited to common stock or treasury stock and capital in excess of par value at the time an option is exercised.

The Company has no postretirement health benefits and, therefore, realized no effect from accounting requirements under Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.*

STATEMENT OF CASH FLOWS. For purposes of reporting cash flows, cash includes cash on hand and unrestricted time deposits that have an original maturity of three months or less.

2. ACQUISITION

Effective August 1, 1994, the Company purchased American Tile Supply Company and its related companies ("American Tile") for a total purchase price of approximately $16,000,000. American Tile distributes floor and wall tile primarily in Texas. Operations of the business are included in the Consolidated Statement of Income from date of acquisition.

3. INVENTORIES

Inventories include the following:
(in thousands of dollars)

	1996	1995
Finished products	$ 99,401	$ 121,835
Work-in-process	5,246	6,068
Raw materials and supplies	24,499	30,427
	$ 129,146	$ 158,330

4. BORROWINGS

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

	1996	1995
Revolving credit loans	$ 6,000	$ 22,000
Term loan	15,000	21,000
Industrial Revenue Bonds	17,285	17,515
Note payable to bank	2,000	3,000
Other, unsecured	—	58
	40,285	63,573
Less current portion	7,395	6,436
	$ 32,890	$ 57,137

The Company may borrow up to a total of $52,000,000 in revolving credit loans pursuant to an agreement among four commercial banks originally entered into in May 1989. The revolving credit loans are repayable beginning in April 1999 when outstanding amounts are converted to term loans payable over three years. The conversion date may be extended annually for an additional twelve months by consent of all participating banks.

The $15,000,000 term loan is an agreement among three commercial banks providing for annual principal reductions that began 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 the London Interbank Offered Rate ("LIBOR"). Interest on all of these borrowings at December 31, 1996, was based on LIBOR in effect at the time of origination plus 50 basis points, and averaged 6%. Interest rate margins may fluctuate in increments of 12.5 basis points based on attaining certain quarterly funded debt-to-equity ratios

stipulated in the loan agreements. The loans are unsecured; however, the loan agreements contain certain minimum requirements as to working capital, cash flow from operations, and tangible net worth, redemption of outstanding stock, and change in control of the Company. As of December 31, 1996, 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 6.7% and varying rates based on certain indices (approximately 4.2% at December 31, 1996), secured by property, plant, and equipment with a net book value of approximately $13,073,000. 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.

Note payable to bank is an unsecured borrowing due in 1998. Interest is based on LIBOR plus 50 basis points and was 6.1% at December 31, 1996.

Notes payable to bank included in current liabilities in 1996 are unsecured borrowings due in 1997 pursuant to a $10,000,000 one year credit facility from a commercial bank. Interest is based on LIBOR plus 50 basis points and was 6.4% at December 31, 1996.

The aggregate maturities of long-term debt through 2001 are as follows: 1997, $7,395,000; 1998, $10,160,000; 1999, $1,160,000; 2000, $2,160,000; and 2001, $2,160,000.

At December 31, 1996, unused lines of credit for short-term, revolving, and term credit agreements were approximately $75,000,000. Outstanding standby letters of credit at December 31, 1996, amounted to approximately $21,303,000.

Interest rates on the majority of the Company's borrowings float with prevailing market rates; therefore, the fair value of such debt approximates carrying value at December 31, 1996 and 1995. Based on fixed interest rates currently available to the Company for bank loans and industrial revenue bonds with similar terms and maturities, the fair value of fixed rate borrowings approximates carrying value at December 31, 1996 and 1995.

5. SHAREHOLDERS' EQUITY

The average number of common shares outstanding plus common stock equivalents used to calculate earnings per share was 26,997,000 in 1996, 27,411,000 in 1995, and 27,810,000 in 1994.

The Company has outstanding options to purchase its common stock under qualified incentive stock option plans and non-qualified stock option agreements with certain of its employees and non-employee directors. The plans for employees, 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. In addition, they provide for exercise of stock options without regard to the sequence of dates of original grants. All outstanding stock options are non-qualified and expire over a period of ten years. Options are granted at the fair market value of the underlying common stock at the date of grant. Employee-granted options vest over a five-year period while director options vest after one year. Currently, the Board has authorized 778,890 shares for future grants of options. A summary of the Company's stock option activity and related information for the years ended December 31, 1996, 1995, and 1994, is as follows:

	1996		1995	1994
	Shares	Weighted-Average Exercise Price	Shares	Shares
Outstanding at January 1	1,524,067	$ 8.72	1,481,286	1,406,877
Granted	201,400	$ 11.51	160,600	155,300
Canceled	(68,060)	$ 15.03	(25,370)	(2,680)
Exercised	(141,155)	$ 5.33	(92,449)	(78,211)
Oustanding at December 31	1,516,252	$ 9.12	1,524,067	1,481,286
Exercisable at end of year	1,027,152	$ 7.92	1,001,717	841,394
Weighted-average fair value of options granted during the year	$ 4.43			
Exercise price per share			$2.42–$18.00	$2.42–$18.00
Aggregate purchase price *(in thousands of dollars)*			$13,283	$12,376

The following table segregates outstanding options into groups based on exercise price ranges of less than and more than $10 per share.

	Price Ranges	
	$2.42 to $10.00	$10.00 to $18.00
All Outstanding Options:		
Number of shares	713,012	803,240
Weighted-average exercise price	$4.71	$13.03
Weighted-average remaining contractual life	3.5 years	7.9 years
Exercisable Options:		
Number of shares	698,312	328,840
Weighted-average exercise price	$4.69	$14.78

Pro forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if the Company had accounted for its stock options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a binomial option pricing model with the following weighted-average assumptions for 1996 and 1995, respectively: risk-free interest rates of 6.2% and 5.6%; dividend yields of 1.6% for both years; volatility factors of the expected market price of the Company's common stock of .342 and .377; and a weighted-average expected life of the option of 6 years.

Binomial option valuation models are used in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense on a straight-line basis over the options' vesting period. The pro forma effects on net income for 1996 and 1995 are not representative of the pro forma effect on net income in future years because they do not take into consideration pro forma compensation expense related to grants made prior to 1995. The Company's pro forma information follows: *(in thousands of dollars, except for earnings per share information)*

	1996	1995
Pro forma net income	$23,208	$25,629
Pro forma earnings per share (primary and fully diluted)	$.86	$.93

The preferred stock is convertible into 2,826 shares of common stock at December 31, 1996. 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.

One Common Stock Purchase Right is outstanding for each share of common stock. Following Board of Directors approval, a) the rights will be exercisable at an exercise price of $13.33 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; or b) the rights may be redeemed at $.05 per right at any time before a 20% position has been acquired. The rights expire on October 6, 1999.

6. RETIREMENT PLANS

The following table sets forth the plans' funded status and amounts recognized in the Company's balance sheet at December 31, 1996 and 1995, related to the Company's pension plans: *(in thousands of dollars)*

	1996	1995
Actuarial present value of benefit obligations:		
Vested	$ 47,802	$ 46,768
Non-vested	2,214	2,742
	$ 50,016	$ 49,510
Projected benefit obligations for service rendered to date	$(56,458)	$(56,629)
Plan assets at fair value	90,572	80,717
Plan assets in excess of projected benefit obligations	34,114	24,088
Unrecognized net gain from past experience different from that assumed and effecr of changes in assumptions	(23,347)	(13,282)
Prior service cost not yet recognized in net periodic pension cost	(1,053)	(1,114)
Unrecognized net asset at January 1, 1985, being recognized over 15 years	(2,365)	(3,163)
	$ 7,349	$ 6,529

Plan assets at December 31, 1996, are invested primarily in listed stocks and bonds or cash equivalents. The Company's own common stock (1,011,400 shares) accounts for approximately $11,631,000, or 12.8%, of the fair value of plan assets at December 31, 1996. Dividends paid to the pension trust related to these shares amounted to approximately $162,000 in 1996.

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

	1996	1995	1994
Service cost—benefits earned during the period	$ 2,184	$ 1,903	$ 2,347
Interest cost on projected benefit obligation	3,883	3,864	3,531
Actual (return) loss on plan assets	(12,514)	(16,590)	4,125
Net amortization and deferral	5,638	10,048	(10,180)
Net pension credit	$ (809)	$ (775)	$ (177)

The weighted-average discount rates used in determining the actuarial present value of the projected benefit obligations were 7.75% in 1996 and 7.25% in 1995. The rate of increase in future compensation was 4.25% in 1996 and 4% in 1995. The expected long-term rate of return on assets was 9% for all years above.

Contributions to the plans, limited by federal income tax regulations, were $11,000 in 1996 and zero in 1995 and 1994.

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 the maximum amount authorized by the Company ($9,500 in 1996 and $9,240 in 1995 and 1994). In 1996, 1995, and 1994, 50% of the amount contributed by all employees was matched by the Company, up to 5% of total compensation. Pursuant to Internal Revenue Service Regulation 401(k), the employees' contributions are on a pre-tax basis. For 1997, employees may contribute up to the lesser of 15% of their compensation or the maximum allowable amount under IRS regulations ($9,500).

The amount of Company contributions made to the ESOP and charged to expense was $1,181,000, $1,239,000, and $1,260,000 in 1996, 1995 and 1994, respectively.

7. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 1996 and 1995, are as follows: *(in thousands of dollars)*

	1996	1995
Deferred tax assets:		
Insurance accruals	$ 5,473	$ 6,495
Asset valuation allowances	5,638	5,092
Employee benefit plans	127	216
Other	918	830
	$ 12,156	$ 12,633
Deferred tax liabilities:		
Intangible assets	$ 4,116	$ 4,265
Depreciation	7,586	7,716
Employee benefit plans	1,722	1,509
	$ 13,424	$ 13,490

Significant components of the provision for income taxes are as follows: *(in thousands of dollars)*

	1996	1995	1994
Current	$ 12,846	$ 15,751	$ 23,761
Deferred	411	(1,198)	(3,190)
Total income tax expense	$ 13,257	$ 14,553	$ 20,571

In addition, the Company recognized income tax benefits of $304,000, $192,000, and $221,000 in 1996, 1995, and 1994, respectively, upon the exercise by employees of non-qualified stock options. Such benefits were recognized as an increase in shareholders' equity when realized.

A reconciliation of the statutory federal income tax rate and the effective tax rate follows:

	1996	1995	1994
Statutory tax rate	35.0%	35.0%	35.0%
State taxes	1.6	1.8	1.2
Other	(.4)	(.6)	(.4)
Effective tax rate	36.2%	36.2%	35.8%

In connection with the acquisition of Tony Lama, the Company acquired a tax net operating loss carryforward. None of the tax net operating carry forward was utilized in 1996, 1995, or 1994. Approximately $802,000 of the acquired carry forward is available to offset future taxable income. The carryforward will expire in 2004. Future utilization of such carryforward will be recognized through adjustment of the value of acquired net assets.

8. FINANCIAL INFORMATION BY PRODUCT LINES

The five-year analysis of sales and operating profit by product lines on page 17, 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 5 to 11. The following additional information is presented by industry segments: *(in thousands of dollars)*

	Identifiable Assets	Depreciation Expense	Capital Expenditures
1996			
Building Materials	$ 171,587	$ 11,082	$ 23,519
Footwear	159,981	4,325	1,174
Corporate assets	25,705	385	45
Assets held for sale	2,805	—	—
Total	$ 360,078	$ 15,792	$ 24,738
1995			
Building Materials	$ 150,440	$ 9,595	$ 23,013
Footwear	198,870	4,910	2,990
Corporate assets	22,220	237	17
Assets held for sale	4,879	—	—
Total	$ 376,409	$ 14,742	$ 26,020
1994			
Building Materials	$ 135,857	$ 8,616	$ 14,725
Footwear	211,126	5,008	3,825
Corporate assets	22,415	228	77
Assets held for sale	5,523	—	—
Total	$ 374,921	$ 13,852	$ 18,627

Assets held for sale relate primarily to raw land that is being marketed by third parties on behalf of the Company.

9. COMMITMENTS

At December 31, 1996, approximate future minimum rental commitments for all noncancellable operating leases are as follows: *(in thousands of dollars)*

1997	$ 3,440
1998	2,119
1999	1,102
2000	679
2001	546
Thereafter	510
	$ 8,396

Total rent expense for all operating leases amounted to approximately $4,063,000, $4,682,000, and $3,976,000 in 1996, 1995, and 1994, respectively.

REPORT *of Ernst & Young LLP*
INDEPENDENT AUDITORS

Board of Directors
Justin Industries, Inc.

We have audited the accompanying consolidated balance sheets of Justin Industries, Inc. as of December 31, 1996 and 1995, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. 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, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

Ernst + Young LLP

Fort Worth, Texas
January 29, 1997

MANAGEMENT'S RESPONSIBILITY *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 judgment 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.

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 reviews of the adequacy of internal controls and the quality of financial reporting are freely discussed during these conferences.

ELEVEN-YEAR *Financial Summary*

Years ending on December 31,	1996	1995	1994	1993
SUMMARY OF OPERATIONS: (see note)				
(in thousands of dollars)				
Net sales:				
Building Materials	261,315	240,094	224,213	179,740
Footwear	186,457	221,354	258,796	295,191
	447,772	461,448	483,009	474,931
Operating profit:				
Building Materials	44,233	42,107	44,600	31,445
Footwear	1,591	9,234	22,871	34,168
	45,824	51,341	67,471	65,613
Selected costs and expenses:				
Cost of goods sold	292,858	300,842	314,661	314,431
Selling, general, and administrative	114,925	115,370	106,814	100,465
Interest	3,367	5,032	4,058	4,005
Depreciation	15,792	14,742	13,852	13,473
Income taxes	13,257	14,553	20,571	19,995
Income:				
From continuing operations (before accounting change in 1993)	23,365	25,651	36,905	36,035
Net income	23,365	25,651	36,905	37,141
Income per share:				
From continuing operations (before accounting change in 1993)	.87	.94	1.33	1.29
Net income	.87	.94	1.33	1.33
Dividends declared per share	.16	.16	.16	.16
Capital expenditures*	24,738	26,020	18,627	17,278
YEAR-END STATISTICS: *(in thousands of dollars)*				
Working capital	165,053	181,385	185,722	185,193
Net property, plant, and equipment	105,497	96,657	85,460	80,270
Total assets	360,078	376,409	374,921	346,680
Long-term debt	32,890	57,137	65,323	88,504
Shareholders' equity	252,856	236,489	221,900	188,803
KEY FINANCIAL RATIOS:				
Pre-tax profit margin (%)*	8.18	8.71	11.90	11.80
Income—return on sales (%)*	5.22	5.56	7.64	7.59
Return on shareholders' equity (%)*	9.88	11.56	19.55	23.21
Return on assets (%)*	6.34	6.83	10.23	10.87
Effective income tax rate (%)*	36.2	36.2	35.8	35.7
Ratio of long-term debt to shareholders' equity	.13:1	.24:1	.29:1	.47:1
Ratio of total interest-bearing debt to shareholders' equity	.17:1	.31:1	.36:1	.49:1
Ratio of current assets to current liabilities	3.7:1	3.6:1	3.5:1	4.4:1
OTHER STATISTICS:				
Average number of shares outstanding *(in thousands)*	26,997	27,411	27,810	27,953
Book value per share	9.56	8.88	8.15	6.95
Dividends as a percent of net income	18.1	16.8	11.8	11.7
Market price of common stock:				
High	13½	12⅞	16¾	25⅜
Low	9¾	9½	9¾	11¾

**Continuing operations (before accounting change in 1993)*

Note: 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

1992	1991	1990	1989	1988	1987	1986
158,808	123,004	118,943	113,662	108,864	113,204	119,104
294,459	245,346	181,370	142,707	123,455	109,662	101,195
453,267	368,350	300,313	256,369	232,319	222,866	220,299
16,423	4,979	3,698	604	4,369	6,685	7,437
36,054	22,934	17,748	15,650	12,223	10,184	9,946
52,477	27,913	21,446	16,254	16,592	16,869	17,383
313,961	260,968	211,559	182,365	164,596	154,600	148,503
91,695	84,167	70,666	60,251	54,590	53,590	57,682
5,214	9,482	6,815	6,402	4,574	4,369	4,140
13,837	12,338	10,164	10,003	10,263	10,152	10,218
15,304	5,280	3,697	2,432	2,696	3,121	4,131
27,093	8,453	7,576	5,281	5,954	7,382	5,843
27,093	19,233	7,293	7,198	7,469	752	5,033
.98	.32	.29	.21	.24	.29	.22
.98	.73	.28	.28	.30	.03	.19
.14	.135	.135	.10	.09	.09	.09
12,006	10,666	12,646	7,405	8,681	4,540	5,922
164,822	151,588	147,307	97,983	105,114	90,206	87,407
76,544	78,750	84,653	64,261	67,682	75,205	80,362
316,368	295,947	292,923	211,308	214,403	219,013	224,608
100,362	116,040	124,724	56,238	69,590	70,509	69,489
155,270	127,549	111,135	106,431	98,687	92,938	96,321
9.35	3.73	3.75	3.01	3.72	4.71	3.47
5.98	2.29	2.52	2.06	2.56	3.31	2.08
21.24	7.61	7.12	5.35	6.41	7.66	4.81
8.85	2.87	3.00	2.48	2.75	3.33	2.01
36.1	38.4	32.8	31.5	31.2	29.7	40.0
.65:1	.91:1	1.12:1	.53:1	.71:1	.76:1	.72:1
.70:1	.93:1	1.14:1	.56:1	.73:1	.79:1	.75:1
4.0:1	4.4:1	4.1:1	3.5:1	3.9:1	2.9:1	2.8:1
27,772	26,382	26,412	25,668	25,134	25,408	26,218
5.75	4.92	4.31	4.15	3.98	3.76	3.78
13.7	17.9	47.1	35.1	29.5	296.7	45.5
19	6	5⅞	5⅝	3⅝	3⅞	4⅝
5⅝	3⅞	3⅝	3⅜	2⅝	2¼	2⅞

information has been adjusted for the 3-for-2 stock splits in 1989 and 1992, and a 2-for-1 stock split in 1993. Operating profit for the business segments is income before interest, allocation of parent-company overhead expenses, and income taxes.

SHAREHOLDER *Information*

ANNUAL MEETING

The annual meeting of shareholders will be held on Friday, March 28, 1997, 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 The Bank of New York. For additional information, contact Investor Relations, Justin Industries, Inc., P. O. Box 425, Fort Worth, Texas 76101 (817) 336-5125.

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 trades on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol "JSTN."

STOCK TRANSFER AND DIVIDEND DISBURSING AGENT

The Bank of New York, Shareholder Relations Department—11E, Church Street Station, P.O. Box 11258, New York, New York 10286 (800) 524-4458.

INDEPENDENT AUDITORS

Ernst & Young LLP, 500 Throckmorton Street, Suite 2200, 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, 1996.

Unaudited—In thousands, except per share data

QUARTER ENDED

	1996				1995			
	3/31	6/30	9/30	12/31	3/31	6/30	9/30	12/31
Net sales	$104,339	$110,672	$110,379	$122,382	$113,654	$109,918	$112,421	$125,455
Gross profit	34,636	38,771	37,926	43,581	38,951	39,276	39,811	42,568
Net income	3,794	5,659	5,940	7,972	5,268	6,034	5,778	8,571
Per share:								
Net income	.14	.21	.22	.30	.19	.22	.21	.32
Dividends paid	.04	.04	.04	.04	.04	.04	.04	.04

MARKET MAKERS

as of January 29, 1997

Dean Witter Reynolds, Inc.
Gruntal & Co. Incorporated
Herzog, Heine, Geduld, Inc.
Jefferies & Company, Inc.
Knight Securities L.P.
Mayer & Schweitzer Inc.
Merrill Lynch, Pierce, Fenner and Smith, Inc.
PaineWebber Inc.
Parker/Hunter Inc.
Principal Financial Securities
Sherwood Securities Corp.
Smith Barney Inc.
Southwest Securities Inc.
Troster Singer Corp.

MARKET PRICE OF COMMON STOCK

Year Quarter	Price High	Low	Close
1994			
1	16 ¾	13	14
2	15	11 ½	12
3	13 ¾	10	12 ⅞
4	13 ¾	9 ¾	11 ⅞
1995			
1	12 ⅛	9 ½	9 ⅝
2	12	9 ⅝	11
3	11 ⅝	10 ½	11
4	11 ⅜	9 ⅞	11
1996			
1	11 ⅞	10 11/16	11 ⅝
2	13 ½	11 ¼	13 ⅛
3	13 ⅜	10 ½	10 ⅞
4	12 ⅛	9 ¾	11 ½

MANUFACTURING *and* DISTRIBUTION *Locations*

Acme Brick Company

Manufacturing—Brick

- Bennett, Texas (2)
- 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
- Oklahoma City, Oklahoma
- Tulsa, Oklahoma

Manufacturing—Concrete Block

- Baton Rouge, Louisiana

Distribution

- Abilene, Texas
- Amarillo, Texas
- Austin, Texas
- Beaumont, Texas
- Corpus Christi, Texas
- Dallas, Texas
- Denton, Texas
- Fort Worth, Texas
- Houston, Texas
- Longview, Texas
- Lubbock, Texas
- Midland, Texas
- San Antonio, Texas
- Texarkana, Texas
- Wichita Falls, Texas
- Alexandria, Louisiana
- Baton Rouge, Louisiana
- Lafayette, Louisiana
- Lake Charles, Louisiana
- Monroe, Louisiana
- New Orleans, Louisiana
- Shreveport, Louisiana
- Fort Smith, Arkansas
- Little Rock, Arkansas
- Russellville, Arkansas
- Springdale, Arkansas
- Joplin, Missouri
- Springfield, Missouri
- St. Louis, Missouri
- Oklahoma City, Oklahoma
- Tulsa, Oklahoma
- Kansas City, Kansas
- Wichita, Kansas
- Memphis, Tennessee (2)

American Tile Supply Company

Distribution

- Austin, Texas
- Dallas, Texas, area (9)
- Fort Worth, Texas, area (2)
- Houston, Texas, area (2)
- Longview, Texas
- San Antonio, Texas

Featherlite Building Products Corporation

Manufacturing—Concrete Block

- Abilene, Texas
- Austin, Texas, area
- Beaumont/Port Arthur, Texas
- Dallas, Texas
- El Paso, Texas
- Lubbock, Texas
- San Antonio, Texas

Manufacturing—Architectural Stone

- Cedar Park, Texas (d/b/a Texas Quarries)

Distribution

- Amarillo, Texas
- Corpus Christi, Texas
- Las Cruces, New Mexico

Tradewinds Technologies, Inc.

- Phoenix, Arizona

Justin Boot Company

Manufacturing

- Fort Worth, Texas
- Carthage, Missouri
- Cassville, Missouri

Nocona Boot Company

Manufacturing

- Nocona, Texas

Tony Lama Company

Manufacturing

- El Paso, Texas

Northland Publishing Company, Inc.

- Flagstaff, Arizona

This report was produced by Northland Publishing, a Justin Company. Photography by Britt Stokes.

DIRECTORS

JOHN JUSTIN
Chairman and Chief Executive Officer of Justin Industries

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

BAYARD H. FRIEDMAN
Investment Advisor

MARVIN GEARHART
Chairman of the Board of Rock Bit International, 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 of Texas

JOHN V. ROACH
Chairman and Chief Executive Officer of Tandy Corporation

DR. WILLIAM E. TUCKER
Chancellor of Texas Christian University

COMMITTEES

Audit Committee

BAYARD H. FRIEDMAN
MARVIN GEARHART
ROBERT E. GLAZE

Compensation Committee

JOHN V. ROACH
DR. WILLIAM E. TUCKER

OFFICERS

JOHN JUSTIN
Chairman of the Board and Chief Executive Officer

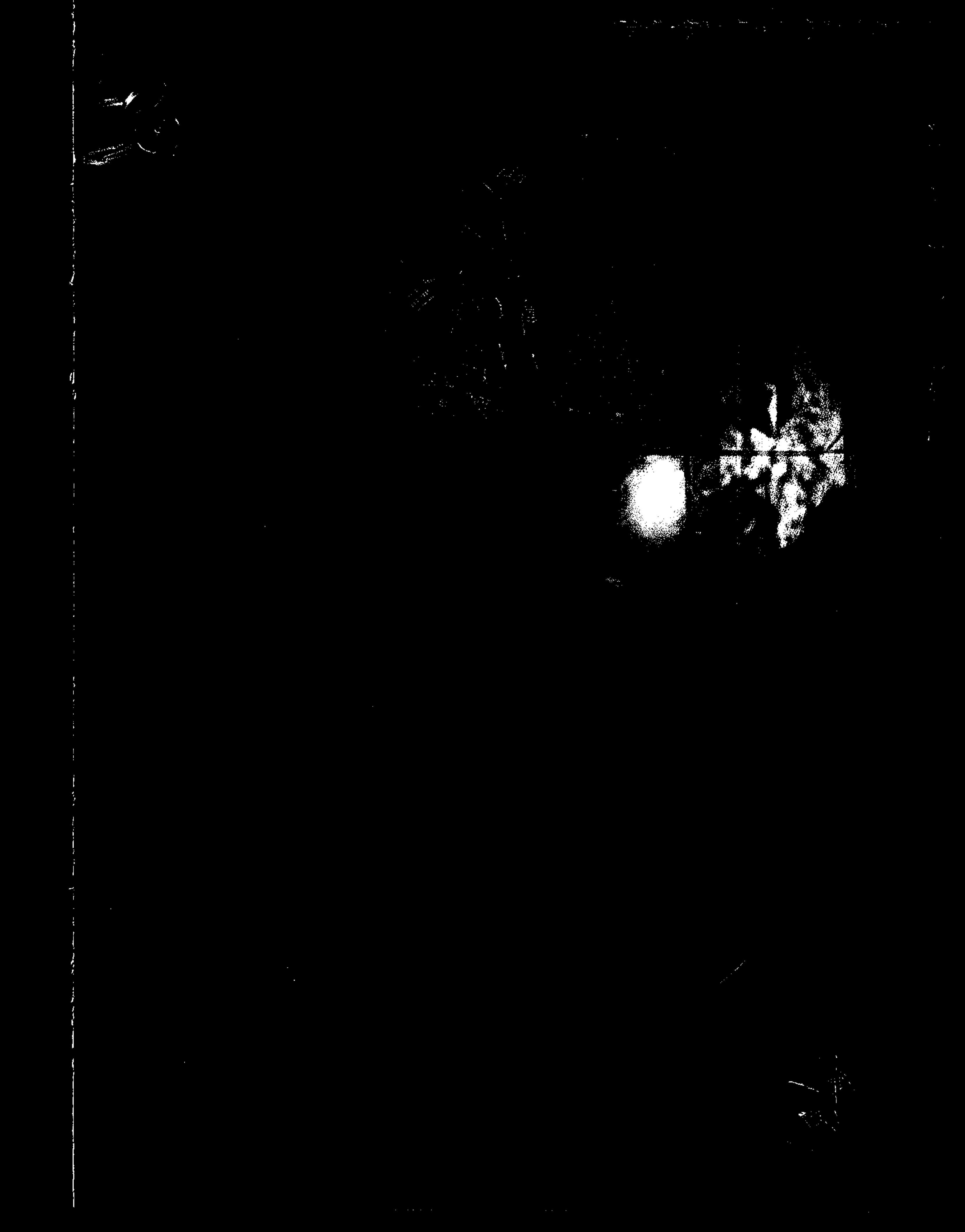
J. T. DICKENSON
President and Chief Operating Officer

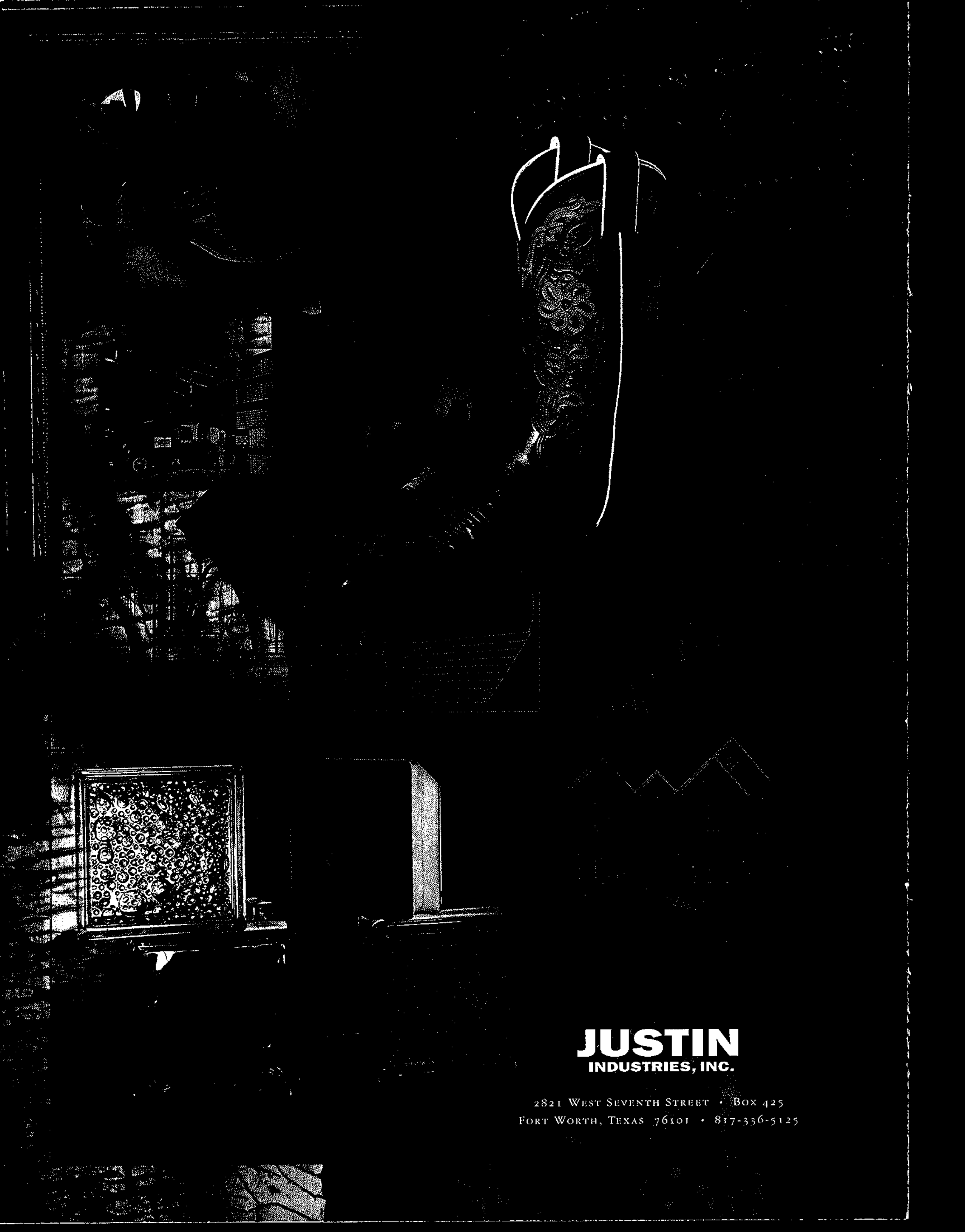
RICHARD J. SAVITZ
Vice President Finance, Treasurer and Secretary

EDWARD L. STOUT, JR.
Vice President Brick Operations

JUDY B. HUNTER
Controller

W. O. BURROUGH
Assistant Treasurer

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