

2003 ANNUAL REPORT

CENTEX

CONSTRUCTION

PRODUCTS, INC



A B O U T C X P

Centex Construction Products, Inc. (NYSE: CXP) produces and distributes building materials essential to the construction and renovation of homes, commercial, industrial and school buildings. Our products are also indispensable in the construction and improvement of America's infrastructure - our streets, roads and highways. CXP is headquartered in Dallas, Texas, and serves national markets through quarrying, manufacturing, and distribution units in 12 states. Our operations are segmented by product group: Cement, Gypsum Wallboard, Paperboard, and Concrete and Aggregates. CXP is one of only two publicly held companies operating in the cement, gypsum wallboard, and concrete and aggregates industries, CXP is 65.1% owned by Centex Corporation.

Cement

CXP's four manufacturing plants and network of 10 distribution terminals produce and market cement in the western half of the United States. Annual production capacity, net of two joint-venture partners' interests, is approximately 2.1 million tons, or about 2.2% of the nation's total capacity. CXP is the eleventh largest U.S. cement manufacturer and the third largest U.S. owned cement producer.

Concrete and Aggregates

CXP's Concrete and Aggregates operations consist of 9 readymix concrete batch plant sites, 122 readymix trucks and two aggregates plants that have approximately 4 million tons of annual single-shift production capacity. The plants are located in northern California and central Texas. CXP's northern California aggregates deposit is believed to be the largest single aggregates deposit in that area.

Gypsum Wallboard

CXP's Gypsum Wallboard operation, which includes four facilities located in New Mexico, Oklahoma and Colorado, is the nation's fifth largest wallboard producer. Together, the plants have a total annual production capacity of approximately 2.7 billion square feet, representing about 8% of total U.S. capacity. During fiscal 2003, CXP's gypsum wallboard production was shipped by rail and by truck to a total of 36 states throughout the nation.

Paperboard

CXP's recycled Paperboard operation is located in southwestern Oklahoma. The mill produces paperboard products, made from 100 percent reclaimed paper fiber, which are used as facing paper in the manufacturing of gypsum wallboard and industrial and consumer paperboard products. Annual production capacity is approximately 275,000 tons. The Lawton mill produces gypsum paperboard that is lighter than other products currently available.

(amounts in thousands, except per share data)

	For the Years Ended March 31,				
	2003	2002	2001	2000	1999
Revenues ⁽²⁾	\$501,257	\$471,083	\$441,127	\$470,465	\$381,900
Earnings Before Income Taxes	\$ 86,613	\$ 59,699	\$ 92,263	\$170,177	\$121,127
Net Earnings	\$ 57,606	\$ 39,706	\$ 59,429	\$108,232	\$ 77,289
Diluted Earnings Per Share	\$ 3.11	\$ 2.15	\$ 3.22	\$ 5.63	\$ 3.71
Cash Dividends Per Share	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20
Total Assets	\$712,078	\$743,352	\$794,622	\$438,139	\$364,683
Total Debt	\$ 80,927	\$182,380	\$278,828	\$ 400	\$ 480
Stockholders' Equity	\$479,832	\$427,832	\$392,320	\$340,472	\$279,920
Average Diluted Shares Outstanding	18,524	18,461	18,473	19,211	20,832
Book Value Per Share At Year End	\$ 26.10	\$ 23.30	\$ 21.40	\$ 18.33	\$ 14.18

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

(2) The Company adopted the provisions of Emerging Issues Task Force Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs," during fiscal year 2001. As a result of this adoption, net revenues have been restated to include freight and delivery costs billed to customers. Previously such billings were offset against corresponding expenses in cost of sales.

STOCK PRICES AND DIVIDENDS

Quarter	Fiscal Year Ended March 31, 2003			Fiscal Year Ended March 31, 2002		
	Price		Dividends	Price		Dividends
	High	Low		High	Low	
First	\$45.25	\$35.54	\$0.05	\$34.25	\$25.70	\$0.05
Second	\$40.35	\$32.57	\$0.05	\$34.80	\$27.83	\$0.05
Third	\$37.70	\$31.25	\$0.05	\$33.32	\$28.05	\$0.05
Fourth	\$37.70	\$32.45	\$0.05	\$39.90	\$30.17	\$0.05

The common stock of Centex Construction Products, Inc. is traded on the New York Stock Exchange (ticker symbol CXP). The approximate number of record holders of the common stock of CXP as of June 4, 2003 was 327. The closing price of CXP's common stock on the New York Stock Exchange on June 4, 2003 was \$38.70.

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T O O R S H A R E H O L D E R S

Despite difficult economic conditions,
Centex Construction Products performed at a high level during fiscal 2003.
Our significant achievements included:

- › Revenues rose 6% to an all-time high of \$501.3 million;
- › Net earnings increased 45% to \$57.6 million;
- › Earnings per share also grew by 45% to \$3.11;
- › Debt-to-capitalization ratio fell to 14.4%;
- › Our cement plants were “sold out” for the 17th consecutive year;
- › The Lawton paperboard mill operated above designed capacity; and
- › Significant productivity improvements were realized at the Duke wallboard plant.

Our focus on disciplined development of people and processes has enabled us to attain industry leading operating performances in the cement and wallboard businesses. We carefully control production costs and constantly improve plant efficiencies. As a result, the operating costs of our cement and wallboard plants have risen by less than 2% during the last five years while plant production capacities have been increased every year.

Operating low-cost, highly efficient plants allows us to achieve superior returns when the economy is strong while remaining solidly profitable during more difficult economic times. The benefits of our operating philosophies were apparent in fiscal 2003.

Our cement operations recorded a good year in a challenging operating environment. Operating profits declined by approximately 10%, principally as a result of slightly lower cement prices. However, all the plants operated at capacity and were “sold out.” Our 31% operating margin and return on net assets employed of 43% continued to confirm the productivity of our plants.

Profits from our wallboard operations increased by almost 500%. These results were achieved despite a weak commercial construction market and excess industry production capacity. Significant progress was made in improving production efficiencies at our Duke, Oklahoma wallboard facility, which is among the nation's largest and most cost-effective wallboard plants. We believe that the production costs of CXP's wallboard operations are among the lowest in the industry.

Our paperboard plant in Lawton, Oklahoma made great strides towards achieving its full potential. Profits improved by 77% and production exceeded originally designed capacity. With the prospect of even greater plant production, we have begun to expand our product line beyond the wallboard paper market into other paper grades.

Earnings declined in our concrete and aggregates operations primarily as a result of the decision to close the Georgetown, Texas quarry. Our other concrete and aggregate assets in Texas and northern California continued their excellent performances.

On March 31, 2003, Richard Jones, Jr. retired as CXP's President and Chief Executive Officer. During his 13-year CXP career, Dick made significant and long lasting contributions to CXP. He will be missed. Larry Hirsch, Chairman and Chief Executive Officer of Centex Corporation, CXP's major shareholder, has assumed the role of CXP's CEO. Steve Rowley, formerly Executive Vice President-Cement, has been promoted to CXP's Chief Operating Officer.

CXP is in a very strong position. Our plants are in excellent operating condition and, in many cases, have the capacity to increase sales as the economy recovers. In addition, our debt continues to decline, which positions us to explore ways to provide even greater value to our stockholders.

Our greatest strength is the quality of the people that work for CXP. Their commitment to excellence will allow us to continue to grow and prosper.

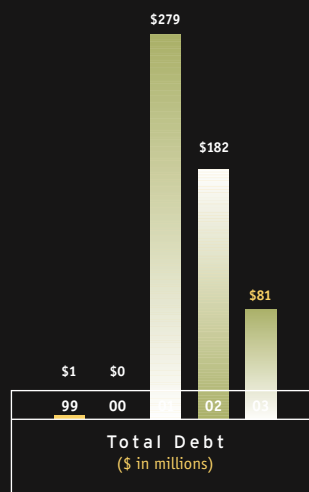
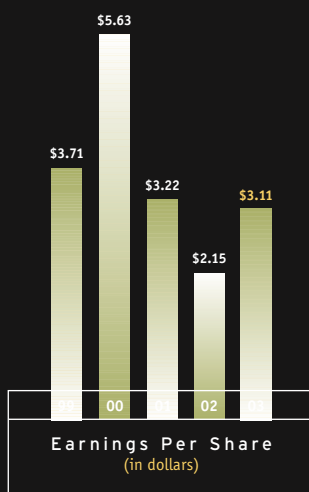
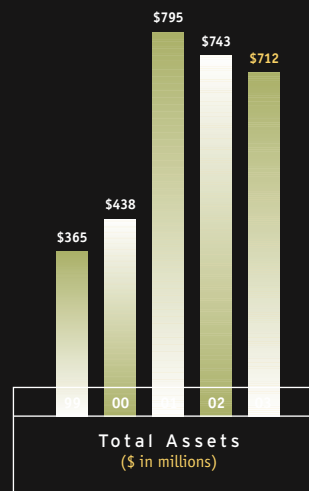
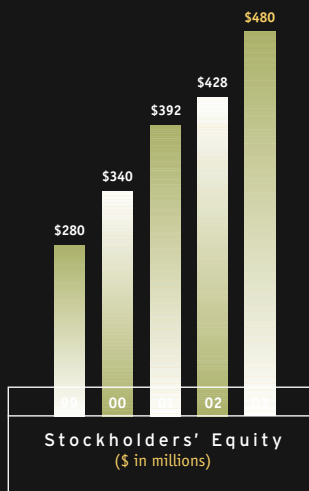
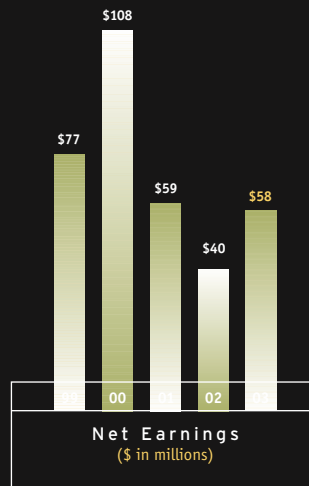
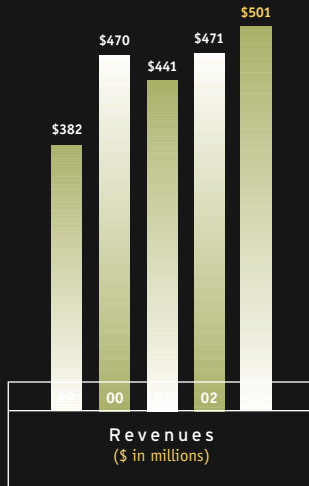


Laurence E. Hirsch
Chairman and
Chief Executive Officer



Steven R. Rowley
Executive Vice President and
Chief Operating Officer

FINANCIAL DATA



MAJOR FACILITIES

CEMENT PLANTS

- Illinois Cement Company - LaSalle, Illinois*
- Mountain Cement Company - Laramie, Wyoming
- Nevada Cement Company - Fernley, Nevada
- Texas-Lehigh Cement Company LP - Buda, Texas*

GYPSUM WALLBOARD PLANTS

- American Gypsum Company - Albuquerque and Bernalillo, New Mexico; Gypsum, Colorado; and Duke, Oklahoma

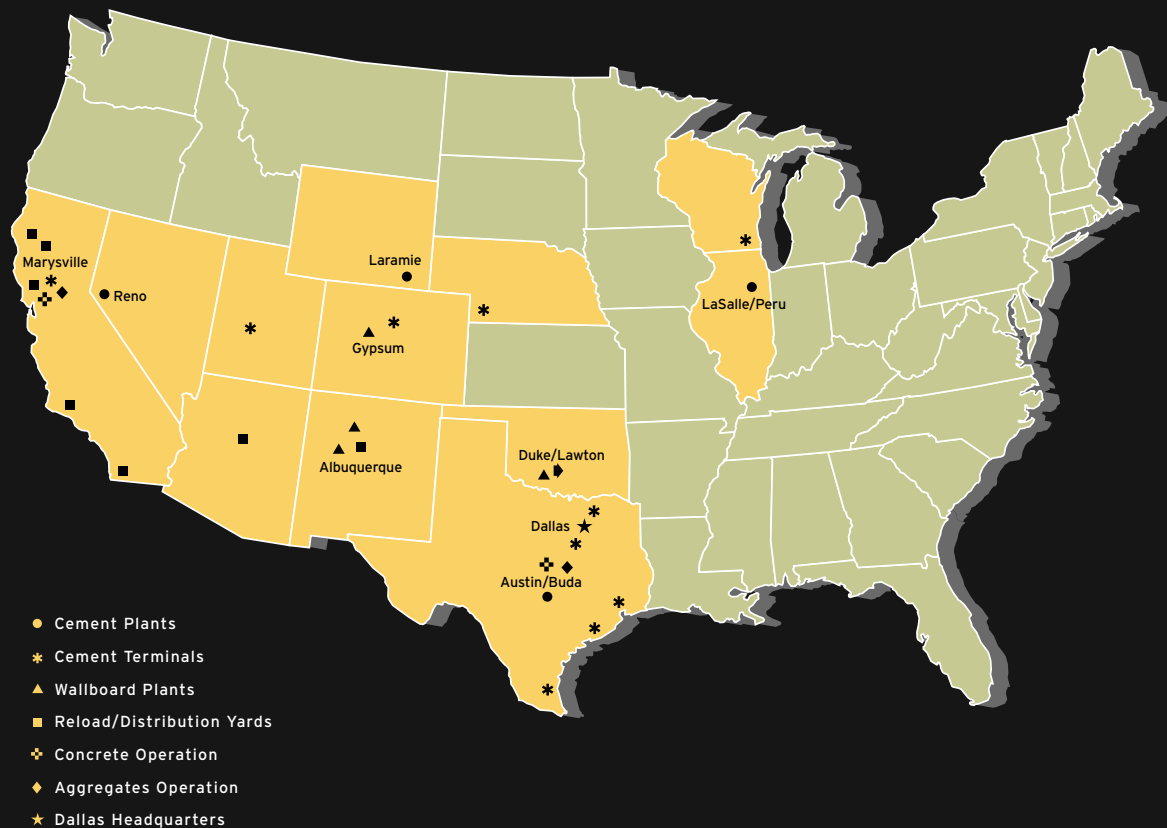
CONCRETE AND AGGREGATES PLANTS

- Centex Materials LLC - Austin and Buda, Texas
- Mathews Readymix LLC - Marysville, California
- Western Aggregates LLC - Marysville, California

PAPERBOARD PLANT

- Republic Paperboard Company LLC - Lawton, Oklahoma

* 50% - owned with joint-venture partners



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STATEMENTS OF EARNINGS

(dollars in thousands, except per share data)

	For the Years Ended March 31,		
	2003	2002	2001
REVENUES			
Cement	\$173,198	\$183,154	\$178,783
Gypsum Wallboard	212,790	183,500	187,347
Paperboard	92,898	84,293	31,492
Concrete and Aggregates	56,598	57,621	61,101
Other, net	2,885	(355)	3,673
Less: Intersegment Sales	(37,112)	(37,130)	(21,269)
	<u>501,257</u>	<u>471,083</u>	<u>441,127</u>
COSTS AND EXPENSES			
Cement	118,768	122,981	119,169
Gypsum Wallboard	185,594	178,857	160,250
Paperboard	75,284	74,316	30,124
Concrete and Aggregates	56,866	53,220	53,547
Less: Intersegment Purchases	(37,112)	(37,130)	(21,269)
Corporate General and Administrative	5,654	5,486	4,691
Interest Expense, net	9,590	13,654	2,352
	<u>414,644</u>	<u>411,384</u>	<u>348,864</u>
EARNINGS BEFORE INCOME TAXES	86,613	59,699	92,263
Income Taxes	29,007	19,993	32,834
NET EARNINGS	\$ 57,606	\$ 39,706	\$ 59,429
EARNINGS PER SHARE			
Basic	\$ 3.13	\$ 2.16	\$ 3.23
Diluted	\$ 3.11	\$ 2.15	\$ 3.22
DIVIDEND PAID PER SHARE	\$ 0.20	\$ 0.20	\$ 0.20

See notes to consolidated financial statements.

B A L A N C E S H E E T S

(dollars in thousands)

	March 31,	
	2003	2002
A S S E T S		
Current Assets -		
Cash and Cash Equivalents	\$ 13,599	\$ 11,403
Accounts and Notes Receivable, net	52,498	58,957
Inventories	58,254	54,220
Total Current Assets	<u>124,351</u>	<u>124,580</u>
Property, Plant and Equipment -	794,380	796,766
Less: Accumulated Depreciation	<u>(259,544)</u>	<u>(230,283)</u>
Property, Plant and Equipment, net	534,836	566,483
Notes Receivable, net	1,197	1,299
Goodwill	40,290	41,088
Other Assets	<u>11,404</u>	<u>9,902</u>
	<u>\$ 712,078</u>	<u>\$ 743,352</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities -		
Note Payable	\$ 25,257	\$ 18,630
Accounts Payable	29,302	31,155
Accrued Liabilities	41,556	48,204
Current Portion of Long-term Debt	80	80
Total Current Liabilities	<u>96,195</u>	<u>98,069</u>
Long-term Debt	55,590	163,670
Deferred Income Taxes	80,461	53,781
Stockholders' Equity -		
Common Stock, Par Value \$0.01; Authorized 50,000,000 Shares;		
Issued and Outstanding 18,379,558 and 18,358,473 Shares, respectively	184	184
Capital in Excess of Par Value	14,228	15,153
Accumulated Other Comprehensive Losses	(2,061)	(1,063)
Retained Earnings	<u>467,481</u>	<u>413,558</u>
Total Stockholders' Equity	<u>479,832</u>	<u>427,832</u>
	<u>\$ 712,078</u>	<u>\$ 743,352</u>

See notes to consolidated financial statements.

STATEMENTS OF CASH FLOWS

(dollars in thousands)

	For the Years Ended March 31,		
	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Earnings	\$ 57,606	\$ 39,706	\$ 59,429
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities, Net of Effect of Non-Cash Activity -			
Depreciation, Depletion and Amortization	36,791	35,808	24,871
Deferred Income Tax Provision	28,748	21,229	23,377
Asset Impairment Charge	2,586	-	-
Loss on Asset Sale	564	-	-
Decrease (Increase) in Accounts and Notes Receivable	6,561	34,268	(3,223)
(Increase) Decrease in Inventories	(4,034)	1,788	(2,805)
Decrease in Accounts Payable and Accrued Liabilities	(9,499)	(12,387)	(5,707)
Decrease in Other Assets, net	2,440	231	7,485
Decrease in Income Taxes Payable	(1,100)	-	(1,447)
Net Cash Provided by Operating Activities	<u>120,663</u>	<u>120,643</u>	<u>101,980</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Property, Plant and Equipment Additions, net	(14,290)	(19,024)	(16,250)
Acquisition of Net Assets	-	-	(342,200)
Proceeds from Asset Dispositions	3,414	855	-
Net Cash Used in Investing Activities	<u>(10,876)</u>	<u>(18,169)</u>	<u>(358,450)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Note Payable	6,627	18,630	-
Proceeds from Long-term Debt	-	-	268,500
Repayment of Long-term Debt	(108,080)	(105,580)	(80)
Redemption of Subordinated Debt	-	(9,498)	(89,992)
Dividends Paid to Stockholders	(3,683)	(3,671)	(3,690)
Retirement of Common Stock	(8,135)	-	(6,198)
Proceeds from Stock Option Exercises	5,680	301	507
Net Cash (Used in) Provided by Financing Activities	<u>(107,591)</u>	<u>(99,818)</u>	<u>169,047</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,196	2,656	(87,423)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>11,403</u>	<u>8,747</u>	<u>96,170</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 13,599</u>	<u>\$ 11,403</u>	<u>\$ 8,747</u>

See notes to consolidated financial statements.

STATEMENTS OF STOCKHOLDERS' EQUITY

(dollars in thousands)

	For the Years Ended March 31,		
	2003	2002	2001
COMMON STOCK			
Balance at Beginning of Period	\$ 184	\$ 183	\$ 186
Retirement of Common Stock	(2)	–	(3)
Stock Option Exercises	2	1	–
Balance at End of Period	<u>184</u>	<u>184</u>	<u>183</u>
CAPITAL IN EXCESS OF PAR VALUE			
Balance at Beginning of Period	15,153	14,614	20,302
Retirement of Common Stock	(8,133)	–	(6,195)
Stock Option Exercises	7,208	539	507
Balance at End of Period	<u>14,228</u>	<u>15,153</u>	<u>14,614</u>
RETAINED EARNINGS			
Balance at Beginning of Period	413,558	377,523	321,773
Dividends to Stockholders	(3,683)	(3,671)	(3,679)
Net Earnings	57,606	39,706	59,429
Balance at End of Period	<u>467,481</u>	<u>413,558</u>	<u>377,523</u>
ACCUMULATED OTHER COMPREHENSIVE LOSSES			
Balance at Beginning of Period	(1,063)	–	(1,789)
Unrealized Gain on Investment Securities, Net of Tax	–	–	1,789
Unrealized Gain (Loss) on Hedging Instruments, Net of Tax	484	(1,063)	–
Minimum Pension Liability, Net of Tax	(1,482)	–	–
Balance at End of Period	<u>(2,061)</u>	<u>(1,063)</u>	<u>–</u>
TOTAL STOCKHOLDERS' EQUITY	<u>\$479,832</u>	<u>\$427,832</u>	<u>\$392,320</u>

See notes to consolidated financial statements.

(dollars in thousands, except per share data)

(A) SIGNIFICANT ACCOUNTING POLICIES
BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Centex Construction Products, Inc. and its majority-owned subsidiaries ("CXP" or the "Company") after the elimination of all significant intercompany balances and transactions. CXP is a holding company whose assets consist of its investments in its subsidiaries, intercompany balances and holdings of cash and cash equivalents. The businesses of the consolidated group are conducted through CXP's subsidiaries. In addition, the Company holds 50% joint venture interests in its cement plants in Illinois and Texas and has proportionately consolidated its pro rata interest in the revenues, expenses, assets and liabilities of those extractive industry ventures.

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

CASH AND CASH EQUIVALENTS

Cash equivalents include short-term, highly liquid investments with original maturities of three months or less, and are recorded at cost, which approximates market value. Included in cash and cash equivalents at March 31, 2003 and 2002 is \$4.1 million and \$3.6 million, respectively, belonging to the Company's 50%-owned joint ventures.

ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable have been shown net of the allowance for doubtful accounts of \$4.9 million and \$4.6 million at March 31, 2003 and 2002, respectively. The allowance for non-collection of receivables is based upon analysis of economic trends in the construction industry, detailed analysis of the expected collectibility of accounts receivable that are past due and the expected collectibility of overall receivables. The Company has no significant credit risk concentration among its diversified customer base.

Notes receivable at March 31, 2003 are collectible primarily over three years. The weighted average interest rate at March 31, 2003 and 2002 was 5.4% and 7.1%, respectively.

INVENTORIES

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

	March 31,	
	2003	2002
Raw Materials and Materials-in-Progress	\$16,143	\$15,218
Finished Cement	5,507	5,636
Aggregates	3,021	2,772
Gypsum Wallboard	5,520	5,140
Paperboard	4,819	2,894
Repair Parts and Supplies	22,119	21,576
Fuel and Coal	1,125	984
	<u>\$58,254</u>	<u>\$54,220</u>

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized and depreciated. Repairs and maintenance are expensed as incurred. Depreciation is provided on a straight-line basis over the estimated useful lives of depreciable assets. Depreciation expense was \$35.2 million, \$34.4 million and \$23.7 million for the years ended March 31, 2003, 2002 and 2001, respectively. Raw material deposits are depleted as such deposits are extracted for production utilizing the units-of-production method. Costs and accumulated depreciation applicable to assets retired or sold are eliminated from the accounts and any resulting gains or losses are recognized at such time. The estimated lives of the related assets are as follows:

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

The Company periodically evaluates whether current events or circumstances indicate that the carrying value of its depreciable assets may not be recoverable. At March 31, 2003 and 2002, management believes no events or circumstances indicate that the carrying value may not be recoverable.

INVESTMENT SECURITIES

Investments in debt or marketable equity securities are reported at fair value based primarily on quoted market prices. All investment securities are designated as available for sale, with unrealized gains and losses included in stockholders' equity, net of applicable taxes. Investment securities are regularly reviewed for impairment based on criteria that include the extent to which cost exceeds market value, the duration of any market decline, and the financial health of the issuer. Unrealized losses that are other than temporary are recognized in earnings. Realized gains and losses are accounted for on the specific identification method. During the year ended March 31, 2001, the Company sold an investment in marketable equity securities for \$10.8 million and recognized a gain of \$1.9 million. The gain is included in other net revenues on the consolidated statements of earnings.

OTHER ASSETS

Other assets are primarily composed of loan fees and financing costs, prepaid pension costs and other expenses, deposits, identified intangible assets other than goodwill and assets held for sale.

INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." That statement requires, among other things, that deferred taxes be provided on differences between the financial reporting basis and tax basis of assets and liabilities using existing tax laws and rates.

STOCK REPURCHASES

The Company's Board of Directors has authorized the repurchase of a cumulative total of 6,101,430 shares of the Company's common stock. The Company repurchased and retired 223,384 shares, at a cost of \$8.1 million, in Fiscal 2003, no shares in Fiscal 2002 and 264,300 shares, at a cost of \$6.2 million, in Fiscal 2001. Cumulative shares repurchased at March 31, 2003 were 5,581,514, leaving approximately 519,900 shares remaining under the Company's current authorization. Centex Corporation ("Centex") owned 65.1% of the Company's outstanding common stock at March 31, 2003.

COMPREHENSIVE LOSSES

Total comprehensive income is defined as the total of net earnings plus all other non-owner changes in equity. Securities that are classified as available-for-sale are stated at market value as determined by the most recently traded price at the balance sheet date. The unrealized gain or loss on hedging instruments represents the deferral in other comprehensive losses of the unrealized gain or loss on swap agreements designed as cash flow hedges. The accounting

for interest rate swaps and other derivative financial instruments is discussed in detail in Note M. The minimum pension liability relates to the accumulated benefit obligation in excess of the fair value of assets of certain defined benefit pension plans. These unrealized gains and losses, net of deferred tax, are excluded from earnings and reported in a separate component of stockholders' equity as "Accumulated Other Comprehensive Losses." Total comprehensive income for the years ended March 31, 2003, 2002 and 2001 was \$56.6 million, \$38.6 million and \$61.2 million, respectively.

STATEMENTS OF CONSOLIDATED EARNINGS - SUPPLEMENTAL DISCLOSURES

Selling, general and administrative expenses of the operating units are included in costs and expenses of each segment. Corporate general and administrative expenses are shown separately in the statements of consolidated earnings. Total selling, general and administrative expenses for each of the periods are summarized as follows:

	For the Years Ended March 31,		
	2003	2002	2001
Operating Units Selling and G&A	\$23,422	\$23,550	\$19,157
Corporate G&A	5,654	5,486	4,691
	\$29,076	\$29,036	\$23,848
% of Net Revenues	5.8%	6.2%	5.4%

Maintenance and repair expenses are included in each segment's costs and expenses. The Company incurred expenses of \$38.0 million, \$35.1 million and \$36.0 million in the years ended March 31, 2003, 2002 and 2001, respectively, for maintenance and repairs.

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

STATEMENTS OF CONSOLIDATED CASH FLOWS - SUPPLEMENTAL DISCLOSURES

Interest payments made during the years ended March 31, 2003, 2002 and 2001 were \$8.9 million, \$14.4 million and \$9.0 million, respectively.

In Fiscal 2003, the Company made net payments of \$1.5 million for federal and state income taxes. The Company received a cash refund of \$1.4 million in Fiscal 2002 compared to net payments of \$19.7 million made for federal and state income taxes in Fiscal 2001.

EARNINGS PER SHARE

The Company computes earnings per share in accordance with SFAS No. 128, "Earnings Per Share." This statement established new standards for computing and presenting earnings per share ("EPS"). SFAS No. 128 replaced the presentation of primary EPS previously prescribed by Accounting Principles Board ("APB ") Opinion No. 15 with a presentation of basic EPS which is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. SFAS No. 128 also requires dual presentation of basic and diluted EPS.

Basic earnings per common share is based on the weighted average number of common shares outstanding for the years ended March 31, 2003, 2002 and 2001 of 18,418,191, 18,350,716 and 18,405,116, respectively. Diluted earnings per common share is based on the weighted average number of common shares outstanding and share equivalents outstanding, assuming dilution from issued and unexercised stock options outstanding, of 18,523,651, 18,461,414 and 18,473,114 for the years ended March 31, 2003, 2002 and 2001, respectively. Anti-dilutive options to purchase shares of common stock that were excluded from the computation of diluted earnings per share were 322,000 shares at an average price of \$38.92 for the year ended March 31, 2003, 551,000 shares at an average price of \$35.66 for the year ended March 31, 2002 and 618,000 shares at an average price of \$35.80 for the year ended March 31, 2001. All anti-dilutive options have expiration dates ranging from April 2008 to May 2012.

ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for employee stock options using the intrinsic value method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees," as allowed by SFAS No. 123, "Accounting for Stock-Based Compensation." Generally, no expense is recognized related to the Company's stock options because each option's exercise price is set at the stock's fair market value on the date the option is granted. In Fiscal 2003, the Company recorded a pre-tax charge of \$0.1 million for employee stock-based compensation.

As of March 31, 2003, the Company adopted the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 provides for expanded disclosure concerning stock-based compensation, including disclosures in interim financial statements, and amends SFAS No. 123.

In accordance with SFAS No. 123, the Company discloses the compensation cost based on the estimated fair value at the date of grant. For disclosures under SFAS No. 123, employee stock options are valued at the grant date using the Black-Scholes option-pricing model and compensation expense is recognized ratably over the vesting period. The weighted average assumptions used in the Black-Scholes model to value the option awards in Fiscal 2003, 2002, and 2001, respectively, are as follows: dividend yield of 0.50 percent, 0.64 percent, and 0.94 percent; expected volatility of 32.3 percent, 32.2 percent, and 32.5 percent; risk-free interest rates of 5.0 percent, 6.9 percent, and 6.4 percent; and expected lives of 10 years for all three years.

If the Company had recognized compensation expense for the stock option plans based on the fair value at the grant dates for awards, pro forma net earnings for Fiscal 2003, 2002 and 2001 would be as follows:

	For the Years Ended March 31,		
	2003	2002	2001
NET EARNINGS			
As reported	\$57,606	\$39,706	\$59,429
Add stock-based employee compensation included in the determination of net income as reported, net of tax	47	-	-
Deduct fair value of stock-based employee compensation, net of tax	(2,911)	(1,887)	(1,278)
Pro forma	\$54,742	\$37,819	\$58,151
BASIC EARNINGS PER SHARE			
As reported	\$ 3.13	\$ 2.16	\$ 3.23
Pro forma	\$ 2.97	\$ 2.06	\$ 3.16
DILUTED EARNINGS PER SHARE			
As reported	\$ 3.11	\$ 2.15	\$ 3.22
Pro forma	\$ 2.96	\$ 2.05	\$ 3.15

NEW ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which is effective for fiscal years beginning after June 15, 2002. SFAS No. 143 requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost should be capitalized as part of the related long-lived asset and allocated to expense over the useful life of the asset. SFAS No. 143's primary impact on the Company relates to the accounting of quarry reclamation obligations. The Company will adopt SFAS No. 143 in the first quarter of Fiscal 2004, and, based on current circumstances, does not believe that the adoption of SFAS No. 143 will have a material impact on the Company's financial position or results of operations.

In July 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between SFAS No. 146 and EITF Issue No. 94-3 relates to SFAS No. 146's requirement for recognition of a liability for a cost associated with an exit or disposal activity. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF Issue No. 94-3, a liability for an exit cost

was recognized at the date an entity committed to an exit plan. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of this standard is not expected to have a material impact on the consolidated financial statements of the Company.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires a guarantor to recognize a liability for the fair value of the obligation at the inception of the guarantee. The disclosure requirements of FIN 45, which are already effective, are disclosed in Note F - "Commitments and Contingencies," while the recognition provisions will be applied on a prospective basis to guarantees issued after December 31, 2002. The Company does not expect the adoption of FIN 45 to have a material effect on its consolidated financial statements.

In January 2003, the Financial Accounting Standard Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), clarifying the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of FIN 46 are applicable no later than July 1, 2003. The Company is currently evaluating the impact of FIN 46 on its consolidated financial statements.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 provides for expanded disclosure concerning stock-based compensation, including disclosures in interim financial statements, and amends SFAS No. 123. SFAS No. 148's transition guidance and provisions for annual disclosures are effective for fiscal years ending after December 15, 2002. As noted earlier, the Company adopted the disclosure requirements of SFAS No. 148.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of purchase price over net assets of businesses acquired. The Company elected to early adopt SFAS No. 142, "Goodwill and Other Intangible Assets," effective April 1, 2001. With the adoption of SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, intangible assets, including goodwill, that are not subject to amortization will be tested for impairment annually at the reporting unit level using a two-step impairment assessment. Impairment testing must be performed more frequently if events or changes in circumstances indicate that the asset might be impaired. The first step is to identify potential impairment by determining whether the carrying amount of a reporting unit exceeds its fair value. If an impairment is identified, the second step of the goodwill impairment test is to measure the amount of impairment loss, if any. In case of impairment, the recorded costs would be written down to fair value on a discounted basis. On January 1, 2003, the Company completed the first step of its annual impairment assessment and determined that the fair value of its reporting units exceeds its carrying amounts. In making such determination, the Company evaluates the performance, on an undiscounted basis, of the underlying businesses which gave rise to such amount. There have been no material changes in the carrying amount of the Company's goodwill during the fiscal years ended March 31, 2003 and 2002. Goodwill amortization totaled zero in Fiscal 2003 and Fiscal 2002 and \$1.0 million in Fiscal 2001. Prior to the early adoption of SFAS No. 142, goodwill was amortized over 20 years.

The pro forma adoption of SFAS No. 142 for the fiscal year ended March 31, 2001 would have resulted in an increase in net earnings of \$0.7 million with a \$0.04 and \$0.03 increase in basic and diluted earnings per share, respectively. The acquisition of the Strategic Assets that resulted in the recording of the Company's goodwill occurred in the middle of the third quarter of Fiscal 2001 (see Note J).

Other intangibles are intangibles associated with the Strategic Assets purchase. Other intangibles are amortized on a straight-line basis over various periods between seven months and 15 years. Other intangibles amortization totaled \$0.1 million in Fiscal 2003, \$0.1 million in Fiscal 2002 and \$0.2 million in Fiscal 2001. The balance of other intangibles at March 31, 2003 and 2002 was \$1.1 million and \$1.2 million, respectively. Other intangibles amortization expense for the next five years is estimated to be \$0.1 million annually.

REVENUE RECOGNITION

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

During Fiscal 2001, the Company adopted the provisions of the Emerging Issues Task Force ("EITF") Issue No. 00-10, "Accounting for Shipping and Handling Costs," which provides guidance regarding how shipping and handling costs incurred by the seller and billed to a customer should be treated. EITF 00-10 requires that all amounts billed to a customer in a sales transaction related to shipping and handling be classified as revenue, and the costs incurred by the seller for shipping and handling be classified as an expense. Historically, certain amounts the Company billed for shipping and handling had been shown as an offset to shipping costs which are recorded in cost of goods sold in the accompanying consolidated statements of earnings. There was no impact to the Company's income from operations or net income as a result of the adoption of EITF 00-10. Prior-year financial statements have been restated to conform to the requirements of EITF 00-10. The amount of billed shipping and handling costs reclassified from cost of goods sold to net sales in the accompanying consolidated statements of earnings in Fiscal 2001 was \$61.9 million. Such costs totaled \$62.8 million for Fiscal 2002 and \$61.8 million for Fiscal 2003.

RECLASSIFICATIONS

Certain prior year balances have been reclassified to be consistent with the Fiscal 2003 presentation.

(B) P R O P E R T Y , P L A N T A N D E Q U I P M E N T

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

	March 31,	
	2003	2002
Land and Quarries	\$ 50,283	\$ 49,049
Plants	691,389	693,606
Buildings, Machinery and Equipment	52,708	54,111
	<u>794,380</u>	<u>796,766</u>
Accumulated Depreciation	<u>(259,544)</u>	<u>(230,283)</u>
	<u>\$ 534,836</u>	<u>\$ 566,483</u>

During the second quarter of Fiscal 2003, the Company closed its Georgetown, Texas quarry and crushing plant. Assets written off during the second quarter as part of the Georgetown closure totaled \$2.6 million. Portions of the Georgetown assets will be utilized at other company locations with the remainder to be sold. The Georgetown assets held for sale have been reclassified to other assets and totaled \$0.7 million at March 31, 2003. During the first quarter of Fiscal 2003, all of the Company's recycled fiber collection centers were sold.

(C) I N D E B T E D N E S S

NOTE PAYABLE

Note payable balances are set forth below:

	March 31,	
	2003	2002
Receivables Securitization Facility	\$25,257	\$18,630

The weighted average interest rate of the note payable borrowings during Fiscal 2003 and 2002 was 1.7% and 4.2%, respectively. The interest rate on note payable debt was 1.3% and 2.0% at March 31, 2003 and 2002, respectively. The amount of accounts receivable pledged under the receivables securitization program at March 31, 2003 and 2002 was \$36.9 million and \$39.3 million, respectively.

LONG-TERM DEBT

Long-term debt is set forth below:

	March 31,	
	2003	2002
Bank Debt, Due March 2006, Unsecured	\$55,000	\$163,000
Subordinated Notes, 9½%, due July 2008, Unsecured	510	510
Property Note, Interest at 7%, Due March 2005, Secured	160	240
Less: Current Maturities	(80)	(80)
	<u>\$55,590</u>	<u>\$163,670</u>

The weighted average interest rate of the bank debt borrowings during Fiscal 2003 and 2002 was 3.1% and 5.4%, respectively. The interest rate on the bank debt was 2.3% at March 31, 2003 and 3.7% at March 31, 2002.

Maturities of long-term debt during the next five fiscal years are: 2004, \$80; 2005, \$80; 2006, \$55,000; 2007, zero; 2008, zero; thereafter, \$510.

CREDIT FACILITIES

On November 10, 2000, the Company's \$35.0 million unsecured revolving credit facility used to finance its working capital and capital expenditures requirements was cancelled and replaced with a new \$325.0 million senior revolving credit facility. During the quarter ended June 30, 2001, pursuant to an Amended and Restated Credit Agreement, the credit facility was amended to reduce the facility amount from \$325.0 million to \$275.0 million and to modify certain financial and other covenants (the "Amended Credit Facility"). During the quarter ended September 30, 2002, the Company again reduced the Amended Credit Facility from \$275.0 million to \$175.0 million. On March 25, 2003, pursuant to the Second Amended and Restated Credit Agreement, the Amended Credit Facility was amended to reduce the facility amount from \$175.0 million to \$155.0 million, modify certain financial and other covenants and extend the maturity date three years (the "New Credit Facility"). The principal balance of the New Credit Facility matures on March 25, 2006. At March 31, 2003 and 2002, the Company had \$55.0 million outstanding under the New Credit Facility and \$163.0 million outstanding under the Amended Credit Facility, respectively. The borrowings under the New Credit Facility are guaranteed by all major operating subsidiaries of the Company. At the option of the Company, outstanding principal amounts on the New Credit Facility bear interest at a variable rate equal to: (i) LIBOR, plus an agreed margin (ranging from 100 to 200 basis points), which is to be established quarterly based upon the Company's ratio of EBITDA to total funded debt; or (ii) an alternate base rate which is the higher of (a) the prime rate or (b) the federal funds rate plus ½% per annum, plus an agreed margin (ranging from 0 to 100 basis points). Interest payments are payable monthly or at the end of the LIBOR advance periods, which can be up to a period of six months at the option of the Company. Under the New Credit Facility, the Company is required to adhere to a number of financial and other covenants, including covenants relating to the Company's interest coverage ratio, consolidated funded indebtedness ratio and minimum tangible net worth. At March 31, 2003, \$91.2 million of borrowings were available to the Company.

Also on November 10, 2000, a subsidiary of the Company (the "Debtor Subsidiary") assumed \$100.0 million of 9.5% senior subordinated notes (the "Notes") with a maturity date of July 15, 2008. Interest payments on the Notes are due on January 15 and July 15. The Notes are redeemable at the option of the Debtor Subsidiary, in whole or in part, at any time after July 15, 2003. Upon the acquisition of the Strategic Assets on November 10, 2000, the Debtor Subsidiary was required to commence a tender offer for the Notes at 101%. On December 20, 2000, \$90.0 million in principal amount of the Notes was tendered, leaving \$10.0 million outstanding. During the June 30, 2001 quarter, the Debtor Subsidiary commenced another tender offer for the Notes at 108.75%. On June 28, 2001, the Debtor Subsidiary purchased \$9.5 million in principal amount of the Notes, leaving \$0.5 million outstanding. Prior to the commencement of the second tender offer, the Debtor Subsidiary obtained the necessary consents from a majority of holders of the Notes to eliminate certain covenants and reporting requirements.

On June 29, 2001, the Company entered into a \$50.0 million trade receivable securitization facility (the "Receivables Securitization Facility"), which is funded through the issuance of commercial paper and backed by a 364-day committed bank liquidity arrangement. The Receivables Securitization Facility has a termination date of June 10, 2004, subject to a 364-day bank commitment that was renewed on June 28, 2002 for another 364-day period terminating on June 28, 2003. The Receivables Securitization Facility is fully consolidated on the balance sheet. Subsidiary company receivables are sold on a revolving basis first to the Company and then to a wholly owned special purpose bankruptcy remote entity of the Company. This entity pledges the receivables as security for advances under the facility. The purpose of the Receivables Securitization Facility is to obtain financing at a lower interest rate by pledging accounts receivable. The borrowed funds have been used to pay down borrowings under the New Credit Facility. Outstanding principal amounts under the Receivables Securitization Facility bear interest at the commercial paper rate plus a facility fee. Under the Receivables Securitization Facility, the Company is required to adhere to certain financial and other covenants that are similar to those in the New Credit Facility. The Company had \$25.3 million outstanding under the Receivables Securitization Facility at March 31, 2003.

The Company was in compliance with all financial ratios and tests at March 31, 2003 and throughout the fiscal year under the Amended Credit Facility, the New Credit Facility, the Notes and the Receivables Securitization Facility.

The New Credit Facility has a \$50.0 million letter of credit facility. Under the letter of credit facility, the Company pays a fee at a per annum rate equal to the applicable margin for Eurodollar loans in effect from time to time plus a one-time letter of credit fee in an amount equal to 0.125% of the initial stated amount. At March 31, 2003, the Company had \$8.8 million of letters of credit outstanding.

(D) I N C O M E T A X E S

The provision for income taxes includes the following components:

	For the Years Ended March 31,		
	2003	2002	2001
Current Provision (Benefit)			
Federal	\$ 0	\$ (1,146)	\$ 7,423
State	259	(90)	2,034
	259	(1,236)	9,457
Deferred Provision			
Federal	26,919	18,949	20,900
State	1,829	2,280	2,477
	28,748	21,229	23,377
Provision for Income Taxes	<u>\$29,007</u>	<u>\$19,993</u>	<u>\$32,834</u>

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

	For the Years Ended March 31,		
	2003	2002	2001
Earnings Before Income Taxes	<u>\$86,613</u>	<u>\$59,699</u>	<u>\$92,263</u>
Income Taxes at Statutory Rate	<u>\$30,315</u>	<u>\$20,895</u>	<u>\$32,292</u>
Increases (Decreases) in Tax Resulting from -			
State Income Taxes, net	1,357	1,424	2,932
Statutory Depletion in Excess of Cost	(3,048)	(2,556)	(2,600)
Other	383	230	210
Provision for Income Taxes	<u>\$29,007</u>	<u>\$19,993</u>	<u>\$32,834</u>
Effective Tax Rate	33%	33%	36%

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

	For the Years Ended March 31,		
	2003	2002	2001
Excess Tax Depreciation and Amortization	\$21,253	\$ 39,951	\$32,919
Net Operating Loss Carryover	3,757	(14,342)	-
Bad Debts	32	26	(9,364)
Uniform Capitalization	(390)	(259)	(73)
Accrual Changes	3,390	(5,144)	(317)
Other	706	997	212
	\$28,748	\$ 21,229	\$23,377

Components of deferred income taxes are as follows:

	March 31,	
	2003	2002
Items Giving Rise to Deferred Taxes		
Excess Tax Depreciation and Amortization	\$111,934	\$ 90,681
Other	5,203	5,295
	117,137	95,976
Items Giving Rise to Prepaid Taxes		
Accrual Changes	(13,499)	(17,149)
Net Operating Loss Carryover	(12,115)	(14,342)
Bad Debts	(10,328)	(10,360)
Uniform Capitalization	(734)	(344)
	(36,676)	(42,195)
Net Deferred Income Tax Liability	\$ 80,461	\$ 53,781

In Fiscal 2002, deferred taxes of \$15.3 million were recast to reflect an adjustment to deferred taxes and goodwill relating to the Strategic Assets Purchase.

In Fiscal 2003, the Company utilized its regular and alternative minimum tax carryovers from Fiscal 2002. Remaining net operating loss carryovers available for Fiscal 2004 amount to \$34.6 million and \$4.0 million for regular and alternative minimum tax, respectively. The net operating loss carryovers, if unused, will expire after Fiscal 2022.

(E) B U S I N E S S S E G M E N T S

The Company operates in four business segments: Cement, Gypsum Wallboard, Recycled Paperboard, and Concrete and Aggregates, with Cement and Gypsum Wallboard being the Company's principal lines of business. These operations are conducted in the United States and include the mining of limestone and the manufacture, production, distribution and sale of portland cement (a basic construction material which is the essential binding ingredient in concrete), the mining of gypsum and the manufacture and sale of gypsum wallboard, the manufacture and sale of recycled paperboard to the gypsum wallboard industry and other paperboard converters, the sale of readymix concrete and the mining and sale of aggregates (crushed stone, sand and gravel). These products are used primarily in commercial and residential construction, public construction projects and projects to build, expand and repair roads and highways.

Demand for the Company's products is derived primarily from residential construction, commercial and industrial construction and public (infrastructure) construction which are highly cyclical and are influenced by prevailing economic conditions including interest rates and availability of public funds. Due to the low value-to-weight ratio of cement, concrete and aggregates, these industries are largely regional and local with demand tied to local economic factors that may fluctuate more widely than those of the nation as a whole.

The Company operates four cement plants, ten cement distribution terminals, four gypsum wallboard plants, six gypsum wallboard reload centers, a gypsum wallboard distribution center, a recycled paperboard mill, nine readymix concrete batch plant locations and two aggregates processing plant locations. The principal markets for the Company's cement products are Texas, northern Illinois (including Chicago), the Rocky Mountains, northern Nevada, and northern

California. Gypsum wallboard and recycled paperboard are distributed throughout the continental United States. Concrete and aggregates are sold to local readymix producers and paving contractors in the Austin, Texas area and northern California.

The following table sets forth certain financial information relating to the Company's operations by segment:

	For the Years Ended March 31,		
	2003	2002	2001
Revenues			
Cement	\$173,198	\$183,154	\$178,783
Gypsum Wallboard	212,790	183,500	187,347
Paperboard	92,898	84,293	31,492
Concrete and Aggregates	56,598	57,621	61,101
Other, net	2,885	(355)	3,673
	<u>538,369</u>	<u>508,213</u>	<u>462,396</u>
Less: Intersegment Sales	<u>(37,112)</u>	<u>(37,130)</u>	<u>(21,269)</u>
	<u>\$501,257</u>	<u>\$471,083</u>	<u>\$441,127</u>
Intersegment Sales			
Cement	\$ 3,505	\$ 5,093	\$ 6,347
Paperboard	32,959	31,461	14,393
Concrete and Aggregates	648	576	529
	<u>\$ 37,112</u>	<u>\$ 37,130</u>	<u>\$ 21,269</u>
Segment Operating Earnings			
Cement	\$ 54,430	\$ 60,173	\$ 59,614
Gypsum Wallboard	27,196	4,643	27,097
Paperboard	17,614	9,977	1,368
Concrete and Aggregates	(268)	4,401	7,554
Other, net	2,885	(355)	3,673
Corporate General and Administrative	(5,654)	(5,486)	(4,691)
Interest Expense, net	(9,590)	(13,654)	(2,352)
	<u>\$ 86,613</u>	<u>\$ 59,699</u>	<u>\$ 92,263</u>
Identifiable Assets			
Cement	\$141,617	\$141,734	\$145,696
Gypsum Wallboard	322,580	341,724	353,104
Paperboard	193,661	206,607	243,026
Concrete and Aggregates	35,100	39,174	33,233
Other, net	19,120	14,113	19,563
	<u>\$712,078</u>	<u>\$743,352</u>	<u>\$794,622</u>
Capital Expenditures			
Cement	\$ 4,916	\$ 4,424	\$ 6,199
Gypsum Wallboard	3,028	1,197	4,521
Paperboard	4,724	2,745	489
Concrete and Aggregates	1,070	10,604	4,859
Other, net	552	54	182
	<u>\$ 14,290</u>	<u>\$ 19,024</u>	<u>\$ 16,250</u>
Depreciation, Depletion and Amortization			
Cement	\$ 8,595	\$ 8,370	\$ 8,219
Gypsum Wallboard	15,325	15,070	10,529
Paperboard	7,739	7,921	3,164
Concrete and Aggregates	3,651	3,052	2,924
Other, net	1,481	1,395	35
	<u>\$ 36,791</u>	<u>\$ 35,808</u>	<u>\$ 24,871</u>

Segment operating earnings represent revenues less direct operating expenses, segment depreciation, and segment selling, general and administrative expenses. The Company accounts for intersegment sales at market prices. Corporate assets consist primarily of cash and cash equivalents, general office assets and miscellaneous other assets. Goodwill at March 31, 2003 was \$40.3 million and \$41.1 million at March 31, 2002 and 2001, respectively. The segment breakdown of goodwill at March 31, 2003 was Gypsum Wallboard (\$33.3 million) and Paperboard (\$7.0 million) and at March 31, 2002 and 2001 was Gypsum Wallboard (\$33.3 million) and Paperboard (\$7.8 million).

Certain summarized financial information of the two cement joint ventures, in the aggregate, is presented below. Applicable financial statement amounts (i.e., 50% of respective amounts) that have been proportionately consolidated into the Company's financial statements are:

	For the Years Ended March 31,		
	2003	2002	2001
Revenues	\$74,692	\$78,725	\$77,701
Costs and Expenses	\$49,610	\$51,623	\$50,953
Earnings Before Income Taxes	\$25,082	\$27,102	\$26,748

(F) C O M M I T M E N T S A N D C O N T I N G E N C I E S

The Company, in the ordinary course of business, has various litigation, commitments and contingencies. Management believes that none of the litigation in which it or any subsidiary is involved, if finally determined unfavorably to the Company, would have a material adverse effect on the consolidated financial condition or results of operations of the Company.

The Company's operations and properties are subject to extensive and changing federal, state and local laws, regulations and ordinances governing the protection of the environment, as well as laws relating to worker health and workplace safety. The Company carefully considers the requirements mandated by such laws and regulations and has procedures in place at all of its operating units to monitor compliance. Any matters which are identified as potential exposures under these laws and regulations are carefully reviewed by management to determine the Company's potential liability. Although management is not aware of any exposures which would require an accrual under SFAS No. 5, "Accounting for Contingencies," there can be no assurance that prior or future operations will not ultimately result in violations, claims or other liabilities associated with these regulations.

The Company has certain deductible limits under its workers' compensation and liability insurance policies for which reserves are established based on the undiscounted estimated costs of known and anticipated claims. The Company has entered into standby letter of credit agreements relating to workers' compensation and auto and general liability self-insurance. At March 31, 2003, the Company had contingent liabilities under these outstanding letters of credit of approximately \$8.8 million.

The Company is currently contingently liable for performance under \$3.2 million in performance bonds required by certain states and municipalities, and their related agencies. The bonds are principally for certain reclamation obligations and mining permits. The Company has indemnified the underwriting insurance company against any exposure under the performance bonds. In the Company's past experience, no material claims have been made against these financial instruments.

In the ordinary course of business, the Company executes contracts involving indemnifications standard in the industry and indemnifications specific to a transaction such as sale of a business. These indemnifications might include claims relating to any of the following: environmental and tax matters; intellectual property rights; governmental regulations and employment-related matters; customer, supplier, and other commercial contractual relationships; and financial matters. While the maximum amount to which the Company may be exposed under such agreements cannot be estimated, it is the opinion of management that these indemnifications are not expected to have a material adverse effect on the Company's consolidated financial position or results of operations. The Company currently has no outstanding guarantees.

The Company has a contract until October 2015 (subject to the purchaser's right to shorten the term to October 2010) to supply approximately 35% to 40% of the Lawton, Oklahoma mill's output of gypsum-grade recycled paperboard to another gypsum wallboard producer.

The Company has certain operating leases covering manufacturing, transportation and certain other facilities and equipment. Rental expense for the fiscal years 2003, 2002, and 2001 totaled \$2.9 million, \$3.0 million and \$2.6 million, respectively. Minimum annual rental commitments as of March 31, 2003, under noncancellable leases are set forth as follows:

Fiscal Year	Total
2004	\$2,517
2005	\$1,777
2006	\$1,036
2007	\$ 599
2008	\$ 54
Thereafter	\$4,504

(G) S T O C K O P T I O N P L A N S

The Company has two stock option plans for certain directors, officers and key employees of the Company: the Centex Construction Products, Inc. Amended and Restated Stock Option Plan (the "1994 Plan") and the Centex Construction Products, Inc. 2000 Stock Option Plan (the "2000 Plan"). Although the 1994 Plan and the 2000 Plan provide that option grants may be at less than fair market value at the date of grant, the Company has consistently followed the practice of issuing options at or above fair market value at the date of grant. Under both plans, option periods and exercise dates may vary within a maximum period of 10 years. All option grants have been issued with vesting occurring near the end of the option grants' 10-year life; however, the option grants may qualify for early vesting, on an annual basis, if certain predetermined performance criteria are met. The Company records proceeds from the exercise of options as additions to common stock and capital in excess of par value. The federal tax benefit, if any, is considered additional capital in excess of par value. No charges or credits would be made to earnings unless options were to be granted at less than fair market value at the date of grant. A summary of the activity of the stock option plans is presented as follows:

	For the Years Ended March 31,					
	2003		2002		2001	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding Options at Beginning of Year	1,069,499	\$28.66	1,046,009	\$28.77	803,208	\$31.72
Granted	142,000	\$42.88	109,500	\$27.45	393,500	\$22.63
Exercised	(244,469)	\$22.94	(19,711)	\$18.24	(31,330)	\$12.79
Cancelled	(27,452)	\$30.93	(66,299)	\$31.55	(119,369)	\$32.55
Outstanding Options at End of Year	<u>939,578</u>	<u>\$32.23</u>	<u>1,069,499</u>	\$28.66	<u>1,046,009</u>	\$28.77
Options Exercisable at End of Year	<u>577,294</u>		<u>548,537</u>		<u>336,994</u>	
Weighted Average Fair Value of Options						
Granted during the Year	\$18.85		\$14.95		\$11.50	

The following table summarizes information about stock options outstanding at March 31, 2003:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares Outstanding	Weighted Average Exercise Price
\$12.00 - \$26.97	339,703	7.33 yrs	\$23.47	123,285	\$22.09
\$31.70 - \$36.36	477,875	5.80 yrs	\$35.38	449,509	\$35.57
\$39.53 - \$44.45	122,000	9.00 yrs	\$44.27	4,500	\$39.53
	<u>939,578</u>	6.77 yrs	\$32.23	<u>577,294</u>	\$32.72

Shares available for future stock option grants were 1,099,350 at March 31, 2003.

(H) FA I R VA L U E O F F I N A N C I A L I N S T R U M E N T S

The fair values of the Company's long-term debt, before the interest rate swap, of which 99% has floating rate terms, have been estimated based upon the Company's current incremental borrowing rates for similar types of borrowing arrangements. The carrying values of the Company's long-term debt approximate fair value.

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

(I) A G R E E M E N T S W I T H C E N T E X C O R P O R A T I O N

On April 19, 1994 (the "Closing Date") the Company completed the sale of 11,730,000 shares, or 51%, of its common stock through an Initial Public Offering. Prior to that time, the Company was a wholly owned subsidiary of Centex. On the Closing Date the Company entered into certain agreements with Centex to define the Company's ongoing relationship with Centex. The major agreements are:

Indemnification Agreement: The Company and Centex entered into an Indemnification Agreement, pursuant to which the Company and Centex agreed generally to indemnify each other against substantially all liabilities relating to the businesses of the Company and its subsidiaries as they had been and will be conducted, including environmental liabilities.

Tax Separation Agreement: The Company and Centex entered into a Tax Separation Agreement (the "Tax Agreement"). The Tax Agreement (i) provides for the termination of any existing tax sharing or allocation arrangements between the Company and Centex, (ii) specifies the manner in which the federal income tax liability and certain state tax liabilities (including any subsequent adjustments to such federal and state liabilities) of the consolidated group of which Centex is the common parent (the "Group") will be allocated for the final year in which the Company is a member of the Group and for any prior tax year of the Group and (iii) specifies the manner in which audits or administrative or judicial proceedings relating to federal income taxes and certain state taxes of the Group will be controlled.

Administrative Services: Centex Service Company ("CSC"), a subsidiary of Centex, provides the Company with employee benefit administration, public/investor relations and certain other services. The Administrative Services Agreement is renewable annually with the administrative fee determined on an annual basis. The Company paid CSC an administrative fee of \$0.2 million in Fiscal 2003, 2002 and 2001, respectively. In addition, the Company reimburses CSC for its out-of-pocket expenses incurred in connection with the performance of such services.

(J) A C Q U I S I T I O N S

On November 10, 2000, the Company and a wholly owned subsidiary (together, the "Purchasers") entered into a purchase agreement to acquire certain strategic assets as summarized below (collectively, the "Strategic Assets"):

- (1) A 1.1 billion square foot gypsum wallboard plant located in Duke, Oklahoma;
- (2) A short line railroad and railcars linking the Duke plant to adjacent railroads;
- (3) A 220,000 ton-per-year lightweight paper mill in Lawton, Oklahoma; and
- (4) A 50,000 ton-per-year Commerce City (Denver), Colorado paper mill.

Pursuant to the purchase agreement, the Purchasers paid aggregate consideration consisting of (1) \$338.2 million in cash, plus (2) the assumption by the subsidiary of \$100.0 million of 9.5% senior subordinated notes due in 2008. In exchange for this consideration, the subsidiary acquired the assets described above and a \$24.3 million net secured note receivable, which was collected during Fiscal 2002.

The acquisition has been accounted for as a purchase, and accordingly, the purchase price was allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair market values at the date of acquisition. The results of operations of the Strategic Assets since November 10, 2000 are included in the Company's financial statements. The fair value of tangible assets purchased, goodwill (prior to the adoption of SFAS 142, amortized over a 20-year period) and other intangible assets is as follows:

Cash Consideration Paid	
CXP Cash	\$ 150,000
Bank Borrowings	<u>188,200</u>
	338,200
CXP Transaction Costs	<u>4,000</u>
Total Cash Consideration	342,200
Subordinated Debt Assumed	100,000
Liabilities Assumed	<u>24,358</u>
	466,558
Fair Value of Property, Plant, Equipment, Inventory, Receivables,	
Other Miscellaneous Assets and Applicable Deferred Taxes	<u>(423,039)</u>
Goodwill and Other Intangible Assets	<u>\$ 43,519</u>

The unaudited pro forma results for the fiscal year ended March 31, 2001 assume that the acquisition was completed on April 1, 2000:

	For the Year Ended <u>March 31, 2001</u>
Revenues	\$520,380
Net Earnings	\$ 44,975
Earnings per Dilutive Share	\$ 2.43

The pro forma results have been prepared for comparative purposes only and include certain adjustments such as additional depreciation expense, goodwill amortization and interest expense on new bank borrowings and debt assumed. They do not purport to be indicative of the results of operations which actually would have resulted had the combination been in effect at April 1, 2000 or of future results of operations of the consolidated entities.

(K) P E N S I O N A N D P R O F I T S H A R I N G P L A N S

The Company has several defined benefit and defined contribution retirement plans which together cover substantially all of its employees. The Company is not a party to any multi-employer pension plan. Benefits paid under the defined benefit plans covering certain hourly employees are based on years of service and the employee's qualifying compensation over the last few years of employment. The Company's funding policy is to generally contribute amounts that are deductible for income tax purposes.

The following table provides a reconciliation of the defined benefit plan obligations and fair value of plan assets over the two-year period ended March 31, 2003 and a statement of the funded status as of March 31, 2003 and 2002:

	2003	2002
Reconciliation of Benefit Obligations		
Benefit Obligation at April 1,	\$ 6,569	\$5,589
Service Cost - Benefits Earned During the Period	1,132	232
Interest Cost on Projected Benefit Obligation	520	419
Actuarial Loss	639	522
Benefits Paid	(247)	(193)
Benefit Obligation at March 31,	8,613	6,569
Reconciliation of Fair Value of Plan Assets		
Fair Value of Plan Assets at April 1,	6,158	4,691
Actual Return on Plan Assets	(1,013)	124
Employer Contributions	667	1,536
Benefits Paid	(247)	(193)
Fair Value of Plans at March 31,	5,565	6,158
Funded Status		
Funded Status at March 31,	(3,048)	(411)
Unrecognized Loss from Past Experience Different than that Assumed and Effects of Changes in Assumptions	1,219	1,794
Unrecognized Prior-Service Cost	3,786	614
Net Amount Recognized (Prepaid Pension Cost Included in Other Assets)	\$ 1,957	\$1,997

Net periodic pension cost for the fiscal years ended March 31, 2003, 2002 and 2001, included the following components:

	For the Years Ended March 31,		
	2003	2002	2001
Service Cost - Benefits Earned During the Period	\$ 336	\$ 232	\$ 209
Interest Cost of Projected Benefit Obligation	520	419	379
Expected Return on Plan Assets	(490)	(366)	(463)
Amortization of Transition Asset	192	65	(52)
Amortization of Prior-Service Cost	150	103	101
Net Periodic Pension Cost	\$ 708	\$ 453	\$ 174

The following table sets forth the rates used in the actuarial calculations of the present value of benefit obligations and the rate of return on plan assets:

	2003	2002	2001
Weighted-Average Discount Rate	6.3%	7.0%	7.5%
Rate of Increase in Future Compensation Levels	3.5%	3.5%	3.5%
Expected Long-term Rate of Return on Assets	8.0%	8.0%	8.0%

The Company had at March 31, 2003 a minimum pension liability of \$2.9 million related to the accumulated benefit obligation in excess of the fair value of the plan assets.

The Company also provides a profit sharing plan, which covers substantially all salaried and certain hourly employees. The profit sharing plan is a defined contribution plan funded by employer discretionary contributions and also allows employees to contribute on an after-tax basis up to 10% of their base annual salary. Employees are fully vested to the extent of their contributions and become fully vested in the Company's contributions over a seven-year period. Costs relating to the employer discretionary contributions for the Company's defined contribution plan totaled \$2.3 million, \$1.6 million and \$1.5 million in fiscal years 2003, 2002 and 2001, respectively.

In addition, as a part of the November 2000 Strategic Assets purchase, the Company agreed to provide to former employees of the seller, who became employed by the Company as a result of the November 2000 Strategic Asset purchase, benefits substantially comparable to those provided under the seller's welfare plans. These welfare plans included the seller's 401(k) plan which included employer matching percentages. As a result, the Company made matching contributions to its 401(k) plan totaling \$0.1 million, \$0.4 million and \$0.2 million for these employees during fiscal years 2003, 2002 and 2001, respectively.

(L) N E T I N T E R E S T E X P E N S E

The following components are included in interest expense, net:

	For the Years Ended March 31,		
	2003	2002	2001
Interest (Income)	\$ (65)	\$ (2,515)	\$ (6,694)
Interest Expense	8,247	14,918	8,766
Other Expenses	1,408	1,251	280
Interest Expense, net	<u>\$9,590</u>	<u>\$ 13,654</u>	<u>\$ 2,352</u>

Interest income includes interest on investments of excess cash and interest on notes receivable. Components of interest expense include interest associated with the assumed subordinated debt, the New Credit Facility, the Amended Credit Facility, the Receivables Securitization Facility and commitment fees based on the unused portion of the New Credit Facility and Amended Credit Facility. Included in interest expense for Fiscal 2003 is \$0.9 million of costs resulting from the early termination of one of the Company's interest rate swaps and the partial termination of the remaining interest rate swap relating to the reduction of the outstanding debt levels. Other expenses include amortization of debt issue costs, the New Credit Facility costs and the Amended Credit Facility costs.

(M) H E D G I N G A C T I V I T I E S

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

On July 19, 2001, the Company entered into two interest rate swap agreements, designated as cash flow hedges, with two banks for a total notional amount of \$100.0 million. These agreements expire on August 30, 2003. The swap agreements can be matched against \$100.0 million of variable-rate LIBOR indexed debt principal and will effectively fix the Company's interest rate on that debt at 4.493%, plus the applicable margin on the Company's debt. On November 22, 2002, the Company terminated one of its interest rate swap agreements with a notional amount of \$25.0 million. As a result, the Company paid \$0.6 million to the bank counter party for a release of all obligations under the transaction. On February 28, 2003, the Company terminated \$20.0 million of the remaining \$75.0 interest rate swap agreement at a cost of \$0.3 million. Additionally, the Company paid down the portions of the debt that was associated with the \$25.0 million interest rate swap and the \$20.0 million termination of the remaining \$75.0 million interest rate swap. Since the Company has no intentions of increasing the amounts outstanding under the debt, the amount recorded in Accumulated Other Comprehensive Losses was reclassified to earnings during the fiscal year. During the fiscal year ended March 31, 2003, the swap agreements resulted in approximately \$2.7 million of additional interest expense. As of March 31, 2003, the fair value of the swap agreement was a liability of approximately \$0.9 million, \$0.6 million net of tax. Hedge ineffectiveness, determined in accordance with SFAS No. 133, had no impact on the Company's results of operations for the year ended March 31, 2003.

The Board of Directors and Stockholders of Centex Construction Products, Inc.

We have audited the accompanying consolidated balance sheets of Centex Construction Products, Inc. and subsidiaries (the "Company") as of March 31, 2003 and 2002, and the related consolidated statements of earnings, stockholders' equity, and cash flow for each of the three years in the period ended March 31, 2003. 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 Centex Construction Products, Inc. and subsidiaries at March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note A to the consolidated financial statements, in fiscal year 2002, the Company changed its method of accounting for goodwill and other intangible assets.

Ernst + Young LLP

Dallas, Texas,
May 9, 2003

RESULTS OF OPERATIONS AND FINANCIAL CONDITION

FISCAL YEAR 2003 COMPARED TO FISCAL YEAR 2002

Overview. Information presented for Fiscal 2003 and 2002 reflects the grouping of Centex Construction Products' businesses into four segments, consisting of Cement, Gypsum Wallboard, Recycled Paperboard and Concrete and Aggregates. Concrete and Aggregates are broken out separately in the segment discussions.

Commercial construction, which is a significant component of the demand for the Company's products, has declined dramatically and is expected to remain at its currently depressed level. A large portion of the decline relates to the completion of pre-9/11 projects and the absence of projects to replace them. Infrastructure activity (road building) is performing short of expectations. With highway construction funding softening, and the downturn in commercial construction activity, U.S. cement consumption for calendar 2002 was below calendar 2001 consumption. Congress recently approved Fiscal 2003 TEA-21 funding (highway funding) in excess of \$31 billion. Budget constraints at the State level are likely to adversely affect the actual level of public works tendered in calendar 2003.

Although new housing and home repair activity remains strong, the gypsum wallboard industry experienced a softening in wallboard demand in the latter part of calendar 2002. While the industry reported a 1.8% increase in calendar 2002 consumption over calendar 2001 consumption, cumulative production volume at the Company's Gypsum Wallboard plants during Fiscal 2003 was 72% of its total capacity due to an "over capacity" situation in the gypsum wallboard industry. During September 2002, the Company implemented price increases of up to 15%; however, the price increase completely eroded by the end of calendar 2002 as monthly wallboard consumption from August 2002 to November 2002 was below the same months' consumption for the prior year. Pricing continued to soften and then stabilized in January 2003. During March 2003, the Company implemented a price increase that eroded and implemented another price increase in May 2003. Longer term, the level of wallboard demand and prices will be determined by the strength of the housing market and wallboard industry utilization levels.

In Austin, Texas, which is the Company's primary concrete and aggregates market, the economy has been affected by weakened economic conditions which negatively impacted concrete and aggregates demand and pricing in the Austin market. On September 3, 2002, the Company announced the closing of its aggregates facility in Georgetown, Texas (near Austin, Texas).

Consolidated Results. Consolidated net revenues for Fiscal 2003 totaled \$501.3 million, up 6% from \$471.1 million for Fiscal 2002. Higher net sales prices in Gypsum Wallboard and Paperboard accounted for the majority of the revenue gain. Operating earnings of \$96.2 million in Fiscal 2003 were up 31% from last fiscal year mainly due to a \$22.6 million increase in Gypsum Wallboard operating earnings. Net interest expense of \$9.6 million in Fiscal 2003 decreased \$4.1 million from Fiscal 2002 due to lower interest rates and reduced debt levels. As a result of the foregoing, pre-tax earnings of \$86.6 million were 45% above Fiscal 2002 pre-tax earnings of \$59.7 million. The Fiscal 2003 effective tax rate of 33.5%, the same rate as in Fiscal 2002, resulted in Fiscal 2003 net earnings of \$57.6 million, a 45% increase from \$39.7 million in Fiscal 2002. Diluted earnings per share in Fiscal 2003 of \$3.11 were 45% higher than the \$2.15 for Fiscal 2002.

The following table compares sales volumes, average unit sales prices and unit operating margins for the Company's operations:

	Sales Volume (thousands)		Average Net Sales Price ⁽¹⁾		Operating Margin	
	2003	2002	2003	2002	2003	2002
Cement (Ton)	2,361	2,441	\$ 66.84	\$ 67.69	\$23.05	\$24.66
Gypsum Wallboard (MSF)	1,933	1,930	\$ 87.12	\$ 72.97	\$14.07	\$ 2.41
Paperboard (Ton)	225	210	\$408.44	\$398.13	\$78.12	\$47.49
Concrete (Cubic Yard)	681	673	\$ 53.68	\$ 55.93	\$ 2.74	\$ 3.71
Aggregates (Ton)	4,159	4,265	\$ 4.51	\$ 4.33	\$ (0.51)	\$ 0.45

(1) As historically reported. Does not include freight and delivery costs billed to customers.

Cement. Cement revenues for Fiscal 2003 were \$173.2 million, down 5% from \$183.2 million for the prior fiscal year due to decreased sales volume and lower sales prices. Operating earnings of \$54.4 million decreased 10% from \$60.2 million in Fiscal 2002, which had been an all-time high, due to a 3% decrease in sales volume, an \$0.85 per ton sales price decline and a 2% increase in cost of sales. Cement sales volume of 2.36 million tons was 80,000 tons below Fiscal 2002 sales volume. The Company supplemented its Fiscal 2003 manufactured cement sales volume with 159,000 tons of purchased cement, down 98,000 tons from last fiscal year. All of the net sales volume decline came from purchased cement as all plants operated at their capacity and were "sold out." According to the Portland Cement Association, calendar 2002 U.S. total cement consumption of 119.8 million short tons was 3% below calendar 2001 consumption. Cement imports of 26.5 million short tons in calendar 2002 were 6.5% below prior year's cement imports. CXP's Fiscal 2003 average net sales price of \$66.84 per ton was 1% below Fiscal 2002 as lower pricing in the northern California and Texas markets was partially offset by higher pricing in the Company's other markets. Cost of sales of \$43.79 per ton increased \$0.76 per ton over Fiscal 2002 due to higher maintenance and energy costs.

Gypsum Wallboard. Gypsum Wallboard revenues of \$212.8 million increased 16% from Fiscal 2002 revenues. Higher average sales prices resulted in the revenue gain. Operating earnings totaled \$27.2 million in Fiscal 2003, up 486% from \$4.6 million in Fiscal 2002. Increased sales prices, partially offset by a \$2.49 per MSF increase in cost of sales, resulted in the earnings gain. Sales volume of 1,933 million square feet ("MMSF") in Fiscal 2003 was level with Fiscal 2002 sales volume. The Company's wallboard plants ran at approximately 72% of total annual capacity during Fiscal 2003 and 70% in Fiscal 2002. The Company's plants are currently operating at less than full capacity. Excess production capacity continues to negatively impact industry utilization rates. U.S. wallboard consumption was 30.7 billion square feet in calendar 2002, the second highest level on record, up 1.7% from calendar 2001 consumption. Despite the erosion of the September 2002 price increase, Gypsum Wallboard's Fiscal 2003 average net sales price of \$87.12 per thousand square feet ("MSF") increased 19% from Fiscal 2002's net sales price. Fiscal 2003 cost of sales of \$73.06 per MSF increased 4% from last fiscal year's cost of sales due mostly to higher energy, paper and labor costs.

Paperboard. For Fiscal 2003, Paperboard reported revenues of \$92.9 million and operating earnings of \$17.6 million compared to revenues of \$84.3 million and operating earnings of \$10.0 million for Fiscal 2002. The operating earnings gain resulted from the combination of increased sales volume, higher sales prices and a 6% decrease in cost of sales. Included in Fiscal 2002's operating earnings is a \$2.3 million loss associated with the closing of the Denver mill in last fiscal year's first quarter. Paperboard sales volume of 225,000 tons for this fiscal year was 7% greater than last fiscal year's sales volume due mostly to the sale this year of an additional 10,000 tons of kraft paper. The Company is now supplementing its gypsum wallboard paper sales volume with lower priced non-gypsum paper sales volume. The average net sales price of \$408.44 per ton for Fiscal 2003 increased 3% from last year's average sales price of \$398.13 per ton due to higher sales prices for all grades of paper. Cost of sales of \$330.22 per ton was \$20.32 per ton lower than last fiscal year's cost of sales due to decreased maintenance and chemical costs.

Concrete and Aggregates. Revenues from Concrete and Aggregates were \$56.6 million in Fiscal 2003, down 2% from \$57.6 million in Fiscal 2002. The revenue decline resulted mostly from lower Concrete sales prices. The Austin, Texas market, which is the Company's largest concrete market, continues to be negatively impacted by a depressed local economy. Fiscal 2003's operating loss of \$268,000 declined 106% from operating earnings of \$4.4 million in Fiscal 2002 mainly due to costs associated with the closing of the Georgetown quarry and lower Concrete and Aggregates operating margins. Concrete operating earnings of \$1.9 million were 25% below Fiscal 2002 operating earnings due to a 4% decrease in sales prices, partially offset by a 3% decline in cost of sales. Concrete sales volume of 681,000 cubic yards in Fiscal 2003 was 8,000 cubic yards above Fiscal 2002 sales volume. Fiscal 2003's concrete net sales price of \$53.68 per cubic yard was 4% lower than \$55.93 per cubic yard in Fiscal 2002 due to slow demand in the Austin, Texas market. Cost of sales of \$50.94 per cubic yard decreased 3% from Fiscal 2002 due to decreased materials costs at the Texas operation. Aggregates reported a Fiscal 2003 operating loss of \$2.1 million compared to a \$1.9 million operating profit in

Fiscal 2002. The earnings decline resulted from increased cost of sales along with costs associated with the closing of the Georgetown quarry. On September 3, 2002, the Company closed its aggregates quarry and processing plant in Georgetown, Texas. The decision to cease operations was due primarily to excessive manufacturing costs as well as to soft local market conditions. A portion of the plant and equipment will be deployed at the Company's other mining operations with the remainder to be sold. The amount written off during the second quarter of Fiscal 2003 from the closing was \$2.6 million. Fiscal 2003 Aggregates sales volume of 4,159,000 tons was 3% below Fiscal 2002 due to a partial year of sales volume in Fiscal 2003 from the Georgetown operation. The average net sales price of \$4.51 per ton for Fiscal 2003 was 4% higher than Fiscal 2002 due to the combination of less lower-priced Georgetown sales volume and higher sales prices at all other locations. Cost of sales (excluding Georgetown closure costs) increased 7% to \$3.88 per ton in Fiscal 2003 due mostly to excessive Georgetown production cost prior to its closing.

Other Income. Fiscal 2003 other income of \$2.9 million compares to a \$0.4 million loss in Fiscal 2002. Included in the Fiscal 2002 loss is \$0.6 million from recycled center losses and \$0.6 million of expenses related to the early retirement of subordinated debt. Other income consists of a variety of items that are non-segment operating in nature and includes clinker sales income, non-inventoried aggregates income, gypsum wallboard distribution center income, recycled fiber collection centers losses, trucking income, asset sales and other miscellaneous income and cost items.

Net Interest Expense. Net interest expense of \$9.6 million in Fiscal 2003 declined from \$13.7 million in Fiscal 2002 due to declining debt balances and lower borrowing costs. Included in last fiscal year's net interest expense is \$2.5 million of interest income relating to a note receivable that was collected during Fiscal 2002's third quarter. Included in Fiscal 2003's net interest expense is \$0.9 million of cost associated with the early termination of one of the Company's interest rate swap agreements and the partial termination of the remaining interest rate swap agreement.

Income Taxes. The effective tax rate for Fiscal 2003 and 2002 was 33.5%.

FISCAL YEAR 2002 COMPARED TO FISCAL YEAR 2001

Overview. Fiscal year 2002 marked the first full fiscal year of operating results from the Strategic Assets purchased in November 2000. The acquisition was accounted for under the purchase method of accounting. The principal assets acquired were a gypsum wallboard plant and a lightweight recycled paper mill.

Demand in the Company's two principal business segments, Cement and Gypsum Wallboard, was at and near all-time highs, respectively, in Calendar 2001. Although the Company reported record Gypsum Wallboard shipments, sales volume at each of the Company's three heritage Gypsum Wallboard plants was down from the prior year due to "over capacity" in the gypsum wallboard industry. This imbalance also negatively impacted gypsum wallboard pricing early in the fiscal year. During the middle of Fiscal 2002, the Company implemented price increases that held for the remainder of the fiscal year, and at fiscal year end, the Company implemented an additional 15% price increase. Longer term, the level of wallboard demand and prices will be determined by the strength of the housing market and wallboard industry utilization levels. The Austin, Texas economy, which is the Company's primary Concrete and Aggregates market, is being affected by weakening economic conditions, and as a result, Concrete demand was negatively impacted. Aggregates and Concrete demand is characterized by a high level of dependence on public (infrastructure) spending. Funding for highway construction projects has been and continues at a high level, and as a result, Aggregates and Concrete demand remains strong.

Consolidated Results. Consolidated net revenues for Fiscal 2002 totaled \$471.1 million, up 7% from \$441.1 million for Fiscal 2001. Increased sales volume in all segments, except Concrete, and higher net sales prices, except for Gypsum Wallboard, resulted in the revenue gain. Operating earnings of \$73.3 million in Fiscal 2002 were down 23% from last fiscal year mainly due to a \$22.5 million decline in Gypsum Wallboard operating earnings. Net interest expense of \$13.7 million in Fiscal 2002 increased \$11.3 million over Fiscal 2001 due to a full year of debt outstanding in Fiscal 2002. As a result of the foregoing, pre-tax earnings of \$59.7 million were 35% below Fiscal 2001 pre-tax earnings of \$92.3 million. The Fiscal 2002 effective tax rate of 33.5% resulted in Fiscal 2002 net earnings of \$39.7 million, a 33% decline from \$59.4 million in Fiscal 2001. Diluted earnings per share in Fiscal 2002 of \$2.15 were 33% lower than the \$3.22 for Fiscal 2001.

The following table compares sales volume, average unit sales prices and unit operating margins for the Company's segments:

	Sales Volume (thousands)		Average Net Sales Price ⁽¹⁾		Operating Margin	
	2002	2001	2002	2001	2002	2001
Cement (Ton)	2,441	2,387	\$ 67.69	\$ 67.65	\$24.66	\$24.98
Gypsum Wallboard (MSF)	1,930	1,584	\$ 72.97	\$ 91.12	\$ 2.41	\$17.11
Paperboard (Ton)	210	80	\$398.13	\$386.32	\$47.49	\$17.04
Concrete (Cubic Yard)	673	808	\$ 55.93	\$ 53.70	\$ 3.71	\$ 7.38
Aggregates (Ton)	4,265	4,009	\$ 4.33	\$ 4.16	\$ 0.45	\$ 0.40

(1) As historically reported. Does not include freight and delivery costs billed to customers.

Cement. Cement revenues for Fiscal 2002 were \$183.2 million, up 2% from \$178.8 million for the prior fiscal year due to increased sales volume. Operating earnings of \$60.2 million, an all-time-high, increased 1% from \$59.6 million in Fiscal 2001 due to a 2% increase in sales volume being partially offset by a 1% decline in operating margins. Cement sales volume of 2.44 million tons, also an all-time-high, was 54,000 tons higher than Fiscal 2001 sales volume. Favorable weather conditions and record U.S. cement consumption contributed to the sales volume gain. All plants experienced sales volume gains and again operated at their capacity and were "sold out." The Company supplemented its Fiscal 2002 manufactured cement sales volume with 257,000 tons of purchased cement, up 99,000 tons from last fiscal year. Fueled by strong infrastructure spending, calendar 2001 U.S. total cement consumption of 123.8 million short tons was 3% above calendar 2000 consumption. Cement imports of 28.4 million short tons in calendar 2001 were 10% below prior year's cement imports. The Fiscal 2002 average net sales price of \$67.69 per ton was level with Fiscal 2001 as lower pricing in the Illinois and Texas markets was offset by higher pricing in the Company's western markets. Operating margin of \$24.66 per ton decreased \$0.32 per ton from Fiscal 2001 due to higher power, fuel and maintenance costs and the cost impact from the 63% increase in higher cost purchased cement sales volume.

Gypsum Wallboard. Fiscal 2002 Gypsum Wallboard revenues of \$183.5 million decreased 2% from Fiscal 2001 revenues. Lower average sales prices, partially offset by increased sales volume, resulted in the revenue decline. Operating earnings totaled \$4.6 million in Fiscal 2002, down 83% from \$27.1 million in Fiscal 2001. Increased sales volume offset by an 86% decrease in operating margins, due primarily to lower pricing, resulted in the earnings decline. Sales volume of 1,930 million square feet ("MMSF") in Fiscal 2002 increased 22% from Fiscal 2001 sales volume. Fiscal 2002 sales volume gain resulted from a full year of sales from the Oklahoma wallboard plant that was acquired during the middle of Fiscal 2001's third quarter, partially offset by reduced shipments at each of the Company's heritage wallboard plants. The Company's wallboard plants ran at approximately 70% of combined annual capacity during Fiscal 2002 compared to 82% last fiscal year. The Company's plants were operating at less than full capacity. Excess production capacity continues to negatively impact industry utilization rates. U.S. wallboard consumption was 30.2 billion square feet in calendar 2001, the second highest level on record. Gypsum Wallboard's Fiscal 2002 average net sales price of \$72.97 per thousand square feet ("MSF") declined 20% from Fiscal 2001's net sales price. Pricing declined during the first part of Fiscal 2002 until the Company successfully implemented price increases late in Fiscal 2002's second quarter. Pricing held during the remainder of Fiscal 2002, and at fiscal year end, the Company implemented an additional 15% price increase. Operating margin of \$2.41 per MSF declined 86% from Fiscal 2001's \$17.11 per MSF operating margin. The operating margin decline resulted from lower sales prices, partially offset by a \$3.45 per MSF decrease in cost of sales. Fiscal 2002 cost of sales of \$70.56 per MSF decreased 5% from last fiscal year's cost of sales due to reduced energy costs and the impact from lower Duke production cost, partially offset by the impact on fixed costs from decreased production volume at the Company's heritage wallboard plants.

Paperboard. Paperboard reported Fiscal 2002 revenues and operating earnings of \$84.3 million and \$10.0 million, respectively, compared to revenues of \$31.5 million and operating earnings of \$1.4 million in Fiscal 2001. The Paperboard

operations were acquired during the third quarter of Fiscal 2001. Fiscal 2002 revenues of \$84.3 million increased 168% from Fiscal 2001 due to a full year of sales volume and higher net pricing. Fiscal 2002 sales volume of 210,000 tons was 162% greater than the prior year's sales volume. Approximately 32% of Fiscal 2002 sales volume was sales to the Company's gypsum wallboard plants. The average net sales price of \$398.13 per ton increased 3% from Fiscal 2001's net sales price. Fiscal 2002's net sales price was favorably impacted by the smaller percentage of lower-priced non-gypsum paper sales volume to total sales volume. Operating earnings of \$10.0 million for Fiscal 2002 increased 629% from Fiscal 2001 due to increased sales volume and higher operating margins. Operating earnings were negatively impacted early in Fiscal 2002 by costs associated with closing the Denver mill on April 23, 2001. The Denver mill's production requirements were transferred to the Lawton, Oklahoma mill. The Denver mill reported a \$2.3 million loss for Fiscal 2002. Cost of sales of \$350.64 per ton for Fiscal 2002 declined 5% from Fiscal 2001's cost of sales. Reduced energy costs and improved operating efficiencies were major contributors to the cost of sales reduction. Excluding the Denver mill results, Fiscal 2002's cost of sales would have been \$339.22 per ton. The Lawton mill is now capable of running at its designed capacity of 220,000 tons annually. The recycled paper centers were sold after Fiscal 2002's year end. Fiscal 2002 recycled paper center operating losses of \$0.6 million are reported in other income.

Concrete and Aggregates. Revenues from Concrete and Aggregates were \$57.6 million in Fiscal 2002, down 6% from \$61.1 million in Fiscal 2001. The revenue decline resulted from decreased Concrete sales volume, partially offset by higher Concrete and Aggregates sales prices and increased Aggregates sales volume. The Austin, Texas market, which is the Company's largest Concrete and Aggregates market, has enjoyed exemplary growth over the past decade. However, in Fiscal 2002, Austin was negatively impacted by the troubles of the technology companies. Fiscal 2002 operating earnings of \$4.4 million declined 42% from \$7.6 million in Fiscal 2001. Decreased Concrete sales volume and operating margins, partially offset by increased Aggregates sales volume and operating margins, resulted in the earnings decline. Concrete operating earnings of \$2.5 million for Fiscal 2002 were 58% below Fiscal 2001 operating earnings. Concrete sales volume of 673,000 cubic yards in Fiscal 2002 declined 17% from Fiscal 2001 due to decreased demand in the Austin, Texas market. Concrete's Fiscal 2002 net sales price of \$55.93 per cubic yard was 4% higher than the \$53.70 per cubic yard in Fiscal 2001. The net sales price gain resulted mainly from higher prices in the California market. The Austin, Texas market experienced some price weakening late in Fiscal 2002. Cost of sales of \$52.22 per cubic yard in Fiscal 2002 increased 13% from Fiscal 2001 due to higher materials and operating costs. Aggregates Fiscal 2002 operating earnings of \$1.9 million increased 20% from \$1.6 million in Fiscal 2001 as a result of increased sales volume and higher operating margins. Fiscal 2002 Aggregates sales volume of 4,265,000 tons was 6% greater than Fiscal 2001 due to 223,000 tons of additional sales volume from the Texas operations. The Georgetown Aggregates plant expansion was completed mid-Fiscal 2002 and by fiscal year-end was producing commercial aggregates products. The average net sales price of \$4.33 per ton for Fiscal 2002 was 4% higher than \$4.16 per ton in Fiscal 2001. Cost of sales of \$3.88 per ton in Fiscal 2002 increased 3% from Fiscal 2001 due to increased production costs at the Texas operations.

Net Interest Expense. Net interest expense of \$13.7 million in Fiscal 2002 was \$11.3 million greater than the \$2.4 million in Fiscal 2001 due to a full year of debt outstanding in Fiscal 2002. On November 10, 2000, the Company utilized \$150.0 million of cash on hand and incurred \$280.0 million of new debt to complete the acquisition of the Strategic Assets. The increase in net interest expense was somewhat mitigated by declining interest rates on the Company's variable rate debt.

Other Income. Fiscal 2002 other income recorded a \$0.4 million loss compared to a \$3.7 million profit in Fiscal 2001. Included in the Fiscal 2002 loss is \$0.6 million of recycled center losses, \$0.6 million of expenses related to the early retirement of subordinated debt and \$0.4 million less distribution center income. Included in Fiscal 2001 results is a \$1.9 million gain on the disposition of investment securities owned by the Company. Other income consists of a variety of items that are non-segment operating in nature and includes clinker sales income, non-inventoried aggregates income, gypsum wallboard distribution center income, recycled waste paper earnings, trucking income, asset sales and other miscellaneous income and cost items.

CRITICAL ACCOUNTING POLICIES

Certain of the Company's critical accounting policies require the use of judgment in their application or require estimates of inherently uncertain matters. Although the Company's accounting policies are in compliance with generally accepted accounting principles, a change in the facts and circumstances of the underlying transactions could significantly change

the application of the accounting policies and the resulting financial statement impact. Listed below are those policies that the Company believes are critical and require the use of complex judgment in their application.

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

Goodwill. The Company early adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets." Upon the adoption of SFAS No. 142, goodwill is no longer subject to amortization. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based test. If the carrying amounts exceed the fair value, an impairment has occurred. The Company continually evaluates whether events and circumstances have occurred that indicate the remaining balance of goodwill may not be recoverable. In evaluating impairment, the Company estimates the sum of the expected future cash flows derived from such goodwill over its remaining life. Similar to the review for impairment of other long-lived assets, evaluations for impairment are significantly impacted by estimates of future prices for the Company's products, capital needs, economic trends and other factors.

Environmental Liabilities. The Company's operations are subject to state, federal and local environmental laws and regulations, which impose liability for cleanup or remediation of environmental pollution and hazardous waste arising from past acts; and require pollution control and prevention, site restoration and operating permits and/or approvals to conduct certain of its operations. The Company records environmental accruals when it is probable that a reasonably estimable liability has been incurred. Environmental remediation accruals are based on internal studies and estimates, including shared financial liability with third parties. Environmental expenditures that extend the life, increase the capacity, improve the safety or efficiency of assets or mitigate or prevent future environmental contamination may be capitalized. Other environmental costs are expensed when incurred.

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

LIQUIDITY AND CAPITAL RESOURCES

On November 10, 2000, the Company's \$35.0 million unsecured revolving credit facility used to finance its working capital and capital expenditures requirements was cancelled and replaced with a new \$325.0 million senior revolving credit facility. During the quarter ended June 30, 2001, pursuant to an Amended and Restated Credit Agreement, the credit facility was amended to reduce the facility amount from \$325.0 million to \$275.0 million and to modify certain financial and other covenants (the "Amended Credit Facility"). During the quarter ended September 30, 2002, the Company again reduced the Amended Credit Facility amount from \$275.0 million to \$175.0 million. On March 25, 2003, pursuant to the Second Amended and Restated Credit Agreement, the Amended Credit Facility was amended to reduce the facility amount from \$175.0 million to \$155.0 million, modify certain financial and other covenants and extend the maturity date three years (the "New Credit Facility"). The principal balance of the New Credit Facility matures on March 25, 2006. At March 31, 2003 and 2002, the Company had \$55.0 million outstanding under the New Credit Facility and \$163.0 million outstanding under the Amended Credit Facility, respectively. The borrowings under the New Credit Facility are guaranteed by all major operating subsidiaries of the Company. At the option of the Company, outstanding principal amounts on the New Credit Facility bear interest at a variable rate equal to: (i) LIBOR, plus an agreed margin (ranging from 100 to 200 basis points), which is to be established quarterly based upon the Company's ratio of EBITDA to total funded debt; or (ii) an alternate base rate which is the higher of (a) the prime rate or (b) the federal funds rate plus ½% per annum, plus an agreed margin (ranging from 0 to 100 basis points). Interest payments are payable monthly or at the end of the LIBOR advance periods, which can be up to a period of six months at the option of the Company. Under

the New Credit Facility, the Company is required to adhere to a number of financial and other covenants, including covenants relating to the Company's interest coverage ratio, consolidated funded indebtedness ratio and minimum tangible net worth. The Company had \$91.2 million and \$105.8 million of borrowings available at March 31, 2003 and 2002, respectively.

Also, on November 10, 2000, a subsidiary of the Company (the "Debtor Subsidiary") assumed \$100.0 million of 9.5% senior subordinated notes (the "Notes") with a maturity date of July 15, 2008. Interest payments on the Notes are due on January 15 and July 15. The Notes are redeemable at the option of the Debtor Subsidiary, in whole or in part, at any time after July 15, 2003. Upon the acquisition of certain strategic assets on November 10, 2000, the Debtor Subsidiary was required to commence a tender offer for the Notes at 101%. On December 20, 2000, \$90.0 million in principal amount of the Notes was tendered, leaving \$10.0 million outstanding. During the June 30, 2001 quarter, the Debtor Subsidiary commenced another tender offer for the Notes at 108.75%. On June 28, 2001, the Debtor Subsidiary purchased \$9.5 million in principal amount of the Notes, leaving \$0.5 million outstanding. Prior to the commencement of the second tender offer, the Debtor Subsidiary obtained the necessary consents from a majority of holders of the Notes to eliminate certain covenants and reporting requirements.

On June 29, 2001, the Company entered into a \$50.0 million trade receivables securitization facility (the "Receivables Securitization Facility"), which is funded through the issuance of commercial paper and backed by a 364-day committed bank liquidity arrangement. The Receivables Securitization Facility has a termination date of June 10, 2004, subject to a 364-day bank commitment that was renewed on June 28, 2002 for another 364-day period terminating on June 28, 2003. The purpose of the Receivables Securitization Facility is to obtain financing at a lower interest rate by pledging accounts receivable. The Receivables Securitization Facility is fully consolidated on the balance sheet. Subsidiary company receivables are sold on a revolving basis first to the Company and then to a wholly owned special purpose bankruptcy remote entity of the Company. This entity pledges the receivables as security for advances under the facility. The borrowed funds are used to pay down borrowings under the New Credit Facility. Outstanding principal amounts under the Receivables Securitization Facility bear interest at the commercial paper rate plus a facility fee. Under the Receivables Securitization Facility, the Company is required to adhere to certain financial and other covenants that are similar to those in the New Credit Facility. The Company had \$25.3 million and \$18.6 million outstanding under the Receivables Securitization Facility at March 31, 2003 and 2002, respectively.

The Company funds the growth of its business through the combination of cash flow from operations, advances under the receivables securitization program and bank borrowings. Liquidity is not currently dependent on the use of off-balance sheet transactions other than normal operating leases. The Company believes that cash on hand, cash provided by operations and funds available under the Receivables Securitization Facility and the New Credit Facility should be sufficient to cover working capital needs, capital expenditures and debt service requirements for the next twelve months.

Other than the Receivables Securitization Facility and the New Credit Facility, the Company has no other financing alternatives in place. In the event the Receivables Securitization Facility is terminated, funds should be available under the New Credit Facility to repay borrowings. However, if the New Credit Facility is terminated, no assurance can be given as to the Company's ability to secure a new source of financing. Consequently, if a balance is outstanding on the New Credit Facility at the time of termination, and an alternative source of financing cannot be secured, it would have a material adverse impact on the Company.

The Company uses interest rate swaps to mitigate interest rate risk associated with its variable rate debt. On July 19, 2001, the Company entered into two interest rate swap agreements which have the effect of converting a total notional amount of \$100.0 million of the Company's debt from a variable rate of interest to a fixed rate of interest. The Company receives three month LIBOR and pays a fixed rate of interest under these agreements. These agreements expire on August 28, 2003. On November 22, 2002, the Company terminated one of its interest rate swap agreements with a notional amount of \$25.0 million. On February 28, 2003, the Company terminated \$20.0 million of the remaining \$75.0 million interest rate swap agreement. At March 31, 2003, the Company recorded a cumulative net after-tax loss of \$0.6 million to Accumulated Other Comprehensive Losses for the change in fair value of the remaining swap agreement.

The Company does not have any off balance sheet debt, except for operating leases (see Note F). Other than the Receivables Securitization Facility, the Company does not have any other transactions, arrangements or relationships with "special purpose" entities. Also, the Company has no outstanding debt guarantees. The Company has available under the New Credit Facility a \$50.0 million Letter of Credit Facility. At March 31, 2003, the Company had \$8.8 million of letters of credit outstanding that renew annually. Also, the Company is contingently liable for performance under \$3.2 million in performance bonds relating primarily to its mining operations.

Based on its financial condition at March 31, 2003, the Company believes that its internally generated cash flow coupled with funds available under various credit facilities will enable it to provide adequately for its current operations and future growth. The Company was in compliance at March 31, 2003 and during the twelve months ended March 31, 2003 with all the terms and covenants of its credit agreements.

Working capital at March 31, 2003 was \$28.2 million compared to \$26.5 million at March 31, 2002. The increase resulted from a \$2.2 million increase in cash and a \$8.5 million decline in accounts payable and accrued liabilities, partially offset by a \$6.6 million increase in note payable and a \$2.4 million decrease in accounts and notes receivable and inventories.

Cash and cash equivalents increased \$2.2 million from March 31, 2002 to \$13.6 million at March 31, 2003. The net cash provided by or used in the operating, investing, and financing activities for the fiscal years ended March 31, 2003 and 2002 is summarized below:

	For the Years Ended March 31,	
	2003	2002
	(dollars in thousands)	
Net Cash Provided by (Used In):		
Operating Activities	\$ 120,663	\$120,643
Investing Activities	(10,876)	(18,169)
Financing Activities	(107,591)	(99,818)
Net Increase in Cash	<u>\$ 2,196</u>	<u>\$ 2,656</u>

Cash provided by operating activities of \$120.7 million for Fiscal 2003 was level with last fiscal year. A \$17.9 million increase in net earnings and a \$8.5 million increase in deferred tax liability and depreciation was offset by a \$29.5 million decrease in net working capital. The majority of the working capital decline was due to the collection in Fiscal 2002 of a \$24.3 million note receivable. Cash used for investing activities of \$10.9 million declined \$7.3 million compared to last fiscal year due to the combination of a \$2.6 million increase in asset sale proceeds and a \$4.7 million decrease in capital expenditures. Cash used in financing activities for this fiscal year of \$107.6 million increased \$7.8 million over last fiscal year due to an additional \$5.0 million net reduction in total debt and \$8.1 million in stock repurchases, partially offset by a \$5.4 million increase in net proceeds from stock option exercises.

During Fiscal 2003 total debt was reduced by \$101.5 million from \$182.4 million at March 31, 2002 to \$80.9 million at March 31, 2003. Debt-to-Capitalization at March 31, 2003 was 14.4%, down from 29.9% at March 31, 2002.

In Fiscal 2003, the Company utilized its regular and alternative minimum tax carryovers from Fiscal 2002. Remaining net operating loss carryovers available for Fiscal 2003 amount to \$34.6 million and \$4.0 million for regular and alternative minimum tax, respectively. The net operating loss carryovers, if unused, will expire after Fiscal 2022.

OTHER DEVELOPMENTS

On September 3, 2002, the Company announced the closing of its aggregates quarry and crushing plant in Georgetown, Texas, north of Austin. The decision to cease operations at the Georgetown plant was due primarily to excessive manufacturing costs as well as to soft local market conditions. A portion of the plant and equipment will be deployed to the Company's other mining operations. The unused portion of the plant and equipment will be sold.

On March 31, 2003, the Company's President and Chief Executive Officer, Richard D. Jones, Jr., retired. He also resigned from the Company's Board of Directors. Laurence E. Hirsch assumed Mr. Jones' responsibilities and became its Chief Executive Officer. Mr. Hirsch has been the Company's Chairman since the Company became publicly held in 1994. Mr. Hirsch is also Chairman and Chief Executive Officer of the Company's majority owner, Centex Corporation, and has extensive experience in the construction products business.

STOCK REPURCHASE PROGRAM

The Company's Board of Directors has approved the repurchase of a cumulative total of 6,101,430 shares of the Company's stock since the Company became publicly held in April 1994. The Company repurchased 223,384 shares at a cost of \$8.1 million in Fiscal 2003 and no shares in Fiscal 2002. At March 31, 2003, Centex Corporation owned approximately 65.1% of the outstanding shares of the Company's common stock. At March 31, 2003, there are approximately 519,900 shares remaining under the Company's current repurchase authorization.

PURCHASE OF STRATEGIC ASSETS

On November 10, 2000, the Company acquired selected strategic assets. The purchase price was \$342.2 million cash plus the assumption by a subsidiary of \$100.0 million of subordinated debt. Funding came from cash on hand and borrowings under a new \$325.0 million senior credit facility entered into during November 2000 (reduced to the current \$155.0 million level).

The principal strategic assets acquired were: a 1.1 billion square foot gypsum wallboard plant located at Duke, Oklahoma; a short line railroad and railcars linking the Duke plant to adjacent railroads; and a 220,000 ton-per-year lightweight recycled paperboard mill in Lawton, Oklahoma. The gypsum wallboard plant is operated by the Company's American Gypsum Company, located in Albuquerque, New Mexico. The paperboard operation is located in Lawton, Oklahoma and focuses primarily on the gypsum wallboard paper business.

INFLATION AND CHANGING PRICES

Inflation has become less of a factor in the U.S. economy as the rate of increase has moderated during the last several years. The Consumer Price Index rose approximately 2.4% in calendar 2002, 1.6% in 2001, and 3.4% in 2000. Prices of materials and services, with the exception of power and natural gas, have remained relatively stable over the three-year period. Strict cost control and improving productivity also minimize the impact of inflation. The ability to recover increasing costs by obtaining higher sales prices varies with the level of activity in the construction industry, the number, size, and strength of competitors and the availability of products to supply a local market.

GENERAL OUTLOOK

Despite decreased cement consumption and eroding wallboard prices during Fiscal 2003, the outlook for Fiscal 2004 is favorable with cement and wallboard consumption forecasted to remain at relatively high levels. Cement prices are currently stable and a wallboard price increase has been implemented in early May, 2003. In addition, the profitability of CXP's paperboard operations continues to steadily increase as operating efficiencies continue to improve. Fiscal 2004 interest expense is expected to decline significantly as the Company continues to reduce debt. Like many other companies, CXP is experiencing cost pressures in areas such as natural gas and raw materials. Assuming prices and demand remain at current levels for CXP's products, along with the expected decline in interest expense, the Company expects to report higher earnings for Fiscal 2004 than it did for Fiscal 2003.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which is effective for fiscal years beginning after June 15, 2002. SFAS No. 143 requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost should be capitalized as part of the related long-lived asset and allocated to expense over the useful life of the asset. The Company will adopt SFAS No. 143 in the first quarter of Fiscal 2004, and, based on current circumstances, does not believe that the impact of adoption of SFAS No. 143 will have a material impact on the Company's financial position or results of operations.

In July 2002, the Financial Accounting Standards Board issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between SFAS No. 146 and EITF Issue No. 94-3 relates to SFAS No. 146's requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS No. 146 requires that a liability for a cost associated with an exit

or disposal activity be recognized when the liability is incurred. Under EITF Issue No. 94-3, a liability for an exit cost was recognized at the date an entity committed to an exit plan. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of this standard is not expected to have a material impact on the consolidated financial statements of the Company.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires a guarantor to recognize a liability for the fair value of the obligation at the inception of the guarantee. The disclosure requirements of FIN 45, which are already effective, are disclosed in Note F - "Commitments and Contingencies," while the recognition provisions will be applied on a prospective basis to guarantees issued after December 31, 2002. The Company does not expect the adoption of FIN 45 to have a material effect on its consolidated financial statements.

In January 2003, the Financial Accounting Standard Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities," clarifying the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements" ("FIN 46"), to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of FIN 46 are applicable no later than July 1, 2003. The Company is currently evaluating the impact of FIN 46 on its consolidated financial statements.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 provides for expanded disclosure concerning stock-based compensation, including disclosures in interim financial statements, and amends SFAS No. 123. SFAS No. 148's transition guidance and provisions for annual disclosures are effective for fiscal years ended after December 15, 2002. As of March 31, 2003, the Company adopted the disclosure requirements of SFAS No. 148.

FORWARD-LOOKING STATEMENTS

Certain sections of this Management's Discussion and Analysis of Results of Operations and Financial Condition contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Litigation Reform Act of 1995. Forward-looking statements may be identified by the context of the statement and generally arise when the Company is discussing its beliefs, estimates or expectations. These statements involve known and unknown risks and uncertainties that may cause the Company's actual results to be materially different from planned or expected results. Those risks and uncertainties include, but are not limited to:

- levels of construction spending in major markets
- supply/demand structure of cement and wallboard industries
- significant changes in the cost of fuel, energy and other raw materials
- availability of raw materials
- the cyclical nature of our business
- national and regional economic conditions
- interest rates
- seasonality of our operations
- unfavorable weather conditions during peak construction periods
- changes in and implementation of environmental and other governmental regulations
- the ability to successfully identify, complete and efficiently integrate acquisitions
- the ability to successfully penetrate new markets
- international events that may disrupt the world economy
- unexpected operation difficulties
- competition from new or existing competitors

In general, the Company is subject to the risks and uncertainties of the construction industry and of doing business in the U.S. The forward-looking statements are made as of the date of this report, and the Company undertakes no obligation to update them, whether as a result of new information, future events or otherwise.

SELECTED FINANCIAL DATA

(dollars in thousands, except per share data) (unaudited)

	2003	2002	2001
Revenues ⁽¹⁾	\$501,257	\$471,083	\$441,127
Net Earnings	\$ 57,606	\$ 39,706	\$ 59,429
Total Assets	\$712,078	\$743,352	\$794,622
Total Long-term Debt	\$ 55,670	\$163,750	\$278,828
Total Debt	\$ 80,927	\$182,380	\$278,828
Deferred Income Taxes	\$ 80,461	\$ 53,781	\$ 33,363
Stockholders' Equity	\$479,832	\$427,832	\$392,320
Total Debt as a Percent of Total Capitalization (Total Debt and Stockholders' Equity)	14.4%	29.9%	41.5%
Net Earnings as a Percent of Beginning Stockholders' Equity	13.5%	10.1%	17.5%
Per Common Share			
Diluted Net Earnings ⁽²⁾	\$ 3.11	\$ 2.15	\$ 3.22
Cash Dividends ⁽³⁾	\$ 0.20	\$ 0.20	\$ 0.20
Book Value Based on Shares Outstanding at Year End ⁽²⁾	\$ 26.10	\$ 23.30	\$ 21.40
Stock Prices			
High	\$ 45.25	\$ 39.90	\$ 33.50
Low	\$ 31.25	\$ 25.70	\$ 21.75

(1) The Company adopted the provisions of Emerging Issues Task Force Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs," during fiscal year 2001. As a result of this adoption, net revenues have been restated to include freight and delivery costs billed to customers. Previously such billings were offset against corresponding expenses in cost of sales.

(2) Prior to April 1994, CXP was a wholly owned subsidiary of Centex Corporation and accordingly did not report per share information. To facilitate comparisons between periods, per share data for 1994 has been presented using the 23,000,000 shares outstanding immediately after the Initial Public Offering.

(3) Declared initial quarterly cash dividend of five cents per share on March 12, 1996.

For the Years Ended March 31,

2000	1999	1998	1997	1996	1995	1994
\$470,465	\$381,900	\$344,264	\$278,144	\$258,637	\$222,672	\$193,038
\$108,232	\$ 77,289	\$ 56,533	\$ 41,799	\$ 33,944	\$ 21,820	\$ 10,240
\$438,139	\$364,683	\$351,112	\$305,637	\$269,575	\$250,103	\$257,315
\$ 400	\$ 480	\$ 560	\$ 640	\$ 720	\$ 24,500	\$ 15,585
\$ 400	\$ 480	\$ 560	\$ 2,640	\$ 720	\$ 24,500	\$ 16,200
\$ 24,360	\$ 25,158	\$ 22,250	\$ 18,835	\$ 14,344	\$ 6,705	\$ 37,925
\$340,472	\$279,920	\$274,803	\$239,436	\$216,462	\$183,405	\$170,839
0.1%	0.2%	0.2%	1.1%	0.3%	11.8%	8.7%
38.7%	28.1%	23.6%	19.3%	18.5%	12.8%	6.4%
\$ 5.63	\$ 3.71	\$ 2.56	\$ 1.89	\$ 1.47	\$ 0.95	\$ 0.45
\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.05	—	—
\$ 18.33	\$ 14.18	\$ 12.77	\$ 10.89	\$ 9.42	\$ 7.99	\$ 7.43
\$ 41.81	\$ 45.13	\$ 39.00	\$ 20.00	\$ 15.50	\$ 14.38	—
\$ 22.63	\$ 31.25	\$ 18.00	\$ 12.50	\$ 11.38	\$ 8.88	—

(dollars in thousands, except per share data) (unaudited)

	2003	2002
FIRST QUARTER		
Revenues	\$128,775	\$117,423
Earnings Before Income Taxes	\$ 25,161	\$ 8,142
Net Earnings	\$ 16,735	\$ 5,455
Diluted Earnings Per Share	\$ 0.90	\$ 0.30
SECOND QUARTER		
Revenues	\$135,993	\$129,545
Earnings Before Income Taxes	\$ 24,218	\$ 17,921
Net Earnings	\$ 16,107	\$ 11,880
Diluted Earnings Per Share	\$ 0.87	\$ 0.64
THIRD QUARTER		
Revenues	\$119,089	\$112,750
Earnings Before Income Taxes	\$ 23,122	\$ 17,427
Net Earnings	\$ 15,378	\$ 11,590
Diluted Earnings Per Share	\$ 0.83	\$ 0.63
FOURTH QUARTER		
Revenues	\$117,400	\$111,365
Earnings Before Income Taxes	\$ 14,112	\$ 16,209
Net Earnings	\$ 9,386	\$ 10,781
Diluted Earnings Per Share	\$ 0.51	\$ 0.58

BOARD OF
DIRECTORS
Robert L. Clarke ^(2,3)
*Senior Partner,
Bracewell & Patterson, L.L.P.*

Timothy R. Eller
*President and
Chief Operating Officer,
Centex Corporation*

Laurence E. Hirsch ⁽¹⁾
*Chairman and
Chief Executive Officer,
Centex Corporation
and Chairman and
Chief Executive Officer,
Centex Construction
Products, Inc.*

Michael R. Nicolais ^(2,3)
*Managing Director,
Stephens Inc.*

David W. Quinn
*Former Vice Chairman,
Centex Corporation*

Harold K. Work ^(2,3)
*Former Chairman,
Elcor Corporation*

(Numbers in parentheses indicate
Board Committees)

(1) Executive Committee

(2) Compensation and Stock
Option Committee

(3) Audit Committee

CENTEX
CONSTRUCTION
PRODUCTS, INC.
Laurence E. Hirsch
*Chairman and
Chief Executive Officer*

Steven R. Rowley
*Executive Vice President and
Chief Operating Officer*

H.D. House
*Executive Vice President-
Gypsum/Paperboard*

Gerald J. Essl
*Executive Vice President-
Cement and
Concrete/Aggregates*

James H. Graass
*Executive Vice President,
General Counsel and
Secretary*

Arthur R. Zunker, Jr.
*Senior Vice President-Finance,
Treasurer and
Chief Financial Officer*

William C. Boor
*Senior Vice President-
Marketing and Strategic
Planning*

Rodney E. Cummickel
Vice President

Hubert L. Smith, Jr.
Vice President

AMERICAN
GYPSUM COMPANY
H.D. House
President

David B. Powers
*Executive Vice President-
Marketing*

Kerry G. Gannaway
Vice President

Geoff W. Gray
Vice President

Keith W. Metcalf
Vice President

Mary Schafer
Vice President

CENTEX
MATERIALS LLC
Philip Bowden
President

J. David Loftis
Vice President

C. Douglas Westbrook
Vice President

ILLINOIS CEMENT
COMPANY
Wayne W. Emmer
President

Thomas F. Clarke
Vice President

Frank P. Koepfel
Vice President

MATHEWS
READYMIX LLC
Joe Chevreaux, Jr.
President

James D. Elliott
Vice President

MOUNTAIN CEMENT
COMPANY
Bruce E. Ballinger
President

John Arellano
Vice President

NEVADA CEMENT
COMPANY
Nicholas Stiren
President

John R. Bremner
Vice President

Gary J. Roma
Vice President

REPUBLIC
PAPERBOARD
COMPANY LLC
H.D. House
President

TEXAS-LEHIGH
CEMENT COMPANY LP
Robert Kidnew
President

R. Lee Hunter
Vice President

Jason L. Gibert
Vice President

WESTERN
AGGREGATES LLC
Joe Chevreaux, Jr.
President

James D. Elliott
Vice President

C O R P O R A T E H E A D Q U A R T E R S

2728 N. Harwood, Suite 600
Dallas, Texas 75201-1516
(214) 981-5000 (Telephone)
(214) 981-6559 (Fax)
Mailing Address: P.O. Box 199000
Dallas, Texas 75219-9000

T R A N S F E R A G E N T A N D R E G I S T R A R

Mellon Investor Services LLC
85 Challenger Road
Overpeck Center
Ridgefield Park, NJ 07660
1-800-635-9270 (Toll-Free)

S T O C K L I S T I N G S

New York Stock Exchange
Ticker Symbol "CXP"

A N N U A L M E E T I N G

The Annual Meeting of Stockholders of Centex Construction Products, Inc. will be held on Monday, July 21, 2003 at 10:00 a.m. on the 10th floor at its corporate office, 2728 N. Harwood, Dallas, Texas.

S T O C K H O L D E R I N Q U I R I E S

Communications concerning transfer requirements, lost certificates, dividends or change of address should be sent to Mellon Investor Services LLC at the address listed above.

F O R M 1 0 - K

A copy of the Annual Report on Form 10-K of Centex Construction Products, Inc. is available upon request to the Senior Vice President-Finance at corporate headquarters.