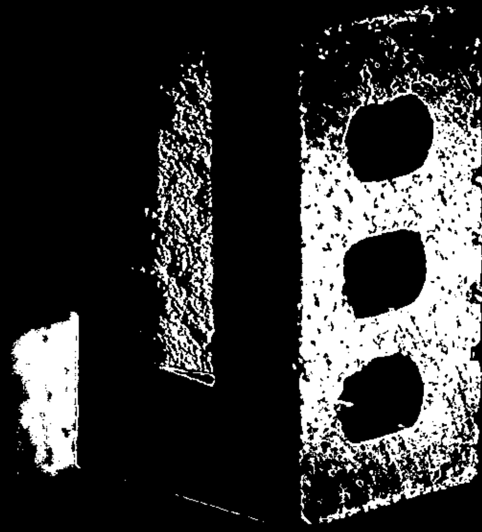
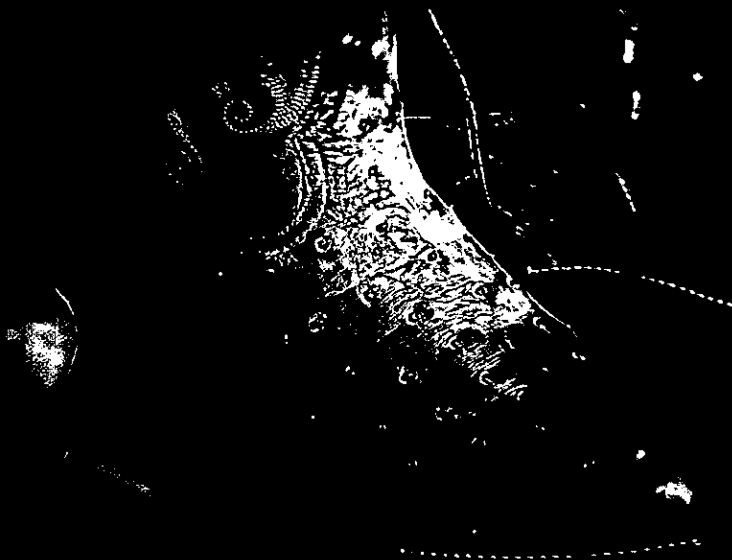


# Justin Industries 1999 Annual Report



## Financial Highlights

*in thousands of dollars, except per share data and percentages*

| | 1999 | % Change | 1998 | % Change | 1997 | % Change |
|---|---|---|---|---|---|---|
| Net Sales | $ 509,811 | + 12.1 | $ 454,811 | + 3.4 | $ 439,787 | - 1.8 |
| Net Income, Before Special Charges | 36,450 | + 37.3 | 26,542 | + .8 | 26,323 | + 12.7 |
| Basic Earnings Per Share, Before Special Charges | 1.43 | + 41.6 | 1.01 | + 1.0 | 1.00 | + 13.6 |
| Diluted Earnings Per Share, Before Special Charges | 1.41 | + 41.0 | 1.00 | + 1.0 | .99 | + 13.8 |
| Net Income | 28,326 | + 6.7 | 26,542 | + .8 | 26,323 | + 12.7 |
| Basic Earnings Per Share | 1.11 | + 9.9 | 1.01 | + 1.0 | 1.00 | + 13.6 |
| Diluted Earnings Per Share | 1.10 | + 10.0 | 1.00 | + 1.0 | .99 | + 13.8 |
| Return on Shareholders' Equity | 9.7% | — | 9.7% | - 6.7 | 10.4% | + 5.1 |
| Capital Expenditures | 53,639 | + 77.2 | 30,271 | + 39.0 | 21,782 | - 11.9 |
| Working Capital | 157,515 | - 10.4 | 175,895 | + 5.7 | 166,397 | + .8 |
| Total Assets | 433,307 | + 9.2 | 396,892 | + 5.5 | 376,067 | + 4.4 |
| Long-Term Debt | 39,750 | + 29.3 | 30,750 | + 29.5 | 23,750 | - 27.8 |
| Shareholders' Equity | 308,180 | + 5.3 | 292,568 | + 7.2 | 272,980 | + 8.0 |
| Book Value Per Share | 12.04 | + 8.2 | 11.12 | + 7.4 | 10.35 | + 8.3 |
| Cash Dividends Per Share | .20 | — | .20 | + 11.1 | .18 | + 12.5 |

*See Management's Discussion and Analysis for information regarding factors affecting operating results for the fourth quarter of 1998 and the first and third quarters of 1999.*

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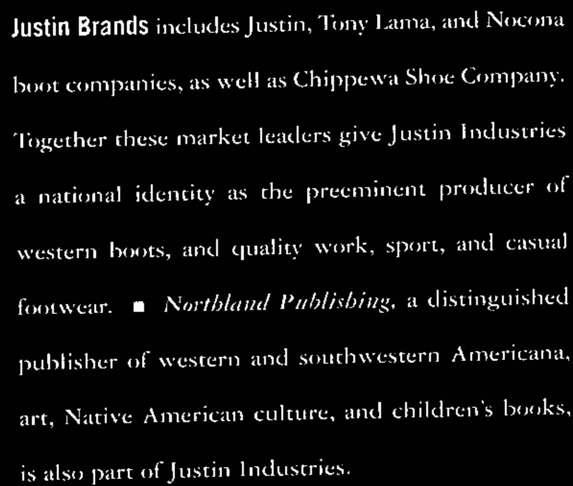
# Corporate Profile

Headquartered in Fort Worth, Texas, Justin Industries is a leader in each of its principal businesses. Justin Industries common stock is traded on the Nasdaq National Market System using the symbol "JSTN."

BUILDING MATERIALS

**Acme Building Brands** includes Acme Brick Company, the leading domestically owned U.S. manufacturer of face brick; Featherlite Building Products, the Southwest's top producer of concrete masonry products; Texas Quarries, a leading producer of natural stone products; American Tile Supply Company, a major Texas distributor of ceramic and marble floor and wall tile; and Innovative Building Products, manufacturers of the patented Grid System for mortarless installation of glass block.

FOOTWEAR



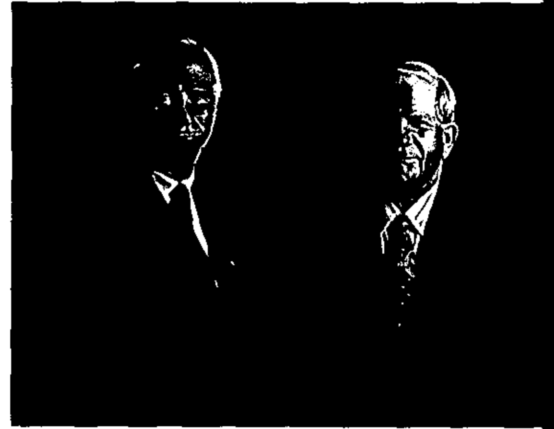
**Justin Brands** includes Justin, Tony Lama, and Nocona boot companies, as well as Chippewa Shoe Company. Together these market leaders give Justin Industries a national identity as the preeminent producer of western boots, and quality work, sport, and casual footwear. ■ *Northland Publishing*, a distinguished publisher of western and southwestern Americana, art, Native American culture, and children's books, is also part of Justin Industries.

*February 3, 2000*

# To Our Shareholders

Justin Industries had a record year in 1999. A new high was established for earnings per share (before special charges pursuant to strategic initiatives). Profit and sales of brick by the company's Acme Brick operations also set records. Over $70 million in capital expenditures and plant acquisitions by the Building Materials segment set the stage for future growth. The results for 1999 highlighted an eventful year for our company. □ In early 1999, the Board, with input from management, concluded that the best way to maximize value for our shareholders would be to initiate the development of two independent companies—building materials and footwear—in order for these businesses to stand alone at some future time. To achieve this goal, the strategic plan placed a high priority on each companies' growth rate. □ Strategies were developed to pursue these objectives. In addition, each segment was renamed to more easily identify the groups and to capitalize on the strength of the leading brands. The Building Materials operations, which includes Acme Brick, Featherlite Building Products, and American Tile Supply, was renamed Acme Building Brands. The Footwear group, which includes Justin, Tony Lama, Nocona, and Chippewa, was renamed Justin Brands. Two extremely capable and experienced managers were selected as chief executive officers of each company and given the responsibility of developing and implementing specific initiatives to accomplish our overall strategic goals. □ Acme Building Brands' focus throughout 1999 was to consolidate the sales, production, and certain administrative functions of its various companies, and to pursue growth opportunities by increasing manufacturing capacity through acquisitions and new plant construction. As the year ended, significant accomplishments in these areas had been realized: the consolidation process was essentially completed, two brick plant acquisitions were consummated, and new brick and block plants were built. Operating cash flow financed nearly all of the expansion. While these strategic initiatives were being addressed, Acme Building Brands' operating profits soared 34% to $67 million, unit shipments of brick surpassed 1 billion (a 17% gain from 1998) and block deliveries grew 33% from the previous year. Our Building Materials operations truly had an outstanding year in 1999. □ Entering 1999, the western footwear business had been in a period of decline for five years. To reverse this negative trend, strategies were identified to eliminate competition among our own brands, diversify product offerings and distribution channels, and improve operating efficiency. The execution of the various initiatives has been challenging and in some respects painful; however, we feel we are on track to accomplish our objectives and return Justin Brands to a growing and profitable business. □ To date, Justin

Brands has closed two higher-cost plants and adjusted inventories to facilitate the repositioning of its western brands to reduce internal competition. While this action required special one-time pre-tax charges to earnings of $12.5 million and the layoff of approximately 280 employees, groundwork was laid for earnings improvements, which were realized in the last quarter of the year. Other strategic initiatives include the expansion of product lines and distribution channels. Lower price points have been addressed with the introduction of new footwear lines, including Justin "Classics" and "Basics," and Tony Lama "Value Line." These quality products with high margins have done well thus far, and we expect to see continued growth in this area. We have also begun to aggressively pursue additional distribution channels such as department stores, farm and ranch stores, catalogs, and e-commerce. We are optimistic that excellent opportunities are available to grow our business through these avenues. Consolidation of additional administrative functions has also brought down overhead costs at Justin Brands. ◻ While we are very pleased with the outstanding performance of our Acme Building Brands companies in 1999, we are even more excited about the prospects for gains in 2000 in all of our businesses. Acme enters the new year with significantly greater backlogs than a year ago, along with increased manufacturing capacity for brick and concrete block to better service these orders. The consolidation of Acme Brick and Featherlite Building Products lowers administrative costs and provides additional marketing opportunities for all our building material products. Justin Brands has, as we mentioned, made progress in its strategic initiatives. Our company is in excellent financial condition. Low debt levels enable us to pursue acquisitions and expand our businesses, as well as purchase treasury stock from time to time to enhance shareholder value. ◻ Another major event in 1999 was the retirement of John Justin as Chairman of the Board and Chief Executive Officer. The corporation has benefited for decades from his leadership. He became synonymous with our western heritage as he led the boot business. Along with Ed Stout, the President of Acme Brick Company, John Justin grew our company into a preeminent position in the brick industry. Ed Stout, 74, also retired in 1999, and we are grateful for his many contributions. John Justin remains on the Board and shares his wisdom with us. Thank you, John and Ed. ◻ We face the future with enthusiasm and optimism, and look forward to success in all our endeavors.



JOHN V. ROACH
*Chairman of the Board*

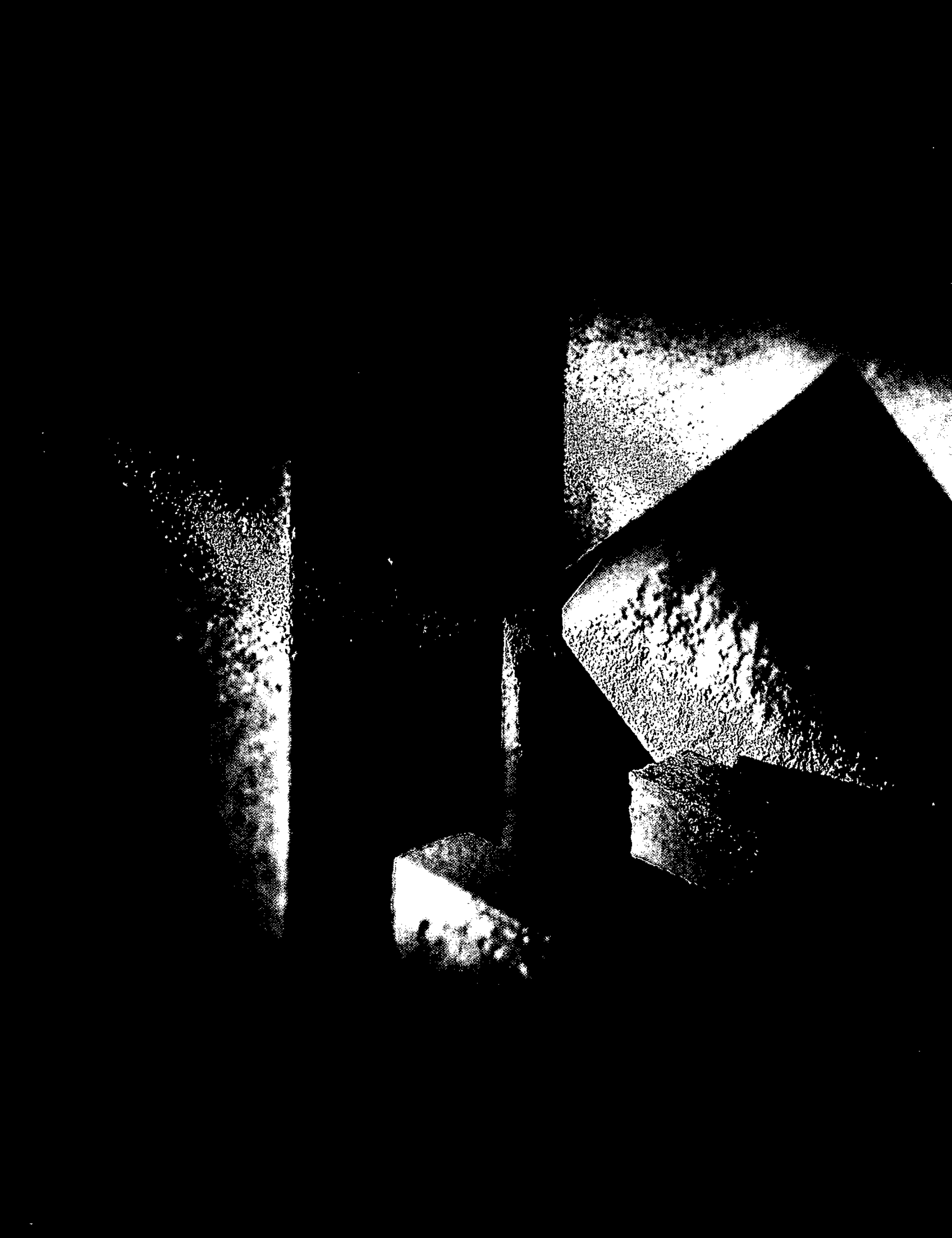
J. T. DICKENSON
*President and Chief Executive Officer*

Posted record sales and profits in 1999.

## Acme Building Brands

Acme Building Brands, Justin's building materials group of businesses, again set records for sales and earnings in 1999. Construction levels, while down slightly from 1998, were still robust, supporting high demand for the company's products. Market share gains, brought about by additional capacity and aggressive sales and marketing programs, helped produce growth in revenues and profits of 19.9% and 33.7%, respectively. ▢ Almost 60% of Acme Building Brands revenue came from brick sales at Acme Brick Company. In 1999, the company sold just over 1 billion brick, which includes approximately 15 million brick that were purchased from other manufacturers. ▢ Acme Brick Company invested a record amount of capital in 1999 to facilitate future growth and operational improvements. In addition to acquiring the Texas Clay and Eureka brick plants, construction of the first molded-brick plant west of the Mississippi continued through the year. The Elgin molded plant, located adjacent to the existing plant near Austin, commenced operations in January 2000. The brick produced at this state-of-the-art facility closely resembles hand-made brick produced in the colonial days. Initial customer reactions to the Acme hand-made brick has been overwhelming. This facility, the most expensive that Acme has built, employs computer controls throughout the manufacturing process and utilizes robots to set the brick on kiln cars and to unload the brick at the point of packaging. This plant increased total annual, company-wide capacity to over 1 billion brick. ▢ In addition to these major investments, a state-of-the-art grinding and blending facility was built at Elgin to provide clay to both the existing Elgin plant and the new molded-brick plant. At the plant in Fort Smith, Arkansas, a major renovation to replace the grinding equipment and the kilns along with improvements to the dryers neared completion. ▢ Tight labor conditions affected plant operations in 1999. To adjust to the reduced supply of workers, the company has begun to use robotics where possible. By the end of 2000, there will be 15 robots operating at brick plants. While the cost of each installation is substantial, the return on investment is excellent. ▢ On the sales side of the business, the new showroom/warehouse in Little Rock, Arkansas, was completed and opened during 1999. Ground was broken on a new sales location in Lafayette, Louisiana, which is designed to replace the existing facility in that market, and should be completed in the second half of 2000. ▢ Acme's advertising efforts continued to focus on brand awareness and the desirability of brick over other materials. Television commercials featured Troy Aikman and Pat Summerall touting Acme Brick and its

commitment to the Troy Aikman Foundation that provides support for needy children. ▢ Emphasis on manufacturing cost control is very important in maintaining gross profit margins. Fuel for firing brick is a major expense in the production process and is used in all kilns. New strategies have been put in place to control gas costs, including the aquisition of additional supply sources for plants. Currently, almost 75% of the company's productive capacity has an alternative physical gas supply available. ▢ Performance in the area of safety continues to be excellent. In November 1999, the employees of the Kanopolis, Kansas, plant celebrated a record milestone: twenty-five years without a lost-time accident. By the end of 2000, it is anticipated that five additional plants will have operated without a lost-time accident for more than ten years. Further, the entire production department (all facilities) went 559 days without a lost-time accident—more than a year and a half. ▢ Extremely competitive market conditions continued for American Tile Supply in 1999 as the available supply of ceramic tile outstripped the growing demand. In spite of these market conditions, sales were at record levels, aided by the effect of the new stores opened in 1998 and 1999 netted against the operations closed during the year. The most significant gains occurred at rhe North Houston store followed by the growth in Natural Stone sales. In an effort to eliminate unprofitable stores, the pool tile operations and a tile outlet store, both located in Dallas, were closed. Eliminating these sites will allow the company to better focus on its core business and improve profitability. The new store in Little Rock, Arkansas, enclosed in the Acme Brick Company facility, has made progress during its first year in operation and is expected to be a solid contributor. ▢ In an effort to improve efficiency and reduce operating costs, the central warehouse in Dallas was reconfigured to better utilize the available space, eliminate unnecessary product movement, and vacate unnecessary warehouse space. The reconfiguration was completed in December and the benefits should be realized during 2000. ▢ After aggressively expanding American Tile Supply's physical presence during the past few years, efforts in 2000 will be focused on increasing revenues and profits per store and improving operational efficiencies. ▢ As with Acme Brick Company and American Tile Supply, sales at Featherlite Building Products Corporation were at record levels in 1999. Efforts to meet the increased demand for our products included adding second shifts at selected plants and purchasing block from other manufacturers to sell to customers. In Dallas, additional



employee training enabled that plant to begin double shifting, producing a record 9.5 million block in 1999, with the capability to manufacture over 11 million block in 2000. ❑ At Texas Quarries, Featherlite's cut limestone division, the addition of a second saw and crane system enabled the mill to produce an additional 3,000 tons of chopped and patio stone. The products offered by this operation are exceptional. To perpetuate and expand this business, the company has entered into real estate contracts to secure additional raw material reserves that should provide quality stone for over 25 additional years. ❑ A major capital project was undertaken at Featherlite's Converse plant, located near San Antonio, Texas. Approximately $4.5 million has been spent on a new line that commenced operations in early 2000. Once fully operational, this expansion should allow that location to produce an additional six million block annually. ❑ Demand for concrete products remains high entering the new millennium. To better serve customers, ongoing research is finding ways to increase output through existing facilities, as well as looking at adding additional plants where the returns justify the investment. ❑ Beginning in August 1999, a project to combine the administrative functions of Acme Brick Company, Featherlite Building Products, and Texas Quarries was undertaken. This project began with a new organizational structure, which focused on combining the Acme and Featherlite businesses in smaller markets where such actions were strategically advantageous. ❑ A significant amount of effort was then invested to incorporate the information requirements of Featherlite and Texas Quarries into Acme's systems. Since January 1, 2000, all Featherlite and Texas Quarries processing has occurred on the same system. This consolidation was made to reduce redundant costs and to capitalize on the combined selling efforts each organization has put forth. ❑ Attention continues to be focused on long-term strategic initiatives. These efforts include identifying and acting on sales growth opportunities within the Southwest. As product offerings have expanded, it has become necessary to relocate certain sales facilities in an effort to increase revenue. This multi-year effort will continue into 2000. Prospects for another outstanding year for Acme Building Brands appear very good.

Reorganized for growth, greater efficiency, and profitability.

## Justin Brands

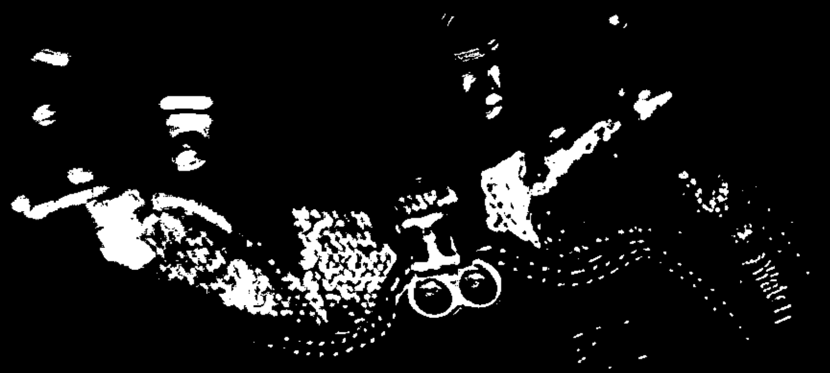
Justin Industries' Footwear division, renamed Justin Brands in 1999, has made many changes entering the new millennium. Several strategic initiatives have been identified to reverse the decline of the last few years and to expand upon the rich heritage of Justin, Tony Lama, Nocona, and Chippewa to grow the business and enhance shareholder value. ▢ The "new look," Justin Brands' strategic plan for growth and increased profits, has created an optimistic outlook for 2000. Initiatives such as plant closures and reductions in general and administrative expenses through consolidation of such functions as purchasing, scheduling, engineering, product development, and customer service led to improvements during the fourth quarter of 1999. ▢ Resources spent in the first half of 1999 correcting problems related to computer systems have now begun to produce benefits. Purchasing can now centrally procure raw materials, while working with vendors to obtain "just in time" inventories. Inventories are now maintained and controlled at a central location. Production scheduling can now more readily take advantage of the best facility to schedule product and improve reaction time to meet customers' requirements. Finished goods inventories have been consolidated in one location as both the El Paso, Texas, and Nocona, Texas, warehouses were closed in 1999. ▢ Strategic plan initiatives for Justin Brands related to new marketing philosophies includes:

- expanded price points
- new channels of distribution
- global sourcing
- e-commerce capabilities
- identifying clear market niches by brand, thereby reducing duplications in finished goods and raw materials while eliminating internal competition

Justin Boot Company is the largest of the company's footwear operations. Over the last few years, Justin Boot has diversified its footwear offerings to complement its higher-priced western boots. This diversification program has produced positive results. The most prominent example of this success has been the "Justin Original Workboot." This product was introduced in mid-1997 and has grown to be a $30 million annual business, with prospects for future gains. Consumers like the attractive styling, ultra-durable construction, and unique comfort system. Justin introduced the "Classic Boot Collection" line in early 1999. Manufactured in Mexico under strict quality-control guidelines, this all-leather product offers customers a great boot at under

$100 retail. Results for the first year of this product offering were very good. ▢ Justin Boot developed the "Basics" line in late 1999 for introduction in 2000. The new entry-level price point boot, utilizing a combination of synthetic materials and leather, enables Justin to attract even more consumers. This new product increases total market share, and its higher margins will raise profitability. The "Basics" are something new for the retailers to get excited about. The "Basics'" entry-level price points will also aid in taking advantage of the resurgence of women's fashions as they are reintroduced to western footwear. ▢ Growth in demand for casual lifestyle products has led to expansion of the "Chukka" line, with new styles introduced early in 1999. These products live up to the Justin tradition for western-flavored footwear and deliver what customers expect. ▢ Tony Lama Company, one of the most recognized brand names in western footwear, introduced new boot collections, many addressing competitive price points in 1999. These products have been very well received by retailers and consumers. The "Value Line" is a collection of classic Tony Lama, all-leather styles manufactured in Mexico facilities. With the "Value Line," consumers can enjoy Tony Lama quality, fit, and traditional western styling at new, popular price points. ▢ In providing authentic imaging to the western lifestyle, Tony Lama will expand the "Buckaroo" line to take advantage of a niche opened up by competitors. Known for its exotic footwear, Tony Lama has developed the "Exotic Stockman" for the year 2000, which is an extension of the basic "Stockman" line. These two categories are expected to provide growth in 2000. ▢ Further enhancing the growth potential of the Tony Lama name, the company will intensify efforts to merchandise and market product in the "Horseman Collection," "Western Work," and "Kids" lines. Solid growth is projected in each of these areas in 2000. ▢ Tony Lama's factory in El Paso, Texas, was reorganized in 1999. The production facility now produces footwear for Nocona and Chippewa, along with Tony Lama. Overhead cost per pair should decline with the increased production, allowing margins to improve. ▢ Tony Lama is recognized by consumers as a high-quality western boot and efforts to improve quality have been very successful. The dedication to better quality has resulted in much lower factory defective rates and increased customer acceptance and satisfaction. Refocusing on the "cowboy boot" heritage has been positively received in the marketplace and these efforts will be strengthened in 2000. ▢ Nocona Boot Company continues to be recognized as the brand in the western industry

specializing in fit. "When your fit is as individual as you are" is the phrase understood and appreciated by retailers and consumers alike. □ Nocona will continue to expand its unique concept shops, or Fit Centers, in selected stores throughout the nation. The Nocona Fit Center offers very personalized service. The retailer assists the consumer by helping them determine the proper size and width before they make a selection of the leather, color, toe, or heel. This personalized service is appreciated by the consumer. Once the consumer is properly fitted and is wearing the correct size in boots, the ultimate winner is the retailer as they retain that happy customer for the future. □ Nocona, along with Justin, is developing an exciting new product for distribution into additional channels. The classic, western-influenced gentlemen's products of traditional styling will be marketed to department stores. It is anticipated that these conservative-styled dress boots will appeal to a broader consumer group. □ Chippewa Shoe Company realized modest revenue gains in 1999. Two popular products, snakeproof and motorcycle boots will be instrumental in generating revenue and operating profits in 2000. □ In the third quarter of 1999, Chippewa launched advertising and promotional programs in the Northeast, which yielded positive results. By developing regional campaigns tied to seasonal events and product in demand in different regions, Chippewa can use its advertising funds to create the biggest return. These regional campaigns will address the strength that Chippewa is known for—ruggedly styled, highly functional, durable footwear to meet the needs of the outdoor lifestyle. Snakeproof and motorcycle boots will be addressed in 2000 in regional advertising programs, along with heavy lug and work-related footwear and insulated boots, which are popular in New England and Midwestern styling. □ After five years of declining unit shipments and revenues, Justin Brands reversed the trends in 1999. Computer problems encountered in late 1998 and 1999 have been resolved and strategic initiatives to improve the business are in various stages of successful implementation. The future looks better for these businesses as the new millennium begins.



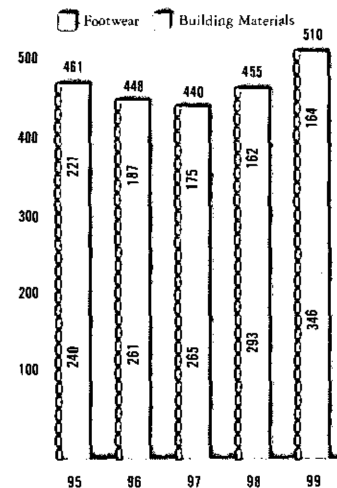
# Management's Discussion and Analysis

## Results of Operations

### 1999 Compared with 1998

Justin Industries posted significant gains in 1999 in both revenues and earnings, before special charges. For the first time ever, revenues topped one-half billion dollars, up 12.1% over 1998, and net income, before special charges, increased 37.3% to $36.5 million, also a new all-time high. Consolidated net income, including special charges, was $28.3 million in 1999 and $26.5 million in 1998.

Acme Building Brands was responsible for both the revenue and earnings gains in 1999 generating $67.1 million in operating profit, an increase of 33.7% over 1998. Although preliminary statistics indicate a 4% drop in housing starts in 1999 compared to 1998, residential and commercial construction demand continued to surpass the industry's available supply of brick in Acme's six-state market area. This environment provided the opportunity for higher sales volumes and prices.




Justin Brands did not meet expectations in 1999 as 1998's fourth quarter computer problems carried over into the first quarter of 1999, hampering shipments early in the year and causing higher than expected operating expenses throughout the year. Operating losses in 1999, before special charges, totaled $3.7 million compared to $.5 million in 1998. In an effort to improve operating results, Justin Brands devised an aggressive, new strategic plan during mid-1999 resulting in realignment of brand and product niches, closure of two of its five manufacturing locations, and consolidation of certain administrative functions. As a result, special charges associated with implementation of the plan totaling $12.5 million ($8.1 million after tax) were recognized during the third quarter of 1999.

#### NET SALES

ACME BUILDING BRANDS — Sales generated by Acme Building Brands' operating units in 1999, representing 67.9% of consolidated net sales, increased 19.9% over 1998.

Acme Brick Company, Featherlite Building Products, and American Tile Supply posted sales increases of 23.4%, 15.9%, and 7.4%, respectively. Acme Brick Company, contributing 71.4% of this segment's total revenues, continued to outpace the record-setting performance it reported in 1998; and for the first time ever, Acme shipped over 1 billion brick. While brick units shipped rose 16.8%, the strong construction market also supported 6.9% higher average brick selling prices. Brick plants purchased in

January and June 1999 added 9% to brick capacity in 1999 while the reduction of inventory levels also provided product to support higher sales volumes. Acme's total annual brick capacity at year-end 1999, including its newly constructed plant in central Texas, is approximately 1.04 billion brick. Acme's purchased-products business also realized strong growth in 1999 with a 14.6% increase in sales over 1998. Although economists are again predicting slightly lower housing starts in 2000, all signs point to a strong 2000 for Acme Brick Company: brick backlogs at the end of 1999 are at a record high, additional brick capacity of 9% will be realized in 2000 due to the late-1999 completion of the new central Texas brick plant and the plant acquisitions made during 1999, and year-end brick pricing was the highest of the year.

Although manufacturing capacity constraints were felt in 1999, Featherlite recorded a strong year driven by an increase of 32.7% in block units sold, while average block pricing remained unchanged. Featherlite's sales of purchased products increased 8.1% and revenues in the cut limestone division, Texas Quarties, increased 2.7%. With the completion of a new block plant in early 2000, Featherlite is poised for continued future growth.

American Tile's sales increases were attributable primarily to two new tile showrooms added during 1999 and a new tile showroom and marble slab operation that opened in mid-1998. No new locations are slated for 2000 as the company's new management plans to focus on increasing sales at existing locations and reducing operating costs.

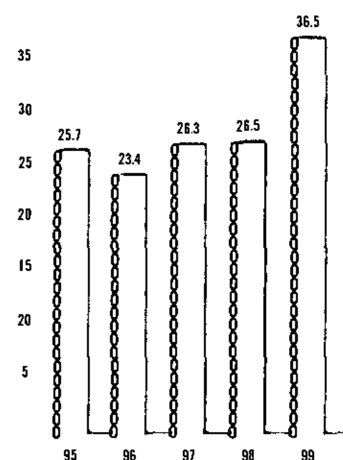
JUSTIN BRANDS — Net sales for Justin Brands, 32.1% of 1999 consolidated sales, increased just over 1% to $163.4 million in 1999.

All major product categories, except Nocona, which declined slightly, realized increases in net sales of 2% to 4% in 1999. While more units were sold in the non-western product category in 1999, including the "Justin Original Workboot," "Sport Lace-R," "Chukkas," and Chippewa products, these product lines accounted for a slightly smaller percentage of total units sold, as new, lower-price-point western products were brought to market in 1999, increasing total units sold. During the fourth quarter of 1999, the company sold approximately one-half of the finished goods inventories that were written down with a special $7 million charge in the third quarter of 1999. These inventories were not aligned with the company's new strategic initiatives and were sold at discounted prices well below normal wholesale. The remaining written-down inventories are scheduled for an orderly liquidation during the first half of 2000. Excluding the effect of these 1999 liquidation sales, units sold increased 3.3% and average selling prices declined 3.5% from 1998, primarily due to the 1999 introduction of new, lower-price-point products. As the company continues to work toward expanding its market share of lower-price-point products, management expects that the change in product mix experienced in 1999 will continue into 2000.

During the last quarter of 1998 and the first quarter of 1999, normal shipping processes were hampered due to previously reported computer problems that impacted Justin Brands' revenues by an estimated $10 million and $5 million, respectively. The closure of two manufacturing plants during 1999, resulting in a restructuring charge in the third quarter, is not expected to affect future revenues as these manufacturing requirements were consolidated into other larger plants.

## GROSS PROFIT

The consolidated gross profit margin in 1999, before Footwear's special inventory write-down, was 38.3% compared to 36.3% in 1998.




Both segments realized improved margins; however, Acme Building Brands contributed over 90% of the total improvement in gross profit. This segment had gross profit margins of 42.7% in 1999 compared to 41.1% in 1998. Although the increase in number of units shipped was a positive factor in improved gross profits realized by Acme, higher average brick selling prices provided over half of Acme Building Brands' improvement. Margins in 2000 are expected to increase further for this segment, if residential and commercial construction in Acme's markets remains strong, as year end brick selling prices were 4.9% higher than 1999's average selling prices. In addition, two brick plants purchased during 1999, and new brick and block plants completed at the end of 1999, will provide additional manufacturing capacity to support higher sales volumes.

Justin Brands' margins, before the special inventory write-down, improved by 1.4 percentage points to 29% as Chippewa production problems and unfavorable raw material market conditions experienced in 1998 improved in 1999. Footwear's special inventory write-down of $7 million was charged to cost of sales during the third quarter of 1999. Margins are also expected to improve in 2000 for Justin Brands as excess manufacturing capacity was reduced in 1999 by closing two plants, and 2000 is expected to yield increasing sales of new purchased products that provide higher margins.

## SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE

Consolidated selling, general, and administrative expense was up 17.1%, including the restructuring charge, in 1999 over 1998. As a percentage of sales, these costs were 28.1% in 1999, (27% before special charges), and 26.9% in 1998. Acme Building Brands incurred an increase of 13% in these expenses while Justin

Brands' costs rose 25%. Acme Building Brands' increase is reflective of its increased sales, costs incurred related to several new sales locations in 1999, and expenses associated with consolidation of Featherlite's administrative operations with those of Acme Brick Company at year-end 1999. The consolidation of Featherlite's back-office operations is expected to reduce operating costs in 2000 and afford other operational synergies within Acme Building Brands. Justin Brands' increased expenses were primarily due to information technology costs incurred during the first half of 1999 and higher warehousing costs, both related to computer problems that have been resolved. These costs are expected to normalize in 2000.

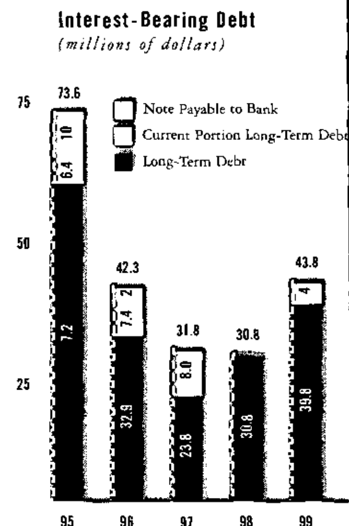
## RESTRUCTURING CHARGE AND SPECIAL INVENTORY WRITE-DOWN

During mid-1999, Justin Brands adopted new strategic initiatives aimed at stimulating growth and returning to profitability. As a result, two manufacturing facilities were targeted to be closed and other administrative consolidations were planned resulting in recognition of a restructuring charge of $5.5 million during the third quarter of 1999. The restructuring charge consisted primarily of termination benefits for 280 plant and administrative employees and impairments realized on facilities closed. Note 8 to the Consolidated Financial Statements on page 31 further describes the components of the restructuring charge and the subsequent changes in the accrual during 1999. These plant closings and terminations were completed during the third and fourth quarters of 1999. Management estimates that closing these two plants and moving production to other facilities will not affect future revenues, but will improve gross profit in 2000 in the first through fourth quarters by $60,000, $280,000, $430,000, and $430,000, respectively, including an associated teduction in depteciation of $29,000 each quattet. In addition, consolidation of othet administrative opetations is estimated to save $345,000 in each quatter of 2000, including a $54,000 quartetly reduction in amortization expense. The remaining accrual telated to the resttuctuting charge will be paid ptimarily in the first and second quatters of 2000. The Company expects to sell real ptopetty, included in telated impaited assets, duting the fitst half of 2000.

As part of the new initiatives, brand and product niches wete analyzed and realigned. These realignments necessitated a critical review of on-hand inventoties resulting in a write-down of inventories totaling $7 million during the third quarter of 1999. As of Decembet 31, 1999, the Company had disposed of approximately 54% of the total pair that were written down. The Company plans to dispose of the remaining pair and raw materials during the first half of 2000.

## INTEREST EXPENSE

Interest expense in 1999 was $1.2 million, after capitalization of $1.4 million related to new plants under construction, compared to $1.8 million in 1998. Average debt outstanding was $15.9 million higher in 1999, and effective interest rates during 1999 were slightly lower. Based on average month-end borrowings outstanding, the average effective interest rate was 5% in 1999 and 5.1% in 1998. Note 5 to the Consolidated Financial Statements on page 28 describes the Company's borrowing arrangements.




## PROVISION FOR INCOME TAXES

Income tax expense, as a percentage of pre-tax income, was 35.2% in 1999 and 35.4% in 1998. The federal statutory rate was 35% for both years. See Note 9 to the Consolidated Financial Statements on page 31 for a reconciliation of the actual tax rate to the federal statutory tax rate, and other information relating to income taxes.

## ACQUISITIONS AND DISPOSITIONS

In early January 1999, Acme Brick Company acquired the assets of Texas Clay Industries, a division of Temtex Industries, Inc. The total purchase price was approximately $13.3 million. The assets acquired consisted of approximately $1.2 million in accounts receivable; $.9 million in inventory and supplies; and $11.2 million in land, buildings, and equipment related to one brick plant and associated clay teserves in Malakoff, Texas, apptoximately 70 miles southeast of the Fort Wotth/Dallas metroplex area. Sales genetated by this plant in 1998 approximated $11.7 million, which ate considered immaterial to consolidated operations. The plant added about 7% to Acme's annual ptoduction capacity.

Effective June 30, 1999, Acme Btick Company acquited Eureka Btick and Tile. The total putchase ptice fot this opetation was approximately $11.1 million. The assets acquited consisted of apptoximately $1 million in accounts receivable; $1.3 million in inventory and supplies; $.9 million in othet assets; and $7.9 million in land, buildings, and equipment related to one brick plant and associated clay reserves in Clarksville, Atkansas, approximately 60 miles east of Fort Smith and 100 miles northwest of Little Rock. Sales generated by this plant prior to acquisition are considered immaterial to consolidated operations. The plant added about 5% to Acme's annual production capacity.

Effective December 31, 1998, the Company sold its evaporative cooler business, Tradewinds Technologies, Inc., for approximately $3.2 million. Tradewinds' sales in 1998 were $3.7 million.

## 1998 Compared with 1997

Consolidated net sales of $454.8 million in 1998 were 3.4% greater than those of 1997. In comparing 1998 to 1997, sales and profitability declines in the Company's Footwear operations were offset by gains in Acme Building Brands as residential construction activity in the Company's markets increased in 1998 over 1997. Net income in 1998 of $26.5 million improved 1% over 1997. The Company's Footwear operations incurred an operating loss in 1998 due to lost sales and additional expenses connected with problems in the implementation of new computer systems.

### NET SALES

ACME BUILDING BRANDS — Revenues in 1998 were $292.7 million, an increase of 10.3% over 1997. Sales of Acme's brick products comprise over one-half of Acme Building Brands 1998 revenues. In 1998, unit brick shipments increased 9.3% over those in 1997. Residential housing starts in markets served by Acme increased approximately 20% in 1998 from 1997 levels. Average brick selling prices in 1998 were 4.2% above those of 1997. Acme's sales of products purchased for resale in 1998 were 12.2% greater than in 1997 as sales of tile and related products reached record highs for Acme. Revenues at American Tile Supply grew 1.6% in 1998 over 1997.

Revenues for Featherlite in 1998 were 6.3% higher than in 1997. Unit sales were 10.1% greater than in 1997. The average selling price in 1998 was 1% more than in 1997. Featherlite's cut limestone division, Texas Quarries, realized revenue gains of 3.6% in 1998 over 1997.

Sales at Tradewinds Technologies, Inc. were $3.7 million and $3.3 million in 1998 and 1997, respectively. Tradewinds was sold on December 31, 1998.

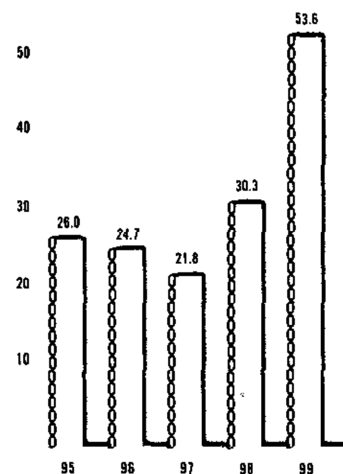
JUSTIN BRANDS — Net sales in 1998 of $162.1 million were 7.1% below 1997 revenues of $174.5 million. Unit shipments of footwear products in 1998 were 4% less than in 1997, while the average price fell approximately 4.1% due to product mix changes as wholesale prices were higher in 1998 than in 1997. Increased sales of lower-priced, non-western footwear resulted in the lower overall 1998 selling prices. As the popularity of western footwear declined, the Company intensified its efforts in developing non-western lines. These categories include the "Justin Original Workboot," "Sport Lace-R," and "Chukkas," as well as Chippewa products. In 1998, these generally lower-priced products accounted for approximately 40% of unit shipments.

### GROSS PROFIT

The consolidated gross profit margin declined slightly in 1998 to 36.3% compared to 36.6% in 1997.

Gross profit margins at Acme Building Brands were 41.1% in 1998 and 41.2% in 1997. Increased volume and higher prices produced improvements in Acme Brick's gross profit margins in 1998. Gross profit margins in both Featherlite and American Tile Supply declined slightly in 1998 from 1997 levels. Featherlite's lower margins were due to start-up costs associated with its new Dallas plant and lower margins in the cut limestone operations due to product mix.

Justin Brands' gross profit margins in 1998 were 27.6% compared to 29.6% in 1997. Reduced volume in 1998 adversely affected margins. In addition, gross profit margins were impacted early in the year by production problems associated with manufacturing Chippewa products and write-downs of certain raw materials due to market conditions.




### SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE

Selling, general, and administrative expense as a percentage of sales was 26.9% in 1998 and 1997. The absence of any significant variance from 1997 to 1998 resulted from reductions in advertising expenses in the footwear operations offset by expenses incurred due to its computer problems. Expenses in 1997 included approximately $600,000 in litigation costs incurred in successfully defending a class-action lawsuit involving Tradewinds.

### INTEREST EXPENSE

Interest expense in 1998 was $1.8 million compared to $1.77 million in 1997. There was very little change in average debt outstanding and effective interest rates during these periods. Based on average month-end borrowings outstanding, the average effective interest rate was 5.1% in 1998 and 1997.

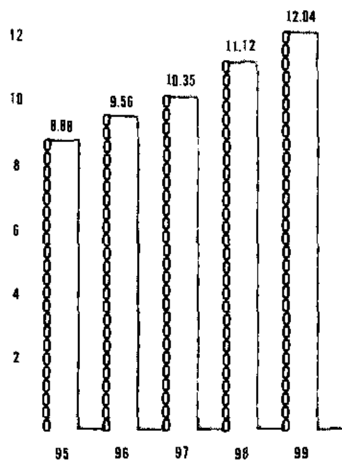
### PROVISION FOR INCOME TAXES

Income tax expense, as a percentage of pre-tax income, was 35.4% in 1998 and 1997. The federal statutory rate was 35% for both years. See Note 9 to the Consolidated Financial Statements on page 31 for a reconciliation of the actual tax rate to the federal statutory tax rate, and other information relating to income taxes.

## Financial Condition

### Cash Flow and Liquidity

Net cash provided by operating activities increased significantly in 1999 to $70.9 million compared to $46.3 million in 1998 and $46.4 million in 1997. Most of the increase in 1999 was attributable to increased earnings in Acme Building Brands' businesses coupled with a reduction in inventory levels at both Acme Building Brands and Justin Brands. In 1999, the Company invested $53.6 million in fixed assets additions, 95% of which was spent in the building materials segment. Approximately $19 million of this amount was used to complete a new $25 million molded-brick plant near Austin, Texas. This plant will increase brick manufacturing capacity in 2000 by more than 6%. Featherlite also constructed a new block plant in San Antonio, Texas, in 1999 at a cost of approximately $5 million. Also in 1999, Acme Brick Company made two acquisitions of existing brick plants and related working capital for a total cost of $20.9 million. These plants added about 9% to brick manufacturing capacity in 1999 and will contribute an additional 3% in 2000 as both plants will be included for a full year in 2000. In 1998, $30.3 million was spent for fixed asset additions, primarily in Acme Building Brands operations, to expand production capacity and add or upgrade sales distribution facilities. The Company purchased 935,200 shares of its stock in 1999, 195,900 shares in 1998, and 231,700 shares in 1997 at an average cost of $11, $13, and $11 per share, respectively. The Company may purchase up to an additional 2 million shares of stock pursuant to Board of Directors' authorization. The treasury stock purchases in 1999 increased fully diluted earnings per share by $.02 or less than 2%.

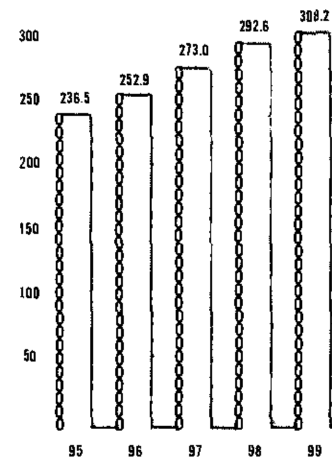



Dividends declared in 1999 and 1998 were $.20 per share compared to $.18 in 1997.

Operations provide the Company's primary source of cash. 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, 1999, totaled $53 million.

## Capital Resources and Financial Condition

During 1999 and 1998, the Company was able to expand its business and maintain a strong balance sheet. The Balance Sheet Trends table on page 21 presents the percentage relationship of the major asset, liability, and equity accounts. In 1999, total assets increased 9.2% compared to 1998's increase of approximately 5.5%. Working capital at year-end 1999 was $157.5 million, a decrease of 10.4% from 1998. This decrease was primarily related to reduced inventory levels. The current ratio at December 31, 1999, was 3.4 to 1, and shareholders' equity grew 5.3% to $308.2 million ($12.04 a share). Total interest-bearing debt of $43.8 million was $13 million higher than at year-end 1998; however, borrowings were only 14.2% of shareholders' equity, at December 31, 1999. Acme Building Brands had contractual obligations amounting to $9.3 million at December 31, 1999, to fund completion of the new central Texas brick plant; construct a new sales location; purchase trailers, tractors, and forklifts; and acquire other replacement and new robotic manufacturing equipment.




Acme Building Brands 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.

The Company completed all Year 2000 readiness work in 1999, and experienced no significant related costs or problems.

## Quarterly Financial Data

The table on page 39, Quarterly Financial Data, presents summarized operating results for each quarter in the two years ended December 31, 1999. The Company's businesses are seasonal in nature, with Acme Building Brands' operations generating greater activity in the second and third quarters and Justin Brands' operations accelerating in the third and fourth quarters. As a result, first-quarter earnings are generally the lowest and fourth-quarter earnings the highest, which was the case in 1999 excluding special charges. Quarterly net income in 1999, excluding special charges, was greater than each of the comparable quarters of the prior year. Earnings in the third quarter of 1999 were impacted by the restructuring charge and special inventory write-down, as further described on page 18. Earnings for the fourth quarter of 1998 were negatively impacted because of the effects of problems previously reported in new computer systems causing a significant shortfall in Footwear's shipments during the quarter. Management estimates that sales were impacted by almost $10 million during the quarter and net income was negatively affected by approximately $2.3 million, or $.09 per share on a diluted basis. These same problems continued into the first quarter of 1999 resulting in an estimated sales shortfall of $5 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, 1999, the backlog for Acme brick was $72.7 million, compared with $46.5 million at year-end 1998. The sales backlog for Footwear products at year-end 1999 was $3.5 million, compared with $9 million in 1998. Footwear backlogs at year-end 1998 were abnormally high because of computer system-related shipment problems late in the year.

## Safe Harbor Provisions

In accordance with the 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; changes in the amount and severity of inclement weather; and 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: | **1999** | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|
| Receivables | **19%** | 20% | 19% | 22% | 21% |
| Inventories | **28** | 34 | 38 | 36 | 42 |
| Property, plant, and equipment | **40** | 31 | 29 | 29 | 26 |
| All other assets | **13** | 15 | 14 | 13 | 11 |
| | **100%** | 100% | 100% | 100% | 100% |
| LIABILITIES AND EQUITY: | | | | | |
| Interest-bearing debt | **10%** | 8% | 8% | 12% | 19% |
| All other liabilities | **19** | 18 | 19 | 18 | 18 |
| Equity | **71** | 74 | 73 | 70 | 63 |
| | **100%** | 100% | 100% | 100% | 100% |

## Operating Trends

*Percent of Net Sales*

| | **1999** | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|
| Net sales | **100.0%** | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | **63.1** | 63.7 | 63.4 | 65.4 | 65.2 |
| Gross profit | **36.9** | 36.3 | 36.6 | 34.6 | 34.8 |
| Operating expenses | **28.1** | 26.9 | 26.9 | 25.7 | 25.0 |
| Interest | **.2** | .4 | .4 | .7 | 1.1 |
| Income taxes | **3.0** | 3.2 | 3.3 | 3.0 | 3.1 |
| Net income | **5.6%** | 5.8% | 6.0% | 5.2% | 5.6% |

*See Management's Discussion and Analysis for information regarding factors affecting operating results for the fourth quarter of 1998 and the first and third quarters of 1999. Excluding special changes discussed herein, net income in 1999 was 7.1% of net sales.*

## Five-Year Analysis of Sales and Operating Profit by Product Lines

*In Thousands of Dollars*

| | **1999** | | 1998 | | 1997 | | 1996 | | 1995 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Amount** | **Percent** | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| Building Materials: | | | | | | | | | | |
| Net sales | **$346,377** | **68%** | $292,726 | 64% | $265,313 | 60% | $261,315 | 58% | $240,094 | 52% |
| Operating profit | **67,107** | **132** | 48,932 | 101 | 43,245 | 90 | 44,233 | 97 | 42,107 | 82 |
| Footwear: | | | | | | | | | | |
| Net sales | **163,434** | **32** | 162,085 | 36 | 174,474 | 40 | 186,457 | 42 | 221,354 | 48 |
| Operating profit (loss) | **(16,258)*** | **(32)** | (524) | (1) | 4,795 | 10 | 1,591 | 3 | 9,234 | 18 |
| Totals: | | | | | | | | | | |
| Net sales | **$509,811** | **100%** | $454,811 | 100% | $439,787 | 100% | $447,772 | 100% | $461,448 | 100% |
| Operating profit | **$ 50,849*** | **100%** | $ 48,408 | 100% | $ 48,040 | 100% | $ 45,824 | 100% | $ 51,341 | 100% |
| Less interest and parent company operations | **7,113** | | 7,327 | | 7,293 | | 9,202 | | 11,137 | |
| Income before income taxes | **$ 43,736*** | | $ 41,081 | | $ 40,747 | | $ 36,622 | | $ 40,204 | |

* *After deducting special charges of $12,545,000 resulting from implementation of strategic initiatives in Footwear operations.*

*See Management's Discussion and Analysis for information regarding factors affecting operating results for the fourth quarter of 1998 and the first and third quarters of 1999.*

*The Company provides additional information as shown above aggregating its business units slightly differently than that prescribed by Financial Accounting Standards Board Statement No. 131 in its definition of reportable segments. The Building Materials product line as shown above aggregates the Building Materials reportable segment with the All Other category, excluding parent operations, as reported in Note 9 to the Company's Consolidated Financial Statements.*

# Consolidated Financial Statements

## Consolidated Balance Sheet

*In Thousands of Dollars, Except Share Data, at December 31,*

| | 1999 | 1998 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash | $ 5,720 | $ 5,100 |
| Accounts receivable, less allowance for doubtful accounts of $3,203 and $3,534, respectively | 83,988 | 80,155 |
| Inventories | 120,340 | 136,575 |
| Federal and state income taxes | 10,113 | 7,093 |
| Prepaid expenses | 2,488 | 2,472 |
| Total current assets | 222,649 | 231,395 |
| Other assets, at cost | 35,427 | 40,766 |
| Assets held for sale | 2,797 | 2,809 |
| Property, plant, and equipment, at cost: | | |
| Land | 23,688 | 20,704 |
| Buildings and equipment | 334,947 | 277,134 |
| Construction in progress | 13,639 | 10,913 |
| | 372,274 | 308,751 |
| Less accumulated depreciation | 199,840 | 186,829 |
| Net property, planr, and equipment | 172,434 | 121,922 |
| | $ 433,307 | $ 396,892 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Notes payable to banks | $ 4,000 | $ — |
| Trade accounts payable | 21,976 | 18,925 |
| Accrued payroll items | 15,568 | 12,132 |
| Accrued insurance | 7,551 | 10,449 |
| Accrued state and local taxes | 3,438 | 3,065 |
| Other accrued expenses | 11,316 | 9,612 |
| Dividends payable | 1,285 | 1,317 |
| Total current liabilities | 65,134 | 55,500 |
| Long-term debt | 39,750 | 30,750 |
| Deferred income taxes | 20,243 | 18,074 |
| 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, 27,939,888 shares issued | 69,849 | 69,674 |
| Capital in excess of par value | 16,822 | 15,685 |
| Retained earnings | 247,133 | 223,915 |
| Unearned compensation | (1,140) | — |
| Treasury stock, at cost, 2,267,616 and 1,565,736 shares, respectively | (24,484) | (16,706) |
| Total shareholders' equity | 308,180 | 292,568 |
| | $ 433,307 | $ 396,892 |

*See accompanying notes.*

## Consolidated Statement of Income

| *In Thousands of Dollars, Except per Share Data, for Years Ending on December 31.* | **1999** | 1998 | 1997 |
|---|---|---|---|
| Net sales | **$ 509,811** | $ 454,811 | $ 439,787 |
| Costs of goods sold: | | | |
| Cost of goods sold | **314,504** | 289,591 | 278,769 |
| Footwear special inventory write-down | **7,024** | — | — |
| Total cost of goods sold | **321,528** | 289,591 | 278,769 |
| Gross profit | **188,283** | 165,220 | 161,018 |
| Selling, general, and administrative expense | **137,786** | 122,339 | 118,505 |
| Footwear restructuring charge | **5,521** | — | — |
| Income before interest expense and income taxes | **44,976** | 42,881 | 42,513 |
| Interest expense | **1,240** | 1,800 | 1,766 |
| Income before income taxes | **43,736** | 41,081 | 40,747 |
| Income taxes | **15,410** | 14,539 | 14,424 |
| Net income | **$ 28,326** | $ 26,542 | $ 26,323 |
| Basic earnings per share | **$ 1.11** | $ 1.01 | $ 1.00 |
| Diluted earnings per share | **$ 1.10** | $ 1.00 | $ .99 |

*See accompanying notes.*

## Consolidated Statement of Shareholders' Equity

| *In Thousands of Dollars, Except Share Data, for Years Ending on December 31, 1999, 1998, and 1997* | Preferred stock | Common stock | Capital in excess of par value | Retained earnings | Unearned compensation | Treasury stock |
|---|---|---|---|---|---|---|
| Balance January 1, 1997 | $ — | $ 69,674 | $ 16,477 | $ 181,068 | $ — | $ (14,363) |
| Purchase of 231,700 shares of stock for treasury | — | — | — | — | — | (2,562) |
| Issuance of 157,585 shares of stock from treasury upon exercise of stock options | — | — | (437) | — | — | 1,546 |
| Net income | — | — | — | 26,323 | — | — |
| Cash dividends declared — $.18 per share | — | — | — | (4,746) | — | — |
| Balance December 31, 1997 | $ — | $ 69,674 | $ 16,040 | $ 202,645 | $ — | $ (15,379) |
| Purchase of 195,900 shares of stock for treasury | — | — | — | — | — | (2,558) |
| Issuance of 121,079 shares of stock from treasury upon exercise of stock options | — | — | (355) | — | — | 1,231 |
| Net income | — | — | — | 26,542 | — | — |
| Cash dividends declared — $.20 per share | — | — | — | (5,272) | — | — |
| Balance December 31, 1998 | $ — | $ 69,674 | $ 15,685 | $ 223,915 | $ — | $ ( 16,706) |
| Purchase of 935,200 shares of stock for treasury | — | — | — | — | — | (10,166) |
| Issuance of 233,320 shares of stock from treasury upon exercise of stock options | — | — | (362) | — | — | 2,388 |
| Issuance of restricted common stock | — | 175 | 1,010 | — | (1,185) | — |
| Amortization of unearned compensation | — | — | — | — | 45 | — |
| Stock-based compensation | — | — | 489 | — | — | — |
| Net income | — | — | — | 28,326 | — | — |
| Cash dividends declared — $.20 per share | — | — | — | (5,108) | — | — |
| **Balance December 31, 1999** | **$ —** | **$ 69,849** | **$ 16,822** | **$ 247,133** | **$ (1,140)** | **$ (24,484)** |

*See accompanying notes.*

## Consolidated Statement of Cash Flows

| *In Thousands of Dollars for Years Ending on December 31,* | 1999 | 1998 | 1997 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | **$ 28,326** | $ 26,542 | $ 26,323 |
| Adjustments to reconcile net income to cash provided by operating activities: | | | |
| Depreciation | **19,652** | 17,619 | 16,850 |
| Amortization | **2,333** | 1,215 | 804 |
| Provision for losses on accounts receivable | **594** | 1,349 | 1,624 |
| Net periodic pension credit and curtailment gain | **(813)** | (814) | (1,166) |
| Gain on sale of property, plant, and equipment | **(44)** | (322) | (280) |
| Deferred income taxes | **(2,372)** | 2,149 | 5,518 |
| Stock-based compensation expense | **534** | — | — |
| Footwear special inventory write-down | **7,024** | — | — |
| Footwear restructuring charge | **5,521** | — | — |
| Changes in current assets and liabilities: | | | |
| (Increase) decrease in accounts receivable | **(2,176)** | (7,791) | 5,623 |
| (Increase) decrease in inventories | **11,309** | 5,618 | (12,209) |
| (Increase) decrease in other current assets | **(893)** | 1,418 | (617) |
| Increase (decrease) in accounts payable and accrued expenses | **1,883** | (683) | 3,965 |
| Net cash provided by operating activities | **70,878** | 46,300 | 46,435 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Proceeds from the sale of property, plant, and equipment | **1,861** | 1,399 | 453 |
| Purchase of property, plant, and equipment | **(53,639)** | (30,271) | (21,782) |
| (Increase) decrease in other long-term assets | **2,653** | (7,351) | (4,662) |
| Payment for purchase of businesses, net of cash acquired | **(20,852)** | (2,134) | (2,073) |
| Net cash used in investing activities | **(69,977)** | (38,357) | (28,064) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Borrowings | **74,000** | 50,000 | 12,000 |
| Repayment of borrowings | **(61,000)** | (51,000) | (22,535) |
| Dividends paid | **(5,141)** | (5,274) | (4,485) |
| Purchase of treasury stock | **(10,166)** | (2,558) | (2,562) |
| Proceeds from exercise of stock options | **2,026** | 876 | 1,109 |
| Net cash used in financing activities | **(281)** | (7,956) | (16,473) |
| Net increase (decrease) in cash | **620** | (13) | 1,898 |
| Cash at beginning of year | **5,100** | 5,113 | 3,215 |
| Cash at end of year | **$ 5,720** | $ 5,100 | $ 5,113 |
| SUPPLEMENTAL DISCLOSURES OF CASH INFORMATION: | | | |
| Cash paid during the year for: | | | |
| Interest, net of capitalized interest | **$ 1,240** | $ 1,805 | $ 1,884 |
| Income taxes, net of refunds | **$ 17,534** | $ 10,664 | $ 7,939 |
| SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES: | | | |
| Purchase of businesses: | | | |
| Fair value of assets acquired | **$ 24,418** | $ 2,402 | $ 5,329 |
| Cash paid for assets and related costs | **(20,852)** | (2,134) | (5,172) |
| Liabilities assumed | **$ 3,566** | $ 268 | $ 157 |

*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, operating under the corporate name Acme Building Brands—including face brick, concrete block, and floor and wall tile, and 2) footwear products, operating under the corporate name Justin Brands, primarily western-style boots. In 1999, revenues in the building materials product lines were 68% of consolidated net sales, and the footwear product lines comprised 32% 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 71% 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, 1998 and 1997 amounts to conform with the 1999 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 |

OTHER ASSETS. Included in other assets in the accompanying balance sheet are trademarks/tradenames; the excess of the acquisition cost over the fair value of the net assets of businesses acquired; and the cost of software purchased and configured for internal use. Trademarks/tradenames and the excess of the acquisition cost over the fair value of the net assets of businesses acquired are amortized on a straight-line basis ranging from 20 to 40 years. The cost of software purchased and configured for internal use is amortized on a straight-line basis over eight years. This software consists primarily of Enterprise Resource Planning systems for the Footwear segment that began operation in the fourth quarter of 1998 and payroll/human resources systems utilized by all the Company's operations placed in service in January 1999.

ASSETS HELD FOR SALE. Assets held for sale are carried at the lower of cost or fair value less cost to sell, and relate primarily to raw land located near Austin, Texas, that is being marketed by third parties on behalf of the Company.

REVENUE RECOGNITION. Revenue from sale of products is recognized upon passage of title to the customer, which 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, 1999, 1998, and 1997 was $13,646,000, $14,849,000, and $18,073,000, respectively.

PENSION AND EMPLOYEE BENEFIT PLANS. The Company and its subsidiaries have pension plans for the benefit of nearly all employees. Benefits are primarily based on years of service and the employees' average 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.

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 shares at the date of grant. The Company has elected to 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. 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.

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.

PENDING ADOPTION OF ACCOUNTING STANDARDS. In June 1998, the Financial Accounting Standards Board issued Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which, as amended, is required to be adopted in years beginning after June 15, 2000. Because of the Company's minimal use of derivatives, management does not anticipate that the adoption of the new statement will have a significant effect on earnings or the financial position of the Company.

## 2. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share: *(in thousands, except per share data)*

| | **1999** | 1998 | 1997 |
|---|---|---|---|
| Numerator for basic and diluted earnings per share | **$ 28,326** | $ 26,542 | $ 26,323 |
| Denominator for basic earnings per share— | | | |
| weighted average shares | **25,522** | 26,358 | 26,356 |
| Effect of dilutive securities: | | | |
| Employee stock options | **241** | 270 | 309 |
| Convertible preferred stock | **3** | 3 | 3 |
| Dilutive potential common shares | **244** | 273 | 312 |
| Denominator for diluted earnings per share— | | | |
| adjusted weighted average shares and assumed conversions | **25,766** | 26,631 | 26,668 |
| Basic earnings per share | **$ 1.11** | $ 1.01 | $ 1.00 |
| Diluted earnings per share | **$ 1.10** | $ 1.00 | $ .99 |

For additional disclosures regarding the outstanding preferred stock and the employee stock options see Note 6.

Options to purchase 412,550 shares of common stock at a weighted-average exercise price of $16.22 per share were outstanding at December 31, 1999, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common stock and, therefore, the effect would be antidilutive. In addition, 60,000 shares of unvested restricted shares issued in 1999 were excluded from the 1999 computation of both basic and diluted earnings per share because performance measures were not met for vesting.

## 3. Inventories

Inventories include the following: *(in thousands of dollars)*

| | **1999** | 1998 |
|---|---|---|
| Finished products | **$ 95,678** | $ 106,706 |
| Work-in-process | **3,930** | 4,663 |
| Raw materials and supplies | **20,732** | 25,206 |
| | **$ 120,340** | $ 136,575 |

See Note 8 for further discussion of Footwear inventory write-down in 1999.

## 4. Other assets

Other assets consist of the following: *(in thousands of dollars)*

| | **1999** | 1998 |
|---|---|---|
| Trademarks/tradenames | **$ 12,198** | $ 12,651 |
| Excess of acquisition cost over fair value of net assets of businesses aquired | **6,275** | 6,275 |
| Prepaid pension cost | **10,184** | 9,351 |
| Software purchased and configured for internal use | **10,369** | 13,005 |
| Other | **2,487** | 3,767 |
| | **41,513** | 45,049 |
| Accumulated amortization | **6,086** | 4,283 |
| | **$ 35,427** | $ 40,766 |

## 5. Borrowings

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

| | **1999** | 1998 |
|---|---|---|
| Revolving credit loans | **$ 23,000** | $ 14,000 |
| Industrial Revenue Bonds | **16,250** | 16,250 |
| Note payable to bank | **500** | 500 |
| | **$ 39,750** | $ 30,750 |

The Company may borrow up to a total of $52 million 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 2002 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.

Borrowings under the revolving credit agreement 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, 1999, was based on LIBOR in effect at the time of origination plus 50 basis points and averaged 6.8%. 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 agreement. The loans are unsecured; however, the loan agreement contains 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, 1999, the Company was in compliance with all such requirements and restrictions.

The Industrial Revenue Bonds are payable in 2014 with interest paid quarterly at varying rates based on certain indices (approximately 5.3% at December 31, 1999), secured by property, plant, and equipment with a net book value of approximately $7,446,000. 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.

The note payable to bank included in long-term debt at December 31, 1999, is an unsecured borrowing due in 2001. Interest is based on LIBOR plus 50 basis points and was 6.7% at December 31, 1999.

The note payable to bank included in current liabilities was an unsecured borrowing due in 2000 pursuant to a $25 million one-year credit facility from a commercial bank. Interest was based on the bank's short-term cost of funds rate plus 50 basis points and was 4.5% at December 31, 1999.

The aggregate maturities of long-term debt through 2004 are as follows: 2000, $0; 2001, $500,000; 2002, $3,833,000; 2003, $7,667,000; and 2004, $7,667,000.

At December 31, 1999, unused lines of credit for short-term and revolving credit agreements were approximately $53 million. Outstanding standby letters of credit at December 31, 1999, amounted to approximately $19,605,000.

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, 1999 and 1998. 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, 1999 and 1998.

Total interest cost incurred during 1999 amounted to approximately $2,627,000. Interest capitalized as part of construction period costs of new plants was approximately $1,387,000 in 1999.

## 6. Shareholders' Equity

The Company has qualified, incentive stock-option plans and non-qualified stock-option agreements with certain of its employees and non-employee directors to purchase its common stock. The plans for employees, as amended, provide for the granting of either incentive stock options or stock options that 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, except for special options granted in 1999 as further described, expire over a period of ten years with employee-granted options vesting over a five-year period and director options vesting after one year. Special options were granted to certain officers (representing 39,000 shares) and a director (representing 100,000 shares) in April 1999. These options expire in five years and vest two years from date of grant. All options are granted at the fair market value of the underlying common stock at the date of grant.

A summary of the Company's stock option activity and related information for the years ended December 31, 1999, 1998, and 1997 is as follows:

| | **1999** | | 1998 | | 1997 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding at Jan. 1 | **1,726,222** | **$11.04** | 1,584,778 | $ 10.36 | 1,516,252 | $ 9.12 |
| Granted | **416,550** | **$14.16** | 288,850 | $ 11.93 | 277,975 | $14.19 |
| Canceled | **(32,590)** | **$14.64** | (14,565) | $ 13.60 | (33,650) | $15.07 |
| Exercised | **(261,697)** | **$ 6.48** | (132,841) | $ 4.61 | (175,799) | $ 4.77 |
| Outstanding at Dec. 31 | **1,848,485** | **$12.32** | 1,726,222 | $ 11.04 | 1,584,778 | $10.36 |
| Exercisable at end of year | **987,320** | **$11.45** | 1,054,752 | $ 10.12 | 1,047,073 | $ 9.24 |
| Weighted-average fair value of options granted during the year | **$5.08** | | $4.40 | | $5.24 | |

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

| | Price Ranges | |
|---|---|---|
| | $4.58 to $10.00 | $10.00 to $18.00 |
| All outstanding options: | | |
| Number of shares | 220,570 | 1,627,915 |
| Weighted-average exercise price | $5.11 | $13.29 |
| Weighted-average remaining contractual life | 1.6 years | 7.7 years |
| Exercisable options: | | |
| Number of shares | 220,570 | 766,750 |
| Weighted-average exercise price | $5.11 | $13.29 |

Pro forma information regarding net income and earnings per share is required by Statement of Financial Accounting Standards No. 123, and has been determined as if the Company had accounted for its employee 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 1999, 1998, and 1997, respectively: risk-free interest rates of 6.8%, 6.4%, and 6.4%; dividend yields of 1.5% for all years; volatility factors of the expected market price of the Company's common stock of .358, .342, and .329; and a weighted-average expected life of the option of 5.4, 5.3, and 5.5 years on ten year options and three years on five year options.

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 employee 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 employee 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 Company's pro forma information follows: *(in thousands of dollars, except for earnings per share information)*

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Pro forma net income | $27,581 | $26,114 | $26,068 |
| Pro forma basic earnings per share | $1.08 | $.99 | $.99 |
| Pro forma diluted earnings per share | $1.08 | $.98 | $.98 |

During 1999, one retiring executive's stock options were modified to extend the employee's time to exercise his options from one year to three years from date of retirement. This modification required the Company to recognize stock-based compensation expense of $489,000.

In April 1999, the Board of Directors awarded 30,000 shares of restricted stock to certain officers and 40,000 shares of restricted stock to a director. Of the total shares awarded, 60,000 have performance-based vesting and 10,000 vest over a two year period. The performance feature provides for vesting of 50%, 25%, and 25% at sustained attainment of a stock price of $16, $18, and $20 per share, respectively. No restricted shares were vested at December 31, 1999. Unearned compensation of $1,185,000 was recorded in 1999 related to these grants. The weighted-average fair value of these awards amounted to $10.63 per share.

The number of shares authorized for grants of options or other equity instruments was 628,000 at December 31, 1999.

Each share of preferred stock is convertible into 28.26 shares of common stock. 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 five cents per right, as adjusted, at any time before a 20% position has been acquired. The rights expire on October 6, 2004.

## 7. Retirement Plans

The following tables set forth various information concerning the Company's pension plans and amounts recognized in the Company's balance sheet at December 31, 1999 and 1998: *(in thousands of dollars)*

| | 1999 | 1998 |
|---|---|---|
| Vested benefit obligation | $ (58,086) | $ (61,695) |
| Accumulated benefit obligation | $ (60,718) | $ (64,447) |
| | | |
| Projected benefit obligation | $ (70,363) | $ (75,103) |
| Fair value of plan assets | 118,399 | 116,205 |
| Funded status | 48,036 | 41,102 |
| Unrecognized net asset | – | (788) |
| Unrecognized prior service cost | (699) | (783) |
| Unrecognized actuarial gains | (37,153) | (30,180) |
| Prepaid pension cost | $ 10,184 | $ 9,351 |
| | | |
| Benefit obligation as of January 1 | $ 75,103 | $ 63,397 |
| Service cost | 3,123 | 2,598 |
| Interest cost | 5,157 | 4,669 |
| Actuarial liability (gain)/loss | (9,101) | 7,601 |
| Curtailment gain due to layoffs | (313) | – |
| Benefits paid | (3,606) | (3,162) |
| Benefit obligation as of December 31 | $ 70,363 | $ 75,103 |
| | | |
| Fair value of plan assets at January 1 | $ 116,205 | $108,092 |
| Actual return on plan assets | 5,780 | 11,263 |
| Employer contributions | 20 | 12 |
| Benefits paid | (3,606) | (3,162) |
| Fair value of plan assets at December 31 | $ 118,399 | $116,205 |
| | | |
| Prepaid pension cost at January 1 | $ 9,351 | $ 8,525 |
| Net periodic pension credit | 500 | 814 |
| Contributions | 20 | 12 |
| Curtailment gain due to layoffs | 313 | – |
| Prepaid pension cost at December 31 | $ 10,184 | $ 9,351 |

Plan assets at December 31, 1999, are invested primarily in listed stocks and bonds or cash equivalents. The Company's own common stock (1,011,400 shares) accounts for approximately $15,045,000, or 12.7%, of the fair value of plan assets at December 31, 1999. Dividends paid to the pension trust related to these shares amounted to approximately $202,000 in 1999 and 1998.

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

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Service cost—benefits earned during the period | $ 3,123 | $ 2,598 | $ 2,141 |
| Interest cost on projected benefit obligation | 5,157 | 4,669 | 4,260 |
| Expected return on assets | (7,912) | (7,203) | ( 6,632) |
| Amortizations: | | | |
| Net asset | (788) | (788) | (788) |
| Unrecognized prior service cost | (83) | (83) | (73) |
| Unrecognized (gain)/loss | 3 | (7) | (74) |
| Net periodic pension credit | $ (500) | $ (814) | $ (1,166) |

The weighted-average discount rates used in determining the actuarial present value of the projected benefit obligations were 8% in 1999 and 6.75% in 1998. The rate of increase in future compensation was 4% in 1999 and 1998. The expected long-term rate of return on assets was 9% for all years above.

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 ($8,000 in 1999 and 1998, except for certain highly compensated employees who were limited to 5% of compensation or a maximum of $8,000). In 1999, 1998, and 1997, 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 2000, employees may contribute to the plan on the same basis as in 1999.

The amount of Company contributions made to the ESOP and charged to expense was $1,348,000, $1,210,000, and $1,159,000 in 1999, 1998, and 1997, respectively.

## 8. Footwear Restructuring Charge and Special Inventory Write-Downs

In July 1999, the Company's Footwear division committed to take specific steps to improve Footwear operating results as part of its new strategic planning initiatives. These steps include repositioning certain product lines, reducing the number of stock items, expanding distribution channels, plant closings, and other administrative realignments. A restructuring charge for exit costs of $5,521,000 was recognized during the third quarter of 1999. The following chart describes the components of the restructuring charge and the activity in the restructuring reserve during the third and fourth quarters of 1999: *(in thousands of dollars)*

| | Footwear Restructuring Charge | Write-downs | Payments | Ending Balance December 31, 1999 |
|---|---|---|---|---|
| Impaired assets | $ 2,793 | $ (2,793) | $ – | $ – |
| Termination benefits | 2,072 | – | (1,449) | 623 |
| Other plant closure costs | 656 | – | (354) | 302 |
| | $ 5,521 | $ (2,793) | $ (1,803) | $ 925 |

Two hundred and eighty plant and general and administrative employees were initially targeted for termination, and all of these employees were terminated during the third and fourth quarters of 1999. The remaining termination accrual relates to employees terminated near the end of 1999 and will be paid primarily in the first quarter of 2000. Other plant closure costs remaining at December 31, 1999, will be paid during the first and second quarter of 2000. The Company expects to sell real property included in impaired assets during the first half of 2000. Other impaired assets relate to capitalized software costs used in the closed operations and have been written off. There have been no other adjustments to the Restructuring Charge liability. The activities that will not be continued do not have separately identifiable operations.

As part of these restructuring activities, Footwear inventories were evaluated, and special inventory write-downs of $7,024,000 were recorded at the end of the third quarter of 1999. As of December 31, 1999, the Company had disposed of approximately 54% of the total pair that were written down. The Company plans to dispose of the remaining pair and raw materials during the first half of 2000.

## 9. 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, 1999 and 1998 are as follows: *(in thousands of dollars)*

| | **1999** | 1998 |
|---|---|---|
| Deferred tax assets: | | |
| Insurance accruals | **$ 3,007** | $ 4,311 |
| Asset valuation allowances | **5,369** | 3,670 |
| Other | **2,668** | 1,158 |
| | **$ 11,044** | $ 9,139 |
| Deferred tax liabilities: | | |
| Intangible assets | **$ 6,180** | $ 7,337 |
| Depreciation | **11,442** | 8,483 |
| Employee benefit plans | **2,621** | 2,254 |
| | **$ 20,243** | $ 18,074 |

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

| | **1999** | 1998 | 1997 |
|---|---|---|---|
| Current | **$ 17,782** | $ 12,390 | $ 8,906 |
| Deferred | **(2,372)** | 2,149 | 5,518 |
| Total income tax expense | **$ 15,410** | $ 14,539 | $ 14,424 |

In addition, the Company recognized income tax benefits of $758,000, $428,000, and $527,000 in 1999, 1998, and 1997,

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 rhe statutory federal income rax rate and the effective rax rare follows:

| | **1999** | 1998 | 1997 |
|---|---|---|---|
| Statutory tax rate | **35.0%** | 35.0% | 35.0% |
| Depletion | **(2.1)** | (1.7) | (1.3) |
| State taxes | **2.1** | 1.1 | .8 |
| Non-deductible expenses | **.8** | .8 | .7 |
| Other | **(.6)** | .2 | .2 |
| Effecrive tax rate | **35.2%** | 35.4% | 35.4% |

In connection with the acquisition of Tony Lama, the Company acquired a tax net operating loss carryforward. As of December 31, 1998, approximately $802,000 of rhe acquired ner operating loss was available for carryforward. Due ro a tax law change, the Company was able to urilize rhis enrire net operating loss in 1999. Such benefit was recognized as an adjustment of intangible assets.

## 10. Financial Information by Reportable Segment

The Company has two reportable segments as defined by rhe Financial Accounting Standards Board Statement No. 131, *Disclosures About Segments of an Enterprise and Related Information:* Building Materials and Footwear. These reportable segments offet products in two different industries. The reportable segments are managed sepatately because they manufactute and distribure distinct products with different ptoduction processes and different channels of distribution. The Company evaluates each segment's performance and allocates resources based on profits or losses from operations before interest, non-operational intercompany charges, and taxes. The accounting policies of the reportable segments ate the same as those described in the Summaty of Significant Accounting Policies on page 26. There are no significant inter-segment sales or transfers.

The Building Materials segment consists of rhree primary operating units that manufacture and distribute clay brick, concrete block, and other masonry related products and distribute cetamic and marble floor and wall tile throughout the southwest United States. The Company's Footwear segment primarily consists of four wholesale footwear divisions and a retail footwear division. Sales in this segment primarily consist of western and work boots and shoes, and are made throughout the United States by company and independent sales representatives to retail distributors or through the segment's nine factory-outlet retail stores.

The following information is presented as required by Statement No. 131: *(in thousands of dollars)*

| | Building Materials | Footwear | All Other | Total |
|---|---|---|---|---|
| **1999** | | | | |
| **Net sales** | **$ 346,377** | **$ 163,434** | **$ –** | **$ 509,811** |
| **Operating profit (loss) (1)** | **67,107** | **(16,258)** | **(5,873)** | **44,976** |
| **Depreciation and amortization expense** | **16,170** | **5,359** | **456** | **21,985** |
| **Identifiable assets** | **255,320** | **167,154** | **10,833** | **433,307** |
| **Expenditures for acquisitions, net of cash acquired** | **20,852** | **–** | **–** | **20,852** |
| **Expenditures for long-lived assets** | **51,169** | **2,308** | **162** | **53,639** |
| 1998 | | | | |
| Net sales (2) | $ 289,006 | $ 162,085 | $ 3,720 | $ 454,811 |
| Operating profir (loss) | 50,205 | (524) | (6,800) | 42,881 |
| Depreciation and amortization expense | 13,843 | 4,551 | 440 | 18,834 |
| Identifiable assers | 196,834 | 169,645 | 30,413 | 396,892 |
| Expenditures for acquisitions, net of cash acquired | 2,134 | – | – | 2,134 |
| Expenditures for long-lived assets | 24,523 | 5,111 | 637 | 30,271 |
| 1997 | | | | |
| Net sales (2) | $ 262,053 | $ 174,474 | $ 3,260 | $ 439,787 |
| Operating profit (loss) | 44,365 | 4,795 | (6,647) | 42,513 |
| Depreciation and amortization expense | 12,541 | 4,278 | 835 | 17,654 |
| Identifiable assets | 181,210 | 163,046 | 31,811 | 376,067 |
| Expenditures for acquisitions, net of cash acquired | 2,073 | – | – | 2,073 |
| Expenditures for long-lived assets | 18,942 | 2,561 | 279 | 21,782 |

| | **1999** | 1998 | 1997 |
|---|---|---|---|
| Reconciliation | | | |
| Total operating profit above | **$ 44,976** | $ 42,881 | $ 42,513 |
| Interest expense | **1,240** | 1,800 | 1,766 |
| Consolidatd income before income taxes | **$ 43,736** | $ 41,081 | $ 40,747 |

*(1) Footwear's operating loss in 1999 includes a special inventory write-down of $7 million and a restructuring charge of $5.5 million. See Note 8 for further discussion of these amounts.*

*(2) Net sales from reportable segments below the quantitative thresholds are attributable to the Company's evaporative cooler business. This segment never met the quantitative thresholds for determining reportable segments. This business was sold effective December 31, 1998.*

## 11. Commitments

At December 31, 1999, approximate future minimum rental commitments for all noncancellable operating leases are as follows: *(in thousands of dollars)*

| | |
|---|---|
| 2000 | $ 3,004 |
| 2001 | 1,881 |
| 2002 | 1,371 |
| 2003 | 700 |
| 2004 | 385 |
| Thereafter | 166 |
| | $ 7,507 |

Total rent expense for all operating leases amounted to approximately $3,526,000, $3,526,000, and $3,785,000 in 1999, 1998, and 1997, respectively.

At December 31, 1999, the Company's Building Materials' segment had contractual commitments of approximately $9.2 million for the purchase of property, plant, and equipment.

## 12. Acquisitions and Disposition

In early January 1999, Acme Brick Company acquired the assets of Texas Clay Industries, a division of Temtex Industries, Inc. The total purchase price of approximately $13.3 million was paid $12.5 million in cash plus assumption of approximately $.8 million in liabilities. The assets acquired consisted of approximately $1.2 million in accounts receivable; $.9 million in inventory and supplies; and $11.2 million in land, buildings, and equipment related to one brick plant and associated clay reserves in Malakoff, Texas, approximately 70 miles southeast of the Fort Worth/Dallas metroplex area. Sales generated by this plant in 1998 approximated $11.7 million, which are considered immaterial to consolidated operations. The plant added about 7% to Acme's production capacity. The acquisition has been accounted for as a purchase in 1999, and as such, the results of operations of the plant, which are immaterial to consolidated operations, are included with that of the Company from the date of closing, January 5, 1999.

Effective June 30, 1999, Acme Brick Company acquired Eureka Brick and Tile. The total purchase price, net of cash acquired, was approximately $11.1 million, comprised of cash paid of $8.3 million and liabilities assumed of $2.8 million. The assets acquired consisted of approximately $1 million in accounts receivable; $1.3 million in inventory and supplies; $.9 in other assets; and $7.9 million in land, buildings, and equipment related to one brick plant and associated clay reserves in Clarksville, Arkansas, approximately 60 miles east of Fort Smith and 100 miles northwest of Little Rock. Sales generated by this plant prior to acquisition are considered immaterial to consolidated operations. The plant added about 5% to Acme's production capacity. The acquisition has been accounted for as a purchase in 1999, and as such, the results of operations of the plant, which are immaterial to consolidated operations, are included with that of the Company from the date of closing, June 30, 1999.

Effective December 31, 1998, the Company sold its evaporative cooler business, Tradewinds Technologies, Inc., for cash of approximately $3.2 million. The effects of the sale and the operations of Tradewinds, which are included in All Other in the reportable segments disclosures in 1998 and 1997, are immaterial to consolidated operations.

Effective July 1, 1998, the Company's subsidiary, Acme Brick Company, purchased Witt Brick for a total purchase price of approximately $2.4 million. Assets acquired primarily included accounts receivable and inventory. Witt Brick was a brick distributor in Temple, Texas. Operations of the business, which are immaterial to consolidated operations, are included in the Consolidated Statement of Income from date of acquisition.

## 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, 1999, and 1998, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. 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 auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Justin Industries, Inc. and subsidiaries at December 31, 1999, and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

Fort Worth, Texas
February 2, 2000

## 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.

# Manufacturing and Distribution Locations

## Acme Building Brands, Inc.

### Acme Brick Company

*Manufacturing—Brick*

Bennett, Texas (2)
Bridgeport, Texas
Denton, Texas
Elgin, Texas (2)
Garrison, Texas
Malakoff, Texas (2)
McQueeney, Texas
San Felipe (Houston), Texas
Clarksville, Arkansas
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
Temple, 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
Jonesboro, 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—Ceramic and Marble Floor and Wall Tile*

Austin, Texas
Dallas, Texas, area (6)
Fort Worth, Texas, area (3)
Houston, Texas, area (3)
Longview, Texas
San Antonio, Texas
Temple, Texas
Little Rock, Arkansas

### Featherlite Building Products Corporation

*Manufacturing—Concrete Block and Related Products*

Abilene, Texas
Austin, Texas, area
Dallas, Texas
El Paso, Texas
Lubbock, Texas
Port Neches, Texas
San Antonio, Texas

*Distribution*

Las Cruces, New Mexico

### Texas Quarries

*Manufacturing—Cut Limestone*

Cedar Park, Texas

### Innovative Building Products

*Manufacturing—Glass Block Grid System*

Fort Worth, Texas

## Justin Brands, Inc.

*Manufacturing—Footwear*

El Paso, Texas
Carthage, Missouri
Cassville, Missouri

## Northland Publishing Company, Inc.

Flagstaff, Arizona

## Eleven-Year Financial Summary

| *Years ending on December 31.* | 1999 | 1999 | 1998 | 1997 |
|---|---|---|---|---|
| SUMMARY OF OPERATIONS: (see note) *(in thousands of dollars, except per share amounts)* | | Before Special Charges | | |
| Net sales: | | | | |
| Building Materials | **346,377** | **346,377** | 292,726 | 265,313 |
| Footwear | **163,434** | **163,434** | 162,085 | 174,474 |
| | **509,811** | **509,811** | 454,811 | 439,787 |
| Operating profit: | | | | |
| Building Materials | **67,107** | **67,107** | 48,932 | 43,245 |
| Footwear | **(16,258)** | **(3,713)** | (524) | 4,795 |
| | **50,849** | **63,394** | 48,408 | 48,040 |
| Selected costs and expenses: | | | | |
| Cost of goods sold | **321,528** | **314,504** | 289,591 | 278,769 |
| Selling, general, and administrative | **143,307** | **137,786** | 122,339 | 118,505 |
| Interesr | **1,240** | **1,240** | 1,800 | 1,766 |
| Depreciarion | **19,652** | **19,652** | 17,619 | 16,850 |
| Income taxes | **15,410** | **19,826** | 14,539 | 14,424 |
| Income: | | | | |
| From continuing operations | **28,326** | **36,450** | 26,542 | 26,323 |
| Net income | **28,326** | **36,450** | 26,542 | 26,323 |
| Basic earnings per share: | | | | |
| From continuing operations | **1.11** | **1.43** | 1.01 | 1.00 |
| Net income | **1.11** | **1.43** | 1.01 | 1.00 |
| Diluted earnings per share: | | | | |
| From continuing operations | **1.10** | **1.41** | 1.00 | .99 |
| Net income | **1.10** | **1.41** | 1.00 | .99 |
| Dividends declared per share | **.20** | **.20** | .20 | .18 |
| Capital expenditures* | **53,639** | **53,639** | 30,271 | 21,782 |
| YEAR-END STATISTICS: *(in thousands of dollars)* | | | | |
| Working capiral | **157,515** | **157,515** | 175,895 | 166,397 |
| Net property, plant, and equipment | **172,434** | **172,434** | 121,922 | 110,184 |
| Total assets | **433,307** | **433,307** | 396,892 | 376,067 |
| Long-term debt | **39,750** | **39,750** | 30,750 | 23,750 |
| Shareholders' equity | **308,180** | **308,180** | 292,568 | 272,980 |
| KEY FINANCIAL RATIOS: | | | | |
| Pre-tax profit margin (%)* | **8.58** | **11.04** | 9.03 | 9.27 |
| Income—return on sales (%)* | **5.56** | **7.15** | 5.84 | 5.99 |
| Return on shareholders' equity (%)* | **9.68** | **12.46** | 9.72 | 10.40 |
| Return on assets (%)* | **6.82** | **8.78** | 6.87 | 7.15 |
| Effecrive income tax rate (%)* | **35.2** | **35.2** | 35.4 | 35.4 |
| Ratio of long-term debt to shareholders' equity | **.13:1** | **.13:1** | .11:1 | .09:1 |
| Ratio of total interest-bearing debt to shareholders' equity | **.14:1** | **.14:1** | .11:1 | .12:1 |
| Ratio of current assets to current liabilities | **3.4:1** | **3.4:1** | 4.2:1 | 3.6:1 |
| OTHER STATISTICS: | | | | |
| Weighted average number of shares *(in thousands)**** | **25,766** | **25,766** | 26,631 | 26,668 |
| Book value per share | **12.04** | **12.04** | 11.12 | 10.35 |
| Dividends as a percent of net income | **18.0** | **14.0** | 19.9 | 18.0 |
| Market price of common stock: | | | | |
| High | **16** | **16** | 17 | 15¼ |
| Low | **9 11/16** | **9 11/16** | 10¼ | 10¼ |

** Continuing operations (before accounting change in 1993)   ** Before accounting change   *** Used to calculate diluted earnings per share*

Note: 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 1989 and 1992, and a 2-for-1 stock split in 1993. Operating profit for the business units is income before interest, allocation of parent-company overhead expenses, and income taxes. The Company provides additional information as shown above aggregating its business units slightly differently than that prescribed by Financial Accounting

| 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|---|---|
| 261,315 | 240,094 | 224,213 | 179,740 | 158,808 | 123,004 | 118,943 | 113,662 |
| 186,457 | 221,354 | 258,796 | 295,191 | 294,459 | 245,346 | 181,370 | 142,707 |
| 447,772 | 461,448 | 483,009 | 474,931 | 453,267 | 368,350 | 300,313 | 256,369 |
| 44,233 | 42,107 | 44,600 | 31,445 | 16,423 | 4,979 | 3,698 | 604 |
| 1,591 | 9,234 | 22,871 | 34,168 | 36,054 | 22,934 | 17,748 | 15,650 |
| 45,824 | 51,341 | 67,471 | 65,613 | 52,477 | 27,913 | 21,446 | 16,254 |
| 292,858 | 300,842 | 314,661 | 314,431 | 313,961 | 260,968 | 211,559 | 182,365 |
| 114,925 | 115,370 | 106,814 | 100,465 | 91,695 | 84,167 | 70,666 | 60,251 |
| 3,367 | 5,032 | 4,058 | 4,005 | 5,214 | 9,482 | 6,815 | 6,402 |
| 15,792 | 14,742 | 13,852 | 13,473 | 13,837 | 12,338 | 10,164 | 10,003 |
| 13,257 | 14,553 | 20,571 | 19,995 | 15,304 | 5,280 | 3,697 | 2,432 |
| 23,365 | 25,651 | 36,905 | 36,035 ** | 27,093 | 8,453 | 7,576 | 5,281 |
| 23,365 | 25,651 | 36,905 | 37,141 | 27,093 | 19,233 | 7,293 | 7,198 |
| .88 | .95 | 1.36 | 1.33 ** | 1.02 | .33 | .29 | .21 |
| .88 | .95 | 1.36 | 1.37 | 1.02 | .74 | .28 | .29 |
| .87 | .94 | 1.34 | 1.30 ** | .99 | .32 | .29 | .21 |
| .87 | .94 | 1.34 | 1.34 | .99 | .73 | .28 | .28 |
| .16 | .16 | .16 | .16 | .14 | .135 | .135 | .10 |
| 24,738 | 26,020 | 18,627 | 17,278 | 12,006 | 10,666 | 12,646 | 7,405 |
| 165,053 | 181,385 | 185,722 | 185,193 | 164,822 | 151,588 | 147,307 | 97,983 |
| 105,497 | 96,657 | 85,460 | 80,270 | 76,544 | 78,750 | 84,653 | 64,261 |
| 360,078 | 376,409 | 374,921 | 346,680 | 316,368 | 295,947 | 292,923 | 211,308 |
| 32,890 | 57,137 | 65,323 | 88,504 | 100,362 | 116,040 | 124,724 | 56,238 |
| 252,856 | 236,489 | 221,900 | 188,803 | 155,270 | 127,549 | 111,135 | 106,431 |
| 8.18 | 8.71 | 11.90 | 11.80 | 9.35 | 3.73 | 3.75 | 3.01 |
| 5.22 | 5.56 | 7.64 | 7.59 | 5.98 | 2.29 | 2.52 | 2.06 |
| 9.88 | 11.56 | 19.55 | 23.21 | 21.24 | 7.61 | 7.12 | 5.35 |
| 6.34 | 6.83 | 10.23 | 10.87 | 8.85 | 2.87 | 3.00 | 2.48 |
| 36.2 | 36.2 | 35.8 | 35.7 | 36.1 | 38.4 | 32.8 | 31.5 |
| .13:1 | .24:1 | .29:1 | .47:1 | .65:1 | .91:1 | 1.12:1 | .53:1 |
| .17:1 | .31:1 | .36:1 | .49:1 | .70:1 | .93:1 | 1.14:1 | .56:1 |
| 3.7:1 | 3.6:1 | 3.5:1 | 4.4:1 | 4.0:1 | 4.4:1 | 4.1:1 | 3.5:1 |
| 26,836 | 27,235 | 27,592 | 27,653 | 27,318 | 26,201 | 26,171 | 25,475 |
| 9.56 | 8.88 | 8.15 | 6.95 | 5.75 | 4.92 | 4.31 | 4.15 |
| 18.1 | 16.8 | 11.8 | 11.7 | 13.7 | 17.9 | 47.1 | 35.1 |
| 13½ | 12⅛ | 16¼ | 25⅜ | 19 | 6 | 5⅞ | 5⅝ |
| 9¾ | 9½ | 9¼ | 11¼ | 5⅝ | 3⅝ | 3⅝ | 3⅛ |

Standards Board Statement No. 131 in its definition of reportable segments. The Building Materials product line as shown above aggregates the Building Materials reportable segment with the All Other category, excluding parent company operations, as reported in Note 10 to the Company's Consolidated Financial Statements. See Management's Discussion and Analysis and Note 8 to the Consolidated Financial Statements for information concerning special charges.

# Directors and Officers

## Directors

JOHN V. ROACH
*Chairman of the Board of Justin Industries*

JOHN JUSTIN
*Chairman Emeritus of Justin Industries, Personal Investments*

J. T. DICKENSON
*President and Chief Executive Officer of Justin Industries*

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
*Personal Investments*

DR. WILLIAM E. TUCKER
*Personal Investments*

## Committees

AUDIT COMMITTEE

MARVIN GEARHART
ROBERT E. GLAZE
JOSEPH R. MUSOLINO

COMPENSATION COMMITTEE

DEE J. KELLY
DR. WILLIAM E. TUCKER

STRATEGIC PLANNING COMMITTEE

J. T. DICKENSON
JOHN V. ROACH
DR. WILLIAM E. TUCKER

## Officers

J. T. DICKENSON
*President and Chief Executive Officer*

RICHARD J. SAVITZ
*Senior Vice President, Chief Financial Officer and Secretary*

JUDY B. HUNTER
*Vice President, Controller and Treasurer*

HARROLD E. MELTON
*Vice President Building Materials*

J. RANDY WATSON
*Vice President Footwear*

W. O. BURROGH
*Assistant Treasurer*

# Shareholder Information

## Annual Meeting

The annual meeting of shareholders will be held on Friday, April 21, 2000, 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.

## Stock Transfer, Dividend Disbursement, Shareholder Savings, and Dividend Reinvestment

The Bank of New York is the company's transfer agent responsible for stock transfer and dividend payment transactions. In addition, The Bank of New York manages the company's Shareholder Savings and Dividend Reinvestment activities through its Buy Direct Plan. Information and questions regarding any of these programs can be answered by contacting Bank of New York at (800) 524-4458 or by e-mail at Shareowner-svcs@bankofny.com.

*Address shareholder inquiries to:*
Shareholder Relations Department—11E
P.O. Box 11258
Church Street Station
New York, New York 10286

*Send certificates for transfer and address changes to:*
Receive and Deliver Department—11W
P.O. Box 11002
Church Street Station
New York, New York 10286

Answers to many of your shareholder questions and requests for forms are available by visiting the company's website at www.justinind.com or The Bank of New York's website at www.stock.bankofny.com.

## Form 10-K/10-Q

Investors who wish to receive a copy of the Company's annual report on Form 10-K or quarrerly 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, or by accessing the Company's web site at www.justinind.com.

## Stock Listing

Justin Industries, Inc., common stock trades on the Nasdaq National Market rier of The Nasdaq Stock Market under the symbol "JSTN."

## Independent Auditors

Ernst & Young LLP, 201 Main Street, Suite 1100, Fort Worth, Texas 76102-3161.

## 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, 1999. See Management's Discussion and Analysis for informarion regarding factors affecting operating results for the fourth quarter of 1998, and the first and third quarters of 1999.

*(Unaudited—In thousands, except per share data)*

| | **1999** | | | | 1998 | | | |
|---|---|---|---|---|---|---|---|---|
| *Quarter ended* | **3/31** | **6/30** | **9/30** | **12/31** | 3/31 | 6/30 | 9/30 | 12/31 |
| Net sales | **$113,027** | **$127,451** | **$136,296** | **$133,037** | $103,780 | $119,090 | $116,992 | $114,949 |
| Gross profit | **42,633** | **47,094** | **45,374** | **53,182** | 36,597 | 44,392 | 43,174 | 41,057 |
| Net income | **5,658** | **8,168** | **2,372** | **12,128** | 4,455 | 8,264 | 7,912 | 5,911 |
| Per share: | | | | | | | | |
| Basic earnings | **.22** | **.32** | **.09** | **.47** | .17 | .31 | .30 | .22 |
| Diluted earnings | **.22** | **.32** | **.09** | **.47** | .17 | .31 | .30 | .22 |
| Dividends paid | **.05** | **.05** | **.05** | **.05** | .05 | .05 | .05 | .05 |

## Market Makers

*as of February 3, 2000*

Baldwin, Anthony & McIntyre
Bear, Stearns & Co. Inc.
First Southwest Company
Gruntal & Co. Incorporated
Herzog, Heine, Geduld, Inc.
Instinet Corporation
Jefferies & Company, Inc.
Knight Securities L.P.
Mayer & Schweitzer Inc.
Merrill Lynch, Pierce, Fenner
Mitchell Secs. Cp. of Oregon
PaineWebber Inc.
Sherwood Securities Corp.
Southwest Securites Inc.
Spear, Leeds & Kellogg
The Brass Utility, L.L.C.

## Market Price of Common Stock

| Year Quarter | Price High | Price Low | Price Close |
|---|---|---|---|
| 1997 | | | |
| 1 | 12 5/8 | 10 1/4 | 11 7/8 |
| 2 | 13 7/8 | 10 7/8 | 12 3/4 |
| 3 | 15 1/4 | 12 1/2 | 13 7/16 |
| 4 | 15 | 12 5/8 | 13 5/8 |
| 1998 | | | |
| 1 | 15 3/4 | 12 | 14 7/16 |
| 2 | 17 | 13 1/4 | 16 7/8 |
| 3 | 16 1/4 | 12 19/32 | 15 3/8 |
| 4 | 15 7/16 | 10 3/8 | 13 7/8 |
| **1999** | | | |
| **1** | **14 1/4** | **9 11/16** | **11** |
| **2** | **14 1/4** | **10 9/16** | **13 15/16** |
| **3** | **15 7/8** | **12 3/4** | **14 3/16** |
| **4** | **16** | **12 3/4** | **14 1/4** |

## A Tribute

□ JOHN JUSTIN, a name synonymous with the West, rerired as Chairman and Chief Executive Officer of Justin Industries in 1999. Mr. Justin began his career with the company over sixty years ago and has guided Jusrin Industries with unwavering determination and will. Dedicated ro his family, business, and community, he is a true leader, a shining example of the American spirit. Jusrin Industties is indebted to Mr. Justin for accepring the challenges and difficulties of building this organization and for laying the foundarion fot the furure. □

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

**Justin Industries, Inc.**

2821 WEST SEVENTH STREET, BOX 425, FORT WORTH, TEXAS 76101 817/336-5125