

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended March 31, 2001

Commission File No. 1-12984

**CENTEX CONSTRUCTION PRODUCTS, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State of Incorporation)

75-2520779  
(I.R.S. Employer Identification No.)

2728 N. Harwood, Dallas, Texas 75201  
(Address of principal executive offices)

(214) 981-5000  
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock (par value \$.01 per share)	New York Stock Exchange

Securities Registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X]. No [ ].

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to Form 10-K. [X].

The aggregate market value of the Centex Construction Products, Inc. common stock held by non-affiliates of the registrant on June 21, 2001 was approximately \$196 million.

Indicate the number of shares of the registrant's classes of common stock (or other similar equity securities) outstanding as of the close of business on June 21, 2001:

Common Stock	18,342,832 shares
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**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the following documents are incorporated by reference in Parts I, II, and III, of this Report:

- 2001 Annual Report to Stockholders of Centex Construction Products, Inc. for the fiscal year ended March 31, 2001.
- Proxy statement for the annual meeting of stockholders of Centex Construction Products, Inc. to be held on July 17, 2001.

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PART I

ITEM 1. BUSINESS

*General*

Centex Construction Products, Inc. ("CXP" or the "Company") is a producer of a variety of basic construction products used in residential, industrial, commercial and infrastructure applications. Unless the context indicates to the contrary, the terms "CXP" and the "Company" as used herein, should be understood to include subsidiaries of CXP and predecessor corporations. The Company produces and sells cement, gypsum wallboard, recycled paperboard, aggregates and readymix concrete. The Company is incorporated in the state of Delaware. Prior to April 19, 1994, the Company was a wholly-owned subsidiary of Centex Corporation ("Centex"). On April 19, 1994, the Company completed an Initial Public Offering ("IPO") of 51% of its common stock. As a result of the IPO, Centex's ownership of the Company was reduced to 49%. The Company's common stock ("CXP Common Stock"), began trading publicly on the New York Stock Exchange on April 19, 1994. As of June 21, 2001, 18,342,832 shares of CXP Common Stock were outstanding.

As a result of repurchases by CXP of its common stock from the public since fiscal year 1997, and certain purchases of CXP common stock by Centex from the public, Centex owned approximately 65.2% of the outstanding shares of CXP Common Stock at March 31, 2001.

CXP's involvement in the construction products business dates to 1963, when it began construction of its first cement plant. Since that time, the Company's operations have expanded to include additional cement production and distribution facilities and the production, distribution and sale of aggregates, readymix concrete, gypsum wallboard and recycled paperboard. The Company's production facilities are located principally in the western half of the U.S. and in certain key southwestern states.

On November 10, 2000 the Company acquired certain selected strategic assets (the "Strategic Assets Purchase"). The purchase price was \$442.2 million (which included the assumption by a subsidiary of \$100 million of subordinated debt plus accrued interest). The principal strategic assets acquired were: a gypsum wallboard plant with 1.1 billion square feet of capacity located at Duke, Oklahoma; a short line railroad and railcars linking the Duke plant to adjacent railroads; a recently completed 220,000 ton-per-year lightweight recycled paperboard mill in Lawton, Oklahoma; a 50,000 ton-per-year recycled paperboard mill located in Commerce City, Colorado; and three recycled paper fiber collection sites. The gypsum wallboard operations are operated by CXP's American Gypsum Company located in Albuquerque, New Mexico. The paperboard operations are located in Lawton, Oklahoma and will focus primarily on the gypsum paperboard business.

## Industry Segment Information

The following table presents revenues and earnings before interest and income taxes contributed by each of the Company's industry segments during the periods indicated. Identifiable assets, depreciation, depletion and amortization, and capital expenditures by segment are presented in Note E of the Notes to the Consolidated Financial Statements of CXP on pages 29 and 30 of CXP's Annual Report to Stockholders for the fiscal year ended March 31, 2001 (the "2001 CXP Annual Report"). The contribution from assets acquired in the Strategic Assets Purchase only include results from the date of acquisition.

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	For The Fiscal Years Ended March 31,				
	2001	2000	1999	1998	1997
	(dollars in millions)				
Contribution to Revenues <sup>(1)</sup> :					
Cement	\$ 178.8	\$ 175.4	\$ 168.5	\$ 158.2	\$ 152.6
Gypsum Wallboard	187.3	244.2	170.9	147.3	91.5
Paperboard	31.5	—	—	—	—
Concrete and Aggregates	61.1	55.9	47.3	42.6	36.9
Other, net	3.7	1.2	1.7	1.9	1.8
	462.4	467.8	388.4	350.0	282.8
Less Intersegment Sales	(21.3)	(6.3)	(6.5)	(5.7)	(4.7)
<b>Total Net Revenues</b>	<b>\$ 441.1</b>	<b>\$ 470.5</b>	<b>\$ 381.9</b>	<b>\$ 344.3</b>	<b>\$ 278.1</b>
Contribution to Operating Earnings:					
Cement	\$ 59.6	\$ 53.0	\$ 56.8	\$ 48.1	\$ 39.8
Gypsum Wallboard	27.1	107.6	56.6	35.8	20.5
Paperboard	1.4	—	—	—	—
Concrete and Aggregates	7.5	9.3	7.4	4.5	4.8
Other, net	3.7	1.2	1.7	1.9	1.8
	99.3	171.1	122.5	90.3	66.9
Corporate Overhead	(4.7)	(4.7)	(4.4)	(3.8)	(3.9)
<b>Total Earnings Before Interest and Income Taxes</b>	<b>\$ 94.6</b>	<b>\$ 166.4</b>	<b>\$ 118.1</b>	<b>\$ 86.5</b>	<b>\$ 63.0</b>

<sup>(1)</sup> 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.

Revenues for the past three years from each of the Company's industry segments, expressed as a percentage of total consolidated net revenues, were as follows:

Segment:	Percentage of Total Consolidated Net Revenues		
	2001	2000	1999
Cement	39.1%	36.0%	42.5%
Gypsum Wallboard	42.5%	51.9%	44.7%
Paperboard	3.9%	—	—
Concrete and Aggregates:			
Readymix Concrete	9.8%	8.8%	9.3%
Aggregates	3.9%	3.0%	3.0%
	13.7%	11.8%	12.3%
Other, net	0.8%	0.3%	0.5%
<b>Total Consolidated Net Revenues</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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## Cement Operations

**Company Operations.** The Company's cement production facilities are located in or near Buda, Texas; LaSalle, Illinois; Laramie, Wyoming; and Fernley, Nevada. The Laramie, Wyoming and Fernley, Nevada facilities are wholly-owned. The Buda, Texas plant is owned by Texas Lehigh Cement Company LP, a limited partnership owned 50% by the Company and 50% by Lehigh Portland Cement Company, a subsidiary of Heidelberger Zement AG. The LaSalle, Illinois plant is owned by Illinois Cement Company, a joint venture owned 50% by CXP and 50% by RAAM Limited Partnership, a partnership controlled by members of the Pritzker family. The Company receives a management fee of \$150,000 per year to manage the Illinois joint venture. The Company's Laramie, Wyoming plant operates under the name of Mountain Cement Company and the Fernley, Nevada plant under the name of Nevada Cement Company.

Cement is the basic binding agent for concrete, a primary construction material. The manufacture of portland cement primarily involves the extracting, crushing, grinding and blending of limestone and other raw materials into a chemically proportioned mixture which is then burned in a rotary kiln at extremely high temperatures to produce an intermediate product known as clinker. The clinker is cooled and interground with a small amount of gypsum to the consistency of face powder to produce finished cement. Clinker can be produced utilizing either of two basic methods, a "wet" or a "dry" process. In the wet process, the raw

materials are mixed with water to take advantage of the greater ease in the handling and mixing of the raw materials. However, additional heat, and therefore fuel, is required to evaporate the moisture before the raw materials can react to form clinker. The dry process, a more fuel efficient technology, excludes the addition of water into the process. Dry process plants are either preheater plants, in which hot air is recycled from the rotary kiln to preheat materials, or are precalciner plants, in which separate burners are added to accomplish a significant portion of the chemical reaction prior to the introduction of the raw materials into the kiln. As fuel is a major component in the cost of producing clinker, most modern cement plants, including all four of the plants operated by the Company, incorporate the more fuel efficient dry process technology. At present, approximately 80% of the Company's net clinker capacity is from preheater or preheater/precalciner kilns, compared to approximately one-half of U.S. cement capacity manufactured from such kilns. The following table sets forth certain information regarding these plants:

Location	Rated Annual Clinker Capacity (Thousand short tons) <sup>(1)</sup>	Manufacturing Process	Number of Kilns	Dedication Date	Estimated Minimum Limestone Reserves (Years)
Buda, Texas <sup>(2)</sup>	1,200	Dry — 4 Stage Preheater Flash Calciner	1	1978 1983	60
LaSalle, Illinois <sup>(2)</sup>	620	Dry — 4 Stage Preheater	1	1974	30
Laramie, Wyoming	650	Dry — 2 State Preheater Dry — Long Dry Kiln	1 1	1988 1996	30
Fernley, Nevada	500	Dry — Long Dry Kiln Dry — 1 Stage Preheater	1 1	1964 1969	15
Total — Gross <sup>(3)</sup>	2,970				
Total — Net <sup>(3)(4)</sup>	2,060				

(1) One short ton equals 2,000 pounds.

(2) The amounts shown represent 100% of plant capacity and production. Each of these plants is owned by a separate partnership in which the Company has a 50% interest.

(3) Generally, a plant's cement grinding production capacity is greater than its clinker production capacity.

(4) Net of partners' 50% interest.

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The Company's net cement production, excluding the partners' 50% interest in the Buda and LaSalle plants, totaled 2.25 million tons in fiscal 2001 and 2.07 million tons in fiscal 2000. Total net cement sales were 2.39 million tons in fiscal 2001 and 2.30 million tons in fiscal 2000 as all plants sold all of the product they produced. Cement production is capital-intensive and involves high fixed costs. As a result, plant capacity utilization levels are an important measure of a plant's profitability, since incremental sales volumes tend to generate increasing profit margins. During the past two years, the Company purchased cement from others to be resold. Purchased cement sales typically occur at lower gross profit margins. In fiscal 2001, 6.6% of the cement sold by the Company was acquired from outside sources, compared to 12.2% in fiscal 2000.

**Raw Materials and Fuel Supplies.** The principal raw material used in the production of portland cement is calcium carbonate in the form of limestone. Limestone is obtained principally through mining and extraction operations conducted at quarries owned or leased by the Company and located in close proximity to its plants. The Company believes that the estimated recoverable limestone reserves owned or leased by it will permit each of its plants to operate at its present production capacity for at least 30 years or, in the case of the Company's Nevada plant, at least 15 years. The Company expects that additional limestone reserves for its Nevada plant will be available when needed on an economically feasible basis, although such reserves may be more distant and more expensive to transport than the Company's existing reserves. Other raw materials used in substantially smaller quantities than limestone are sand, clay, iron ore and gypsum. These materials are either obtained from Company-owned or leased reserves or are purchased from outside suppliers.

The Company's cement plants use coal and coke as their primary fuel, but are equipped to burn natural gas as an alternative. The Company has not used hazardous waste-derived fuels in its plants. The Company's LaSalle, Illinois and Buda, Texas plants have been permitted to burn scrap tires as a partial fuel alternative. Electric power is also a major cost component in the manufacture of cement. The Company has sought to diminish overall power costs by adopting interruptible power supply agreements which may expose the Company to some production interruptions during periods of power curtailment. Although power and natural gas costs have generally increased during the last half of fiscal 2001, because of the location of the Company's cement plants, such increases are not expected to significantly impact cement manufacturing costs in fiscal 2002.

**Sales and Distribution.** Demand for cement is highly cyclical and derived from the demand for concrete products which, in turn, is derived from demand for construction. According to estimates of the Portland Cement Association (the "PCA"), the industry's primary trade organization, the three construction sectors that are the major components of cement consumption are (i) public works construction, (ii) non-residential construction and (iii) residential construction, which comprised 48%, 30% and 22%, respectively, of U.S. cement consumption in 2000, the most recent period for which such data is available. Public works construction was favorably impacted when the U.S. Congress passed legislation in 1998 known as the Transportation Equity Act for the 21st Century. This legislation authorized \$218 billion in federal expenditures on highways, bridges and mass transit projects over the next six years. This represents a 44% increase over the previous six-year period, which ended in 1997. Construction spending and cement consumption have historically fluctuated widely. The construction sector is affected by the general condition of the economy as well as regional economic influences. Regional cement markets experience peaks and valleys correlated with regional construction cycles. Also, demand for cement is seasonal, particularly in northern states where inclement weather affects construction activity. Sales are generally greater from spring through the middle of autumn than during the remainder of the year. While the impact on the Company of regional construction cycles may be mitigated to some degree by the geographic diversification of the Company, profitability is very sensitive to shifts in the balance between supply and demand. As a consequence, the Company's cement segment sales and earnings follow a similar cyclical pattern.

The following table sets forth certain information regarding the geographic area served by each of the Company's cement plants and the location of the Company's distribution terminals in each area. The Company has a total of 11 cement storage and distribution terminals that are strategically located to extend

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<u>Plant Location</u>	<u>Principal Geographic Areas</u>	<u>Distribution Terminals</u>
Buda, Texas	Texas and western Louisiana	Corpus Christi, Texas Houston, Texas Orange, Texas Roanoke (Fort Worth), Texas Waco, Texas
LaSalle, Illinois Laramie, Wyoming	Illinois and southern Wisconsin Wyoming, Utah, northern Colorado, western Nebraska and eastern Nevada	Hartland, Wisconsin Rock Springs, Wyoming Salt Lake City, Utah Denver, Colorado North Platte, Nebraska Sacramento, California
Fernley, Nevada	Nevada (except Las Vegas) and northern California	

Cement is distributed directly to customers principally by common carriers, customer pick-up and, to a lesser extent, trucks owned by the Company. The Company transports cement principally by rail to its storage and distribution terminals. Cement is distributed primarily in bulk, but also in paper bags. No single customer accounted for as much as 10% of the Company's cement sales during fiscal 2001.

Sales are made on the basis of competitive prices in each area. As is customary in the industry, the Company does not typically enter into long-term sales contracts, except with respect to major construction projects.

*Competition.* The cement industry is extremely competitive as a result of multiple domestic suppliers and the importation of foreign cement through various terminal operations. Competition among producers and suppliers of cement is based primarily on price, with consistency of quality and service to customers being important but of lesser significance. Price competition among individual producers and suppliers of cement within a geographic area is intense because of the fungible nature of the product. The U.S. cement industry is fragmented into regional geographic areas rather than a single national selling area. Because of cement's low value-to-weight ratio, the relative cost of transporting cement is high and limits the geographic area in which each company can market its products economically. No one cement company has a distribution of plants extensive enough to serve all geographic areas. The number of principal competitors of the Company's Texas, Illinois, Wyoming and Nevada plants are six, six, four and six, respectively, operating in these regional areas.

The United States cement industry comprises approximately 30 companies which own 109 gray cement plants with approximately 90 million metric tons of clinker manufacturing capacity (approximately 95 million metric tons of cement manufacturing capacity, assuming a 105% conversion ratio). The PCA estimates that U.S. portland cement demand totaled approximately 109 million metric tons in calendar 2000, with approximately 25% of such demand being satisfied by imported cement and clinker. Continued strength in all three construction sectors in calendar 2000 resulted in the seventh consecutive year of record setting cement consumption in the U.S. Based on the level of demand, the Company estimates that the cement industry as a whole operated in excess of 98% of its aggregate manufacturing capacity during calendar 2000. The PCA reports that, as of September 2000, approximately 24 plant modernization and expansion projects, including seven new cement plants, have been announced or are underway. These projects, if completed, could add almost 27 million metric tons of new domestic cement manufacturing capacity and increase existing capacity by 30%. The announced expansions represent a significant change for the industry, but market forces and other factors may interfere with producers' plans. The Company does not anticipate that all of the industry's announced expansions will actually be constructed, and, because of the long lead times associated with adding additional capacity, any increased production capability is expected to be gradual over the next several years. The PCA has predicted U.S. cement use will grow to 118 million metric tons by 2005, compared with an estimated 109 million metric tons of cement consumption in calendar 2000. The Company, however, cannot offer any assurances regarding any near-term increases in demand. In addition,

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the Company does not know how much, if any, old, inefficient cement production capacity may be retired during this period. Even if all announced expansions are completed, a capacity deficit would still exist in 2005 if the PCA consumption projections are realized.

Cement imports into the United States occur primarily to supplement domestic cement production during peak demand periods. Throughout most of the 1980's, however, competition from low-priced imported cement in most coastal and border areas of the U.S. grew significantly, which included the markets served by the Company's Fernley, Nevada and Buda, Texas plants. According to the PCA, the 1980's was a period of relatively high cement imports. This high level of imports depressed cement prices during a period of strong U.S. cement demand. As a result of antidumping petitions filed by a group of domestic cement producers, significant antidumping duty cash deposit requirements have been imposed on cement imported from Mexico since 1990 and from Japan since 1991. The existing antidumping orders have contributed substantially to an improvement in the condition of the U.S. cement industry.

In the case of imports from Mexico, margins to calculate cash deposit rates and the resulting antidumping duties are subject to annual review by the Department of Commerce and appeal to the U.S. Court of International Trade and the U.S. Court of Appeals or to binational dispute panels under the North American Free Trade Agreement ("NAFTA").

Pursuant to the Uruguay Round Agreement, the General Agreement on Tariffs and Trade ("GATT") and the GATT Antidumping Code were superseded on January 1, 1995, by a new GATT that will be administered by the World Trade Organization. As a result of legislation passed by the U.S. Congress in 1994, the Department of Commerce and the ITC conducted "sunset" reviews during the last two years of the antidumping orders and determined they should remain in effect for another five years until 2005.

NAFTA thus far has had no material adverse effect on the antidumping duty cash deposit rates imposed on gray portland cement and clinker imported from Mexico. The Company does not believe that NAFTA will have a material adverse effect on the foregoing antidumping duty cash deposit rates in the near future. A substantial reduction or elimination of the existing antidumping duties as a result of GATT, NAFTA or any other reason could adversely affect the Company's results of operations.

U.S. imports of foreign cement began to increase in the mid-1990's as the use of cement in the U.S. began to recover. The PCA has estimated that imports represented approximately 25% of cement used in the U.S. during calendar 2000 as compared with approximately 28% in 1999 and 23% in 1998. Unlike the imports during the 1980's, however, most of the recent imports have provided an additional source of supply rather than disrupting the market with unfair prices. During most of the recent period of strong demand, the prices of cement imports rose. The increase was attributable, at least in part, to the influence of the

outstanding antidumping orders. While the average cost of imported cement rose during calendar 2000, the cost of cement imports from some countries, particularly those from Southeast Asia, are less. Moreover, independently owned cement operators could undertake to construct new import facilities and begin to purchase large quantities of low-priced cement from countries not yet subject to antidumping orders, such as those in Asia, which could compete with domestic producers, as has happened in the Company's Houston, Texas market. The introduction of low-priced imported cement from such sources could adversely affect the Company's result of operations.

*Capital Expenditures.* Capital expenditures during fiscal 2001 amounted to \$6.2 million for the Company's cement segment compared with \$10.3 million and \$7.5 million in fiscal 2000 and 1999, respectively. Capital outlays in fiscal 2002 have been budgeted at approximately \$8.4 million. Approximately 8.2% of the budgeted fiscal 2002 total is related to compliance with environmental regulations.

*Environmental Matters.* The cement manufacturing industry, including the operations of the Company, is regulated by federal, state and local laws and regulations pertaining to several areas including human health and safety and environmental compliance. The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA"), as amended by the Superfund Amendments and Reauthorization Act of 1986, as well as analogous laws in certain states, create joint and several liability for

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the cost of cleaning up or correcting releases to the environment of designated hazardous substances. Among those who may be held jointly and severally liable are those who generated the waste, those who arranged for disposal, those who owned or operated the disposal site or facility at the time of disposal, and current owners. In general, this liability is imposed in a series of governmental proceedings initiated by the identification of a site for initial listing as a "Superfund site" on the National Priorities List or a similar state list and the identification of potentially responsible parties who may be liable for cleanup costs. None of the Company's sites are listed as a "Superfund site."

The Company's operations are also potentially affected by the Resource Conservation and Recovery Act ("RCRA"), which is the primary federal statute governing the management of solid waste and which includes stringent regulation of solid waste that is considered hazardous waste. The Company's operations generate nonhazardous solid waste that may include cement kiln dust ("CKD"). Because of a RCRA exemption, known as the Bevill Amendment, CKD generated in the Company's operations is currently not considered a hazardous waste under RCRA, pending completion of a study and recommendations to Congress by the U.S. Environmental Protection Agency ("U.S. EPA"). Nevertheless, such CKD is still considered a solid waste and is regulated primarily under state environmental laws and regulations. The U.S. EPA has completed its review of CKD and has proposed regulations to govern the handling and disposal of CKD which will supersede the Bevill Amendment. The Bevill Amendment remains in effect until the final regulations are adopted.

In the past, the Company collected and stored CKD on-site at its cement plants. The Company continues to store such CKD at its Illinois, Nevada and Wyoming cement plants and at a former plant site in Corpus Christi, Texas, which is no longer in operation. Currently, the Company recycles substantially all CKD related to present operations at all of its cement facilities. When the U.S. EPA removes the CKD exemption and adopts regulations with particular CKD management standards, the Company may be required to incur significant costs in connection with its CKD. CKD that comes in contact with water might produce a leachate with an alkalinity high enough to be classified as hazardous and might also leach certain hazardous trace metals therein.

Another issue of potential significance to the Company is global warming and the international accord on carbon dioxide stabilization/reduction. Carbon dioxide is a green house gas many scientists and others believe contributes to a warming of the Earth's atmosphere. In December 1997, the United Nations held an international convention in Kyoto, Japan to take further international action to ensure greenhouse gas stabilization and/or reduction after the turn of the century. The conference agreed to a protocol to the United Nations Framework Convention on Climate Change originally adopted in May 1992. The protocol establishes quantified emission reduction commitments for certain developed countries, including the U.S., and certain countries that are undergoing the process of transition to a market economy. These reductions are to be obtained by 2008-2012. The protocol was made available for signature by member countries starting in the spring of 1998. The protocol will require Senate ratification and enactment of implementing legislation before it becomes effective in the United States. Senate ratification of the protocol presently appears unlikely based on opposition to the protocol expressed by members of Congress and the current Presidential administration.

The consequences of greenhouse gas reduction measures for cement producers are potentially significant because carbon dioxide is generated from the combustion of fuels such as coal and coke in order to generate the high temperatures necessary to manufacture cement clinker (which is then ground with gypsum to make cement). In addition, carbon dioxide is generated in the calcining of limestone to make cement clinker. Any imposition of raw material or production limitations or fuel-use or carbon taxes could have a significant impact on the cement manufacturing industry. It will not be possible to determine the impact on the Company, if any, until governmental requirements are defined and/or the Company can determine whether emission offsets and/or credits are obtainable, and whether alternative cementitious products or alternative fuel can be substituted.

The Company's cement kilns utilize coal, coke, natural gas, minimal amounts of self-generated waste oil, and scrap tires in the Illinois and Texas plants, as fuel.

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In April 1992, one of the Company's subsidiaries, Nevada Cement Company ("NCC"), was identified as a potentially responsible party under CERCLA by the U.S. EPA at the North American Environmental, Inc. storage facility in Clearfield, Utah ("North American Environmental Site") because of allegations that NCC arranged for the disposal of hazardous substances at that site. The Company has records indicating that all of the hazardous substances originating from NCC that were temporarily stored at the North American Environmental Site were removed from the storage facility and destroyed in accordance with applicable laws. The Company is aware of no current estimates of the total remediation costs or the total volume of waste associated with this site. There can be no assurance that the Company will not incur material liability in connection with the North American Environmental Site.

Another RCRA concern in the cement industry involves the historical disposal of refractory brick containing chromium. Such refractory brick was formerly widely used in the cement industry to line cement kilns. The Company currently crushes spent refractory brick and uses it as raw feed in the kiln, but such brick does not contain chromium.

The Clean Air Act Amendments of 1990 (the "Amendments") provided comprehensive federal regulation of all sources of air pollution and established a new federal operating permit and fee program for virtually all manufacturing operations. The Amendments will likely result in increased capital and operational expenses for the Company in the future, the amounts of which are not presently determinable. The Company's U.S. operations have submitted detailed permit applications and will pay increased recurring permit fees. In addition, the U.S. EPA has promulgated regulations for certain toxic air pollutants and is developing standards for other toxic air pollutants under these Amendments for a broad spectrum of industrial sectors, including portland cement manufacturing. The new maximum available control technology standards require cement plants to test for certain pollutants and could require significant reduction of air pollutants



below existing levels prevalent in the industry. Management has no reason to believe, however, that these new standards will place the Company at a competitive disadvantage.

The Federal Water Pollution Control Act, commonly known as the Clean Water Act (“Clean Water Act”), provides comprehensive federal regulation of all sources of water pollution. All of the Company’s facilities affected by the Clean Water Act currently have National Pollutant Discharge Elimination System (“NPDES”) stormwater permits.

Management believes that the Company’s current procedures and practices in its operations, including those for handling and managing materials, are consistent with industry standards. Nevertheless, because of the complexity of operations and compliance with environmental laws, there can be no assurance that past or future operations will not result in operational errors, violations, remediation or other liabilities or claims. Moreover, the Company cannot predict what environmental laws will be enacted or adopted in the future or how such future environmental laws will be administered or interpreted. Compliance with more stringent environmental laws or stricter interpretation of existing environmental laws, could necessitate significant capital outlays.

With respect to some of the Company’s quarries used for the extraction of raw materials for its cement and gypsum wallboard operations and for the mining of aggregates for its aggregate operations, the Company is obligated under certain of its permits and certain regulations to engage in reclamation of land within the quarries upon completion of extraction and mining.

### **Gypsum Wallboard Operations**

*Company Operations.* The Company owns and operates four gypsum wallboard manufacturing facilities, two located in Albuquerque and nearby Bernalillo, New Mexico, one located in Gypsum (near Vail), Colorado and one located in Duke, Oklahoma. The Company mines and extracts gypsum and then manufactures gypsum wallboard by first pulverizing quarried gypsum, then placing it in a calciner for conversion into plaster. The plaster is mixed with various chemicals and water to produce a mixture known as slurry, which is inserted between two continuous sheets of recycled paperboard on a high-speed production line and allowed to harden. The resulting sheets of gypsum wallboard are then cut to appropriate lengths, dried and bundled for sale. Gypsum wallboard is used to finish the interior walls and ceilings in

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residential, commercial and institutional construction. These panel products provide aesthetic as well as sound-dampening and fire-retarding value.

The Albuquerque plant was acquired in 1985, and was operated until early 1991. Following the start-up of the new Bernalillo plant in the spring of 1990, the Company elected to suspend operations at the Albuquerque plant due to weak market conditions. Operations at the Albuquerque plant were recommenced in May 1993, due to improvements in wallboard demand and prices. The Gypsum, Colorado gypsum wallboard plant and accompanying electric power cogeneration facility were purchased in February 1997. The plant originally commenced production in early 1990 and had been operated by an independent producer until its acquisition by CXP. The Duke, Oklahoma plant was acquired in November 2000 as part of the Strategic Assets Purchase. The plant commenced production in 1964 and has operated continuously since then. In 1999, a second line was added that expanded the plant’s annual capacity to 1.2 billion square feet. The Company believes that the Duke plant is the second largest single gypsum wallboard plant in North America.

The following table sets forth certain information regarding these plants:

<u>Location</u>	<u>Rated Annual Gypsum Wallboard Capacity (MMSF)<sup>(1)</sup></u>	<u>Estimated Minimum Gypsum Rock Reserves (years)<sup>(2)</sup></u>
Albuquerque, New Mexico	390	80 <sup>(3)</sup>
Bernalillo, New Mexico	470	80 <sup>(3)</sup>
Gypsum, Colorado	630	35
Duke, Oklahoma <sup>(4)</sup>	1,200	15
Total	<u>2,690</u>	

<sup>(1)</sup> Million Square Feet (“MMSF”)

<sup>(2)</sup> Proven reserves only. See Raw Materials and Fuel Supplies section for additional reserves.

<sup>(3)</sup> The same reserves serve both New Mexico plants.

<sup>(4)</sup> Acquired in November 2000.

The Company’s gypsum wallboard production totaled 1,649 MMSF in fiscal 2001 and 1,375 MMSF in fiscal 2000. Total gypsum wallboard sales were 1,584 MMSF in fiscal 2001 and 1,363 MMSF in fiscal 2000.

*Raw Materials and Fuel Supplies.* The Company mines and extracts natural gypsum rock, the principal raw material used in the manufacture of gypsum wallboard, from mines and quarries owned, leased or subject to claims owned by the Company and located near its plants. The Company does not use synthetic gypsum. The New Mexico, Colorado and Oklahoma mines and quarries are estimated to contain approximately 50 million tons, 21 million tons and 15 million tons, respectively, of proven and probable gypsum reserves. Other gypsum deposits are located in the immediate area of the Duke, Oklahoma plant and may be obtained at reasonable costs. Based on its current production capacity, the Company estimates that the life of its existing gypsum rock reserves is approximately 80 years in New Mexico, 35 years in Colorado and 15 years in Oklahoma.

Prior to November 2000, the Company purchased paper used in manufacturing gypsum wallboard from third-party suppliers. As a part of the Strategic Assets Purchase, the Company purchased certain paperboard assets of one of the third-party gypsum wallboard paper suppliers in November 2000. The Company now manufactures all of the paper needed for its gypsum wallboard production.

The Company’s gypsum wallboard manufacturing operations use large quantities of natural gas and electrical power. Substantially all of the Company’s natural gas requirements for its gypsum wallboard plants are currently provided by three gas producers under gas supply agreements expiring in January 2002 for Colorado, May 2002 for New Mexico, and November 2002 for Oklahoma. If the agreements are not renewed, the Company expects to be able to obtain its gas supplies from other suppliers at competitive

prices. Electrical power is supplied to the Company's New Mexico plants at standard industrial rates by a local utility. The Company's Albuquerque plant does utilize an interruptible power supply agreement, which may expose it to some production interruptions during periods of power curtailment. Power for the Gypsum, Colorado facility is generated at the facility by a cogeneration power plant. Currently the cogeneration power facility supplies only the power needs of the gypsum wallboard plant and does not sell any power to third parties. Power at the Duke, Oklahoma plant is supplied by a local electric cooperative under a contract which expires in January 2005. Natural gas costs increased significantly during the second half of fiscal 2001. Although gas costs declined in the last quarter of fiscal 2001, they are expected to continue to negatively impact fiscal 2002 production costs.

*Sales and Distribution.* The principal sources of demand for gypsum wallboard are (i) residential construction, (ii) repair and remodeling, (iii) non-residential construction, and (iv) other activities such as exports and temporary construction, which the Company estimates accounted for approximately 45%, 37%, 13% and 5%, respectively, of calendar 2000 industry sales. While the gypsum wallboard industry remains highly cyclical, recent growth in the repair and remodeling segment have partially mitigated the impact of fluctuations in overall levels of new construction.

Although the percentage of gypsum wallboard shipments accounted for by new residential construction has declined in recent years, new residential construction remains the largest single source of gypsum wallboard demand. In recent years, demand has been favorably impacted by a shift toward more single-family detached housing within the new residential construction segment and by an increase in the size of the average single-family detached home.

The Company estimates that the size of the total residential repair and remodel market grew to a record \$145 billion in calendar 2000, up from \$46 billion in 1980. Although data on commercial repair and remodel activity is not readily available, the Company believes that this segment has also grown significantly in recent years. The growth of the repair and remodeling market is primarily due to the aging of housing stock, remodeling of existing buildings and tenant turnover in commercial space. In addition, repair and remodeling activity has benefitted from the fact that it has increasingly come to be viewed by homeowners, particularly in recessionary periods, as a low cost alternative to purchasing a new house.

The Company sells gypsum wallboard to numerous building materials dealers, gypsum wallboard specialty distributors, home center chains and other customers located throughout the United States. One customer with multiple shipping locations accounted for approximately 12% of the Company's total gypsum wallboard sales during fiscal 2001. The Company believes that the loss of that customer could have a material adverse effect on the Company and its subsidiaries taken as a whole.

During fiscal 2001, the principal states in which the Company had gypsum wallboard sales were Colorado, Texas, New Mexico and Illinois. Prior to fiscal 2000, a large portion of the Company's gypsum wallboard sales were made in the southeastern United States, with significant sales in Florida. However, due to a dramatic increase in new capacity in the eastern portion of the United States and falling prices, the Company has focused the distribution of its gypsum wallboard in the southwestern and western areas of the United States.

Although gypsum wallboard is distributed principally in regional areas, the Company and certain other producers have the ability to ship gypsum wallboard by rail outside their usual regional distribution areas to take advantage of these other regional increases in demand. The Company owns or leases 244 railcars for transporting gypsum wallboard. In addition, in order to facilitate distribution in certain strategic areas, the Company maintains a distribution center in Albuquerque, New Mexico and ten reload yards in Alabama, Illinois, California, Nevada, Oregon and Washington. The Company's rail distribution capabilities permit it to reach customers in all states west of the Mississippi River and many eastern states. During fiscal 2001, approximately 40% of the Company's sales volume of gypsum wallboard was transported by rail.

*Competition.* There are ten manufacturers of gypsum wallboard operating a total of 81 plants. The Company estimates that the three largest producers - USG Corporation, National Gypsum Company and Georgia-Pacific Corporation - account for approximately 65% of gypsum wallboard sales in the United

States. In 1996 and early 1997, the industry experienced some consolidation, the largest being Georgia-Pacific Corporation's purchase of the gypsum wallboard business of Domtar, Inc. In general, a number of the Company's competitors in the gypsum wallboard industry have greater financial, manufacturing, marketing and distribution resources than the Company. Furthermore, certain of its competitors have vertically integrated operations consisting of gypsum wallboard manufacturing plants, paperboard mills and distribution centers, which may provide them with certain cost advantages over the Company.

Competition among gypsum wallboard producers is primarily on a regional basis, with local producers benefitting from lower transportation costs, and to a lesser extent on a national basis. Because of the commodity nature of the product, competition is based principally on price and, to a lesser extent, on product quality and customer service.

Since calendar 1997, a number of the Company's competitors in the gypsum wallboard industry commenced capital expansion projects to construct new gypsum wallboard manufacturing facilities or to expand existing facilities. The completion of these projects could increase domestic industry capacity over the next two years to 38.0 billion square feet. However, some of this additional capacity could be absorbed if there is an increase in domestic demand (over the past 25 years demand for gypsum wallboard in the United States has increased at an average annual rate of 4%) and/or if less efficient plants are shut down. Late in calendar 1999, the gypsum wallboard industry shifted from short supply to oversupply. Consequently, pricing peaked in October 1999 and started to decline. If during the next two years there is no corresponding increase in domestic demand for gypsum wallboard and/or no corresponding shut down of inefficient or marginally efficient gypsum wallboard plants, gypsum wallboard prices will continue to be pressured, and will negatively affect future results in the Company's Gypsum Wallboard segment.

Currently total United States gypsum wallboard production capacity is estimated at 33.0 billion square feet per year, a 25% rise from 1998. The Gypsum Association, an industry trade group, estimates that total calendar 2000 gypsum wallboard shipments were approximately 28.2 billion square feet, resulting in industry capacity utilization of approximately 85%.

*Capital Expenditures.* Capital expenditures during fiscal 2001 for the gypsum wallboard segment amounted to \$4.5 million; \$10.8 million in fiscal year 2000; and \$24.2 million in fiscal year 1999. Capital outlays in fiscal 2002 have been budgeted at approximately \$11.3 million with less than 1% of the expenditures related to compliance upgrades to environmental regulations. The majority of the fiscal 1999 expenditures (\$22.3 million) were for the Albuquerque, New Mexico and Gypsum, Colorado plants.

*Environmental Matters.* The gypsum wallboard industry is subject to environmental regulations similar to those governing the Company's cement operations. None of the Company's gypsum wallboard operations are presently the subject of any local, state or federal environmental proceedings or inquiries. The Company does not, and has not, used asbestos in any of its gypsum wallboard products.

### **Recycled Paperboard Operations**

*Company Operations.* The Company's recycled paperboard manufacturing operations are conducted at the Commerce City, Colorado mill, and the Lawton, Oklahoma mill both of which were acquired as part of the Strategic Assets Purchase. The Commerce City mill was idled in April 2001. All of the paperboard



products manufactured at the Company's paperboard mills are produced from 100% reclaimed paper fiber and are classified by the industry as recycled paperboard. These recycled paperboard products include the facing paper used in the manufacture of gypsum wallboard and recycled paperboard used by manufacturers of consumer and industrial paperboard products.

Recycled paperboard is manufactured at the Company's mills in a continuous process during which reclaimed paper fiber is mixed with water and pulped to separate the individual fibers. The slurry is then applied to a series of rotating wire-covered cylinders or roll formers, not unlike making a sandwich, so that a multi-ply sheet of paper is formed as excess water is drained through a wire mesh type fabric. The multi-ply paper mat is then mechanically pressed, dried, trimmed to size and packaged. The finished product can be packaged either in roll form or in sheets, according to customer specifications.

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*Raw Materials.* The principal raw materials used by the Company's recycled paperboard mills are reclaimed paper fiber, water and chemicals. Reclaimed paper fiber is currently purchased from several sources, including the Company's own paper fiber recycling centers. Management believes that adequate supplies of reclaimed paper fiber will continue to be available from wholesalers located in cities near its recycled paperboard mills and its own paper fiber recycling centers. Since reclaimed paper fiber is a commodity, its cost is subject to fluctuations based on supply and demand.

Chemicals, including size, retention aids and bactericides, used by the Company in its recycled paperboard operations are also readily available from several manufacturers at competitive prices. Size is used principally as a water resisting agent or strength enhancer in the production of recycled paperboard. Retention aids are agents used to retain fiber and chemicals in the papermaking process by preventing their loss into the waste stream. Bactericides are agents used to control bacteria and other organisms in the papermaking process.

The manufacture of recycled paperboard involves the use of large volumes of water both in the production process and for cooling purposes. In Colorado, where one of the Company's recycled paperboard mills is located, the appropriation of water is regulated by state laws. The Commerce City mill uses water pumped from wells located on, or adjacent to, the Company's property. The Oklahoma mill uses water provided by the City of Lawton, Oklahoma municipal services. The term of the agreement with the City of Lawton, Oklahoma is 15 years with two automatic five year extensions unless the Company notifies the City in writing at least six months prior to the expiration of the term or extended term. Although adequate sources of water have historically been available to all of the Company's recycled paperboard mills, an extended period of general water shortages, legal curtailment of any mill's current water sources or uses, or deterioration of the current quality of water sources could adversely affect that mill's operations and limit its production capacity.

Electricity, natural gas and other utilities are available to the mills either at contracted rates or at standard industrial rates in adequate supplies, subject to standard industrial curtailment provisions. During periods of natural gas curtailment, the Commerce City mill, and the Lawton mill are equipped to use fuel oil. Paperboard mills are large consumers of natural gas. During fiscal 2001, natural gas costs increased significantly. Although gas costs have declined during the last quarter of fiscal 2001, they are expected to continue to negatively impact fiscal 2002 production costs.

*Sales and Distribution.* The recycled paperboard products manufactured by the Company are sold primarily to gypsum wallboard manufacturers. During fiscal 2001, approximately 45% of the recycled paperboard manufactured and shipped by the Company's recycled paperboard mills was consumed by the Company's gypsum wallboard manufacturing operations, approximately 24% was shipped to another gypsum wallboard manufacturer and 19% was sold to James Hardie Gypsum, Inc. ("Hardie"). (See "The Hardie Agreement" on page 13).

The loss of the other gypsum wallboard manufacturer or Hardie as customers could have a material adverse affect on the Company and its subsidiaries taken as a whole.

*Competition.* In selling the portion of its production not consumed by its own gypsum wallboard manufacturing operations, the Company competes with approximately eight other manufacturers of gypsum-grade paperboard, six of which have gypsum wallboard manufacturing operations. Substantially all of these competitors have greater financial resources than the Company. During periods of peak demand for gypsum wallboard, the demand for recycled paperboard typically matches or exceeds the productive capacities of the gypsum-grade paperboard producers. During periods of reduced demand for gypsum wallboard, the demand for recycled paperboard falls, and selling prices may decrease.

Price, quality and timeliness of deliveries are the principal methods of competition among paperboard producers. The locations of the Company's recycled paperboard mills allow the Company to serve a variety of markets, including several gypsum wallboard plants in the midwest, southeast, southwest and western United States.

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*The Lawton Mill.* The Lawton mill is located in southwestern Oklahoma and commenced commercial operations in March 2000. The Lawton mill is designed to manufacture gypsum-grade recycled paperboard utilizing technologies that have been successfully employed in recycled paperboard mills but that have not yet been entirely incorporated into any other gypsum-grade recycled paperboard mills in the United States. These technologies include (i) the use of an advanced paper forming section in which the roll-forming process utilizes a hydraulic headbox and a twin wired de-watering system to form a paper sheet which allows for speeds in excess of 2,000 feet per minute, thereby allowing reduced labor costs per ton produced, (ii) an advanced control system, which immediately senses changes in the paper as it is being formed and adjusts the forming section of the paper machine to maintain the uniformity of the paper and also monitors and adjusts the reclaimed paper fiber cleaning process to maintain the quality of this raw material, (iii) modern pressing technology, which permits water removal in a way that provides more uniformity and enhances the properties of the paper, (iv) dryer felts on all dryer sections, which improve drying efficiency and reduce shrinkage, and (v) a cleaning and screening process for the reclaimed paper fiber that enhances the strength, surface characteristics and overall surface uniformity of the paperboard.

The Company expects that the Lawton mill will be able to produce recycled paperboard that is technologically superior to, and approximately 20% to 30% lighter than that currently generally available in the United States, but with equal strength characteristics. The Company believes that being the first to produce higher quality, lower basis-weight recycled paperboard will give it a competitive advantage over other recycled paperboard manufacturers until other mills using similar technology come on-line. Because gypsum-grade recycled paperboard generally is sold on the basis of surface area, manufacturing lighter paper potentially translates into higher profit margins per ton for the recycled paperboard manufacturer. Lighter recycled paperboard also reduces drying costs associated with the production of gypsum wallboard and reduces inbound and outbound freight costs of both recycled paperboard and gypsum wallboard. In addition, because the Lawton mill is designed as an efficient, high-speed mill, operating costs are expected to be lower than existing mills now producing recycled paperboard for the wallboard industry. In addition to producing a product which should be more attractive to customers, it is anticipated that the lighter weight, better quality recycled paperboard from the Lawton mill will reduce production and transportation costs at the Company's gypsum wallboard plants.

The Lawton mill is ultimately expected to have the capacity to produce approximately 11 billion square feet, or approximately 220,000 tons, of gypsum-grade recycled paperboard annually. Production from the Lawton mill will be used both internally at all four of CXP's gypsum wallboard plants and sold to third-

parties. Although primarily designed for the production of gypsum-grade recycled paperboard, the Lawton mill is also capable of producing recycled paperboard for other uses.

*The Hardie Agreement.* In November 2000, as part of the Strategic Assets Purchase, CXP acquired the company which owns the Lawton mill and is a party to a paper supply contract with Hardie (the "Hardie Agreement"). Under this agreement, the Lawton mill is obligated to supply at least approximately 90% of the gypsum-grade recycled paperboard requirements of Hardie's three gypsum wallboard plants. The Company expects the amount of paperboard supplied to Hardie pursuant to the Hardie Agreement eventually to account for approximately 35% to 40% of the Lawton mill's production. CXP expects to utilize another approximately 30% to 35% of the Lawton mill's output. There can be no assurance that the Company will be successful in obtaining supply agreements for the remainder of the output of the Lawton mill, and, in that case, the Company would attempt to sell the excess production in the spot market or under other short-term arrangements.

Subject to earlier termination, the current term of the Hardie Agreement expires on October 1, 2015. Hardie also has the right for a period of sixty (60) days beginning on October 1, 2006 to shorten the term of the Hardie Agreement to October 1, 2010. Sales to Hardie are made at a fixed base price determined at the time of execution of the Hardie Agreement. This base price is subject to adjustment based on changes in the major variable costs of production of recycled paperboard, including the cost of power, transportation and the primary raw materials, and changes in the purchaser price index for industrial commodities and a reference employment cost index. The Hardie Agreement also contains a "most favored nations" clause requiring the Company to offer Hardie the lowest price that is available from the Company to other third-party purchasers of its recycled paperboard. The "most favored nations" clause requires the Company to

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offer the same price on an equivalent volume as the volume being sold to the third party at such price, but makes the price applicable to all sales while such third-party pricing remains in effect if the third-party price offered is pursuant to a long-term agreement of more than two years.

In addition, the Hardie Agreement is a "requirements" contract and a termination or reduction of Hardie's production of gypsum wallboard could have a material adverse effect on the Company. If, after October 1, 2004, technology changes make it substantially more economical for Hardie to utilize paperboard of a kind not presently commercially available and that is not contemplated for the Lawton mill, then Hardie and the Lawton mill are obligated to negotiate in good faith to include such recycled paperboard within the scope of the Hardie Agreement. However, any failure to reach an agreement on this point could result in a reduction or termination of Hardie's purchases from the Lawton mill, and, as a result, could have a material adverse effect on the Company.

*Environmental Matters.* Prior to the Strategic Assets Purchase, the Commerce City, Colorado paper mill (the "Commerce City Mill") had been investigating the presence of subsurface petroleum hydrocarbons at the mill site and had retained an environmental consultant who concluded that fuel oil, jet fuel, and gasoline additives had migrated in the subsurface of the property from an adjacent property. As a result of an additional subsequent investigation by the Commerce City Mill, there were uncovered newly discovered environmental conditions that appear to stem from underground storage tank use on the property. As a result, the Commerce City Mill notified the Oil Inspection Section of the Colorado Department of Labor and Employment. The Commerce City Mill and a former owner of the Commerce City Mill have entered into a participation agreement to respond to those conditions that appear to stem from historical underground storage tank use. Under the participation agreement, the Commerce City Mill will pay 25% (with the former owner paying 75%) of the costs associated with the investigation and remediation efforts approved by both parties. At this time, the Company has not ascertained the future liability of the above matters.

*Capital Expenditures.* Capital expenditures during fiscal 2001 for the paperboard operations acquired in November 2000 were \$489,000. Capital expenditures in fiscal 2002 have been budgeted at approximately \$9.0 million. All of the fiscal 2002 capital outlays are for the Lawton mill. No portion of the fiscal 2002 capital outlays are related to compliance with environmental regulations.

**Concrete and Aggregates Operations**

*Company Operations.* Readymix concrete, a versatile, low-cost building material used in almost all construction, involves the mixing of cement, sand, gravel, crushed stone and water to form concrete which is then sold and distributed to numerous construction contractors. Concrete is produced in batch plants and transported to the customer's job site in mixer trucks.

The construction aggregates business consists of the mining, extraction, production and sale of crushed stone, sand, gravel and lightweight aggregates such as expanded clays and shales. Construction aggregates of suitable characteristics are employed in virtually all types of construction, including the production of portland and asphaltic cement concrete mixes and in highway construction and maintenance.

As in the cement industry, the demand for readymix concrete and aggregates largely depends on regional levels of construction activity. The construction sector is subject to the vagaries of weather conditions, the availability of financing at reasonable rates and overall fluctuations in regional economies, and therefore tends to be cyclical. Both the concrete and aggregates industries are highly fragmented, with numerous participants operating in local areas. Because the cost of transporting concrete and aggregates is very high relative to product values, producers of concrete and aggregates typically can sell their products only in areas within 100 miles of their production facilities. Barriers to entry in each industry are low, except with respect to environmental permitting requirements for new aggregate production facilities and zoning of land to permit mining and extraction of aggregates.

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The Company produces and distributes readymix concrete north of Sacramento, California and in Austin, Texas. The following table sets forth certain information regarding these operations:

<u>Location</u>	<u>Number of Plants</u>	<u>Number of Trucks</u>
Northern California	4	44
Austin, Texas	5	77
Total	9	121

The Company's production of readymix concrete reached a ten-year peak of 992,000 cubic yards in 1986. In response to decreased demand in the northern California and Austin areas, production declined to 430,000 cubic yards in fiscal 1990. Since that date, production has increased each successive year as market conditions continue to improve. The Company believes that it has the capacity to increase its concrete production from existing levels by adding to its fleet of trucks. The Company's net readymix concrete production was 808,000 cubic yards in fiscal 2001 and 788,000 cubic yards in fiscal 2000.

The Company conducts aggregate operations near its concrete facilities in northern California and Austin, Texas. Aggregates are obtained principally by mining and extracting from quarries owned or leased by the Company and located in close proximity to its plants. The following table sets forth certain information regarding these operations:

Location	Types of Aggregates	Estimated Annual Production Capacity (Thousand tons) <sup>(1)</sup>	Estimated Minimum Reserves (Years)
Northern California	Sand and Gravel	1,400	100
Austin, Texas	Limestone	2,300 <sup>(2)</sup>	70
Total		3,700	

(1) Based on single-shift operation.

(2) Buda and Georgetown Quarries.

The Company's total net aggregate sales were 4.0 million tons in fiscal 2001 and 3.4 million tons in fiscal 2000. Total aggregates production was 4.6 million tons in fiscal 2001 and 3.9 million tons in fiscal 2000. A portion of the Company's total aggregates production is used internally by the Company's readymix concrete operations.

*Raw Materials.* The Company supplies approximately 100% and 80% of its cement requirements for its Austin and northern California concrete operations, respectively. The Company supplies approximately 40% and 30%, respectively, of its aggregates requirements for its Austin and northern California concrete operations. The Company obtains the balance of its cement and aggregates requirements from multiple sources in each of these areas.

The Company has received notice of possible title claims of the United States and the State of California relative to a portion of its principal aggregates deposit in northern California. Even if the Company is unsuccessful in resolving these adverse claims, the undisputed portion of the Company's California aggregate deposit contains sufficient reserves to serve the Company's needs. See "Item 3, Legal Proceedings."

*Sales and Distribution.* The Company sells readymix concrete to numerous contractors and other customers in each plant's selling area. The Company's batch plants in Austin and northern California are strategically located to serve each selling area. Concrete is delivered from batch plants by trucks owned by the Company.

The Company sells aggregates to building contractors and other customers engaged in a wide variety of construction activities. Aggregates are delivered from the Company's aggregate plants by common

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carriers, customer pick-up and, to a lesser extent, trucks owned by the Company. No single customer accounted for more than 10% of the Company's concrete or aggregates sales during fiscal 2001. The Company is attempting to secure a rail link from its principal aggregates deposit north of Sacramento, California to extended markets.

*Competition.* Competition among concrete producers within the Company's northern California and Austin selling areas is strong. The Company's competitors include five small and four large concrete producers in the northern California area and five large and five small concrete producers in the Austin area.

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

*Capital Expenditures.* Capital expenditures during fiscal 2001 amounted to \$4.9 million for the concrete and aggregates segment compared with \$6.9 million and \$2.1 million in fiscal 2000 and 1999, respectively. Capital outlays in fiscal 2002 have been budgeted at approximately \$15.2 million. The majority of fiscal 2002 capital expenditures are for the expansion of the Company's Georgetown washed aggregate plant in the Austin, Texas area. Less than 1% of the budgeted fiscal 2002 capital expenditures is related to compliance with environmental regulations.

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

## **Employees**

The Company and its subsidiaries had approximately 1,665 employees at March 31, 2001. Approximately 28% of the employees are represented by collective bargaining units. The number of corporate employees of the Company is 11.

## **ITEM 2. PROPERTIES**

The Company operates cement plants, quarries and related facilities at Buda, Texas; LaSalle, Illinois; Fernley, Nevada and Laramie, Wyoming. The Buda and LaSalle plants are each owned by separate partnerships in which CXP has a 50% interest. The Company's principal aggregate plants and quarries are located in Austin, Texas and Marysville, California. In addition, the Company operates gypsum wallboard plants in Albuquerque and nearby Bernalillo, New Mexico, Gypsum, Colorado and Duke, Oklahoma. The Company produces recycled paperboard at Commerce City, Colorado (idled in April 2001) and Lawton, Oklahoma. None of the Company's facilities are pledged as security for any debts.

See "Item 1. Business" on pages 1-16 of this Report for additional information relating to the Company's properties.

## **ITEM 3. LEGAL PROCEEDINGS**

The Company's Western Aggregates, Inc. subsidiary ("WAI") has received notices of possible title claims of the United States and State of California relating to WAI's leasehold interest under a 99-year mineral lease on the aggregates in 10,000 acres of property north of Sacramento, California commonly known as the Yuba Goldfields. If the Company is unsuccessful in resolving the adverse title claims to lands in the Yuba Goldfields, the Company believes that the portion of WAI's mineral lease which is not in dispute contains sufficient estimated reserves to meet WAI's current mining requirements for aggregates for a period of more

than 100 years. Accordingly, the Company believes that the title claims of the United States and the State of California to lands in the Yuba Goldfields will not have a material adverse effect on the financial condition or the results of operations of the Company.

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In addition to the matters described above, the Company is a party to certain other ordinary legal proceedings incidental to its business. In general, although the outcome of litigation is inherently uncertain, the Company believes that none of the litigation matters in which the Company or any subsidiary is involved, if determined unfavorably to the Company or any subsidiary, would have a material, adverse effect on the consolidated financial condition or operations of the Company.

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

None

**EXECUTIVE OFFICERS OF CXP (See Item 10 of Part III)**

The following is a listing of the Company's executive officers, as such term is defined under the rules and regulations of the Securities and Exchange Commission. All of these executive officers, except for Mr. House, have been employed by the Company and/or one or more subsidiaries of the Company for at least the past five years. All executive officers were elected by the Board of Directors of the Company at its Annual Meeting on July 20, 2000, to serve until the next Annual Meeting of Directors or until their respective successors are duly elected and qualified or appointed as the case may be. There is no family relationship between any of these officers.

Name	Age	Positions with CXP
Richard D. Jones, Jr.	55	President and Chief Executive Officer (President since January 1998; Chief Executive Officer since July 1999; Executive Vice President from January 1990 through December 1997).
Arthur R. Zunker, Jr.	57	Senior Vice President — Finance and Treasurer (Senior Vice President — Finance and Treasurer since January 1994; Senior Vice President — Administration from August 1984 to January 1994).
H. David House	59	Executive Vice President — Gypsum (Executive Vice President — Gypsum since January 1998; President of American Gypsum Company since June 1997; President of James Hardie Gypsum, Inc. from August 1993 through May 1996).
Steven R. Rowley	48	Executive Vice President — Cement/Concrete and Aggregates (Executive Vice President — Cement/Concrete and Aggregates since January 2001; Executive Vice President - - Cement from January 1998 through January 2001; Executive V.P. of Illinois Cement Company from June 1995 through December 1997; Plant Manager at Nevada Cement Company from April 1991 through May 1995).

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**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

The information called for by Items 5, 6 and 7 is incorporated herein by reference to the information set forth under the following captions (on the page or pages indicated) in the 2001 CXP Annual Report:

Items	Caption in the 2001 CXP Annual Report	Pages
5	Stock Prices and Dividends	1
6	Summary of Selected Financial Data	44 – 45
7	Indebtedness (Note C to Consolidated Financial Statements of CXP)	27
7	Management's Discussion and Analysis of Financial Condition and Results of Operations	38 – 43

**ITEM 6. SELECTED FINANCIAL DATA**

See Item 5 above.

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

See Item 5 above.

**Forward Looking Statements**

The Management's Discussion and Analysis of Financial Condition and Results of Operations (incorporated by reference herein from the 2001 CXP Annual Report) and other sections of the 2001 CXP Annual Report and this Annual Report on Form 10-K 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 Securities 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 are not guarantees of future performance and involve a number of risks and uncertainties. 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, the cyclical and seasonal nature of the Company's business, public infrastructure expenditures, adverse weather, availability of raw materials, unexpected operational difficulties, governmental regulation and changes in governmental and public policy, changes in economic conditions specific to any one or more of the Company's markets, competition, announced increases in capacity in the gypsum wallboard and cement industries, general economic conditions, and interest rates. Investors should take such risks and uncertainties into account when making investment decisions. The Company undertakes no obligation to update publicly any forward-looking statements as a result of new information, future events or other factors.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is exposed to market risk from changes in interest rates that may adversely affect its financial position, results of operations, and cash flows. In seeking to minimize the risks from interest rate fluctuations, the Company managed exposures through regular operating and financing activities. The Company does not use financial instruments for trading or other speculative purposes.

At March 31, 2001, the Company had approximately \$268.5 million of variable rate debt. The primary base rate for such debt during fiscal 2001 has been 30-day LIBOR. Using this balance of debt, if LIBOR or any other indexes on which the rates are based increased by 100 basis points (1%), the Company's pre-tax earnings and cash flows would decrease by approximately \$2.7 million. On the other hand, if interest rates decreased by 100 basis points, the Company's pre-tax earnings and cash flows would increase by approximately \$2.7 million.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for in this Item 8 is incorporated herein by reference to the information set forth in the 2001 CXP Annual Report as indicated in the index to consolidated financial statements and schedules on page 19 of this Report (see Item 14).

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

None

#### PART III

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Except for the information relating to the executive officers of the Company, which follows Item 4 of Part I of this Report and is incorporated herein by reference, the information called for by Items 10, 11, 12 and 13 is incorporated herein by reference to the information included and referenced under the following captions (on the page or pages indicated) in the Company's Proxy Statement dated June 22, 2001, for the Company's July 17, 2001 Annual Meeting of Stockholders (the "2001 CXP Proxy Statement"):

Items	Caption in the 2001 CXP Proxy Statement	Pages
10	Election of Directors	2 – 5
10	Section 16(a) Beneficial Ownership Reporting Compliance	13
11	Executive Compensation	8 – 12
12	Security Ownership of Management and Certain Beneficial Owners	6 – 7
13	Certain Transactions	13 – 14

#### ITEM 11. EXECUTIVE COMPENSATION

See Item 10 above.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

See Item 10 above.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See Item 10 above.

#### PART IV

#### ITEM 14. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES AND REPORTS ON FORM 8-K

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

(1) and (2) See the Index to Consolidated Financial Statements and Schedules below for a list of the Financial Statements and Financial Statement schedules filed herewith.

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#### Index to Consolidated Financial Statements and Schedules

#### Centex Construction Products, Inc.

	<u>Reference</u> 2001 CXP Annual Report Page
Report of Independent Public Accountants	37
Statements of Consolidated Earnings for the years ended March 31, 2001, 2000 & 1999	18
Consolidated Balance Sheets as of March 31, 2001 & 2000	19
Statements of Consolidated Cash Flows for the years ended March 31, 2001, 2000 & 1999	20
Statements of Comprehensive Earnings for the years ended March 31, 2001, 2000 & 1999	21
Statements of Consolidated Stockholders' Equity for the years ended March 31, 2001, 2000 & 1999	22
Notes to Consolidated Financial Statements	23 - 36
Quarterly Results (Unaudited)	46



Consolidated supporting schedules have been omitted either because the required information is contained in notes to the consolidated financial statements or because such schedules are not required or are not applicable.

(3) Exhibits

The information on exhibits required by this Item 14 is set forth in the Index to Exhibits appearing on pages 22 and 23 of this Report.

(b) Reports on Form 8-K.

On November 16, 2000, the Company filed with the Securities and Exchange Commission a Current Report on Form 8-K in connection with its acquisition of certain strategic assets. On January 22, 2001, the Company filed an amended Current Report on Form 8-K/A, which amended the original Form 8-K filed on November 16, 2000 to include the audited financial statements of the businesses acquired and proforma financial information.

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**SIGNATURES**

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

CENTEX CONSTRUCTION PRODUCTS, INC.

	_____ Registrant
June 25, 2001	/s/ RICHARD D. JONES, JR.
	_____ Richard D. Jones, Jr., President and Chief Executive Officer

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

June 25, 2001	/s/ RICHARD D. JONES, JR.
	_____ Richard D. Jones, Jr., Director, President and Chief Executive Officer (principal executive officer)
June 25, 2001	/s/ ARTHUR R. ZUNKER, JR.
	_____ Arthur R. Zunker, Jr., Senior Vice President - Finance and Treasurer (principal financial and accounting officer)
June 25, 2001	/s/ ROBERT L. CLARKE
	_____ Robert L. Clarke, Director
June 25, 2001	/s/ TIMOTHY R. ELLER
	_____ Timothy R. Eller, Director
June 25, 2001	/s/ LAURENCE E. HIRSCH
	_____ Laurence E. Hirsch, Chairman
June 25, 2001	/s/ MICHAEL R. NICOLAIS
	_____ Michael R. Nicolais, Director
June 25, 2001	/s/ DAVID W. QUINN
	_____ David W. Quinn, Director
June 25, 2001	/s/ HAROLD K. WORK
	_____ Harold K. Work, Director

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**INDEX TO EXHIBITS  
CENTEX CONSTRUCTION PRODUCTS, INC.  
AND SUBSIDIARIES**

**Exhibit  
Number**

**Description of Exhibits**

2.1	Securities Purchase Agreement entered into as of November 10, 2000 (filed as Exhibit 2.1 to the Current Report on Form 8-K of Centex Construction Products, Inc. (the "Company") filed on November 16, 2000 (File No. 1-12984), as amended by the Company's Current Report on Form 8-K/A filed on January 22, 2001 (File No. 1-12984) and incorporated herein by reference)
3.1	Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1 to the Form S-8 Registration Statement of the Company (File No. 33-82928)(the "1994 S-8 Registration Statement"), filed on August 16, 1994 and incorporated herein by reference)
3.2	Amended and Restated Bylaws of the Company (filed as Exhibit 3.2 to the 1994 S-8 Registration Statement and incorporated herein by reference)
4.1	Form of Certificate evidencing Common Stock (filed as Exhibit 4.1 to Amendment No. 3 to the Form S-1 Registration Statement of the Company (File No. 33-74816) ("Amendment No. 3"), filed on April 4, 1994, and incorporated herein by reference)
4.2	Credit Agreement dated as of November 10, 2000 (filed as Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-12984) for the quarter ended December 31, 2000 (the "3Q 2000 10-Q"), filed on February 13, 2001 and incorporated herein by reference)
4.4	First Amendment to Credit Agreement entered into as of December 20, 2000 (filed as Exhibit 4.2 to the 3Q 2000 10-Q and incorporated herein by reference)
10.1	Joint Venture Agreement between Ilce, Inc. (f/k/a Illinois Cement Company, Inc.) and RAAM Limited Partnership dated April 1, 1972, as amended (filed as Exhibit 10.1 to the Form S-1 Registration Statement of the Company (File No. 33-74816), filed on February 4, 1994 and incorporated herein by reference)
10.2*	Limited Partnership Agreement of Texas Lehigh Cement Company LP by and between Texas Cement Company and Lehigh Portland Cement Company effective as of October 1, 2000
10.2(a)*	Amendment No. 1 to Agreement of Limited Partnership by and among Texas Cement Company, TLCC LP LLC, TLCC GP LLC, Lehigh Portland Cement Company, Lehigh Portland Investments, LLC and Lehigh Portland Holdings, LLC, effective as of October 2, 2000
10.3	The Centex Construction Products, Inc. Amended and Restated Stock Option Plan (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-12984) for the quarter ended September 30, 2000, filed on November 13, 2000 and incorporated herein by reference) <sup>(1)</sup>
10.4	The Centex Construction Products, Inc. 2000 Stock Option Plan (filed as Exhibit 10 to the Form S-8 Registration Statement of the Company (File No. 333-54102) filed on January 22, 2001 and incorporated herein by reference) <sup>(1)</sup>
10.5	The Centex Construction Products, Inc. Amended and Restated Supplemental Executive Retirement Plan (filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K (File No. 1-12984) for the fiscal year ended March 31, 2000 and incorporated herein by reference) <sup>(1)</sup>
10.6	Indemnification Agreement dated as of April 19, 1994, between the Company and Centex Corporation ("Centex") (filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K (File No. 1-12984) for the fiscal year ended March 1, 1995 (the "1995 Form 10-K") and incorporated herein by reference)
10.7	Tax Separation Agreement dated as of April 1, 1994, among Centex, the Company and its subsidiaries (filed as Exhibit 10.6 to the 1995 Form 10-K and incorporated herein by reference)
10.8	Administrative Services Agreement dated as of April 1, 1994, between the Company and Centex Service Company (filed as Exhibit 10.7 to the 1995 Form 10-K and incorporated herein by reference)
10.9	Trademark License Agreement dated as of April 19, 1994, between the Company and Centex (filed as Exhibit 10.8 to the 1995 Form 10-K and incorporated herein by reference)

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Exhibit Number	Description of Exhibits
10.10	Form of Indemnification Agreement between the Company and each of its directors (filed as Exhibit 10.9 to Amendment No. 3 and incorporated herein by reference) <sup>(1)</sup>
10.11*	Paperboard Supply Agreement, dated May 14, 1998, by and among Republic Paperboard Company (n/k/a Republic Paperboard Company LLC), Republic Group, Inc. and James Hardie Gypsum, Inc. Portions of this Exhibit were omitted pursuant to a request for confidential treatment filed with the Office of the Secretary of the Securities and Exchange Commission.
13**	Annual Report to Stockholders of the Company for fiscal year ended March 31, 2001 (the "Annual Report to Stockholders")
21*	Subsidiaries of the Company
23*	Consent of Independent Public Accountants

\* Filed herewith.

\*\* With the exception of the information expressly incorporated by reference in this Annual Report on Form 10-K from the Annual Report to Stockholders, the Annual Report to Stockholders is not deemed filed with the Commission as a part of this Annual Report on Form 10-K.

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

LIMITED PARTNERSHIP AGREEMENT  
OF  
TEXAS LEHIGH CEMENT COMPANY LP  
by and between  
TEXAS CEMENT COMPANY  
and  
LEHIGH PORTLAND CEMENT COMPANY

Dated October 1, 2000

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EXHIBITS:

Exhibit A: Market Area

## LIMITED PARTNERSHIP AGREEMENT

This Limited Partnership Agreement is made and entered into on September 29, 2000, to be effective as of 12:01 a.m. on October 1, 2000 (the "Effective Date"), between Texas Cement Company, a Nevada corporation ("TCC"), and Lehigh Portland Cement Company, a Pennsylvania corporation ("Lehigh").

## RECITALS

Effective as of April 1, 1986 (the "Joint Venture Effective Date"), Texas Cement Company, a Nevada corporation and a predecessor of TCC ("Old TCC"), Centex Cement Enterprises, Inc., a Nevada corporation ("CCE"), and Lehigh formed a joint venture partnership (the "Joint Venture") under the laws of the State of Texas for the purpose of manufacturing, marketing and selling grey cement products. As a result of one or more mergers, assignments and other transactions, TCC currently holds the interest in the Joint Venture formerly held by Old TCC and CCE (the "Original TCC Parties"). The rights, duties and obligations of the parties with regard to the Joint Venture are governed by the Joint Venture Agreement, dated as of March 25, 1986 and effective as of April 1, 1986 (the "Joint Venture Agreement"), between the Original TCC Parties and Lehigh.

As of the Effective Date, the Joint Venture will be converted into a Texas limited partnership (the "Partnership") as a result of the filing of a Certificate of Limited Partnership in the office of the Secretary of State of the State of Texas. Accordingly, the parties desire to enter into this Limited Partnership Agreement in order to provide for certain matters in connection with the conversion of the Joint Venture into the Partnership, which agreement shall, except as expressly stated herein, supersede the Joint Venture Agreement in its entirety.

NOW, THEREFORE, in consideration of the mutual covenants set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, TCC and Lehigh hereby agree as follows:

## ARTICLE I

## DEFINITIONS

1.1. Definitions. When used in this Agreement, the following terms will have the meanings set forth below:

(a) "Act" shall mean the Texas Revised Limited Partnership Act (Tex. Rev. Civ. Stat. Ann. art. 6132a-1), as the same may be amended from time to time, or any successor statute thereto.

(b) "Affiliate" shall mean a person directly or indirectly, through one or more intermediaries, controlling, controlled by or under common control with the person in

question. The term "control", as used in the immediately preceding sentence, means, with respect to a person that is a corporation, the right to the exercise, directly or indirectly, of more than 50% of the voting rights attributable to the shares of the controlled corporation and, with respect to a person that is not a corporation, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of the controlled person. Notwithstanding the foregoing, the Partnership shall not be deemed an Affiliate of any Partner for purposes of this Agreement.

(c) "Agreement" shall mean this Limited Partnership Agreement of the Partnership, as amended from time to time.

(d) "Available Cash" of the Partnership shall mean all cash funds which are available for distribution as determined by the Management Committee.

(e) "Budget" shall mean an annual operating and capital budget to be prepared for the Management Committee, in form and content approved by the Management Committee.

(f) "Code" shall mean the Internal Revenue Code of 1986, as the same may be amended from time to time, or any successor statute thereto.

(g) "Fiscal Year" shall mean the twelve month period ending December 31 of each year.

(h) "General Partners" shall mean the general partners of the Partnership, and "General Partner" shall mean any of the General Partners. (i) "Independent Accountants" shall mean Arthur Andersen LLP or such other nationally recognized accounting firm as may be chosen by the Management Committee.

(j) "Limited Partners" shall mean the limited partners of the Partnership, and "Limited Partner" shall mean any of the Limited Partners.

(k) "Management Committee" shall mean the committee designated, and with the powers and duties as provided, in Article V.

(l) "Market Area" means the geographic area designated in Exhibit A hereto.

(m) "Partners" shall mean the General Partners and the Limited Partners, and "Partner" shall mean any of the Partners.

(n) "Partnership" shall mean the limited partnership continued pursuant to the terms hereof for the limited purposes and scope set forth herein, and for periods prior to the Effective Date, such term shall include the Joint Venture.

(o) "Partnership Percentage Interest" shall mean as to each of TCC and Lehigh, an interest in the capital, profits and losses of the Partnership as follows:

PARTNER -----	PARTNERSHIP PERCENTAGE INTEREST HELD AS A GENERAL PARTNER -----	PARTNERSHIP PERCENTAGE INTEREST HELD AS A LIMITED PARTNER -----
TCC	0.1%	49.9%
Lehigh	0.1%	49.9%

1.2. Other Definitions. The following terms are defined in the sections of this Agreement respectively indicated:

Term -----	Section -----
Delinquent Partner	11.1
Effective Date	Preamble
Joint Venture	Preamble
Joint Venture Agreement	Preamble
Joint Venture Effective Date	Preamble
Lehigh	Preamble
Nondelinquent Partners	11.1
Offering Partner	9.2(a)
Partnership	Preamble
Receiving Partners	12.1
Responding Partner	9.2(a)
Submitting Partner	12.1
TCC	Preamble

## ARTICLE II

### CONTINUATION OF THE PARTNERSHIP

2.1. Continuation. The Partners do hereby continue the Partnership under the Act for the limited purposes and scope set forth herein and upon the terms, provisions and conditions set forth in this Agreement. Except as otherwise specifically provided in this Agreement, the rights and obligations of the Partners and the continuation, administration and termination of the Partnership shall be governed by the Act.

2.2. Interests in Partnership. Each of the Partners shall have an interest in the capital, profits and losses of the Partnership as specified in this Agreement.

2.3. Name. The name of the Partnership shall be Texas Lehigh Cement Company LP, under which all business and affairs of the Partnership shall be conducted.

2.4. Principal Place of Business. The principal place of business of the Partnership shall be located at Buda, Texas, or at such other place as shall be approved by the Partners.

2.5. Registered Agent and Registered Office. The registered agent for service of process on the Partnership in the State of Texas shall be Corporation Service Company, and the address of such registered agent and of the registered office of the Partnership in the State of Texas shall be 800 Brazos, Suite 750, Austin, Texas 78701.

2.6. Purpose and Scope. Subject to the provisions of this Agreement, the purposes of the Partnership are (a) manufacturing, marketing and selling grey cement products of any type, fly ash and slag, within the Market Area, as set forth in Exhibit A; and (b) doing any and all other acts or things which may be incidental or necessary to carry on the business of the Partnership as herein contemplated.

2.7. Restrictions on Activities; Independent Activities.

No Partner nor any of its Affiliates shall offer to sell or sell any grey cement products, fly ash or slag in the Market Area. Except as is prohibited by the preceding sentence, each Partner, and each of its Affiliates, notwithstanding the existence of this Agreement, may engage in whatever activities it chooses (including without limitation activities in the manufacture and sale of white cement), without having or incurring any obligation to offer any interest in any such activities to the Partnership or any party hereto. Neither this Agreement nor any activity undertaken pursuant hereto shall prevent any Partner or its Affiliates from engaging in such activities, or require participation in such activities by the other Partners, and as a material part of the consideration hereof each Partner hereby waives, relinquishes and renounces any such right of or claim to participation in any such activities.

### ARTICLE III

#### CAPITAL CONTRIBUTIONS

3.1. Initial Capital Contribution of the Partners. Prior to the date hereof, each Partner has made capital contributions to the Partnership as provided in or contemplated by the Joint Venture Agreement. To the extent such provisions have not been fully performed prior to the Effective Date, each Partner shall continue to have such rights and obligations in respect of such capital contributions as are set forth in the provisions of the Joint Venture Agreement relating thereto, including, but not limited to, Article III and Section 9.3 thereof

3.2. Additional Capital. The Partners understand that from time to time additional capital contributions may be necessary.

(a) When the Management Committee determines from time to time that additional capital contributions are needed by the Partnership, they will so notify the Partners, and the Partners shall make such capital contributions within five business days of notice, prorata in accordance with their respective Partnership Percentage Interests.

(b) If the President and Chief Operating Officer determines that the continued operations of the Partnership are endangered due to the Partnership experiencing negative cash flow and that an immediate infusion of capital is necessary to preserve the



continued operations of the Partnership, he shall determine the amount of capital necessary to preserve the operations of the Partnership and notify the Management Committee of such circumstances and of such amount. By way of example and not limitation, the continued operations of the Partnership would be endangered if the Partnership were unable to meet its obligations in the ordinary course of business, such as payroll. The Management Committee shall meet within five days after such notice, determine the amount, if any, of capital to be contributed and so notify the Partners. If the Management Committee does not meet within five days of such notice or fails to agree upon the amount, if any, of capital to be contributed, the President and Chief Operating officer will notify the Partners of the amount of capital he deems necessary. Each Partner shall contribute to the Partnership its prorata share of the amount designated by the Management Committee, or by the President and Chief Operating Officer if the Management Committee makes no determination of an amount, within five business days of notice to the Partners.

(c) If a Partner fails to make a capital contribution that is required pursuant to Section 3.2(a) or 3.2(b) above, the other Partner may exercise the rights and, remedies as set forth in Article XI at such time.

### 3.3. Other Matters Relating to Capital Contributions.

(a) Loans by a Partner to the Partnership shall not be considered as capital contributions made to the Partnership.

(b) No Partner shall be entitled to make additional capital contributions in excess of those contributions required or permitted under this Article III.

(c) No Partner shall be entitled to withdraw, or to a return of, any part of its capital contributions made to the Partnership, or to receive property or assets other than cash in return thereof, except as provided in this Agreement.

(d) No Partner shall be entitled to priority over another Partner, either with respect to a return of its capital contributions made to the Partnership, or allocations of income, gains, losses, credits or distributions, except as provided in this Agreement.

(e) No interest shall be paid on capital contributions made to the Partnership.

3.4. Tax Indemnification. The parties to the Joint Venture Agreement agreed to certain tax indemnification provisions set forth in Section 3.10 of the Joint Venture Agreement. Notwithstanding anything to the contrary contained herein, it is expressly understood and agreed that the provisions of Section 3.10 of the Joint Venture Agreement shall survive the execution and delivery of this Agreement and shall thereafter continue in full force and effect; provided, however, that all references in such provisions to "TCC" shall be deemed to refer to TCC instead of the Original TCC Parties.

## ARTICLE IV

## TERM

The term of the Partnership commenced on the Joint Venture Effective Date and shall continue, unless sooner terminated as provided herein, until March 31, 2016; provided, however, the term of the Partnership will be automatically renewed and extended for an additional period of ten years every ten years commencing April 1, 2016 unless, not more than twenty-four months nor less than twelve months prior to the expiration of a then current term, a General Partner notifies the other General Partner that the Partnership will not be renewed and extended beyond the then current term.

## ARTICLE V

THE GENERAL PARTNERS;  
MANAGEMENT OF THE PARTNERSHIP

5.1. The General Partners. The General Partners of the Partnership shall be TCC and Lehigh. Except as otherwise expressly provided herein or as required by law, the business of the Partnership shall be managed, conducted and controlled by the General Partners through the Management Committee and by delegation of authority to the officers of the Partnership as provided herein.

5.2. Management Committee. Each General Partner shall appoint two representatives to serve on the Management Committee. Until further notice, the representatives of TCC shall be Steven R. Rowley and Richard D. Jones, Jr. and the representatives of Lehigh shall be Helmut Erhard and Rainer Nobis. Any General Partner may designate at any time and from time to time replacement representatives, for any given meeting, a specified term or an indefinite period, by a written notice of such designation to each other General Partner.

(a) Unless otherwise expressly provided in this Agreement, approval by the Management Committee hereunder shall mean that the action in question has been approved unanimously at a meeting of at least three of the members of the Management Committee upon notice (of at least seven days prior to any meeting), to all members as to the matter to be decided (which notice may be waived).

(b) The Management Committee shall meet at such reasonable times and places as the Management Committee shall choose, either in person or by conference call, as deemed appropriate by any General Partner or the Management Committee. Whenever reasonably requested by any Partner, the Management Committee shall render a just and faithful account of all dealings and transactions relating to the business of the Partnership.

(c) Any action to be taken at a meeting of the Management Committee may be taken without a meeting, without prior notice, and without a vote, if a consent or consents in writing, setting forth the action so taken, shall have been signed by all of the members of the Management Committee. Such consent shall have the same force and effect as a unanimous vote

at a meeting and may be stated as such in any document or instrument filed with the Secretary of State of Texas. The members of the Management Committee may participate in and hold a meeting of the Management Committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and participation in such a meeting shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

5.3. Officers. The personnel to be employed by the Partnership on a full-time basis shall include a President and Chief Operating Officer who shall report to the Management Committee and a Vice President-Marketing, Vice President-Finance and Plant Manager appointed by the Management Committee, who shall report to the President and Chief Operating Officer. The terms of office for such persons shall be one year, and the parties currently holding such offices shall remain in office through the end of the fiscal year in which the Effective Date occurs. If any of these persons does not take such office, then the Management Committee will appoint someone else.

5.4. President and Chief Operating Officer. The President and Chief Operating Officer shall have all the rights and powers as are necessary, advisable or convenient to the management of the business and affairs of the Partnership within guidelines established by the Management Committee. Without limiting the generality of the foregoing, the President and Chief Operating Officer shall have the following rights, duties and powers:

(a) To prepare annually and submit to the Management Committee the Budget; to prepare and submit to the Management Committee, monthly, income statements, statements of partners' capital and changes in financial position and balance sheets; and to submit promptly, from time to time, such other information regarding the operations, assets, business, affairs and financial condition of the Partnership as the Management Committee or any Partner may reasonably request;

(b) To purchase from or through others (i) fidelity bonds with reputable surety companies, covering all persons having access to the Partnership's funds, indemnifying the Partnership against loss resulting from fraud, theft, dishonesty and other wrongful acts of such persons, and (ii) contracts of liability, property, worker's compensation and other insurance as may be required under applicable mortgages, agreements and other instruments and statutes or which the President and Chief Operating Officer deems advisable, appropriate, or convenient for the protection of the assets and affairs of the Partnership or for any purpose convenient or beneficial to the Partnership;

(c) To borrow money under any line of credit established with the approval of the Management Committee;

(d) To sell, dispose of, trade, exchange, convey, quitclaim, lease, surrender, release or abandon the assets of the Partnership which are not necessary to the operations of the Partnership and which have a value in each instance of not more than twenty-five thousand dollars (\$25,000) per asset or group of assets sold in one transaction, all upon such terms and

conditions as the President and Chief Operating Officer may deem advisable, appropriate or convenient;

(e) To assign, transfer, pledge, compromise, release or settle any claim of the Partnership for less than full payment or to arbitrate or consent to the arbitration of any of its disputes or controversies or to confess a judgment against the Partnership, to the extent that such claim, dispute, controversy or judgment arises in the ordinary course of business and the amount at issue is less than twenty-five thousand dollars (\$25,000);

(f) To hire and discharge employees, determine the scope of their employment, determine their compensation and take all other customary action on behalf of the employer Partnership with regard to all employees of the Partnership, except as provided in Section 5.5(p). However, the positions of President and Chief Operating Officer, Vice President-Marketing, Vice President-Finance and Plant Manager will not fall within this right and power; and

(g) To keep the General Partners equally and fully informed as to all significant matters concerning the Partnership.

5.5. Major Decisions. Except as expressly delegated to the officers of the Partnership, all decisions with respect to the Partnership's business shall require the approval of the Management Committee, including but not limited to the decisions to take any of the following actions:

(a) To borrow money, incur indebtedness, enter into any loan, issue any promissory note, prepay any indebtedness or guarantee any indebtedness or obligation of another other than as permitted by Section 5.4(c) above;

(b) To select, appoint and dismiss the President and Chief Operating Officer, and any other officers who report directly to the President and Chief Operating Officer;

(c) To approve annually the Budget;

(d) To determine the compensation of the President and Chief Operating Officer, and any other officers who report directly to the President and Chief Operating Officer;

(e) To admit a new Partner to the Partnership, except in connection with a transfer by a Partner of an interest to an Affiliate of such Partner within fifteen (15) days after the Effective Date (in which case the Affiliate shall be admitted as a Partner to the Partnership immediately upon the execution by such Affiliate of an appropriate instrument evidencing that it will be bound by the provisions of this Agreement);

(f) To possess Partnership property (real or personal), or assign rights in specific Partnership assets or property (real or personal) for other than Partnership purposes;

(g) To make any capital commitment by the Partnership;

(h) To sell, dispose of, trade, exchange, convey, quitclaim, lease, surrender, release or abandon the assets of the Partnership other than as permitted in Section 5.4(d) above;

(i) To lease as lessee the assets of the Partnership;

(j) To make, execute or deliver any general assignment for the benefit of creditors of the Partnership, or any bond, guarantee, indemnity or surety bond of the Partnership;

(k) To assign, transfer, pledge, compromise, release or settle any claim of the Partnership for less than full payment or to arbitrate or consent to the arbitration of any of its disputes or controversies or to confess a judgment against the Partnership other than as permitted in Section 5.4 above;

(l) To guarantee indebtedness owed by third parties;

(m) To amend or otherwise change this Agreement so as to modify the rights or obligations of the Partners as set forth herein or alter or modify the purpose of the Partnership;

(n) To do any act which would make it impossible to carry on the ordinary business of the Partnership;

(o) To approve the Partnership's tax returns;

(p) To set compensation policy and choose, sponsor, adopt, amend, fund and terminate employee benefit plans;

(q) To approve transactions, other than as provided herein, between the Partnership and any Partner;

(r) To invest the Partnership's funds;

(s) To annually appoint the Independent Accountants;

(t) To permanently shut down any facility of the Partnership;

or

(u) To determine distributions of Available Cash of the Partnership.

5.6. Exculpation. Neither the Management Committee nor any member of the Management Committee shall have any liability whatsoever to the Partnership or any Partner, for loss caused by any act or by the failure to do any act; provided, however, that such exculpation from liability shall not apply to any liability for loss caused by an act or by the failure to do any act which arises out of the gross negligence, bad faith, willful misconduct or fraud of the Management Committee or a member thereof, as the case may be. The Management Committee and its members shall not be deemed to be fiduciaries on behalf of the Partnership or the Partners.

## 5.7. Indemnification.

(a) The Partnership and each General Partner, jointly and severally, shall indemnify any person who was, is or is threatened to be made a named defendant or respondent in a proceeding because the person (i) is or was an officer, employee or agent of the Partnership or member of the Management Committee or (ii) while an officer, employee or agent of the Partnership or member of the Management Committee, is or was serving at the request of the Partnership as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise, unless it is determined by the Management Committee that such person was grossly negligent, acted in bad faith or engaged in willful misconduct or fraud. The termination of a proceeding by judgment, order, settlement or conviction, or on a plea of nolo contendere or its equivalent is not of itself determinative that the person did not meet the requirements set forth in this Section 5.7.

(b) Notwithstanding the formation of the Partnership, each Partner will remain solely liable for any and all claims, liabilities, costs or expenses which are occasioned by the conduct of the business of such Partner or its Affiliates, and the utilization of the contributed assets by such Partner or any Affiliate, prior to the Joint Venture Effective Date, and will indemnify, defend and hold harmless the other Partners from such claims, liabilities, costs or expenses. This indemnification shall specifically include without limiting the generality of the foregoing, all environmental protection matters regarding assets contributed to the Partnership, including: (i) any claims, obligations, costs and expenses arising at any time from the existence at the Joint Venture Effective Date, of any underground storage tank which is leaking at such time or which, while not leaking at the Joint Venture Effective Date was contributed to the Partnership but was never used or intended to be used by the Partnership; (ii) any claims, obligations, costs and expenses arising at any time from the existence at such date of any asset containing PCB's in concentrations greater than 50 PPM; and (iii) any claims, obligations, costs or expenses with respect to any remedial action or cleanup required under any federal, state or local law, statute or regulation or other liability arising at any time occasioned by the disposal of wastes at any time prior to the Joint Venture Effective Date; provided, however, that such claims, obligations, costs and expenses shall be indemnified only if, and to the extent, not caused by any act or failure to act of the Partnership or another Partner.

5.8. Employee Benefits. The Management Committee will determine employee benefits for the employees of the Partnership.

5.9. Services to the Partnership. It is contemplated that, from time to time, the Partnership will utilize the various expertise and skills possessed by employees of the General Partners and their Affiliates. The personnel of the General Partners and their Affiliates will be available to provide services to the Partnership, including engineering, geological and legal services, insurance and risk management and tax return preparation, at any reasonable time, as authorized by the Management Committee. Such services will be at the expense of the Partnership, and the charge for such services will be based on the actual cost to the entity providing them. In addition, senior management of the General Partners, or of the members of the General Partners, as applicable, will provide reasonable advisory and consulting services to the Partnership, at no cost to it, as requested by the Management Committee. The members of

the Management Committee shall not receive any fees or compensation for their services on the committee.

5.10. Tax Matters Partner. TCC shall serve as the "tax matters partner" for all purposes under the Code.

#### ARTICLE VI

##### THE LIMITED PARTNERS

6.1. The Limited Partners. TCC and Lehigh shall be the limited partners of the Partnership.

6.2. No Management by the Limited Partners. A Limited Partner in its capacity as such shall have no right to, and shall not, take part in the management or control of the Partnership's business or act for or bind the Partnership, and shall have only such rights, powers and privileges as are expressly granted to a Limited Partner in this Agreement or are provided for under the Act.

6.3. Liability of the Limited Partners.

6.4. To the maximum extent permitted by the Act, no Limited Partner shall have any personal liability with respect to the liabilities or obligations of the Partnership, unless such Limited Partner expressly assumes any such liabilities or obligations. No Limited Partner shall be obligated, except as otherwise required by law, either (i) to pay to the Partnership or to any creditor of the Partnership or any other Partner any deficiency in its capital account (it being understood that the obligation of the Limited Partner to make capital contributions to the Partnership is as set forth in Article III), or (ii) to return to the Partnership or to pay any creditor or any other Partner the amount of any return to it of its capital contribution or other distribution made to it. The obligation of a Limited Partner to make capital contributions to the Partnership in accordance with Article III shall inure to the benefit of the Partnership and the other Partners but shall not give rise to any right of any creditor of the Partnership or other person to require a Limited Partner to make any capital contribution to satisfy any debt, liability or obligation of the Partnership.

#### ARTICLE VII

##### BOOKS AND RECORDS

The books and records of the Partnership shall, at the cost and expense of the Partnership, be kept or caused to be kept on the accrual method of accounting, shall reflect all Partnership transactions, and be appropriate and adequate for conducting the Partnership's business. The Partnership shall keep at its principal office the books and records required to be maintained by it under Section 1.07 of the Act. The Management Committee shall cause to be prepared all required tax returns at the Partnership's expense, and shall submit the same to each Partner no later than 30 days prior to the due date of such returns. Each Partner, at its own expense, shall have the right at all times to inspect the books and records of the Partnership

during business hours at the principal place of business of the Partnership. Annually and at the expense of the Partnership, the Independent Accountants shall conduct an audit of the operations of the Partnership and furnish their certified report to the Management Committee no later than 90 days after the end of each fiscal year.

#### ARTICLE VIII

##### ALLOCATIONS, DISTRIBUTIONS, AND INTERESTS

8.1. Allocation of Income or Loss. The net income or net loss of the Partnership for each Fiscal Year, and each item of Partnership income, gain, loss and deduction as computed for federal income tax purposes, shall be allocated to the Partners prorata in accordance with their respective Partnership Percentage Interests.

8.2. Distribution of Available Cash. Periodically, but not less frequently than at the end of each Fiscal Year of the Partnership, the Available Cash of the Partnership, if any, shall be distributed to the Partners, prorata in accordance with their Partnership Percentage Interests, at such times and in such amounts as determined by the Management Committee.

8.3. Allocation of Income and Loss and Distributions in Respect of Interests Transferred. If a Partnership Percentage Interest is transferred during any Fiscal Year, the income or loss attributable to such interest for such Fiscal Year shall be divided and allocated proportionately between the transferor and the transferee based upon the number of days during such Fiscal Year for which each party was the owner of the interest transferred; provided, however, that if the Management Committee received a written notice stating that such parties have agreed that such income or loss is to be allocated between them based upon an interim closing of the Partnership books and that such parties agree to pay all expenses incurred by the Partnership in connection with such interim closing, then all such income or loss shall be allocated between the transferor and transferee based upon an interim closing of the Partnership's books and records. Distributions of Partnership assets in respect of an interest in the Partnership shall be made only to the persons or entities who, according to the books and records of the Partnership, are the holders of record of the interests in respect of which such distributions are made on the actual date of distribution. The Partnership shall incur no liability for making distributions in accordance with the provisions of the preceding sentence, whether or not the Management Committee or the Partnership has knowledge or notice of any transfer or purported transfer of ownership of any interest in the Partnership. Notwithstanding any provision of this Section 8.3 to the contrary, income or loss resulting from a sale or other disposition of all or substantially all of the Partnership's assets shall be allocated solely to the parties owning interests in the Partnership as of the date such sale or other disposition occurs.



## ARTICLE IX

## TRANSFERS OF INTERESTS IN PARTNERSHIP

9.1. Prohibited Transfers. A Partner may sell, transfer, assign or convey all of its interest in the Partnership, but not less than all of its interest in the Partnership, to any person, subject, in each case, however, to the provisions of Sections 9.2 and 9.3. Any act in violation of this Article IX shall be null and void ab initio.

## 9.2. Right of Sale and First Purchase.

(a) Prior to entering into any contract to sell, transfer, assign or convey all of its interest in the Partnership to a third party (other than pursuant to Section 9.3 herein), or prior to accepting any bona fide offer to purchase, buy or acquire all of its interest in the Partnership from a third party, the Partner making or desiring to accept such offer (and all Affiliates of such Partner, collectively, the "Offering Partner"), shall give written notice of the name of the third party and all the terms, provisions and conditions upon which the Offering Partner desires to sell its interest in the Partnership, or in the case of receipt of a bona fide offer, a copy of the proposed offer containing the name of the third party and all the terms, provisions and conditions of such offer, to the other Partners who are not Affiliates of the Offering Partner (collectively, the "Responding Partner") and the Offering Partner shall offer to sell to the Responding Partner the Offering Partner's interest in the Partnership on the terms, provisions and conditions set forth in such notice.

(b) The Responding Partner shall have a period of 60 days from the date of its receipt of the written notice from the Offering Partner to accept such offer on the terms, provisions and conditions stated in such written notice, which acceptance must be in writing and be received by the Offering Partner prior to the expiration of such 60 day period. Any purported acceptance which materially varies the terms of such offer shall be deemed a rejection thereof for all purposes. The closing of the purchase by the Responding Partner shall be held at the time and place specified in the written notice from the Offering Partner, or such earlier date as is mutually agreed to by the Partners, but in no event later than the day the original offer would have been closed.

(c) In the event the Responding Partner delivers written notice of rejection to the Offering Partner, or in the event the Responding Partner fails to accept the offer in the manner required by Section 9.2(b) hereof, the offer made by the Offering Partner shall be deemed to have been rejected by the Responding Partner and the Offering Partner shall be free to sell, transfer, assign or convey such interest in the Partnership to the third party named, and on the terms, provisions and conditions set forth, in the written notice to the Responding Partner unless, within the 60 day period provided in Section 9.2(b), the Responding Partner gives notice to the Offering Partner that it rejects the proposed transferee, which rejection shall be made in good faith and on a reasonable basis.

If the Offering Partner closes such sale to such third party, the latter shall join in and execute with the Responding Partner a written amendment to this Agreement pursuant to which such third party agrees to be bound by all the terms and provisions of this Agreement

and to perform and discharge the obligations and liabilities which are attributable to the interest acquired by such third party.

(d) In the event that a transaction is not consummated as provided in Section 9.2(c) hereof on or before 180 days after the expiration of the 60 day period provided in Section 9.2(b), or in the event any terms and provisions of such transaction are changed following a rejection by the Responding Partner, no sale, transfer, assignment or conveyance of such interest in the Partnership may be made unless the provisions of this Section 9.2 are again complied with.

(e) In the event that a transaction is consummated as provided in Section 9.2(c) hereof, the purchaser shall become a new Partner in the Partnership, upon compliance with the provisions of Section 9.2(c) hereof, under the terms and provisions of this Agreement, together with all of the rights, duties and obligations pertaining thereto including the rights and restrictions contained in this Article IX with respect to subsequent sales of its interest in the Partnership.

9.3. Transfers by Partners to Affiliates. Notwithstanding any provision in this Article IX to the contrary, each Partner shall be entitled, without the consent of any other Partner, to dispose of all or any portion of its interest in the Partnership to an Affiliate of such assigning Partner; provided, however, (i) contemporaneously with the disposition of such interest, the Affiliate to whom such interest is disposed shall join in and execute with the other Partners a written amendment to this Agreement pursuant to which such Affiliate agrees to be bound by all the terms and provisions of this Agreement and to perform and discharge the obligations and liabilities which are attributable to the interest acquired by such Affiliate; (ii) that following any such transfer the assigning Partner shall continue to be bound by all the terms and provisions of this Agreement and to perform and discharge its obligations and liabilities under this Agreement as long as any Affiliate of such assigning Partner is a Partner in the Partnership; and (iii) that any such transfer that would cause a technical termination of the Partnership shall not be effected without the prior written consent of each other Partner.

#### ARTICLE X

#### DISSOLUTION

##### 10.1. Dissolution Events.

(a) Except as set forth in this Article X, no Partner shall have the right to terminate this Agreement or dissolve the Partnership by its express will or by withdrawal without the consent of each of the other Partners that is not an Affiliate of such Partner.

(b) The Partnership shall be dissolved upon the first to occur of any of the following:

(i) Any General Partner shall (A) voluntarily be adjudicated bankrupt or insolvent, (B) seek, consent to or not contest the appointment of a receiver

or trustee for itself or for all or any part of its property, (C) file a petition seeking relief under the bankruptcy, arrangement, reorganization or other debtor relief laws of the United States or any state or other competent jurisdiction, (D) make a general assignment for the benefit of its creditors, or (E) admit in writing its inability to pay its debts as they mature;

(ii) (A) A petition is filed against any General Partner seeking relief under the bankruptcy, arrangement, reorganization or other debtor relief laws of the United States or any state or other competent jurisdiction, or (B) a court of competent jurisdiction enters an order, judgment or decree appointing, without the consent of said General Partner, a receiver or a trustee for it or for all or any part of its property, and such petition, order, judgment or decree shall remain and shall not be discharged or stayed for 60 days after its entry;

(iii) The interest in the Partnership of any General Partner is seized by a creditor of such General Partner and the same is not released from seizure or bonded out within 30 days from the date of notice of such seizure.

(iv) The Partners unanimously determine to dissolve the Partnership;

(v) The term of the Partnership, as set forth in Article IV above, expires;

(vi) A Partner has sold, transferred, assigned, conveyed or subjected to a security interest its interest in the Partnership in violation of Article IX, and the other Partners who are not Affiliates of such Partner elect thereafter to dissolve the Partnership, provided that such other Partners notify the Partner involved in such prohibited transaction within ninety (90) days after they first learn of such prohibited transaction; or

(vii) A decree of judicial dissolution with respect to the Partnership is entered under Section 8.02 of the Act; or

(viii) There occurs any other event that is required to cause the dissolution of the Partnership under the Act.

(c) Notwithstanding the provisions of Section 10.1(b) above, the Partnership shall not be dissolved if:

(i) In the case of a dissolution resulting from any event specified in clauses (i) through (iii), (v) or (vi) of such provision, within 90 days after the occurrence of such event, all of the Partners (other than the Partner, if any, whose actions or status would otherwise result in the dissolution of the Partnership, and such Partner's Affiliates) agree in writing to continue the business of the Partnership; or

(ii) In the case of a dissolution resulting from an event of withdrawal of a General Partner (as defined in the Act), either (A) there remains at least one General Partner and all of the Partners (other than the Partner whose withdrawal would

otherwise result in the dissolution of the Partnership, and such Partner's Affiliates) agree in writing to continue the business of the Partnership or (B) within 90 days after the occurrence of such event, all of the Partners (other than the Partner whose withdrawal would otherwise result in the dissolution of the Partnership, and such Partner's Affiliates) agree in writing to continue the business of the Partnership and, to the extent they desire or if there are no remaining General Partners, agree to the appointment, effective as of the date of withdrawal, of one or more new General Partners.

(d) Any dissolution of the Partnership shall be effective as of the date on which the event occurs giving rise to such dissolution, but the Partnership shall not terminate unless and until all its affairs have been wound up and its assets distributed as provided in this Article X.

10.2. Termination and Winding Up of Partnership. If the Partnership is dissolved and no purchase is consummated under Section 10.6, an accounting of the Partnership assets, liabilities and operations through the last day of the month in which the dissolution occurs shall be made by the Partnership's Independent Accountants and the affairs of the Partnership shall be wound up and terminated. A liquidating trustee shall be designated by the Management Committee. If the Management Committee is unable to designate the liquidating trustee, he shall be appointed by the then Chief Judge of the District Court of Dallas County, Texas (acting in his nonjudicial capacity or, to the extent he refuses to act in that capacity, in his judicial capacity), upon application of any General Partner. The liquidating trustee shall be responsible for winding up and terminating the affairs of the Partnership and shall determine all matters in connection therewith (including without limitation the arrangements to be made with creditors, to what extent and under what terms the assets of the Partnership are to be sold and the amount or necessity of cash reserves to cover contingent liabilities) as it deems advisable and proper; provided, however, that all decisions of the liquidating trustee shall be made in accordance with the fiduciary duty owed by the liquidating trustee to the Partnership and each of the Partners. The liquidating trustee shall thereafter liquidate the assets of the Partnership as promptly as is consistent with obtaining the fair value thereof and the proceeds therefrom shall be applied and distributed in the following order:

(a) To the expenses of liquidation;

(b) To the payment and discharge of all the Partnership's debts and liabilities to persons other than Partners or former Partners;

(c) To the payment and discharge of any loans and advances made by Partners or former Partners to the Partnership;

(d) To establish and fund any cash reserve fund deemed necessary; and

(e) The balance, if any, shall be distributed to the Partners in accordance with the provisions of Section 8.2 above.

10.3. Reserves. After all of the assets of the Partnership have been distributed, the Partnership shall terminate; but, if at any time thereafter any funds in any cash reserve fund

referred to in Section 10.2 above are released because the need for such cash reserve fund has ended, such funds shall be distributed to the Partners in the same manner as if such distribution had been made pursuant to Section 10.2 above.

10.4. Cancellation of Partnership Certificate. Upon the completion of the winding up of the affairs of the Partnership and the distribution of Partnership Assets as provided in Sections 10.2 and 10.3, the Partnership shall be terminated, and the liquidating trustee shall file or cause to be filed a certificate of cancellation of the Certificate of Limited Partnership of the Partnership in the office of the Secretary of State of Texas, shall cancel all qualifications of the Partnership as a foreign limited partnership in any other jurisdictions and shall take such other actions as it may determine are necessary or appropriate to terminate the Partnership.

10.5. Option at Dissolution. If the Partnership is dissolved pursuant to Paragraphs 10.1(b)(iv), (v) or (vii), any Partner shall have, and, if the Partnership is dissolved pursuant to Paragraphs 10.1(b)(i), (ii), (iii), (vi) or (viii), any Partner other than the Partner (and such Partner's Affiliates) whose acts or status prompts such dissolution thereunder shall have, and is hereby granted, the right to buy all of the assets, subject to the liabilities, of the Partnership. Prior to offering for sale any of the assets of the Partnership, the liquidating trustee shall, by written notice, offer all of such assets to the Partners entitled to buy same hereunder. If two or more Partners who are not Affiliates desire, are entitled hereunder, and are able to buy such assets, the liquidating trustee shall conduct an open auction in which the highest bidding Partner (as determined by the liquidating trustee) shall be entitled to purchase such assets. If only one Partner, together with its Affiliates, is entitled to buy the assets hereunder, the price therefor shall be the fair market value of those assets attributable to each nonpurchasing Partner's Partnership Percentage Interest and shall be determined through the appraisal procedure under Article XII.

10.6. Closing.

(a) The closing of the sale and purchase of the assets of the Partnership pursuant to Section 10.5 shall occur at the offices of the Partnership in Buda, Texas, within 30 days after the determination of the price for such assets.

(b) At closing of a sale and purchase of the assets of the Partnership pursuant to Section 10.5, the following transactions shall occur:

(i) Each nonpurchasing Partner shall convey and assign all of its right to the assets of the Partnership to each purchasing Partner (or to such other person as a purchasing Partner shall designate to each nonpurchasing Partner), subject to the liabilities of the Partnership, and each nonpurchasing Partner shall execute and deliver to each purchasing Partner all documents which may be required to give effect to the sale and purchase of such assets;

(ii) Each purchasing Partner shall pay or cause to be paid to the liquidating trustee cash in the amount of the applicable purchase price for the assets being purchased and shall deliver to the liquidating trustee an agreement pursuant to which each purchasing Partner agrees to protect, indemnify and hold harmless the liquidating trustee and each nonpurchasing Partner from and against all losses, costs

(including, without limitation, reasonable attorneys' fees and the cost of litigation), expenses, liabilities and obligations which are attributable to each nonpurchasing Partner's interest in the purchased assets and assumed liabilities from and after the date of such sale; and

(iii) The liquidating trustee shall take any necessary action to complete the dissolution, winding up and termination of the Partnership.

#### ARTICLE XI

##### FAILURE TO MAKE CONTRIBUTIONS

11.1. Options of Nondelinquent Partners. If any Partner fails to contribute timely any portion of any monetary sum that it is obligated or has otherwise agreed to contribute hereunder (such Partner and any other Partner who is an Affiliate of such Partner being hereinafter referred to as the "Delinquent Partner"), and the other Partners who are not Affiliates of such Partner are not at such time Delinquent Partners, such other Partners (the "Nondelinquent Partners") may, at their option at any time within the 90 day period following notice of default and prior to the date such default is cured, elect any one or more of the following rights and remedies:

(a) Advance the additional capital contribution required of the Delinquent Partner as a loan by the Nondelinquent Partners to the Partnership. Such loan shall be on such terms as the Nondelinquent Partners shall reasonably determine and the interest rate shall be two percent over the "prime" rate of interest quoted from time to time by Bank of America, N.A. (but in no event in excess of the highest lawful rate) from the date of advance until the date repaid. Notwithstanding any other provision herein, all cash flow of the Partnership which is otherwise to be distributed to the Delinquent Partner shall be paid first to the Nondelinquent Partners as interest (and after accrued interest is paid, principal) on such loan until such loan is fully repaid.

(b) Exercise, by notifying the Delinquent Partner thereof, its right to purchase the Partnership Percentage Interest of the Delinquent Partner for the fair market price of the Delinquent Partner's Partnership Percentage Interest as determined through the appraisal procedure under Article XII. The closing of the sale and purchase of an interest pursuant to this Section 11.1(b) shall occur at a place to be determined by the Nondelinquent Partners, within 30 days after the fair market price for such sale and, purchase is determined. Such closing shall be conducted pursuant to the terms and provisions of Section 10.6(b).

Notwithstanding any provision in this Section 11.1 or elsewhere in this Agreement to the contrary, no Partner, except to the extent of its interest in the Partnership, shall have any personal liability with respect to any capital contribution required to be made by such Partner to the Partnership pursuant to Article III above.

11.2. Voting Rights. Until the earliest of (i) the Delinquent Partner's cure of its failure to make the relevant additional capital contribution, (ii) full repayment of the loan made pursuant to Section 11.1(a), or (iii) the closing of the sale and purchase of an interest pursuant to Section 11.1(b), the Delinquent Partner's representatives on the Management Committee shall

have no vote on any matter to be decided or approved by the Management Committee and approval by the Management Committee, for all purposes hereunder, shall mean approval by only the Nondelinquent Partners' representatives on the Management Committee.

## ARTICLE XII

### APPRAISAL

12.1. Selection of Appraisers. A Partner requesting an appraisal hereunder (hereinafter referred to as the "Submitting Partner") shall serve notice to the other Partners who are not Affiliates of such Partner (hereinafter referred to as the "Receiving Partners") stating that it elects to have the purchase price to be paid pursuant to Section 10.5 or 11.1(b) determined by the appraisal procedures set forth herein and the name of its appraiser. Within ten days after receipt of such notice from the Submitting Partner, the Receiving Partners shall notify the Submitting Partner of the name of their appraiser. Upon appointment, the two appraisers shall be sworn to determine faithfully and fairly the fair market price of each appropriate Partner's interest in the Partnership, or the assets attributable thereto. The Partners shall cooperate with, submit relevant information to, and meet with the appraisers as reasonably requested. The two appraisers shall afford the Submitting Partner and the Receiving Partners the right to submit evidence with respect to the price to be determined and shall, with all possible speed, make their respective determinations in writing and give notice thereof to the Submitting Partner and the Receiving Partners. If there is a variance equal to or less than ten percent in the fair market prices determined by the two appraisers, the average of the prices so determined shall be controlling and shall be binding upon the Submitting Partner and the Receiving Partners. If there is a variance of more than ten percent in the fair market prices determined by the two appraisers, the appraisers, within ten days after both of the appraisers have made their determinations, shall appoint in writing a third appraiser and give written notice of such appointment to the Submitting Partner and the Receiving Partners. If the two appraisers shall fail to appoint or agree upon a third appraiser within the ten day period, a third appraiser shall be selected by the Submitting Partner and the Receiving Partners if they so agree upon such third appraiser within a further period of ten days. If a third appraiser shall not be appointed or agreed upon within the time herein provided, either the Submitting Partner or the Receiving Partners may apply the procedure set forth in Section 12.2. The third appraiser shall be sworn to determine faithfully and fully, pursuant to the procedures set forth above, the question at issue. The third appraiser's determination of price shall be controlling unless it is higher (or lower) than the higher (or lower) determination of price of the original two appraisers, in which case such previous high (or low) determination shall be controlling and binding upon the Partners. The decision of the appraisers under this Section shall be final and binding on the Partners and shall be specifically enforceable in a court having jurisdiction.

12.2. Appointment of Appraisers. If the Receiving Partners fail to appoint an appraiser within ten days after their receipt of the notice from the Submitting Partner setting forth the name of its appraiser, or any person appointed as an appraiser by or on behalf of either the Submitting Partner or the Receiving Partners dies, fails to act, resigns or becomes disqualified and the party by or on behalf of whom such appraiser was appointed shall fail to appoint a substitute appraiser within ten days after being requested to do so by the other party,

then the sole appraiser's determination of the fair market price shall be binding. If a third appraiser is required, but is not appointed as provided in Section 12.1 above, the appraiser in question shall be appointed by the then Chief Judge of the District Court of Hayes County, Texas (acting in his nonjudicial capacity or, to the extent he refuses to act in that capacity, in his judicial capacity), upon application of either the Submitting Partner or the Receiving Partners.

12.3. Costs of Appraisal. Each party shall bear and pay the cost of the appraiser appointed by (or for) it, and the cost of the third appraiser shall be borne and paid equally by the Submitting Partner and the Receiving Partners. The Submitting Partner and the Receiving Partners shall be given reasonable advance notice of the time and place of any appraisal proceedings, and both shall have the right to be present, heard and represented by counsel. The appraisers shall not have the power to add to or subtract from or otherwise change the terms and provisions of this Agreement, and their determination shall be consistent and in accordance with the terms and provisions of this Agreement. The appraisers shall give prompt notice of their decision to each Partner.

#### ARTICLE XIII

##### MISCELLANEOUS

13.1. Individual Indemnification. Any Partner who violates any of the terms, provisions or conditions of this Agreement, or conducts any unauthorized acts binding the Partnership, in addition to being subject to all other remedies, liabilities and obligations that may be imposed upon it therefor, shall indemnify, defend and hold the Partnership and the other Partners that are not Affiliates of such Partner harmless from any and all claims, demands and actions that may arise out of or by reason of such violation or unauthorized acts.

The Partnership shall indemnify, defend and save harmless the Partners, their Affiliates, and all of their respective officers, directors, employees and agents of and from any and all loss, damage or expense incurred by any of them by reason of any act or omission to act on behalf of the Partnership, performed by any of them at the Partnership's direction in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the Partnership.

13.2. Specific Performance. Without derogating from any other remedies to which any Partner may be entitled, it is expressly agreed that the remedy at law for breach of any of the obligations set forth in Sections 10.5, 10.6 and 11.1 is inadequate in view of (i) the complexities and uncertainties in measuring the actual damages that would be sustained by reason of the failure of a Partner to comply fully with each of said obligations, and (ii) the uniqueness of the Partnership business and the Partnership relationship. Accordingly, each of the aforesaid obligations shall be, and is hereby expressly made, enforceable by specific performance.

13.3. Notices. Any notice provided or permitted to be given under this Agreement must be in writing, and shall be deemed delivered three days after it is deposited in the United States mail, addressed to the Partner to be notified, postage prepaid, and registered or certified, with a return receipt requested. Notice served in any other manner shall be deemed to have been



given only if and when actually received by the addressee. For purposes of notices the addresses of the Partners shall be as follows:

If to Lehigh:	Lehigh Portland Cement Company 7660 Imperial Way Allentown, PA 18195 Attention: President
With a copy to:	Lehigh Portland Cement Company 7660 Imperial Way Allentown, PA 18195 Attention: General Counsel
if to TCC:	Texas Cement Company 2728 North Harwood 6th Floor Dallas, Texas 75201 Attention: Steven R. Rowley
With a copy to:	Raymond G. Smerge 2728 North Harwood Dallas, Texas 75201

Failure of or delay in delivery of any copy of a notice shall not impair the effectiveness of any notice given to any Partner as specified in this Agreement. Each Partner may change its address for notice by the giving of notice thereof in the manner hereinabove provided.

13.4. Assumed Name Certificate. The Partners shall execute and file any assumed or fictitious name certificate or certificates or any similar documents required by law to be filed in connection with the continuation and operation of the Partnership.

13.5. Ownership. The interest of each Partner in the Partnership shall be personal property for all purposes. All property and interests in property, real or personal, owned by the Partnership shall be deemed owned by the Partnership as an entity, legal title thereto shall be held and conveyed in the name of the Partnership and no Partner, individually, shall have any ownership of such property or interest owned by the Partnership except as tenants in partnership. Each of the Partners does hereby agree to, and does hereby, irrevocably waive, for the term of this Agreement and after dissolution and termination of the Partnership, any right any such Partner might have to cause the Partnership or any of its assets to be partitioned, to compel any sale of all or any portion of the assets of the Partnership pursuant to any applicable law or laws or to file a complaint or to institute any proceeding at law or in equity to cause the termination or dissolution of the Partnership, except as expressly provided for herein. Each Partner hereby acknowledges and agrees that it has been induced to enter into this Agreement in reliance upon the mutual waivers set forth in this Section 13.5, and without such waivers no Partner would have entered into this Agreement.

13.6. Limits of Partnership, Authority and Responsibility. The relationship between and among the parties hereto shall be limited to the carrying on of the business of the Partnership

in accordance with the terms of this Agreement. Such relationship shall be construed and deemed to be a limited partnership for the sole and limited purpose of carrying on such business. Except as otherwise provided for or contemplated in this Agreement, nothing herein shall be construed to create a partnership between the Partners nor to authorize any Partner to act as general agent for the other Partner. No Partner, acting alone, shall have any authority to act for, or to undertake or assume any obligation, debt, duty or responsibility on behalf of, any other Partner or the Partnership except as expressly otherwise provided in this Agreement. No Partner nor the Partnership shall be responsible or liable for any indebtedness or obligation of any other Partner incurred either before or after the execution of this Agreement, except those responsibilities, liabilities, debts and obligations heretofore undertaken or incurred in good faith in carrying out the purpose of the Partnership, or hereafter undertaken or incurred on behalf of the Partnership under or pursuant to the terms of this Agreement, or assumed in writing by the Partnership, and each Partner hereby indemnifies and agrees to hold the other Partner harmless from all such obligations and indebtedness except as aforesaid.

13.7. Arms Length Transactions. All transactions of the Partnership with the Partners and their Affiliates will be conducted on an arms length basis except as expressly provided herein.

13.8. Additional Documents and Acts. In connection with this Agreement, as well as all transactions contemplated by this Agreement, each Partner agrees to execute and deliver such additional documents and instruments and to perform such additional acts as may be necessary or appropriate to effectuate, carry out and perform all of the terms, provisions and conditions of this Agreement, and all such transactions.

13.9. Interpretation. This Agreement and the rights and obligations of the respective parties hereunder shall be governed by and interpreted and enforced in accordance with the laws of the State of Texas.

13.10. Terms. Common nouns and pronouns shall be deemed to refer to the masculine, feminine, neuter, singular and plural, as the identity of the person or persons, firm or corporation may in the context require. Any reference to the Code or other statutes or laws shall include all amendments, modifications or replacements of the specific sections and provisions concerned.

13.11. Amendment. This Agreement may not be amended, altered or modified except by instrument in writing and signed by the parties hereto.

13.12. References to this Agreement. Numbered or lettered articles, sections and subsections herein contained refer to articles, sections and subsections of this Agreement unless otherwise expressly stated. The words "herein," "hereof," "hereunder," "hereby," "this Agreement" and other similar references shall be construed to mean and include this Agreement and all amendments thereof and supplements thereto unless the context shall clearly indicate or require otherwise.

13.13. Headings. All headings herein are inserted only for convenience and ease of reference and are not to be considered in the construction or interpretation of any provision of this Agreement.

13.14. Severability. If any provision of this Agreement or the application thereof to any person or circumstances shall be invalid or unenforceable to any extent, the remainder of this Agreement and the application of such provisions to other persons or circumstances shall not be affected thereby and shall be enforced to the extent permitted by law.

13.15. No Third Party Beneficiary. This Agreement is made solely and specifically between and for the benefit of the parties hereto, and their respective successors and assigns, subject to the express provisions hereof relating to successors and assigns, and no other person, individual, corporation or entity, whatsoever, shall have any rights, interest or claims hereunder or be entitled to any benefits under or on account of this Agreement as a third party beneficiary or otherwise.

13.16. Binding Effect. Subject to the provisions of this Agreement relating to transferability, this Agreement shall be binding upon and inure to the benefit of the parties signatory hereto, and their respective distributees, successors and assigns.

13.17. Counterparts. This Agreement may be executed in a number of counterparts, each of which shall be deemed an original and all of which shall constitute one and the same Agreement.

13.18. Complete Agreement. This Agreement constitutes the complete and exclusive statement of the agreement between the Partners and replaces and supersedes all prior agreements, by and among the Partners or any of them; provided, however, that the execution and delivery of this Agreement shall not relieve any party to the Joint Venture Agreement of any liability that it may have to any other party (subject to the limitations set forth therein) as a result of any breach occurring prior to the Effective Date of any representation, warranty, covenant, agreement or other term or provision contained in the Joint Venture Agreement. It is agreed that neither Partner has rendered any services to or on behalf of either the other Partner or the Partnership and that no Partner shall have any rights with respect to any services which might be alleged to have been rendered, except as expressly provided herein.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

TEXAS CEMENT COMPANY

By: /s/ STEVEN R. ROWLEY  
-----  
Name: Steven R. Rowley  
Title: Executive Vice President

LEHIGH PORTLAND CEMENT COMPANY

By: /s/ HELMUT S. ERHARD  
-----  
Name: Helmut S. Erhard  
-----  
Title: President and CEO  
-----

## AMENDMENT NO. 1 TO AGREEMENT OF LIMITED PARTNERSHIP

This Amendment No. 1 to Agreement of Limited Partnership ("Amendment") is entered into effective as of October 2, 2000, by and among Texas Cement Company, a Nevada corporation ("Texas Cement Company"), TLCC LP LLC, a Delaware limited liability company (the "TCC LP Assignee"), TLCC GP LLC, a Delaware limited liability company (the "TCC GP Assignee"), Lehigh Portland Cement Company, a Pennsylvania corporation ("Lehigh"), Lehigh Portland Investments, LLC, a Delaware limited liability company ("Lehigh LP Assignee"), and Lehigh Portland Holdings, LLC, a Delaware limited liability company ("Lehigh GP Assignee"), in order to amend certain provisions of that certain Limited Partnership Agreement of Texas Lehigh Cement Company, dated as of October 1, 2000 (the "Agreement"), by and between Texas Cement Company and Lehigh. All capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Agreement.

WHEREAS, pursuant to Section 9.3 of the Agreement, concurrently with the execution and delivery of this Amendment, Texas Cement Company is transferring its 0.1% Partnership Percentage Interest (as defined in the Agreement) as a general partner in Texas Lehigh Cement Company LP (the "Partnership") to TCC GP Assignee, an Affiliate of Texas Cement Company; and

WHEREAS, pursuant to Section 9.3 of the Agreement, concurrently with the execution and delivery of this Amendment, Texas Cement Company is transferring its 49.9% Partnership Percentage Interest as a limited partner in the Partnership to TCC LP Assignee, an Affiliate of Texas Cement Company; and

WHEREAS, pursuant to Section 9.3 of the Agreement, concurrently with the execution and delivery of this Amendment, Lehigh is transferring its 0.1% Partnership Percentage Interest as a general partner in the Partnership to Lehigh GP Assignee, an Affiliate of Lehigh; and

WHEREAS, pursuant to Section 9.3 of the Agreement, concurrently with the execution and delivery of this Amendment, Lehigh is transferring its 49.9% Partnership Percentage Interest as a limited partner in the Partnership to Lehigh LP Assignee, an Affiliate of Lehigh; and

NOW, THEREFORE, it is hereby agreed as follows:

1. Pursuant to Section 9.3 of the Agreement, each of TCC GP Assignee and Lehigh GP Assignee hereby agrees to be bound by all the terms and provisions of the Agreement and to perform and discharge the obligations and liabilities which are attributable to each Partnership Percentage Interest as a general partner in the Partnership acquired by each of TCC GP Assignee and Lehigh GP Assignee; and

2. Pursuant to Section 9.3 of the Agreement, each of TCC LP Assignee and Lehigh LP Assignee hereby agrees to be bound by all the terms and provisions of the Agreement and to perform and discharge the obligations and liabilities which are attributable to each Partnership Percentage Interest as a limited partner in the Partnership acquired by each of TCC LP Assignee and Lehigh LP Assignee; and

3. Pursuant to Section 6.02 of the Texas Revised Limited Partnership Act, each of Texas Cement Company, CCP, CP Service and Lehigh hereby notifies the other in writing of its withdrawal from the Partnership as a general partner of the Partnership.

4. The definition "Partnership Percentage Interest" is hereby amended to read in its entirety as follows:

"Partnership Percentage Interest" shall mean as to each of TLCC GP LLC, a Delaware limited liability company ("TLCC GP"), Lehigh Portland Holdings, LLC, a Delaware limited liability company ("Lehigh GP"), TLCC LP LLC, a Delaware limited liability company ("TLCC LP"), and Lehigh Portland Investments, LLC, a Delaware limited liability company ("Lehigh LP), an interest in the capital, profits and losses of the Partnership as follows:

PARTNER -----	PARTNERSHIP PERCENTAGE INTEREST HELD AS A GENERAL PARTNER -----	PERCENTAGE INTEREST INTEREST HELD AS A LIMITED PARTNER -----
TLCC GP	0.1%	0.0%
Lehigh GP	0.1%	0.0%
TLCC LP	0.0%	49.9%
Lehigh LP	0.0%	49.9%

Each of TLCC GP and Lehigh GP shall hold its Partnership Percentage Interest in its capacity as a General Partner. Each of TLCC LP and Lehigh LP shall hold its Partnership Percentage Interest in its capacity as a Limited Partner."

5. Section 5.1 of the Agreement is hereby amended to read in its entirety as follows:

"5.1. The General Partners. The General Partners of the Partnership shall be TLCC GP and Lehigh GP. Except as otherwise expressly provided herein or as required by law, the business of the Partnership shall be managed, conducted and controlled by the General Partners through the Management Committee and by delegation of authority to the officers of the Partnership as provided herein."

6. Section 6.1 of the Agreement is hereby amended to read in its entirety as follows:

"6.1. The Limited Partners. TLCC LP and Lehigh LP shall be the limited partners of the Partnership."

7. Section 14.4 of the Agreement is hereby amended to read in its entirety as follows:

"14.4. Notices. Any notice provided or permitted to be given under this Agreement must be in writing, and shall be deemed delivered three days after it is deposited in the United States mail, addressed to the Partner to be notified, postage prepaid, and registered or certified, with a return receipt requested. Notice served in any other manner shall be deemed to have been given only if and when actually received by the addressee. For purposes of notices the addresses of the Partners shall be as follows:

If to Lehigh GP: Lehigh Portland Holdings, LLC  
103 Foulk Road, Suite 202  
Wilmington, Delaware 19803

with a copy to:  
Lehigh Portland Cement Company  
7660 Imperial Way  
Allentown, PA 18195  
Attention: General Counsel

If to Lehigh LP: Lehigh Portland Investments, LLC  
103 Foulk Road, Suite 202  
Wilmington, Delaware 19803

with a copy to:  
Lehigh Portland Cement Company  
7660 Imperial Way  
Allentown, PA 18195  
Attention: General Counsel

If to TLCC GP: TLCC GP LLC  
2728 North Harwood  
Dallas, Texas 75201  
Attn: Legal Department

with a copy to:  
Texas Cement Company  
2728 North Harwood  
Dallas, Texas 75201  
Attention: Steven R. Rowley

If to TLCC LP: TLCC LP LLC  
Corporation Service Company  
1013 Centre Road  
Wilmington, Delaware 19805

with a copy to:  
Texas Cement Company  
2728 North Harwood  
Dallas, Texas 75201  
Attention: Steven R. Rowley

Failure of or delay in delivery of any copy of a notice shall not impair the effectiveness of any notice given to any Partner as specified in this Agreement. Each Partner may change its address for notice by the giving of notice thereof in the manner hereinabove provided."



IN WITNESS WHEREOF, the parties have duly executed this Amendment as of the date first written above.

TEXAS CEMENT COMPANY  
a Nevada corporation

/s/ RODNEY E. CUMMICKEL  
-----

By: Rodney E. Cummicke1  
Its: Vice President

TLCC LP LLC  
a Delaware limited liability company

/s/ RODNEY E. CUMMICKEL  
-----

By: Rodney E. Cummicke1  
Its: Manager

TLCC GP LLC  
a Delaware limited liability company

/s/ RODNEY E. CUMMICKEL  
-----

By: Rodney E. Cummicke1  
Its: Manager

LEHIGH PORTLAND CEMENT COMPANY  
a Pennsylvania corporation

/s/ HELMUT S. ERHARD  
-----  
By: Helmut S. Erhard  
-----  
Its: President and CEO  
-----

LEHIGH PORTLAND INVESTMENTS, LLC  
a Delaware limited liability company

/s/ LAURENCE A. PRUD'HOMME  
-----  
By: Laurence A. Prud'homme  
-----  
Its: Manager  
-----

/s/ JONATHAN B. SWAIN  
-----  
By: Jonathan B. Swain  
-----  
Its: Manager  
-----

/s/ BETH L. PEOPLES  
-----  
By: Beth L. Peoples  
-----  
Its: Manager  
-----

LEHIGH PORTLAND HOLDINGS, LLC  
a Delaware limited liability company

By: Lehigh Portland Cement Company,  
Sole Member  
  
/s/ HELMUT S. ERHARD  
-----  
By: Helmut S. Erhard  
-----  
Its: President and CEO  
-----

Certain confidential information has been omitted from this Exhibit pursuant to a confidential treatment request filed separately with the Commission. The omitted information is indicated by the symbol "\*\*\*\*" at each place in the Exhibit where the omitted information appeared in the original.

PAPERBOARD SUPPLY AGREEMENT

This PAPERBOARD SUPPLY AGREEMENT (this "Agreement") is entered into effective the 14th day of May, 1998, by and among REPUBLIC PAPERBOARD COMPANY, a Kansas corporation (hereinafter referred to as "Republic"), REPUBLIC GROUP INCORPORATED, a Delaware corporation ("Republic Parent"), and JAMES HARDIE GYPSUM, INC., a Nevada corporation (hereinafter referred to as "Hardie");

WITNESSETH:

WHEREAS, Republic is proposing to develop a new paperboard mill (the "Project Gazelle Mill") to produce recycled gypsum-grade paperboard;

WHEREAS, potential providers of financing for the Project Gazelle Mill have indicated that they will require Republic to have in place long-term agreements for the sale of a substantial portion of the output of the Project Gazelle Mill as a condition to providing such financing;

WHEREAS, Hardie desires to ensure that it will have an assured supply of paperboard on a long-term basis, and Republic desires to have Hardie as a customer on such basis;

WHEREAS, Republic has offered to Hardie, pursuant to Hardie's request, selling prices and pricing formulas designed to meet pricing proposals offered by other current and potential suppliers competing for Hardie's business;

WHEREAS, Hardie and Republic have entered into that certain letter of intent dated April 8, 1998 in which they expressed their intent to enter into, and outlined their rights and obligations with respect to, a long-term supply agreement for recycled gypsum-grade paperboard;

WHEREAS, Hardie and Republic desire to formalize the terms of such agreement; and

WHEREAS, Republic Parent expects to derive substantial benefit from its subsidiary's entry into such an agreement, and Hardie requires that Republic Parent execute and deliver any such agreement as a condition to its execution and delivery thereof;

NOW, THEREFORE, in consideration of the foregoing, and in consideration of the mutual covenants hereinafter contained, and of other good and valuable consideration, the receipt and sufficiency which are hereby acknowledged, the parties hereto agree as follows:

1. PURCHASE AND SALE OF PRODUCTS. Subject to the terms and conditions of this Agreement, Republic agrees to sell to Hardie, and Hardie agrees to purchase from Republic, at the Selling Price (as hereinafter defined), a portion of Hardie's recycled gypsum-grade paperboard requirements (including Creamface, Grayback, Green-Lined, Brown Sheathing, Shaftwall Liner Green and Veneer Plaster Base paperboard) which is more specifically identified on Exhibit A attached hereto. (Any paperboard products sold or agreed to be sold by Republic to Hardie hereunder are referred to herein as "Products".) Products consisting of Creamface, Grayback, Green-Lined and Brown Sheathing paperboard will be produced at the Project Gazelle Mill, except to the extent expressly permitted hereby to be produced at another of Republic's recycled paperboard mills or as otherwise agreed by the parties. Products consisting of Shaftwall Liner Green and Veneer Plaster Base paperboard may be produced at Republic's recycled paperboard mills other than the Project Gazelle Mill, unless otherwise agreed by the parties.

2. PRICE AND ADJUSTMENTS.

- (a) The Selling Price for a particular order shall be computed by a formula whereby an initial base price (the "Base Price") is adjusted as set forth in this paragraph 2 quarterly (other than the adjustments set forth in subparagraphs (c), (d) and (e) of this paragraph 2, which will be made annually), or at such other times or on such other schedule as agreed by the parties, for changes in the cost of certain key grades of paper stock. In each case, the selling price shall be F.O.B. the carrier at the Project Gazelle Mill or when expressly contemplated by this Agreement or when otherwise agreed by the parties at another of Republic's paperboard mills (the "Shipping Mill"). In the event that Republic ships an order from a Shipping Mill other than the Project Gazelle Mill, Republic shall equalize Hardie's freight costs so that Hardie's freight cost is no higher or lower than it would have been had the order been shipped from the Project Gazelle Mill.
- (b) The initial Base Prices for the Products shall be as set forth on Exhibit B attached hereto.
- (c) As of January 1, 2001, the initial Base Prices of recycled gypsum-grade paperboard will be adjusted upward or downward, as the case may be, for purchases made during calendar year 2001, by an amount per MSF computed as (i) the sum of (A)(x) the difference between the actual average cost during the six (6) months ended November 30, 2000, of purchased electricity per kilowatt hour ("KWH") and the initial projected average base cost of purchased electricity of \$\*\*\* per KWH, multiplied by (y) the actual total KWH used during such six-month period and (B)(x) the difference between the actual average cost during such six-month period of purchased natural gas, which includes transportation costs and line shrinkage costs, per million British thermal units ("MMBTU") and the initial projected average base cost of purchased natural gas, which includes transportation costs and line shrinkage costs, of \$\*\*\* per MMBTU, multiplied by (y) the actual total MMBTU's used during such six-month period, divided by (ii) the actual gross thousand square feet ("MSF") of paperboard produced during such six-month period. The same adjustments will be made to be effective each January 1, thereafter, based on the actual costs and quantities during the

twelve-month period ending on November 30 of the preceding year. Hardie shall have the right to review and audit the underlying information and calculations that form the basis for any change in price based upon this subparagraph.

- (d) As of January 1, 2002 and each January 1 thereafter, each of the initial Base Prices will be increased or decreased, as the case may be, by an amount equal to the sum of (i) \$\*\*\* per MSF multiplied by the percentage increase or decrease in the \*\*\* Index \*\*\*, from September 1997 to the September immediately preceding the effective date of the adjustment, which index is published by the United States Department of Labor, Bureau of Labor Statistics and (ii) \$\*\*\* per MSF multiplied by the percentage increase or decrease in the\*\*\* Index \*\*\* from September 1997 to the September immediately preceding the effective date of the adjustment, which index is published by the United States Department of Labor, Bureau of Labor Statistics.
- (e) As of January 1, 2002 and each January 1 thereafter, the average basis weight pounds per MSF of each grade of the Products purchased by Hardie during the preceding twelve (12) months shall be calculated. For each one-half pound that the average basis weight for a grade of the Products is less than the average basis weight set forth in Exhibit C for such grade, the initial Base Price for such grade shall be reduced by \$\*\*\* per MSF. This provision shall apply to reductions of basis weight down to a basis weight of \*\*\* pounds per MSF. Republic and Hardie will cooperate with each other in seeking to achieve reductions in the basis weights of the Products. Republic and Hardie each, insofar as their own operations are involved, will diligently pursue methods of achieving, and use commercially reasonable efforts to achieve, reductions in basis weights of the Products, targeting an ultimate basis weight of \*\*\* pounds per MSF by the fifth anniversary of the Commercial Production Date. The parties will not be deemed to have succeeded in reducing the basis weight of the Products, and Hardie shall be under no obligation to purchase such lower basis weight Products under this Agreement, unless, all things considered, it is economically feasible for Hardie to utilize such lower basis weight Products in Hardie's manufacturing process. For example, if utilization of the lower basis weight Products causes Hardie to run its equipment at slower speeds to accommodate the lower basis weight paper, such that the loss of production offsets any benefits of a lower basis weight, the parties will not be deemed to have succeeded in reducing the basis weight of the Products. Republic and Hardie each will furnish the other with regular reports on the plans for and the progress of the efforts in achieving lower basis weights.

- (f) The Selling Price for Creamface paperboard will be computed as of the first day of each calendar quarter during the term of this Agreement by increasing or decreasing the Base Price, as adjusted theretofore pursuant to subparagraphs (c), (d) and (e) of this paragraph 2, for Creamface paperboard by the sum of the positive and negative amounts per MSF computed in (i) through (iv) below, as follows:
- (i) (A)(x) the average of the high per ton transacted prices for \*\*\*, as reported in the second issue of the Official Board Markets during the immediately preceding three calendar months, less (y) the high per ton transacted price for \*\*\*, as reported in the second issue of the Official Board Markets during February 1998, multiplied by (B) the assumed percentage of the furnish to be composed of \*\*\* (\*\*%), multiplied by (C) the assumed ratio of tons of paper stock required to manufacture one ton of paperboard (\*\*), multiplied by (D) the assumed basis weight of Cream Face (\*\* pounds/MSF), divided by (E) the number of pounds in a short ton (2,000);
- (ii) (A)(x) the average of the high per ton transacted prices for \*\*\*, as reported in the second issue of the Official Board Markets during the immediately preceding three calendar months, less (y) the high per ton transacted price for \*\*\*, as reported in the second issue of the Official Board Markets during February 1998, multiplied by (B) the assumed percentage of the furnish to be composed of \*\*\* (\*\*%), multiplied by (C) the assumed ratio of tons of paper stock required to manufacture one ton of paperboard (\*\*), multiplied by (D) the assumed basis weight of Cream Face (\*\* pounds/MSF), divided by (E) the number of pounds in a short ton (2,000);
- (iii) (A)(x) the average of the high per ton transacted prices for \*\*\*, as reported in the second issue of the Official Board Markets during the immediately preceding three calendar months, less (y) the high per ton transacted price for \*\*\*, as reported in the second issue of the Official Board Markets during February 1998, multiplied by (B) the assumed percentage of the furnish to be composed of \*\*\* (\*\*%), multiplied by (C) the assumed ratio of tons of paper stock required to manufacture one ton of paperboard (\*\*), multiplied by (D) the assumed basis weight of Cream Face (\*\* pounds/MSF), divided by (E) the number of pounds in a short ton (2,000); and

- (iv) (A)(x) the average of the high per ton transacted prices for \*\*\*, as reported in the second issue of the Official Board Markets during the immediately preceding three calendar months, less (y) the high per ton transacted price for \*\*\*, as reported in the second issue of the Official Board Markets during February 1998, multiplied by (B) the assumed percentage of the furnish to be composed of \*\*\* (\*\*%), multiplied by (C) the assumed ratio of tons of paper stock required to manufacture one ton of paperboard (\*\*), multiplied by (D) the assumed basis weight of Cream Face (\*\* pounds/MSF), divided by (E) the number of pounds in a short ton (2,000).
- (g) The Selling Price for Grayback paperboard will be computed as of the first day of each calendar quarter during the term of this Agreement by increasing or decreasing the Base Price, as adjusted theretofore pursuant to subparagraphs (c), (d) and (e) of this paragraph 2, for Grayback paperboard by the sum of the positive and negative amounts per MSF computed in (i) and (ii) below, as follows:
- (i) (A)(x) the average of the high per ton transacted prices for \*\*\*, as reported in the second issue of the Official Board Markets during the immediately preceding three calendar months, less (y) the high per ton transacted price for \*\*\*, as reported in the second issue of the Official Board Markets during February 1998, multiplied by (B) the assumed percentage of the furnish to be composed of \*\*\* (\*\*%), multiplied by (C) the assumed ratio of tons of paper stock required to manufacture one ton of paperboard (\*\*), multiplied by (D) the assumed basis weight of Gray Back (\*\* pounds/MSF), divided by (E) the number of pounds in a short ton (2,000); and
- (ii) (A)(x) the average of the high per ton transacted prices for \*\*\*, as reported in the second issue of the Official Board Markets during the immediately preceding three calendar months, less (y) the high per ton transacted price for \*\*\*, as reported in the second issue of the Official Board Markets during February 1998, multiplied by (B) the assumed percentage of the furnish to be composed of \*\*\* (\*\*%), multiplied by (C) the assumed ratio of tons of paper stock required to manufacture one ton of paperboard (\*\*), multiplied by (D) the assumed basis weight of Gray Back (\*\* pounds/MSF), divided by (E) the number of pounds in a short ton (2,000).

- (h) The Selling Price for Green-Lined paperboard will be computed as of the first day of each calendar quarter during the term of this Agreement by increasing or decreasing the Base Price, as adjusted theretofore pursuant to subparagraphs (c), (d) and (e) of this paragraph 2, for Green-Lined paperboard by the sum of the positive and negative amounts per MSF computed pursuant to (f)(i) through (f)(iv) above.
- (i) The Selling Price for Brown Sheathing paperboard will be computed as of the first day of each calendar quarter during the term of this Agreement by increasing or decreasing the Base Price, as adjusted theretofore pursuant to subparagraphs (c), (d) and (e) of this paragraph 2, for Brown Sheathing paperboard by the sum of the positive and negative amounts per MSF computed pursuant to (g)(i) through (g)(ii) above.
- (j) The Selling Price for Shaftwall Liner Green paperboard will be computed as of the first day of each calendar quarter during the term of this Agreement by increasing or decreasing the Base Price, as adjusted theretofore pursuant to subparagraphs (c) and (d) of this paragraph 2, for Shaftwall Liner Green paperboard by the sum of the positive and negative amounts per MSF computed pursuant to (f)(i) through (f)(iv) above; provided, however that an assumed basis weight of \*\*\* pounds per MSF shall be used.
- (k) The selling price for Veneer Plaster Base paperboard will be computed as of the first day of each calendar quarter during the term of this Agreement by increasing or decreasing the Base Price, as adjusted theretofore pursuant to subparagraphs (c) and (d) of this paragraph 2, for Veneer Plaster Base paperboard by the sum of the positive and negative amounts per MSF computed pursuant to (g)(i) through (g)(ii) above; provided, however that an assumed basis weight of \*\*\* pounds per MSF shall be used.
- (l) With respect to shipments to Hardie's Las Vegas, Nevada and Seattle, Washington gypsum wallboard plants, the Selling Prices for each grade of recycled gypsum-grade paperboard will be reduced by a freight allowance, which is provided in acknowledgment of the shipping distances from the Project Gazelle Mill to those plants. The freight allowance will be \$\*\*\* per MSF with respect to shipments to the Las Vegas, Nevada plant and \$\*\*\* per MSF with respect to shipments to the Seattle, Washington plant. As of January 1, 2001, and each January 1 thereafter, each of the initial freight allowances will be increased or decreased, as the case may be, by an amount equal to such freight allowance per MSF multiplied by the percentage increase or decrease in the \*\*\* from September 1997 to the September immediately preceding the effective date of the adjustment, which index is published by the United States Department of Labor, Bureau of Labor Statistics.



(m) For purposes of this subparagraph (m), Effective FOB Third Party Price ("EFTPP") is the price charged or offered in writing to a Non-Affiliate Third Party (measured on a per/MSF basis) adjusted to take into account any effective price reductions due to all freight, shipping, insurance or other allowances, discounts, rebates, price or credit considerations (as such price may be adjusted from time to time pursuant to Republic's arrangement with the Non-Affiliate Third Party). For purposes of this subparagraph (m), the Western Region is defined as that portion of North America consisting of \*\*\*; the Eastern Region is defined as all other portions of North America. If Republic sells or contracts to sell one hundred Tons or more of Product to a Non-Affiliate Third Party or Parties:

(i) all or any portion of which is for delivery in the Eastern Region at an EFTPP lower than the Selling Price, then the Selling Price to Hardie for such Product for any of its plants shall be automatically reduced by the difference between the Selling Price and the EFTPP (the "Adjustment Amount"), for all subsequent Hardie purchases of that Product, up to the volume(s) sold to the Non-Affiliate Third Party or Parties at the EFTPP;

(ii) all or any portion of which is for delivery in the Western Region, at an EFTPP, which is lower than the average of the Selling Price for Hardie's Las Vegas and Seattle plants, after adjustment for the freight allowance as described in paragraph 2(1) plus \*\*\* cents (the "Hardie Effective Western Region Price" or HEWRP), the Selling Price for such Product to Hardie for any of its plants shall be automatically reduced by an amount equal to the difference between the HEWRP and the EFTPP (the "Adjustment Amount") for all subsequent Hardie purchases of the Product up to the volume(s) sold to the Non-Affiliate Third Party or Parties.

If a sale or contract to sell that would cause the pricing mechanisms under subparagraphs (i) and (ii) above to be operative occurs during a period that the pricing mechanism under (i) or (ii) is in effect due to a prior sale or contract to sell with a Non-Affiliated Third Party, then the volumes as to which such prices would be in effect shall be purchased consecutively and not concurrently so that at any particular time the Selling Price would have been reduced by only one Adjustment Amount. In addition to the foregoing, if an EFTPP is established pursuant to a contract whose term or pricing provisions are effective for more than \*\*\* ("Long Term Contract") the Selling Price for the Product to Hardie, regardless of volume, shall be automatically reduced by the Adjustment Amount for all subsequent Hardie purchases of the Product so long as said EFTPP is available to the Non-Affiliate Third Party. With respect to Long Term Contracts, the Adjustment Amount shall be based upon the lowest EFTPP in effect at any

given time. The pricing mechanisms set forth in subparagraphs (i) and (ii) above will continue in effect during the time that any Long Term Contract is in effect such that if a sale of the kind described in subparagraphs (i) and (ii) occurs during such time that would cause the Selling Price for a specified volume to be lower than the Selling Price as adjusted pursuant to the Adjustment Amount calculated on the basis of the Long Term Contract, the Selling Price for such specified volume would be such lower price. This subparagraph (m) applies only to recycled gypsum-grade paperboard Products produced at the Project Gazelle Mill and, with respect to Shaftwall Liner Green and Veneer Plaster Base paperboard, to such Products produced at Republic's other paperboard mills, and further shall not apply to test quantities of less than 100 short tons done on an isolated basis and sold to third parties to demonstrate the characteristics of the paperboard manufactured at Republic's paperboard mills. Republic shall cause its outside auditors to certify to Hardie on an annual basis that Republic has complied with this subparagraph.

- (n) If any of the high per ton transacted prices referred to in subparagraphs (f) and (g) above cease to be reported monthly or if the indexes referred to in subparagraphs (d) and (l) cease to be published, the parties shall select a similar published statistic or index to use as the basis for making the adjustments provided in subparagraphs (d), (f), (g), (h), (i), (j), (k) or (l), as the case may be. If the parties cannot agree on such new statistic or index, the parties will resolve such dispute according to the dispute resolution procedures set forth in this Agreement.

### 3. TERM.

- (a) Subject to the provisions of paragraph 12 hereof, the term of this Agreement shall commence on the date hereof and shall terminate on October 1, 2010, or ten (10) years after the Commercial Production Date, whichever is later.
- (b) Republic shall diligently pursue the completion of the Project Gazelle Mill and shall use commercially reasonable efforts to cause the Project Gazelle Mill to commence production on or before the date that is 22 months after the date of this Agreement. The obligation of Republic to supply, and, subject to Exhibit A, the obligation of Hardie to purchase, Products hereunder shall not commence until Commercial Production has been achieved (the "Commercial Production Date"). For purposes of this Agreement, "Commercial Production" shall mean that the Project Gazelle Mill has produced, for two consecutive months, paperboard meeting the quality specifications set forth in Exhibit C, in an amount equal to or greater than thirty percent (30%) of the Project Gazelle Mill's planned monthly capacity. When Republic believes that the Project Gazelle Mill has achieved Commercial Production, it shall give written notice to that effect to Hardie

(the "Commencement Notice"), and Hardie shall not unreasonably object to the propriety of the Commencement Notice. From the date on which Hardie receives the Commencement Notice, Hardie shall have fifteen (15) days to: (i) observe the production of paper at the Project Gazelle Mill; (ii) observe the conversion to wallboard of such paper at Republic Parent's wallboard facility in Duke, Oklahoma; and (iii) test the conversion of the paper at each of Hardie's facilities. The Vice Presidents of Production of Hardie and of Republic shall each personally observe the production, conversion and testing under clauses (i), (ii) and (iii) of the preceding sentence, which shall be performed by the parties in good faith. At the end of such fifteen (15) day testing period, the Commencement Notice shall become effective. If Hardie does not object in writing within fifteen (15) days after the Commencement Notice becomes effective, then Commercial Production shall be deemed to have been achieved as of the date the Commencement Notice became effective. If Hardie does object in writing to the propriety of the Commencement Notice, then the dispute resolution procedures of paragraph 28 shall be invoked, and the achievement of Commercial Production shall be determined in accordance therewith or by subsequent agreement of Republic and Hardie.

- (c) Republic shall keep Hardie regularly and adequately informed regarding the construction progress of the Project Gazelle Mill and shall provide Hardie with monthly written progress reports. If Republic is unable to cause the Project Gazelle Mill to commence Commercial Production prior to the later of: (i) October 1, 2000 or (ii) the date that is 22 months after the date of this Agreement, Republic shall supply Hardie, at the prices established pursuant to this Agreement, the quantity of recycled gypsum-grade paperboard that it would otherwise be obligated to supply under this Agreement from its other recycled paperboard mills, through purchases from recycled paperboard mills owned by third parties, or both, until such time as the Project Gazelle Mill commences Commercial Production. Any such recycled gypsum-grade paperboard supplied otherwise than from the Project Gazelle Mill shall have the specifications set forth in Exhibit C hereto, excepting the specifications regarding basis weights. If Republic is unable to supply the quantity and quality of Products required by Hardie under this Agreement at the prices established pursuant to this Agreement, Republic will compensate Hardie for the additional costs reasonably incurred by Hardie in obtaining replacement paperboard. Notwithstanding the foregoing, if, by July 1, 2001, Republic has not given the Commencement Notice, Hardie may, at its sole discretion and option, terminate this Agreement. So long as Republic supplies paper to Hardie from mills other than the Project Gazelle Mill, any adjustments to price shall be based only upon changes in the price of furnish as specified elsewhere in this agreement, and shall not be based upon changes in the cost of gas, electricity, or other expenses.

- (d) During the period beginning on October 1, 2005 or the fifth anniversary of the Commercial Production Date, whichever is later, and ending on October 1, 2007 or the seventh anniversary of the Commercial Production Date, whichever is later, Republic and Hardie will negotiate in good faith in an effort to agree to a long-term extension of the initial term of this Agreement or a further long-term supply agreement on such terms as are mutually acceptable to each party, in its sole discretion.
- (e) If: (i) Republic sells or otherwise transfers ownership or operating control of the Project Gazelle Mill (otherwise than as a Security Device (as that term is defined below) to obtain or secure financing) to a party that is not an Affiliate (as that term is defined below) of Republic such that Republic no longer maintains a direct or indirect majority ownership interest in the Project Gazelle Mill or is no longer, directly or indirectly, the operator thereof, or a Change of Control (as that term is defined below) of Republic occurs, in either case prior to the sixth anniversary of the Commercial Production Date and (ii) Hardie and Republic (or the then current owner of the Project Gazelle Mill) have not negotiated an extension of the initial term of this Agreement prior to October 1, 2006 or the sixth anniversary of the Commercial Production Date, whichever is later, then the initial term of this Agreement shall automatically, and without any action by Hardie, Republic or the then-current owner of the Project Gazelle Mill or any assignee of Republic's rights hereunder, be extended for an additional five (5) years on the same terms and conditions applicable to the initial term hereof. Notwithstanding the foregoing sentence, Hardie shall have the right, exercisable by Hardie for a period of sixty (60) days beginning on October 1, 2006 or the sixth anniversary of the Commercial Production Date, whichever is later, to terminate such five-year extension by delivering a written notice of such termination to the then-current owner of the Project Gazelle Mill.
- (f) For purposes of this Agreement,
- (i) an "Affiliate" of a party shall mean any other person who beneficially owns, directly or indirectly, a majority of the voting securities and a majority of the equity securities of such party or of whom a majority of the voting securities and a majority of the equity securities are beneficially owned, directly or indirectly, by such party;
- (ii) a "Change of Control" shall be deemed to have occurred with respect to Republic if: (A) Republic Parent, no longer beneficially owns a majority of the voting securities and a majority of the equity securities of Republic; (B) a merger or consolidation of Republic Parent has been consummated pursuant to which a majority of the voting securities and a majority of the equity securities of the surviving or resulting entity are not beneficially owned by the persons

who were the stockholders of Republic Parent immediately prior to the consummation of such merger or consolidation; (C) a sale or transfer of all or substantially all of the assets of Republic Parent other than to an Affiliate of Republic Parent; (D) the stockholders of Republic Parent have approved a plan or proposal for the liquidation or dissolution of Republic Parent; (E) any person or group (as defined in Rule 13d-5(b) under the Securities Exchange Act of 1934, as amended) (other than Phil Simpson, his spouse, his descendants and their spouses, trusts and estates of which any of them are the primary beneficiaries and any entities of which any of them are holders of a majority of the voting securities and a majority of the equity securities) shall become the beneficial owner of a majority of Republic Parent's voting securities or equity securities; or (F) during any period of two years or less individuals who at the beginning of such period constitute the entire board of directors of Republic Parent shall for any reason cease to constitute a majority thereof unless the election or nomination for election by Republic Parent's stockholders or the appointment by the remaining directors, as applicable, of each new director was approved by a majority of the directors then still in office who were directors at the beginning of the period (for purposes of this subparagraph (f)(ii), Republic Parent shall be deemed to include any successor thereto); and

(iii) "Beneficial ownership" shall be determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

4. PRODUCTS. Republic will supply to Hardie, pursuant to this Agreement, Hardie's requirements (as described in Exhibit A hereto) for recycled gypsum-grade paperboard meeting the specifications set forth on Exhibit C hereto, except as otherwise expressly provided herein.

5. ORDERS AND SHIPMENT.

(a) On or before the twentieth day of each calendar month, Hardie shall deliver to Republic its orders for the next succeeding month specifying the grade, quantity, requested shipment date or dates and destination of the Products being ordered. Orders for Products, unless rightfully rejected when permitted under commercially reasonable standards to be rejected hereunder, will be confirmed by Republic's written acknowledgment (by fax or otherwise), within five (5) business days after each order is placed. All orders and all acknowledgments shall be on the forms attached hereto as Exhibit D and Exhibit E, respectively. Republic may reject any orders that are not on the form attached hereto as Exhibit D or that add any terms thereto. Hardie may reject any acknowledgments that are not on the form attached hereto as Exhibit E or that add any terms thereto.

- (b) Shipments of Products shall be routed as determined by Hardie. Hardie shall arrange for delivery of Products and shall notify Republic of its delivery arrangements at the time Hardie places an order for Products with Republic. Title to the Products sold hereunder shall pass from Republic to Hardie when placed F.O.B. the carrier at the Shipping Mill, and Republic shall thereafter be released from all responsibility and liability for any loss of, or damage to, the Products in transit or delivery to Hardie and shall have no responsibility or liability for any delay in delivery, provided that the Products have been properly prepared for shipment and properly delivered F.O.B. the carrier at the Shipping Mill. All shipping and insurance costs shall be at Hardie's expense.
- (c) Commencing on October 1, 2000 and at all times thereafter, Republic shall maintain a minimum emergency product inventory of \*\*\* tons, meeting Hardie's product specifications as set forth in Exhibit C hereto, in an approximate ratio of sixty percent (60%) Creamface and forty percent (40%) Grayback, \*\*\* and which inventory will be maintained at the Project Gazelle Mill and will be paid for as ordered by Hardie, in accordance with the provisions of Paragraph 8 below.

#### 6. QUALITY.

- (a) Each grade of the Products to be manufactured and sold by Republic hereunder shall, within the customary commercial tolerances of the paperboard industry for such grade and except as otherwise expressly provided herein, meet the specifications for such grades which are attached hereto as Exhibit C (the "Specifications"), and Hardie agrees that it will accept Products meeting the Specifications. The parties agree that, as a result of their experience hereunder and their technical cooperation under paragraph 9 hereof, the Specifications may be varied by mutual agreement to fit the particular characteristics of Hardie's machinery and products. Such Specifications, when and as modified, shall be deemed to supersede the Specifications attached hereto as Exhibit C, shall become part of this Agreement and are hereby incorporated by reference.
- (b) Republic shall provide Hardie a Certificate of Analysis with respect to each set of rolls of the Products purchased by Hardie. The Certificate of Analysis shall be delivered to Hardie no later than the date on which the set of rolls covered thereby are received by Hardie at its gypsum wallboard facility. The Certificate of Analysis shall certify that a sample from the set was physically tested in accordance with testing methods accepted by the recycled paperboard industry. The Certificate of Analysis further shall certify that the sample in question met the Specifications. Republic shall retain samples for six (6) months for purposes of verification of test results.

- (c) EXCEPT AS SPECIFIED IN THIS PARAGRAPH 6, REPUBLIC MAKES NO OTHER WARRANTY, EXPRESS OR IMPLIED, WITH RESPECT TO THE PRODUCTS SOLD HEREUNDER AND EXPRESSLY DISCLAIMS ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, EITHER EXPRESS OR IMPLIED.

#### 7. CLAIMS.

- (a) Hardie shall make a reasonable inspection of the Products and the Certificate of Analysis related thereto upon delivery or within sixty (60) days thereafter. Hardie shall have the right to reject any Products that do not conform to the Specifications. If Hardie believes that any Products do not conform to the Specifications, it shall promptly, and not later than sixty (60) days after receipt thereof, notify Republic in writing of its rejection of such Products for failure to conform to the Specifications. If no such written notice is received by Republic, pursuant to paragraph 21, within sixty (60) days after receipt thereof, Hardie shall be deemed to have accepted the Products, except as set forth in subparagraph (b) below. Republic may inspect any Products that Hardie so rejects. Upon verification by Republic of nonconformity of the rejected Products to the Specifications, Republic will issue Hardie a credit memorandum for the purchase price of the non-conforming Products and the cost of freight from the Project Gazelle Mill to Hardie's plant. Republic will arrange for the disposition of the non-conforming Products, at Republic's expense, in each case within 10 business days after notice of rejection by Hardie, unless the parties agree to some other settlement of the claim in question. If Republic disputes Hardie's rejection of such Products, it shall promptly notify Hardie in writing of such dispute and the dispute will be determined in accordance with subparagraph (c) hereof.
- (b) If the nonconformity to the Specifications of any Products could not be discovered through a commercially reasonable inspection prior to their use by Hardie and such use results in the manufacture of defective gypsum wallboard, Hardie shall promptly notify Republic in writing. Republic may inspect such defective wallboard. Upon verification by Republic that the manufacture of the defective wallboard resulted from nonconformity to the Specifications of the Products in question, Republic will issue Hardie a credit memorandum for: (i) the purchase price of the non-conforming Products; (ii) the cost of freight of such Products from the Shipping Mill to Hardie's plant; (iii) additional Products manufactured by Republic and used by Hardie on the other side of such defective wallboard, whether or not such additional Products conform to the Specifications; and (iv) the cost of freight of such additional Products from the Shipping Mill to Hardie's plant. Republic's liability under (i), (ii), (iii) and (iv) above shall not extend to defective wallboard manufactured after Hardie has discovered, or in the exercise of

commercially reasonable supervision of its manufacturing processes should have discovered, that Hardie is manufacturing defective wallboard. If Republic disputes the cause of the manufacture of the defective gypsum wallboard, it shall promptly notify Hardie in writing of such dispute, and the dispute will be determined in accordance with subparagraph (c) of this paragraph.

- (c) Republic's technical support personnel and Hardie's gypsum plant quality personnel shall jointly investigate any disputed rejection of the Products and any dispute regarding a claim that the Products caused the manufacture of defective gypsum wallboard. If such joint investigation fails to settle the dispute to the mutual satisfaction of both parties, it shall be referred to the Vice President, Operations, of each party for settlement. Any dispute that cannot be settled in accordance with this subparagraph (c) will be determined in accordance with paragraph 28 hereof. At Republic's request, Hardie will effect trial runs of Products that it has rejected so long as it can do so without undue effort or expense.
- (d) If a Claim (as defined below) is made by a customer, end-user or ultimate consumer that gypsum wallboard manufactured by Hardie that contains a Product is defective and Republic has agreed, or pursuant to subparagraph (c) and/or paragraph 28 hereof or otherwise it has been finally determined, subject to no further rights of appeal or reconsideration, that the failure of such Product to meet the Specifications as of the date of sale of such Product to Hardie has caused the defect in the gypsum wallboard asserted in such Claim and that such failure of the Product to meet Specifications could not have been discovered through a commercially reasonable inspection by Hardie prior to shipment of the gypsum wallboard, then in addition to the credit memorandum issuable pursuant to subparagraph (b) above, Republic shall pay, or reimburse Hardie for, the liability of Hardie to such customer, end-user or ultimate consumer resulting from the defective paperboard and Hardie's reasonable third party expenses in defending against such Claim; provided, that Republic shall not be obligated to pay, or reimburse Hardie for, any such liability unless such liability exceeds \$\*\*\* with respect to any single Claim or unless the aggregate of all such liabilities with respect to Claims exceeds \$\*\*\* during any calendar year, in which cases Republic shall be responsible for all such liabilities in excess of such amount or amounts, as applicable. Hardie shall promptly notify Republic of any Claim as to which it intends to seek reimbursement from Republic or which it intends to apply against the \$\*\*\* limit. Hardie shall, except to the extent not reasonably practicable, afford Republic at least three business days after such notice to inspect the defective gypsum wallboard prior to its demolition or repair. Any authorization by Hardie of repairs shall be for the lowest commercially reasonable method of repair. Hardie shall consult with Republic regarding any settlement of any Claim. Any such settlement not approved by Republic



shall not in any way impair the ability of Republic to dispute the amount of the settlement in connection with any claim by Hardie against Republic for a reimbursement of the related Claim. A "Claim" means a claim that gypsum wallboard sold by Hardie was defective and that relates to a single dwelling, a single tract of dwellings under development by the same owner or developer, or a single structure at a commercial or multi-family residential project.

- (e) EXCEPT TO THE EXTENT OTHERWISE PROVIDED IN SUBPARAGRAPH 7(D) ABOVE, REPUBLIC SHALL NOT BE LIABLE FOR INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES OF ANY KIND WITH RESPECT TO CLAIMS ASSERTED BY THIRD PARTIES AGAINST HARDIE ARISING FROM DEFECTIVE PRODUCTS OR FROM PRODUCT LIABILITY. REPUBLIC SHALL NOT BE LIABLE FOR INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES OF ANY KIND FOR WHICH IT OTHERWISE HAS LIABILITY FOR LOSSES SUFFERED BY HARDIE AS A RESULT OF A FAILURE OF PRODUCTS TO SUCCESSFULLY CONVERT TO PRODUCE ACCEPTABLE GYPSUM WALLBOARD AT HARDIE'S PLANTS UNLESS HARDIE HAS FIRST USED COMMERCIALY REASONABLE EFFORTS TO CONVERT THE PRODUCTS INTO GYPSUM WALLBOARD AND SUCH COMMERCIALY REASONABLE EFFORTS HAVE PROVEN UNSUCCESSFUL.

8. PAYMENT.

- (a) Republic shall render its invoices covering shipments as soon as practicable after each shipment. Payment terms shall be net \*\*\* days after the date Hardie receives Republic's invoice.
- (b) All payments shall be made at Republic's principal place of business or the place specified for payment on the applicable Republic invoice.
- (c) All amounts not paid within seven (7) days after the date due hereunder shall bear interest from the date due until paid at a rate equal to the lesser of (i) \*\*\* percent (\*\*\*) per month or (ii) the maximum rate permitted under applicable law.

- (d) If any invoice remains unpaid over sixty (60) days after the date the invoice is received and the failure to pay is not based upon a bona-fide dispute over whether the amount is owed, Republic may suspend shipments of Products until payment has been made.

9. TECHNICAL COOPERATION.

- (a) The parties agree to use commercially reasonable efforts to achieve efficient conversion of the Products at each of Hardie's wallboard manufacturing operations, without creating an undue burden or expense for either party.
- (b) Technical support personnel from Republic and production and quality management of each Hardie gypsum wallboard plant shall meet at least monthly to discuss any operating issues being experienced by Hardie that it believes to be related to the Products and opportunities for reducing the basis weight of the Products, so long as there are technical issues that need to be discussed.
- (c) In the event that Hardie encounters difficulty converting one or more rolls of the Products that appear to meet the Specifications at any of its gypsum wallboard manufacturing operations, it will promptly give Republic notice of the problems that it is encountering. Not later than five (5) calendar days after receipt of such notice, Republic shall send technical support personnel to the operation experiencing difficulty. Hardie shall permit Republic access to the affected operation for purposes of observation, sampling, testing and inspection, in cooperation with Hardie's personnel. Hardie's facility management and Republic's technical support personnel will mutually develop a plan for reducing problems associated with conversion of the Products, which plan may include, without limitation, trial modifications to the Specifications, trial adjustments to the operation of the gypsum wallboard production line, observations of trials by representatives of both parties, data collection and statistical evaluation of collected data.

10. HARDIE'S REPRESENTATIONS AND WARRANTIES. Hardie hereby makes the following representations and warranties to Republic:

- (a) All of the assets of the gypsum wallboard plants located at Nashville, Arkansas, Las Vegas, Nevada and Seattle, Washington referred to in Exhibit A hereto and all of Hardie's gypsum mining facilities are owned by Hardie, free and clear of liens and encumbrances (other than routine matters of record that have no material adverse effect on their value).
- (b) The net worth of Hardie as of March 31, 1998, determined in accordance with generally accepted accounting principles, exceeds the consolidated net worth of Republic Parent as of March 31, 1998, as reflected in Republic Parent's

Form 10-Q for the quarter ended March 31, 1998, and no material adverse change in Hardie's net worth has occurred since that date.

- (c) Neither Hardie nor any Affiliate of Hardie has any present intention or plan to engage in the manufacture of paperboard, and neither Hardie nor any such Affiliate has received any offer to sell, lease or otherwise convey to Hardie or any such Affiliate a paperboard mill or any interest therein, whether direct or indirect, which offer has not been either withdrawn by the offeror or rejected by Hardie.

11. REPUBLIC'S REPRESENTATIONS AND WARRANTIES. Republic hereby makes the following representations and warranties to Hardie:

- (a) The Lawton Industrial Foundation either owns or has acquired options to purchase land in Lawton, Oklahoma sufficient for the construction and operation of the Project Gazelle Mill (the "Land") and has proposed to transfer the Land to Republic.
- (b) The Land has access or will have access to truck and rail transportation and loading facilities for same that are appropriate for the efficient operation of the Project Gazelle Mill.
- (c) Republic believes it can obtain all necessary permits, approvals, consents, and financing necessary to allow it to construct the Project Gazelle Mill on the Land.
- (d) To Republic's knowledge and belief, after investigation, it is feasible to construct the Project Gazelle Mill on the Land.
- (e) Republic has engaged consultants and advisors, has conducted test runs with the proposed Project Gazelle Mill technology and, on that basis, Republic believes that the Project Gazelle Mill is technologically feasible and can meet Hardie's needs.
- (f) The Project Gazelle Mill will be constructed and outfitted substantially in accordance with the summary descriptions Republic has provided to Hardie, subject to modifications deemed desirable by Republic and, with regard to substantial modifications, agreed to by Hardie, as the project progresses.
- (g) Republic, or its agent, has entered into letters of intent with key vendors and contractors.
- (h) Republic believes that it can meet Hardie's quantity and quality requirements for recycled gypsum-grade paperboard, tailored to suit the specific

requirements, for both processing and marketing of, and the machinery in operation at, each of its facilities.

- (i) Republic is experienced in and knowledgeable concerning the production of recycled gypsum-grade paperboard, and acknowledges that Hardie is relying on such expertise. To Republic's knowledge and belief, after investigation, the Project Gazelle Mill will utilize modified gap-former and Fourdrinier technology, which technology is current recycled paperboard production technology to Republic's knowledge and belief, after investigation. To Republic's knowledge and belief, after investigation, after construction, the Project Gazelle Mill will be viable and will be able to provide, in a timely manner, sufficient recycled gypsum-grade paperboard to meet Hardie's quality and quantity requirements for both processing and marketing for its various gypsum plants within the limits of the projected furnish requirements, energy consumption and labor costs.
- (j) Republic believes that it can obtain sufficient financing to construct and operate the Project Gazelle Mill. Republic has received proposals from lenders and investment bankers to lend funds or cause the placement of debt securities sufficient to finance the Project Gazelle Mill.
- (k) Republic has reported to Hardie the summary results of its "paper trials" and engineering feasibility studies prepared by Republic's consultants and advisors in connection with the Project Gazelle Mill, and will continue to provide updates thereon to Hardie during the course of development of the Project Gazelle Mill.
- (l) Republic anticipates that it initially will sell up to twenty-five percent of the capacity of the Project Gazelle Mill to its own gypsum plant in Duke, Oklahoma.

12. OTHER COVENANTS OF REPUBLIC.

- (a) Republic will review and become familiar with the process requirements and unique needs of Hardie's gypsum facilities and equipment.
- (b) Republic will obtain performance guarantees and warranties from its key vendors and contractors.

13. OTHER COVENANTS OF HARDIE. Until the later of October 1, 2005 or the fifth anniversary of the Commercial Production Date, Hardie will promptly advise Republic in writing if it or any United States Affiliate of Hardie offers to buy, lease or otherwise acquire any North American paperboard mill, or any interest therein, whether direct or indirect.

14. TERMINATION. In the event of a material breach of this Agreement, either party shall give written notice to the defaulting party of the breach and of the non-defaulting party's intention to terminate this Agreement if the non-defaulting party is not, within thirty (30) days from and after receipt of the written notice of default, provided with a plan of corrective action and if substantial efforts to cure the default in accordance with the plan have not commenced. If such substantial efforts to cure the default as provided above have not commenced within such thirty (30) day period, the non-defaulting party may terminate this Agreement by sending written notice to the other party of such termination, whereupon this Agreement shall terminate and the non-defaulting party, subject to the terms of this Agreement, shall be entitled to pursue any remedies provided by law. In the event the non-defaulting party elects to terminate this Agreement, the notice of termination must be sent to the defaulting party within five (5) days after the expiration of the thirty (30) day period first mentioned above. The failure of any party to exercise its option to terminate this Agreement shall not affect any other rights the party may have in law or equity.

15. FORCE MAJEURE.

- (a) In the event of an Act of God, explosion, accident, fire, drought, flood, earthquake, tornado, hurricane, strike, labor disturbance, insurrection, riot, war, act of a public enemy, the acts or orders of a governmental unit, freight embargo, power or utility shortage, or any other similar cause beyond Republic's or Hardie's reasonable control, interfering with the production, supply, transportation or consumption of the Products or with the supply of raw materials or utilities used in connection therewith (a "Force Majeure Event"), the obligation of Republic to supply, and the obligation of Hardie to purchase, Products hereunder shall be proportionately reduced or held in abeyance for the duration of the Force Majeure Event and the term of this Agreement shall be extended for a period equal thereto. The failure or inability of any one or all of Republic's advisors, agents, consultants, designers, engineers, lenders, suppliers or vendors to perform their contractual or other obligations to Republic in connection with the development, construction or operation of the Gazelle Mill shall not be considered a Force Majeure Event. The affected party shall promptly notify the other of any Force Majeure Event, and the expected duration of the party's inability to perform under the terms of this Agreement. If a Force Majeure Event results in or may reasonably be expected to result in an inability of Republic to ship Products for more than seven days past their scheduled shipping dates, then Hardie may purchase the Products covered by any orders so affected by the Force Majeure Event from other suppliers. NEITHER REPUBLIC NOR HARDIE SHALL BE LIABLE FOR ANY DAMAGES, DIRECT OR CONSEQUENTIAL, ARISING OUT OF ANY DELAY IN DELIVERY OR FAILURE TO DELIVER OR ACCEPT ANY OF THE PRODUCTS SOLD HEREUNDER IF SUCH DELAY OR FAILURE TO DELIVER OR ACCEPT IS DUE TO A FORCE MAJEURE EVENT FOR WHICH APPROPRIATE NOTICE HAS BEEN GIVEN.

- (b) Any suspension or reduction of deliveries of Products under this Agreement due to the occurrence of any Force Majeure Event shall not invalidate or be a basis for termination of this Agreement, and, upon the removal or termination of the Force Majeure Event during the term of this Agreement, delivery shall be made and taken, as the case may be, on the specified terms in effect immediately prior to such suspension or reduction. The foregoing notwithstanding, if Republic is unable to resume shipments of Products from the Project Gazelle Mill within one hundred eighty (180) days after the occurrence of a Force Majeure Event, Hardie may, in its sole discretion, terminate this Agreement, with no further obligation to Republic.
- (c) If in consequence of any Force Majeure Event, Republic's production is partially curtailed, Republic shall limit its reductions of shipments to its then-present customers to the same percentage in each case.
- (d) The provisions of this paragraph 15 shall not be available to any party hereto that shall fail to use reasonable diligence to remedy the situation and that shall fail to remove the Force Majeure Event affecting its performance hereunder with all reasonable dispatch, or to give timely notice of the occurrence of the Force Majeure Event. The requirement that any Force Majeure Event be remedied with all reasonable dispatch shall not require the settlement of strikes or labor controversies by acceding to the demands of the opposing party or parties.

16. MUTUAL INDEMNIFICATION. Except as otherwise expressly provided herein, Republic shall indemnify and hold harmless Hardie and its Affiliates and each of the heirs, executors, successors and assigns of Hardie or any such Affiliate from and against, and will pay the amount of, any loss, liability, claim, damage, obligation, fine, proceeding and expense (including reasonable costs of investigation and defense and reasonable attorney's fees and other incidental costs and expenses) suffered or incurred by Hardie arising from, relating to or in connection with: (i) any breach of any representation or warranty made by Republic in this Agreement; (ii) any breach by Republic of any covenant or obligation of Republic in this Agreement, including any such breach caused by the failure of any of Republic's contractors or suppliers to fulfill their obligations to Republic in connection with the development or construction of the Project Gazelle Mill; or (iii) any and all actions, suits, proceedings, claims, demands, assessments, judgments, costs and expenses (including reasonable legal fees and expenses) incident to any of the foregoing or incurred in investigating or attempting to avoid the same or to oppose the imposition thereof or in enforcing this indemnity. Except as otherwise expressly provided herein, Hardie shall indemnify and hold harmless Republic and its Affiliates and each of the heirs, executors, successors and assigns of Republic or any such Affiliate from and against, and will pay the amount of, any loss, liability, claim, damage, obligation, fine, proceeding and expense (including reasonable costs of investigation and defense and reasonable attorney's fees and other incidental costs and expenses) suffered or incurred by Republic arising from, relating to or in connection with: (x) any breach of any representation or warranty made by Hardie in this Agreement; (y) any breach by Hardie of its obligations under this Agreement; or (z) any and all actions, suits, proceedings, claims, demands,

assessments, judgments, costs and expenses (including reasonable legal fees and expenses) incident to any of the foregoing or incurred in investigating or attempting to avoid the same or to oppose the imposition thereof or in enforcing this indemnity.

17. **BANKRUPTCY.** In the event of any voluntary or involuntary bankruptcy, receivership, insolvency or reorganization proceedings involving either party or its property, or the assignment of all, or substantially all, of the assets of either party for the benefit of creditors, or a receiver is appointed for it or any substantial part of its property, the other party may terminate its obligations hereunder by giving written notice of such termination which shall become effective upon the giving of such notice. Such right of termination shall be in addition to, and not in lieu of, any other rights or remedies available to the non-breaching party.

18. **ASSIGNMENT.**

- (a) This Agreement shall be binding upon and inure to the benefit of the successors of the parties hereto but shall not be assignable by either party without the written consent of the other party except:
  - (i) subject to compliance with the other subparagraphs of this paragraph 18, this Agreement may be assigned by operation of law to the surviving or resulting entity in connection with a merger or consolidation of such party;
  - (ii) subject to compliance with the other subparagraphs of this paragraph 18, this Agreement may be assigned by either party to the purchaser or transferee of substantially all the other assets of the assigning party in connection with a sale or other transfer of all or substantially all of the assets of the assigning party;
  - (iii) subject to compliance with the other subparagraphs of this paragraph 18, Hardie may assign this Agreement to the purchaser or transferee of all of Hardie's gypsum wallboard manufacturing plants referenced on Exhibit A hereto (the "Hardie Plants") or Hardie may assign its rights under this Agreement insofar as they relate to any Hardie Plant to the purchaser or transferee of such Hardie Plant;
  - (iv) subject to compliance with the other subparagraphs of this paragraph 18, Republic may assign this Agreement to a purchaser or transferee of the Project Gazelle Mill;
  - (v) nothing in this Agreement shall prevent Hardie or Republic from entering into a mortgage, deed of trust, grant of a security interest, sale and leaseback or other security device (a "Security Device") with respect to any or all of the Hardie Gypsum Plants or the Project Gazelle Mill, respectively, to obtain or secure financing; provided,

that any such Security Device shall expressly provide and require that upon any foreclosure, taking, lease termination or other exercise of remedies pursuant thereto, the parties thereto shall take all such action as shall be required to cause the person or persons owning or controlling the Hardie Gypsum Plants or the Project Gazelle Mill, as applicable, after such exercise of remedies to assume in writing the provisions of this Agreement insofar as they relate to the Hardie Gypsum Plant or the Project Gazelle Mill, as applicable, owned or controlled by such person; provided, further, that Republic shall not enter into any such Security Device with respect to the Project Gazelle Mill without a provision in the Security Device that obligates the secured party to give Hardie notice of any proposed exercise of remedies affecting the Project Gazelle Mill with respect to a default by Republic thereunder, and without first providing such language to Hardie.

- (b) Notwithstanding subparagraph (a) above, in the event that Hardie shall merge or consolidate with another entity or sell or otherwise transfer any of the Hardie Plants (whether pursuant to a sale or transfer of all or substantially all of its assets or the sale or transfer of one or more of the Hardie Plants), Hardie shall require the surviving company in such merger or any such transferee to assume and agree to perform in writing the provisions of this Agreement for the full term of this Agreement (or if less than all the Hardie Plants are sold or transferred, then the provisions of this Agreement insofar as they relate to the Hardie Plants sold or transferred), and in the event that Republic shall merge or consolidate with another entity or sell or transfer the Project Gazelle Mill, Republic shall require the surviving company in such merger or any such transferee to assume and agree to perform in writing the provisions of this Agreement for the full term of this Agreement.
- (c) No such assignment or assumption of this Agreement, in whole or in part, shall relieve the assigning party of any of its obligations hereunder.
- (d) If Republic proposes to sell, transfer or otherwise dispose of the Project Gazelle Mill (other than pursuant to a Security Device that complies with paragraph 18(a)(v) hereof) or merge or consolidate with another entity or sell or transfer all or substantially all of its assets to another person, or receives any bona fide, firm proposal from a third party to purchase or otherwise acquire the Project Gazelle Mill or for the merger or consolidation of Republic into or with another entity or for the sale of all or substantially all its assets to another person which proposal it proposes to accept, then Republic must first: (i) promptly inform Hardie that Republic intends to so dispose of the Project Gazelle Mill and (ii) keep Hardie informed of the progress Republic is making in disposing of the Project Gazelle Mill. Republic shall consult with Hardie concerning methods of ensuring, and shall



take commercially reasonable steps to ensure, that any disposition of the Project Gazelle Mill will not have a material adverse effect on Hardie. Nothing contained herein shall prevent Hardie, upon receipt of any such notice from Republic, from making an offer to Republic to acquire the Project Gazelle Mill.

19. CONFIDENTIALITY.

- (a) Hardie and Republic acknowledge and agree that they may come into possession of certain information about each other's operations, either through visits to each other's facilities or through an exchange of documents or other information, including, but not limited to, specific designs and specifications of their respective facilities, the speed, throughput and other performance characteristics of their respective facilities, their cost of production and the specifications and selling prices of their products, all of which are confidential and proprietary information of the respective parties (the "Confidential Information"). Hardie and Republic further acknowledge and agree that the other would be damaged by the disclosure of the Confidential Information to competitors or to others, and by the use of the Confidential Information to compete with the other. Accordingly, each of Hardie and Republic agrees that it will maintain the confidentiality of, and not disclose to persons other than its employees with a specific need to know such information and who have been advised of and who have agreed to be bound by this covenant, any of the Confidential Information, or use such Confidential Information to compete with the other.
- (b) "Confidential Information" does not include information which:
- (i) is or becomes generally available to the public other than as a result of a disclosure by the receiving party, its Affiliates or employees;
  - (ii) was within the possession of the receiving party, its Affiliates or employees prior to its being furnished to such party by or on behalf of the furnishing party, provided that the source of such information was not known by the receiving party, its Affiliates or employees to be bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to the furnishing party or any other party with respect to such information; or
  - (iii) becomes available to the receiving party on a non-confidential basis from a source other than Republic or any of its Affiliates or employees, provided that such source is not bound by a confidentiality agreement with or other contractual legal or fiduciary obligation of confidentiality to the furnishing party or any other party with respect to such information.
- Notwithstanding any other provision of this Agreement, the Confidentiality Agreement dated March 4, 1997 between Republic Parent and James Hardie Industries (USA) Inc. shall remain in full force and effect. To the extent there is any conflict between such Confidentiality Agreement and this Agreement, this Agreement shall control.

- (c) In the event that Hardie or Republic or any of their Affiliates or employees are requested or required (by deposition, interrogatories, request for information or documents, subpoena, civil investigative demand or other similar process in legal proceedings) to disclose any of the other's Confidential Information, the receiving party shall provide the furnishing party with prompt written notice of any such request or requirement so that it may seek a protective order or other appropriate remedy and/or waive compliance with the provisions of this Paragraph. If, in the absence of a protective order or other remedy or the receipt of a waiver from the furnishing party, the receiving party or any of its Affiliates or employees are nonetheless, in the opinion of counsel, legally compelled to disclose any Confidential Information to any tribunal or else stand liable for contempt or suffer other censure or penalty, the receiving party or its Affiliates or employees may, without liability hereunder, disclose to such tribunal only that portion of the Confidential Information which such counsel advises the receiving party is legally required to be disclosed, provided that the receiving party exercises its commercially reasonable efforts to preserve the confidentiality of the Confidential Information including, without limitation, by cooperating with the furnishing party to attempt to obtain an appropriate protective order or other reliable assurance that confidential treatment will be accorded the Confidential Information by such tribunal. The furnishing party will promptly reimburse the receiving party for any and all costs and expenses (including attorneys' fees and expenses) which it may suffer or incur as a result of its compliance with this subparagraph (c) unless the proceeding in which such disclosure is being sought results in substantial part from a breach by the receiving party of its obligations hereunder.

20. NON-SOLICITATION. Hardie and Republic each agree that, during the term of this Agreement and for a period of one year thereafter, it will not, and will not permit any of its Affiliates to, directly solicit, other than through normal advertising for employees, or knowingly hire, any former, present or future management employee, engineer, technician or salesperson of the other; provided, that this paragraph 20 shall not apply to any person who has not been employed by the other party or its Affiliates for a period of at least one year.

21. NOTICES. All notices, requests or other communications hereunder shall be in writing, addressed to Republic or Hardie at the following addresses:

REPUBLIC PAPERBOARD COMPANY OR REPUBLIC GROUP INCORPORATED

(for notices by personal delivery, overnight express or telecopy):

811 East 30th Avenue  
 Hutchinson, Kansas 67502  
 Attention: Mr. Doyle R. Ramsey  
 Telecopier: (316) 727-2727

(for notices by registered or certified mail):

P.O. Box 1307  
Hutchinson, Kansas 67504-1307  
Attn: Mr. Doyle R. Ramsey

with a copy to:

Bryan E. Bishop, Esq.  
Locke Purnell Rain Harrell  
2200 Ross Avenue, Suite 2200  
Dallas, Texas 75201  
Telecopier: (214) 740-8800

JAMES HARDIE GYPSUM, INC.

26300 La Alameda, Suite 250  
Mission Viejo, California 92691  
Attention: Mr. Robert F. Rugg  
Telecopier: (949) 367-1294

with a copy to:

Howard J. Barnhorst, Esq.  
Barnhorst, Schreiner & Goonan  
550 West C St., Ste. 1350  
San Diego, CA 92101  
Telecopier: (619) 544-0703

The address of either party may be changed by giving notice in writing at any time to the other party. Any notice to be given under this Agreement shall be deemed duly given if: (i) delivered personally; (ii) sent by telecopy (if followed by delivery of a hard copy by first class mail, postage prepaid); (iii) delivered by overnight express; or (iv) sent by United States registered or certified mail, postage prepaid. Any notice that is delivered personally, or sent by telecopy or overnight express in the manner provided herein shall be deemed to have been duly given to the party to whom it is directed upon actual receipt by such party. Any notice that is addressed and mailed in the manner provided herein shall be conclusively presumed to have been given to the party to which it is addressed at the close of business, local time of the recipient, on the third day after it is so placed in the mail.

22. NON-WAIVER. The failure of either party to insist in any one or more instances upon strict performance of any of the provisions of this Agreement or to take advantage of any of its rights hereunder shall not be construed as a waiver of any such provisions or the relinquishment of any such rights, but the same shall continue and remain in full force and effect.

23. ENTIRE AGREEMENT. This Agreement (including the Exhibits hereto which are an integral part hereof) sets forth the entire agreement between the parties hereto with respect to the subject matter hereof, and the parties shall not be bound by any representations or agreements which are not expressly set forth in this Agreement.

24. AMENDMENTS. No modification, amendment or waiver of any provision of this Agreement shall be effective unless in writing signed by an authorized officer of each of the parties hereto.

25. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original and all of which together shall constitute one and the same instrument.

26. CAPTIONS. The captions of the various paragraphs of this Agreement are for convenience of reference only and shall not affect the interpretation of the provisions hereof.

27. GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas (other than its choice of law principles).

28. DISPUTE RESOLUTION; MEDIATION AND ARBITRATION.

- (a) If any controversy, dispute, difference or claim between the parties hereto shall arise concerning the performance, enforcement or interpretation of this Agreement (collectively, a "Dispute"), prior to the initiation of any proceedings pursuant to any other provisions of this paragraph 28, the Dispute shall be referred to the chief executive officers of Republic and Hardie for resolution.
- (b) If a Dispute is not resolved pursuant to subparagraph (a) within fifteen (15) business days after it is referred to the chief executive officers of Republic and Hardie, either party may by notice to the other party require mediation of the Dispute. Each party agrees to participate in mediation of the Dispute and will in good faith attempt to agree upon a mediator. If the parties are unable to agree upon a mediator within ten (10) business days after such notice or if such Dispute shall not have been resolved by mediation within twenty (20) business days after such notice, then either party may file for arbitration pursuant to subparagraph (c) below. All expenses of the mediator shall be equally shared.
- (c) If the parties to this Agreement are unable to settle a Dispute through direct negotiation in good faith or through mediation pursuant to subparagraphs (a) and (b) within the time period specified therein, the Dispute shall be submitted to binding arbitration. Except as otherwise provided herein, the arbitration shall be conducted in accordance with the then effective Commercial Rules of Practice and Procedure of American Arbitration

Association ("AAA"). The arbitration proceedings shall take place in Dallas, Texas.

- (d) Within five (5) business days after notice from one party to the other requesting binding arbitration, the parties shall agree on and select one arbitrator from the AAA panel. If within such five (5) business-day period, the parties are unable to agree upon an arbitrator, each of them shall have five (5) business days following the expiration of that period to select an arbitrator from the AAA panel that is not an affiliate of a party to this Agreement. If either party fails to timely select an arbitrator, AAA shall make the selection for such party. Within five (5) business days following their selection, the two selected arbitrators shall agree upon and select a third arbitrator for the AAA panel. The arbitrator or arbitrators, whether one or three persons, are hereinafter called "Arbitrators." If the parties are unable to agree on a time and place in Dallas, Texas for arbitration, the Arbitrators shall decide the time and place. The Arbitrators shall hear the matter within thirty (30) days after selection and shall render a decision promptly after the hearing. The Arbitrators shall make a final decision that, in their judgment, (i) is consistent with, and does not add to, subtract from, or otherwise modify, the provisions of this Agreement or related agreements or (ii) if the subject matter of the Dispute is not specifically addressed in this Agreement, is determined under this Agreement consistent with the intent of the parties as supported by evidence presented in the arbitration proceedings. The Arbitrators shall send a signed written statement of their decision to AAA and both parties. In awarding damages or other remedies or relief, the Arbitrators must honor and abide by any applicable limitations or restrictions expressed or described in the Agreement. The Arbitrators are not empowered to award damages in excess of compensatory damages, and each party hereby irrevocably waives any right to recover such damages with respect to any Dispute resolved by arbitration.
- (e) To the extent permissible under Texas law, the parties agree that the award of the Arbitrators shall be final and not subject to judicial review. Judgment on the arbitration award may be entered and enforced in any court having jurisdiction over the parties or their respective assets. It is the intent of the parties that the arbitration provisions hereof be enforced to the fullest extent permitted by Texas law.
- (f) Nothing in the foregoing arbitration provisions shall limit the rights of the parties otherwise described in this Agreement to obtain provisional, ancillary, or equitable remedies, such as injunctive relief or specific performance.
- (g) Each party shall pay its own expenses of arbitration and the expenses of the Arbitrators shall be equally shared; provided, however, if in the opinion of the Arbitrators any claim by either party hereunder or any defense or

objection thereto by the other party was unreasonable and not made in good faith, the Arbitrators may assess, as part of the award, all or any part of the arbitration expense (including, without limitation, reasonable attorneys' fees) of the other party and of the Arbitrators against the party raising such unreasonable claim, defense, or objection. Nothing herein set forth shall prevent the parties from settling any dispute by mutual agreement at any time.

29. SPECIFIC PERFORMANCE; INJUNCTIVE AND OTHER EQUITABLE RELIEF. Each party hereto acknowledges that a violation or attempted violation of any of the covenants and agreements in paragraphs 3(e), 16, 17, 18 and 19 hereof, and in

Exhibit A hereof, will cause such damage to the other party as will be irreparable, the exact amount of which would be difficult or impossible to ascertain and for which there will be no adequate remedy at law, agrees that the other party hereto shall be entitled as a matter of right to specific performance and injunctive and other equitable relief in case of such violation or attempted violation as well as any and all costs and expenses sustained or incurred in obtaining any such equitable relief, including, without limitation, reasonable attorneys' fees, and agrees to waive any requirement for the securing or posting of any bond or other security in connection with the obtaining of any such injunction or other equitable relief.

30. PUBLIC ANNOUNCEMENTS. Neither Hardie nor Republic shall make, nor permit any Affiliate or representative to make, any public statements, including, without limitation, any press releases, with respect to this Agreement or the transactions contemplated thereby without the prior written consent of the other parties hereto, except to the extent required by law or the rules of any national securities exchange or automated quotation system on which such party's securities are listed or traded.

31. TIME OF THE ESSENCE. With regard only to the dates specified in: (i) the last sentence of paragraph 3(c) hereof; (ii) the last sentence of paragraph 3(e) hereof; and (iii) the last sentence of paragraph 15(b), time is of the essence.

32. NO JOINT VENTURE. The parties hereto have not entered into any partnership, joint venture, agency or other such relationship by virtue of this Agreement.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed by the respective officers as of the date first written above.

REPUBLIC PAPERBOARD COMPANY

By: /s/ Phil Simpson  
-----  
Phil Simpson, Chairman of the Board, President and Chief Executive Officer

JAMES HARDIE GYPSUM, INC.

By: /s/ Robert F. Rugg  
-----  
Robert F. Rugg, President

Republic Parent shall cause Republic to perform, and hereby guarantees the performance by Republic of, all of Republic's obligations under this Agreement. The obligations of Republic Parent under this paragraph shall not be modified, released, diminished or affected by: (i) any modification, amendment, waiver, release, adjustment, indulgence, forbearance, compromise, deferral or extension of or with respect to any obligations of Republic hereunder; (ii) any delay or forbearance or lack of diligence by Hardie in exercising its rights hereunder against Republic; (iii) the bankruptcy, insolvency, rearrangement, adjustment, composition, liquidation or dissolution of Republic or any action taken, election made, preference or claim for refund asserted or sustained in any proceeding with respect thereto; (iv) any lack of power or authority of Republic; (v) the taking or accepting by Hardie of any other security, collateral or guaranty or other assurance by Republic of performance; or (vi) any other action taken or omitted to be taken with respect to the covenants, agreements and obligations of hereunder, whether or not such action or omission prejudices Republic Parent or increases the likelihood that Republic Parent will have to perform the obligations of Republic.

REPUBLIC GROUP INCORPORATED

By: /s/ Phil Simpson  
-----  
Phil Simpson, Chairman of the Board, President and Chief Executive Officer

## EXHIBIT A

## RECYCLED GYPSUM GRADE PAPERBOARD REQUIREMENTS

The volume of recycled gypsum-grade paperboard to be purchased by Hardie and to be supplied by Republic is as follows:

- (i) 7% of the recycled gypsum-grade paperboard requirements of the gypsum wallboard plant located near Nashville, Arkansas that is currently owned by Hardie until December 31, 2000;
- (ii) 95% (plus or minus 5%) of the recycled gypsum-grade paperboard requirements of the gypsum wallboard plant located near Nashville, Arkansas that is currently owned by Hardie beginning on January 1, 2001; and
- (iii) 95% (plus or minus 5%) of the recycled gypsum-grade paperboard requirements of the gypsum wallboard plants located at or near Las Vegas, Nevada and Seattle, Washington that are currently owned by Hardie beginning on October 1, 2000.

Prior to the Commencement Notice, Republic and Hardie contemplate that test quantities of the Products produced at the Project Gazelle Mill will be furnished by Republic and purchased by Hardie and manufactured into gypsum wallboard. In addition, prior to the Commercial Production Date, Hardie may purchase and, if requested, Republic will supply, Shaftwall Liner Green and Veneer Plaster Base pursuant to subparagraph (i) above from its mills other than the Project Gazelle Mill, provided that, with respect to such Products sold prior to the Commercial Production Date, the porosity Specification shall be determined by mutual agreement between the Vice Presidents, Operations, of Hardie and Republic.

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If during the term of this Agreement Hardie shall desire to expand the gypsum wallboard capacity of any of its Nashville, Arkansas, Las Vegas, Nevada or Seattle, Washington gypsum wallboard plants, Hardie shall promptly notify Republic in writing of such desire to expand capacity. Republic shall supply and Hardie shall purchase the recycled gypsum-grade paperboard requirements of such expanded capacity at the Nashville, Arkansas, Las Vegas, Nevada or Seattle, Washington gypsum wallboard plants on the same terms and conditions that are specified in this Paperboard Supply Agreement.

Notwithstanding the foregoing paragraphs on this Exhibit A, the parties anticipate that the output of the Project Gazelle Mill will be ramping up during approximately the first twelve months of Commercial Production. During such ramp-up period, the obligations of Hardie to purchase its requirements and Republic to sell such amounts will be adjusted proportionally to the mutual satisfaction of both parties, to accommodate an orderly transition of supply.

During the term of this Agreement, wallboard production technology may change so as to make it substantially more economical to utilize paper of a kind that is not presently commercially available and that Republic does not contemplate producing at the Project Gazelle Mill. In such a case, Republic agrees that it will use commercially reasonable efforts to develop the production capacity at the Project Gazelle Mill for such paper, and Hardie and Republic will negotiate in good faith to include such paper within the ambit of this Agreement to be sold pursuant to pricing mechanism similar to this Agreement. During such development phase, or if Republic is unwilling or unable to produce such paper at the Project Gazelle Mill, or if the parties cannot reach agreement regarding such paper after negotiating in good faith, commencing on October 1, 2004 and during the remainder of the term of this Agreement, Hardie may purchase such paper from other suppliers, and Hardie's demand for such paper will not be considered part of Hardie's recycled gypsum-grade paperboard requirements for purposes of this Agreement.

EXHIBIT B

INITIAL BASE PRICES

The initial Base Prices are as follows:

GRADE	\$/MSF
- - - - -	- - - - -
Cream Face	\$ ***
Gray Back	***
Green-Lined	***
Brown Sheathing	***
Shaftwall Liner Green	***
Veneer Plaster Base	***

## EXHIBIT C

All specifications on this Exhibit C refer to the test value to be obtained at the Paperboard Mill at the time of manufacture. For purposes of this Exhibit C, "NS" shall be defined to mean none specified.

JAMES HARDIE GYPSUM  
PAPER SPECIFICATIONS

TYPE: CREAMFACE

	MIN. ----	AVE. ----	MAX. ----
BASIS WEIGHT: (#/MSF)	***	***	***
MOISTURE CONTENT (%):	***	***	***
CALIPER: (INCHES)	***	***	***
POROSITY: ( SECONDS)	***	***	***
WATER ABSORPTION: (COBB)			
TOP LINER: (GRAMS)	***	***	***
(CURED) BOND LINER: (GRAMS)	***	***	***
TENSILE STRENGTH:			
MACHINE DIRECTION (#/INCH):	***	***	***
ACROSS MACHINE DIRECTION (#/INCH):	***	***	***
SATURATION: ( SECONDS)	***	***	***
WIDTH: (INCHES)			
a.	***	***	***
b.	***	***	***
c.	***	***	***
DIAMETER: (INCHES)	***	***	***
BRIGHTNESS (% REFLECTANCE @457 NM):	***	***(desired)	***
MULLEN PLY-BOND (PSI):	***	***	***
SHEFFIELD SMOOTHNESS (SHEFFIELD UNITS):	***	***(desired)	***
APPEARANCE:     ***			
CONVERSION			
PROPERTIES:    ***			

JAMES HARDIE GYPSUM  
PAPER SPECIFICATIONS

TYPE: GREYBACK

	MIN. ----	AVE. ----	MAX. ----
BASIS WEIGHT: (#/MSF)	***	***	***
MOISTURE CONTENT (%):	***	***	***
CALIPER: (INCHES)	***	***	***
POROSITY: ( SECONDS)	***	***	***
WATER ABSORPTION: (COBB)			
TOP LINER: (GRAMS)	***	***	***
(CURED) BOND LINER: (GRAMS)	***	***	***
TENSILE STRENGTH:			
MACHINE DIRECTION (#/INCH):	***	***	***
ACROSS MACHINE DIRECTION (#/INCH):	***	***	***
SATURATION: ( SECONDS)	***	***	***
WIDTH: (INCHES)			
a.	***		
b.	***		
c.	***		
DIAMETER: (INCHES)	***	***	***
MULLEN PLY-BOND (PSI):	***	***	***
APPEARANCE:   ***			
CONVERSION PROPERTIES:   ***			

JAMES HARDIE GYPSUM  
PAPER SPECIFICATIONS

TYPE: GREEN-LINED

	MIN.	AVE.	MAX.
	----	----	----
BASIS WEIGHT: (#/MSF)	***	***	***
MOISTURE CONTENT (%):	***	***	***
CALIPER: (INCHES)	***	***	***
POROSITY: ( SECONDS)	***	***	***
WATER ABSORPTION: (COBB)			
TOP LINER: (GRAMS)	***	***	***
(CURED) BOND LINER: (GRAMS)	***	***	***
TENSILE STRENGTH:			
MACHINE DIRECTION (#/INCH):	***	***	***
ACROSS MACHINE DIRECTION (#/INCH):	***	***	***
SATURATION: ( SECONDS)	***	***	***
WIDTH: (INCHES)	***	***	***
a.	***	***	***
DIAMETER: (INCHES)	***	***	***
MULLEN PLY-BOND (PSI):	***	***	***
SHEFFIELD SMOOTHNESS (SHEFFIELD UNITS):	***	***	***
APPEARANCE:	***		
CONVERSION PROPERTIES:	***		

JAMES HARDIE GYPSUM  
PAPER SPECIFICATIONS

TYPE: BROWN SHEATHING

	MIN. ----	AVE. ----	MAX. ----
BASIS WEIGHT: (#/MSF)	***	***	***
MOISTURE CONTENT (%):	***	***	***
CALIPER: (INCHES)	***	***	***
POROSITY: ( SECONDS)	***	***	***
WATER ABSORPTION: (COBB)			
TOP LINER: (GRAMS)	***	***	***
(CURED) BOND LINER: (GRAMS)	***	***	***
TENSILE STRENGTH:			
MACHINE DIRECTION (#/INCH):	***	***	***
ACROSS MACHINE DIRECTION (#/INCH):	***	***	***
SATURATION: ( SECONDS)	***	***	***
WIDTH: (INCHES)			
a.	***	***	***
b.	***	***	***
c.	***	***	***
d.	***	***	***
DIAMETER: (INCHES)	***	***	***
MULLEN PLY-BOND (PSI):	***	***	***
APPEARANCE:           ***			
CONVERSION			
PROPERTIES:           ***			

JAMES HARDIE GYPSUM  
PAPER SPECIFICATIONS

TYPE: SHAFTWALL LINER GREEN

	MIN. ----	AVE. ----	MAX. ----
BASIS WEIGHT: (#/MSF)	***	***	***
MOISTURE CONTENT (%):	***	***	***
CALIPER: (INCHES)	***	***	***
POROSITY: ( SECONDS)	***	***	***
WATER ABSORPTION: (COBB)			
TOP LINER: (GRAMS)	***	***	***
(CURED) BOND LINER: (GRAMS)	***	***	***
TENSILE STRENGTH:			
MACHINE DIRECTION (#/INCH):	***	***	***
ACROSS MACHINE DIRECTION (#/INCH):	***	***	***
SATURATION: ( SECONDS)	***	***	***
WIDTH: (INCHES)	***	***	***
a.	***	***	***
b.	***	***	***
DIAMETER: (INCHES)	***	***	***
MULLEN PLY-BOND (PSI):	***	***	***
SHEFFIELD SMOOTHNESS (SHEFFIELD UNITS):	***	***	***
APPEARANCE:	***		
CONVERSION			
PROPERTIES:	***		

JAMES HARDIE GYPSUM  
PAPER SPECIFICATIONS

TYPE: VENEER PLASTER BASE

	MIN. ----	AVE. ----	MAX. ----
BASIS WEIGHT: (#/MSF)	***	***	***
MOISTURE CONTENT (%):	***	***	***
CALIPER: (INCHES)	***	***	***
POROSITY: ( SECONDS)	***	***	***
WATER ABSORPTION: (COBB)			
TOP LINER: (GRAMS)	***	***	***
(CURED) BOND LINER: (GRAMS)	***	***	***
TENSILE STRENGTH:			
MACHINE DIRECTION (#/INCH):	***	***	***
ACROSS MACHINE DIRECTION (#/INCH):	***	***	***
SATURATION: ( SECONDS)	***	***	***
WIDTH: (INCHES)			
a.	***	***	***
DIAMETER:	***	***	***
MULLEN PLY-BOND (PSI):	***	***	***
APPEARANCE:     ***			
CONVERSION PROPERTIES:     ***			



EXHIBIT D

HARDIE'S REQUIRED FORM OF PURCHASE ORDER

[LOGO OF JAMES HARDLE  
APPEARS HERE]

PURCHASE ORDER  
DATE

PAGE

SUPPLIER:  
-----

DELIVER TO:  
-----

INVOICE TO:  
-----

Phone  
Fax  
-----

Phone  
Fax  
-----

Phone  
Fax  
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- -

CONTACT NAME	BUYER	PREFERRED CARRIER	SHIPPING TERMS	CREDIT TERMS
--------------	-------	-------------------	----------------	--------------

- -

- -

ITEM CODE	QUANTITY	QTY U/M	PART DESCRIPTION	UNIT PRICE	PER	REQUIRED DATE	EXTENDED PRICE (EXCLUDING TAX)
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- -

MARK OUR ORDER NO. ON INVOICE AND ALL CORRESPONDENCE

TOTAL LINE VALUE  
 SALES TAX  
 FREIGHT  
 GRAND TOTAL

-----  
PURCHASING AND ADMINISTRATION MANAGER

EXHIBIT E

REPUBLIC'S REQUIRED FORM OF ACKNOWLEDGMENT

ORDER DATE

REPUBLIC ORDER  
MANUFACTURING FACILITY:

[LOGO OF REPUBLIC GYPSUM COMPANY  
APPEARS HERE]

-----  
- -  
CUSTOMER NO    TERMS:    F.O.B.    FREIGHT    CUSTOMER P.O.#    SALES TERRITORY    CPA # OR FORMULA    REQUIRED  
DATE

-----  
- -  
-----  
Sold  
to:

Ship  
to:

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-----  
  
-----  
  
END OF DOCUMENT

Centex Construction  
Products, Inc.

BALANCE AND DISCIPLINE

[Photo of Construction Materials]

2001 Annual Report

Centex Construction Products, Inc. (NYSE: CXP) produces and distributes building materials used to construct the nation's homes, commercial and industrial buildings, and infrastructure. CXP is one of two publicly held companies operating in the cement, gypsum wallboard, and concrete and aggregates industries. At March 31, 2001, CXP was 65.2%-owned by Centex Corporation.

#### CEMENT

CXP's four manufacturing plants and network of 11 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 2.3% of the nation's total capacity. CXP is the third largest domestically owned cement manufacturer and the twelfth largest U. S. cement producer.

#### CONCRETE AND AGGREGATES

CXP's Concrete and Aggregates operations consist of 10 concrete batch plants, 121 readymix trucks and three aggregate plants (approximately 3.7 million tons of annual single-shift capacity), all of which are located in northern California and central Texas. CXP's northern California aggregates deposit is believed to be the largest single permitted 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 fourth largest wallboard producer. Together, the plants have a total annual production capacity of approximately 2.6 billion square feet, representing about 7% of total U.S. capacity. During fiscal 2001, CXP's gypsum wallboard product was shipped by rail and by truck to a total of 37 states throughout the nation.

#### PAPERBOARD

CXP's recycled Paperboard operation is located in southeastern Oklahoma. The mill produces paperboard products from 100 percent reclaimed paper fiber used for facing paper in the manufacturing of gypsum wallboard and other industrial and consumer paperboard products. Annual production capacity is approximately 220,000 tons. The Lawton mill produces paperboard that is approximately 20% to 30% lighter than other products currently available.

Financial Highlights  
(dollars in thousands, except per share data)

	For the Years Ended March 31,				
	2001	2000	1999	1998	1997
Revenues(1)	\$ 441,127	\$ 470,465	\$ 381,900	\$ 344,264	\$ 278,144
Earnings Before Income Taxes	\$ 92,263	\$ 170,177	\$ 121,127	\$ 88,333	\$ 64,406
Net Earnings	\$ 59,429	\$ 108,232	\$ 77,289	\$ 56,533	\$ 41,799
Diluted Earnings Per Share	\$ 3.22	\$ 5.63	\$ 3.71	\$ 2.56	\$ 1.89
Cash Dividends Per Share	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20
Total Debt	\$ 278,828	\$ 400	\$ 480	\$ 560	\$ 2,640
Stockholders' Equity	\$ 392,320	\$ 340,472	\$ 279,920	\$ 274,803	\$ 239,436
Average Diluted Shares Outstanding	18,473	19,211	20,832	22,063	22,174
Book Value Per Share At Year End	\$ 21.40	\$ 18.33	\$ 14.18	\$ 12.77	\$ 10.89

(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.

STOCK PRICES AND DIVIDENDS

Quarter	Fiscal Year Ended March 31, 2001			Fiscal Year Ended March 31, 2000		
	Price		Dividends	Price		Dividends
	High	Low		High	Low	
First	\$ 32.13	\$ 21.75	\$ 0.05	\$ 39.50	\$ 33.00	\$ 0.05
Second	\$ 27.63	\$ 22.25	\$ 0.05	\$ 41.81	\$ 34.69	\$ 0.05
Third	\$ 28.50	\$ 22.50	\$ 0.05	\$ 39.00	\$ 33.06	\$ 0.05
Fourth	\$ 33.50	\$ 27.31	\$ 0.05	\$ 39.00	\$ 22.63	\$ 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 May 31, 2001 was 338. The closing price of CXP's common stock on the New York Stock Exchange on May 31, 2001 was \$28.32.

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## To Our Shareholders

## Balance and Discipline

During fiscal 2001, CXP continued its balanced and disciplined approach to growth even as market conditions in our individual business segments fluctuated. We completed a major acquisition that will ensure CXP's leadership position in the gypsum wallboard industry in the future, and our existing operations reported a number of significant achievements.

- o CXP nearly doubled its asset base with the \$442 million purchase of selected strategic assets including a gypsum wallboard plant, a short line railroad, three recycled paper fiber collection sites, and a state-of-the-art lightweight recycled paperboard mill in Lawton, Oklahoma. This acquisition made CXP the nation's fourth largest gypsum wallboard producer and also enabled the Company to vertically integrate into the lightweight gypsum paperboard business.
- o Fiscal 2001 sales volumes for CXP's Cement and Concrete and Aggregates operations increased over last year's levels, and Cement reported all-time-high operating earnings.

## TO OUR SHAREHOLDERS

- o Despite a precipitous decline in Gypsum Wallboard prices, our three existing wallboard plants reported all-time-high operating efficiencies.
- o We approved and began a \$13 million expansion project at CXP's Georgetown, Texas Aggregates plant.
- o During fiscal 2001, CXP repurchased 264,300 additional shares of its own stock, taking advantage of current market conditions to improve shareholder value.

[Bar graph indicating growth in revenues from 1997 to 2001]

[Bar graph indicating growth in net earnings from 1997 to 2001]



[Photograph of Bags of Cement]

[Photograph of Concrete and Aggregates]

[4]

[Photograph of Rolls of Gypsum Paperboard] [Photograph of Gypsum Wallboard]

## To Our Shareholders

CXP's net earnings for the year were \$59.4 million or \$3.22 per diluted share this year versus \$108.2 million or \$5.63 per diluted share for fiscal 2000. Revenues this year totaled \$441.1 million compared to \$470.5 million in fiscal 2000. The lower earnings were attributable to the steep decline in Gypsum Wallboard prices that occurred during the year.

Our Gypsum Wallboard sales volume increased 16% in fiscal 2001 primarily due to production from our newly acquired Duke, Oklahoma wallboard plant. However, the 41% decline in Gypsum Wallboard pricing that occurred during the year resulted in a 75% decline in segment operating earnings to \$27.1 million from \$107.6 million last year. Demand remained high and effective cost management enabled us to lower the cost of sales for our Gypsum Wallboard operations by 7% (excluding fuel costs).

CXP's Paperboard operation, which was acquired during the third quarter of fiscal 2001, had operating earnings of \$1.4 million for the fiscal year. As the new Lawton paperboard mill becomes fully operational, our ability to effectively manage gypsum wallboard production costs should further improve. This recently completed, state-of-the-art, lightweight, recycled paper mill will meet all of CXP's internal gypsum paperboard needs and also has enough excess capacity to supply other wallboard manufacturers. Approximately 40% of the plant's 220,000 ton-per-year capacity is committed to another wallboard producer under a long-term contract, providing the volume and stability necessary for the Lawton mill to continue operating at high rates of capacity.

The low-cost, low-basis weight gypsum paperboard produced at the Lawton mill provides distinct freight and product quality advantages. We believe that as the gypsum wallboard industry becomes more familiar with the substantial cost benefits of using this lightweight paper product, CXP is positioned to become the market leader in the industry.

CXP's core Cement business remains a vital part of our balanced product mix. Our total Cement sales volume rose 4% for fiscal 2001 to 2.4 million tons and operating earnings from Cement reached an all-time-high \$59.6 million, 12% above last year's results. Our average Cement sales price declined 2% from the previous year due to pricing pressures from imports in the Houston, Texas market. The nation's

[Bar graph indicating growth in stockholders' equity from 1997 to 2001]

## To Our Shareholders

ongoing infrastructure needs will continue to provide a stable market for CXP's Cement that often offsets earnings fluctuations in other segments.

Operating earnings from our Concrete and Aggregates segment were \$7.6 million for fiscal 2001 versus \$9.3 million last year. Bolstered by a full year of sales from CXP's new Georgetown, Texas plant near Austin, Aggregates sales volume increased 19%. However, the average sales price of aggregates fell 3% to \$4.16 per ton, largely due to increased production of lower-priced road aggregates. An upgrade of the Georgetown plant that will enable the facility to manufacture higher-priced, washed coarse and fine aggregates is underway. We expect continued Aggregates growth in the years ahead as a result of the new markets that will be served by this expanded operation. Concrete sales volume rose 3% for fiscal 2001 over the prior year and Concrete pricing was 3% higher than fiscal 2000 pricing.

Over the past two years, CXP has attempted to locate growth platforms in order to expand the Aggregates segment of our operations. However, most potential acquisition transactions did not meet our traditional return thresholds. We will continue to examine opportunities in this business.

With our balanced mix of products in four areas that are essential to the construction process--Cement, Gypsum Wallboard, Paperboard, and Concrete and Aggregates--CXP has both the product and geographic diversity to weather the fluctuations inherent in construction industry cycles. In the year ahead, we will work to improve shareholder value by focusing our energies on utilizing our valuable resources to build a stronger, more efficient Company. We will continue to maintain a strong balance sheet and search for strategic acquisitions, increase market share and control costs in our key product areas. Achieving these goals requires the dedication and continuing support of all of CXP's employees. Their extraordinary efforts make our continuing success possible.

Shortly after the end of the fiscal year, CXP elected two new directors to its Board: Michael R. Nicolais, a partner in the private investment firm of Olivhan Investments, L.P. and Timothy R. Eller, Chairman and Chief Executive Officer of Centex Homes and an Executive Vice President of Centex Corporation.

[Bar graph indicating  
growth in total assets from  
1997 to 2001]

## To Our Shareholders

[Photograph of Laurence E. Hirsch and Richard D. Jones, Jr.]

With the strongest Board of Directors in our history and a seasoned management team in place, we look forward to a future of continued growth and prosperity. There will be many challenges in the years ahead, but CXP's management and employees remain committed to our philosophy of balanced and disciplined growth.

/s/ LAURENCE E. HIRSCH

Laurence E. Hirsch  
Chairman

May 31, 2001

/s/ RICHARD D. JONES, JR.

Richard D. Jones, Jr.  
President and  
Chief Executive Officer

## Business Segments

## DISCIPLINED GROWTH

Creating sustainable growth in the cyclical building products industry has never been easy. The housing market is extremely sensitive to interest rate fluctuations. Road and large-scale infrastructure projects depend on voter and regulatory approvals. Slowing demand for construction products may result in excess capacity and unstable pricing. Increasing demand, conversely, may encounter limited resources and higher prices.

Achieving long-term success in this constantly changing environment requires both balance and discipline. CXP's geographic diversity and balanced mix of products--Cement, Gypsum Wallboard, Paperboard and Concrete and Aggregates--enables the Company to maintain operational and financial strength. Equally significant is our disciplined approach to strategic growth that enables CXP to achieve our longer-term goals despite temporary market fluctuations.

While not a record-breaking year for CXP or for the building products industry, fiscal 2001 was still an important year for us. Our vision remained intact. We took significant steps toward our objective of competing as a low-cost producer in our markets. Going forward, we will continue our search for other opportunities that will enable CXP to continue to grow while successfully managing the ups and downs inherent in the building products marketplace.

## Paperboard

A New Lightweight  
Paper Technology

CXP acquired a valuable asset in November 2000--a new 220,000 ton-per-year, state-of-the-art, lightweight recycled paperboard mill in Lawton, Oklahoma. We were confident that with the necessary modifications, the Lawton facility would meet our own internal paperboard needs as well as supply other gypsum wallboard producers.

CXP hired the plant's original German designers to bring the paperboard mill into full production, and currently the mill is running significantly better than our expectations. Approximately 40% of the paperboard mill production is committed to another gypsum wallboard producer under a long-term contract, helping provide the economies of scale that will keep production costs low. Supplying our new lightweight recycled paperboard product to outside customers enables CXP to maintain a steady cash flow while maintaining the production volume necessary to ensure a low-cost, high-quality product for our own needs. Currently, CXP is using approximately 41% of the plant's production for its own gypsum wallboard products.

[Photograph of Rolls of Gypsum Paperboard]

Paperboard reported fiscal 2001 operating earnings of \$1.4 million and revenues of \$31.5 million. Paperboard sales volume was 80,000 tons, at an average sales price of \$386.32 per ton.

CXP's lightweight recycled gypsum paperboard  
is 20% to 30% lighter than other  
paperboard products currently available.

[Photograph of Roll of Gypsum Paperboard being produced at the Lawton Mill]

Paperboard

[Photograph of Aggregates Stock Piles]

Concrete and Aggregates



## Concrete and Aggregates

Georgetown  
Expansion to Open  
New Markets

Operating earnings from Concrete and Aggregates were \$7.6 million for fiscal 2001, down 18% from fiscal 2000 primarily due to lower Aggregates operating margins. Concrete and Aggregates revenues for the year were \$61.1 million, 9% above \$55.9 million for the same period last year.

Aggregates operating earnings of \$1.6 million for fiscal 2001 were 52% lower than last year as a result of increased maintenance costs and lower average net sales prices. Fiscal 2001 was the first full year of operations for our Georgetown, Texas crushed stone operation, and total Aggregates sales volume of 4.0 million tons was 19% higher than in fiscal 2000. However, the addition of lower-priced Georgetown road aggregates sales volume to our product mix caused average net pricing to decline 3% this year to \$4.16 per ton. When the Georgetown wet plant is complete in mid-fiscal 2002, the facility will be able to produce higher-priced fine and coarse aggregates for the asphalt and concrete markets.

Concrete operating earnings of \$6.0 million for fiscal 2001 were even with earnings from the prior year. Sales volume rose 3% this year to 808,000 cubic yards, largely as a result of higher sales in the northern California market. Concrete's average net sales price for fiscal 2001 also rose 3% over last year to \$53.70 per cubic yard.

[Photograph of 1/2 inch  
aggregate]

[Photograph of 3/4 inch  
aggregate]

[Photograph of 1 inch  
aggregate]

Fine and coarse aggregates are used in the production of asphalt and readymix concrete.

## Gypsum Wallboard

Increased Plant  
Capacity for Greater  
Market Share

Our acquisition of the 1.1 billion-square-foot gypsum wallboard plant in Duke, Oklahoma expanded CXP's Gypsum Wallboard production capacity 73% to 2.6 billion square feet, making us the nation's fourth largest gypsum wallboard producer. This new high-capacity plant, which includes a short line railroad and railcars to move the finished product to nearby rail hubs, is the second largest plant of its kind in North America.

CXP's three existing wallboard plants in Bernalillo and Albuquerque, New Mexico and Gypsum, Colorado reported all-time-high operating efficiencies in fiscal 2001 and are among the lowest-cost producers in their respective regions.

Our fiscal 2001 Gypsum Wallboard operating earnings of \$27.1 million were dramatically lower than fiscal 2000's earnings, primarily due to extremely competitive product pricing. A 25% excess in production capacity dropped plant utilization rates industry-wide and CXP's average net pricing declined to \$91.12 per thousand square feet (MSF) this year from \$153.57 per MSF last year. Although this year's sales volume of 1,584 million square feet (MMSF) was 16% higher than the previous year, revenues declined 23% to \$187.3 million.

[Photograph of gypsum wallboard]

Industry-wide, domestic gypsum wallboard consumption was 3% lower in calendar 2000 than 1999's record consumption. When the excess production capacity is absorbed and gypsum wallboard prices stabilize, CXP expects to be in a strong leadership position in this industry.

Our rail distribution system allows us to ship  
to the majority of the continental U.S.

[Photograph of Gypsum Wallboard being loaded onto Railcars]

Gypsum Wallboard

[Photograph of Limestone Storage Building at a Cement Plant]

Cement

## Cement

A Product That's an  
Essential Part of the  
Nation's Infrastructure

CXP has had the highest return on total assets among the publicly traded cement companies for several years. Our plants, located in Texas, Nevada, Wyoming and Illinois, enjoy four distinct regional markets. Our Cement earnings benefit from this geographic diversity.

Fiscal 2001 operating earnings from Cement reached a record \$59.6 million, 12% higher than last year's earnings. With the Wyoming kiln upgrade completed and the new Illinois finish mill online, all of CXP's plants operated at full capacity and were "sold out," resulting in all-time-high Cement production. Fiscal 2001's sales volume of 2.4 million tons was 4% higher than last year's record volume. In addition, we were able to improve our margins 8% for Cement, with an average sales prices of \$67.65 per ton. This represents only a 2% decline from the previous year, despite strong downward pricing pressures from imports in the Houston, Texas market.

Cement is an essential element of both building construction and large-scale infrastructure projects. Because cement demand is more dependent on roads and other infrastructure projects than on the housing market, this industry is somewhat immune to the frequent price fluctuations that can adversely affect other building materials. Federal infrastructure funding is in place for at least the next four years, which should keep cement demand fairly stable.

[Photograph of limestone mining]

Limestone is the basic ingredient in the manufacturing of portland cement.

## Plant Locations

## Major Facilities

## CEMENT PLANTS

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

## GYPSUM WALLBOARD PLANTS

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

## CONCRETE AND AGGREGATES PLANTS

- o Centex Materials LP - Austin, Buda, and Georgetown, Texas
- o Mathews Readymix, Inc. - Marysville, California
- o Western Aggregates, Inc. - Marysville, California

## PAPERBOARD PLANT

- o Republic Paperboard Company LLC - Lawton, Oklahoma

\* 50%-owned with joint-venture partners

[Map of the United States depicting the locations of CXP's facilities]

## Centex Construction Products, Inc. and Subsidiaries

## Financial Information

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## Centex Construction Products, Inc. and Subsidiaries

Statements of  
Consolidated Earnings

(dollars in thousands, except per share data)

	For the Years Ended March 31,		
	2001	2000	1999
<b>REVENUES</b>			
Cement	\$ 178,783	\$ 175,395	\$ 168,534
Gypsum Wallboard	187,347	244,245	170,906
Paperboard	31,492	--	--
Concrete and Aggregates	61,101	55,906	47,278
Other, net	3,673	1,231	1,717
Less: Intersegment Sales	(21,269)	(6,312)	(6,535)
	-----	-----	-----
	441,127	470,465	381,900
<b>COSTS AND EXPENSES</b>			
Cement	119,169	122,390	111,709
Gypsum Wallboard	160,250	136,621	114,336
Paperboard	30,124	--	--
Concrete and Aggregates	53,547	46,643	39,928
Less: Intersegment Purchases	(21,269)	(6,312)	(6,535)
Corporate General & Administrative	4,691	4,683	4,380
Interest Expense (Income), net	2,352	(3,737)	(3,045)
	-----	-----	-----
	348,864	300,288	260,773
<b>EARNINGS BEFORE INCOME TAXES</b>			
	92,263	170,177	121,127
Income Taxes	32,834	61,945	43,838
	-----	-----	-----
<b>NET EARNINGS</b>	\$ 59,429	\$ 108,232	\$ 77,289
	=====	=====	=====
<b>EARNINGS PER SHARE</b>			
Basic	\$ 3.23	\$ 5.66	\$ 3.73
	=====	=====	=====
Diluted	\$ 3.22	\$ 5.63	\$ 3.71
	=====	=====	=====

See notes to consolidated financial statements.



## Centex Construction Products, Inc. and Subsidiaries

Consolidated  
Balance Sheets

(dollars in thousands)

	March 31,	
	2001	2000
<b>ASSETS</b>		
Current Assets -		
Cash and Cash Equivalents	\$ 8,747	\$ 96,170
Accounts and Notes Receivable, net	92,619	54,459
Inventories	56,008	38,582
Total Current Assets	157,374	189,211
Property, Plant and Equipment	781,713	413,933
Less: Accumulated Depreciation	(198,380)	(178,033)
Property, Plant & Equipment, net	583,333	235,900
Notes Receivable, net	1,905	367
Goodwill and Other Intangible Assets	58,422	762
Other Assets	8,926	11,899
	\$ 809,960	\$ 438,139
	=====	=====
<b>CURRENT LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities -		
Accounts Payable	\$ 42,168	\$ 22,348
Accrued Liabilities	47,943	49,112
Current Portion of Long-term Debt	80	80
Income Taxes Payable	--	1,447
Total Current Liabilities	90,191	72,987
Long-term Debt	278,748	320
Deferred Income Taxes	48,701	24,360
Stockholders' Equity -		
Common Stock, Par Value \$0.01; Authorized 50,000,000 Shares; Issued and Outstanding 18,338,762 and 18,571,732 Shares, respectively	183	186
Capital in Excess of Par Value	14,614	20,302
Accumulated Other Comprehensive Earnings	--	(1,789)
Retained Earnings	377,523	321,773
Total Stockholders' Equity	392,320	340,472
	\$ 809,960	\$ 438,139
	=====	=====

See notes to consolidated financial statements.

## Centex Construction Products, Inc. and Subsidiaries

Statements of  
Consolidated Cash Flows

(dollars in thousands)

	For the Years Ended March 31,		
	2001	2000	1999
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Earnings	\$ 59,429	\$ 108,232	\$ 77,289
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities, Net of Effect of Net Assets Acquisition - Depreciation, Depletion and Amortization	24,871	18,589	16,187
Deferred Income Tax Provision	23,377	166	2,909
Asset Disposition Provision	--	--	700
Increase in Accounts and Notes Receivable	(3,223)	(10,970)	(6,252)
Increase in Inventories	(2,805)	(5,552)	(493)
(Decrease) Increase in Accounts Payable and Accrued Liabilities	(5,707)	12,335	5,626
Decrease (Increase) in Other Assets, net	7,485	(5,620)	(3,219)
(Decrease) Increase in Income Taxes Payable	(1,447)	1,447	--
Net Cash Provided by Operating Activities	101,980	118,627	92,747
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of Net Assets	(342,200)	--	--
Property, Plant and Equipment Additions, net	(16,250)	(28,019)	(33,806)
Proceeds from Asset Dispositions	--	1,946	960
Net Cash Used in Investing Activities	(358,450)	(26,073)	(32,846)
<b>Cash Flows from Financing Activities</b>			
Proceeds from Long-term Debt	268,500	--	--
Repayment of Long-term Debt	(80)	(80)	(80)
Redemption of Subordinated Debt	(89,992)	--	--
Dividends Paid to Stockholders	(3,690)	(3,865)	(4,210)
Retirement of Common Stock	(6,198)	(43,233)	(71,861)
Proceeds from Stock Option Exercises	507	1,148	3,806
Net Cash Provided by (Used in) Financing Activities	169,047	(46,030)	(72,345)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(87,423)	46,524	(12,444)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	96,170	49,646	62,090
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 8,747	\$ 96,170	\$ 49,646

See notes to consolidated financial statements.

## Centex Construction Products, Inc. and Subsidiaries

Statements of  
Comprehensive Earnings

(dollars in thousands)

	For the Years Ended March 31,		
	2001	2000	1999
NET EARNINGS	\$ 59,429	\$ 108,232	\$ 77,289
OTHER COMPREHENSIVE EARNINGS BEFORE TAX			
Unrealized Gain (Loss) on Investment in Securities	4,703	(2,753)	--
Reclassification Adjustment	(1,950)	--	--
COMPREHENSIVE EARNINGS BEFORE INCOME TAXES	62,182	105,479	77,289
INCOME TAX RELATED TO OTHER ITEMS OF COMPREHENSIVE EARNINGS	(964)	964	--
COMPREHENSIVE EARNINGS	\$ 61,218	\$ 106,443	\$ 77,289

See notes to consolidated financial statements.

## Centex Construction Products, Inc. and Subsidiaries

Statements of Consolidated  
Stockholders' Equity

(dollars in thousands)

	For the Years Ended March 31,		
	2001	2000	1999
COMMON STOCK			
Balance at Beginning of Period	\$ 186	\$ 197	\$ 215
Retirement of Common Stock	(3)	(11)	(18)
Balance at End of Period	183	186	197
CAPITAL IN EXCESS OF PAR VALUE			
Balance at Beginning of Period	20,302	62,376	130,413
Retirement of Common Stock	(6,195)	(43,222)	(71,843)
Stock Option Exercises	507	1,148	3,806
Balance at End of Period	14,614	20,302	62,376
RETAINED EARNINGS			
Balance at Beginning of Period	321,773	217,347	144,175
Dividends to Stockholders	(3,679)	(3,806)	(4,117)
Net Earnings	59,429	108,232	77,289
Balance at End of Period	377,523	321,773	217,347
ACCUMULATED OTHER COMPREHENSIVE EARNINGS			
Balance at Beginning of Period	(1,789)	--	--
Other Comprehensive Earnings	1,789	(1,789)	--
Balance at End of Period	--	(1,789)	--
TOTAL STOCKHOLDERS' EQUITY	\$ 392,320	\$ 340,472	\$ 279,920

See notes to consolidated financial statements

## Centex Construction Products, Inc. and Subsidiaries

Notes to Consolidated  
Financial Statements

(dollars in thousands, except per share data)

## (A) SIGNIFICANT ACCOUNTING POLICIES

## BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Centex Construction Products, Inc. and its majority-owned subsidiaries ("CXP" or the "Company") after the elimination of all significant intercompany balances and transactions. 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.

## ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable have been shown net of the allowance for doubtful accounts of \$4.6 million and \$4.1 million at March 31, 2001 and 2000, respectively. The Company has no significant credit risk concentration among its diversified customer base.

Notes receivable at March 31, 2001 are collectible primarily over three years. The weighted average interest rate at March 31, 2001 and 2000 was 8.2% and 8.4%, 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,	
	2001	2000
Raw Materials and Materials-in-Progress	\$ 14,741	\$ 13,248
Finished Cement	4,775	5,523
Aggregates	2,686	2,071
Gypsum Wallboard	7,743	1,913
Paperboard	5,394	--
Repair Parts and Supplies	19,789	15,323
Fuel and Coal	880	504
	-----	-----
	\$ 56,008	\$ 38,582
	=====	=====

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Property, plant and equipment acquired in the November 10, 2000 asset purchase were recorded at their fair market values. 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. Raw material deposits are depleted as such deposits are extracted for production utilizing the units-of-production method. Costs and accumulated

## Centex Construction Products, Inc. and Subsidiaries

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

## INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards 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 CXP's common stock. The Company repurchased 264,300 shares at a cost of \$6.2 million in fiscal 2001 and 1,224,600 shares at a cost of \$43.2 million in fiscal 2000. Cumulative shares repurchased at March 31, 2001 were 5,358,130, leaving approximately 743,300 shares remaining under the Company's current authorization. Centex Corporation ("Centex") owned 65.2% of CXP's outstanding common stock at March 31, 2001.

## COMPREHENSIVE EARNINGS

Comprehensive earnings as presented in the accompanying Consolidated Statements of Comprehensive Earnings is defined as the total of net income and 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 gains and losses, net of deferred tax, are excluded from earnings and reported in a separate component of stockholders' equity as "Accumulated Other Comprehensive Earnings".

## 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 below:

	For the Years Ended March 31,		
	2001	2000	1999
Operating Units Selling, G&A	\$ 19,157	\$ 17,625	\$ 14,425
Corporate G&A	4,691	4,683	4,380
	\$ 23,848	\$ 22,308	\$ 18,805
	=====	=====	=====

Maintenance and repair expenses are included in each segment's costs and expenses. The Company incurred expenses of \$36.0 million, \$38.4 million and \$32.0 million in the years ended March 31, 2001, 2000 and 1999, 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, 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, 2001, 2000 and 1999 were \$9.0 million, \$0.1 million and \$0.1 million, respectively.

## Centex Construction Products, Inc. and Subsidiaries

Net payments made for federal and state income taxes during the years ended March 31, 2001, 2000 and 1999 were \$19.7 million, \$57.1 million and \$40.8 million, respectively. Included in the March 31, 1999 payments was a payment to Centex for \$0.16 million made under the tax separation agreement.

Assumption of subordinated notes and other liabilities is a non cash financing activity.

## EARNINGS PER SHARE

The Company computes earnings per share in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share" ("SFAS No. 128"). 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 ("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. Diluted EPS is computed similarly to fully diluted EPS pursuant to APB Opinion No. 15.

Basic earnings per common share is based on the weighted average number of common shares outstanding in 2001, 2000 and 1999 of 18,405,116; 19,130,084 and 20,710,174, 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 18,473,114; 19,211,324 and 20,832,451 in 2001, 2000 and 1999, respectively. Anti-dilutive options to purchase shares of common stock that were excluded from the computation of diluted earnings per share were 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 January 2010.

## 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 the option's exercise price is set at the stock's fair market value on the date the option is granted.

## NEW ACCOUNTING STANDARD

In 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". In 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of SFAS No. 133." In 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of SFAS No. 133." SFAS No. 133, as amended, is effective for the Company as of April 1, 2001. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments and hedging activities and requires an entity to recognize all derivatives in the statement of financial position and measure those instruments at fair value. Changes in the derivative instruments' fair value must be recognized into earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative instrument's gains and losses to offset related results on the hedged item in the income statement, to the extent effective, and requires that a company formally document, designate and assess the effectiveness of transactions that receive hedge accounting. The adoption of SFAS 133, as amended, did not have a significant impact on the Company's financial position or results of operations.

## GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of purchase price over net assets of businesses acquired. Goodwill is amortized over 20 years. The Company monitors its goodwill and other intangibles to determine whether any impairment of these assets has occurred. In making such determination, the Company evaluates the performance, on an undiscounted basis, of the underlying businesses which gave rise to such amounts. In

## Centex Construction Products, Inc. and Subsidiaries

case of impairment, the recorded costs would be written down to fair value on a discounted basis. Goodwill amortization totaled \$1.0 million in fiscal 2001, \$0.1 million in fiscal 2000 and \$0.1 million in fiscal 1999.

Other intangibles are intangibles associated with the November 10, 2000 asset purchase. Other intangibles are amortized over various periods between seven months and 15 years. Other intangibles amortization totaled \$0.2 million in fiscal 2001 and zero in fiscal 2000 and 1999. The balance of other intangibles at March 31, 2001 was \$3.4 million.

## REVENUE RECOGNITION

Revenue from the sale of cement, gypsum wallboard, paperboard, concrete and aggregates is recorded when the products are shipped.

During fiscal 2001, the Company adopted the provisions of the Emerging Issues Task Force Issue No. 00-10, "Accounting for Shipping and Handling Costs" ("EITF 00-10"), 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 have been shown as an offset to shipping costs which are recorded in cost of goods sold in the accompanying Consolidated Statements of Income. 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 income were \$61.9 million, \$51.7 million and \$45.8 million in fiscal 2001, 2000 and 1999, respectively.

In December 1999, the U.S. Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" ("SAB 101"), which summarized certain of the SEC staff's views in applying U.S. generally accepted accounting principles to revenue recognition in financial statements. SAB 101 became effective for the fiscal year ended March 31, 2001, and did not have a material impact on the Company's consolidated financial statements.

## RECLASSIFICATIONS

Certain prior year balances have been reclassified to be consistent with the fiscal 2001 presentation.

## (B) PROPERTY, PLANT AND EQUIPMENT

Cost by major category and accumulated depreciation are summarized below:

	March 31,	
	2001	2000
Land and Quarries	\$ 48,531	\$ 32,303
Plants	683,599	336,729
Buildings, Machinery and Equipment	49,583	44,901
	781,713	413,933
Accumulated Depreciation	(198,380)	(178,033)
	\$ 583,333	\$ 235,900

The Company acquired certain strategic assets with a net book value of \$355.5 million in fiscal 2001 (see Note J). The 50,000 ton-per-year Commerce City (Denver), Colorado paperboard mill was idled on April 23, 2001. Management believes the idled facility was recorded at its net realizable value at the purchase date. At March 31, 2001 the net book value of the idled facility was \$5.0 million. The Company completed two expansion projects during fiscal 2000: (i) an \$18 million expansion of the Eagle gypsum wallboard plant; and (ii) a \$20 million expansion of the 50% owned LaSalle cement plant.



## Centex Construction Products, Inc. and Subsidiaries

## (C) INDEBTEDNESS

## LONG-TERM DEBT

Long-term debt is set forth below:

	March 31,	
	2001	2000
Bank Debt, Due November 2003, Unsecured	\$ 268,500	\$ --
Subordinated Notes, 9 1/2%, due July 2008, Unsecured	10,008	--
Property Note, Interest at 7%, Due March 2005, Secured	320	400
Less: Current Maturities	(80)	(80)
	-----	-----
	\$ 278,748	\$ 320
	=====	=====

The weighted-average interest rates of the bank debt borrowings during fiscal 2001 was 7.8%.

Maturities of long-term debt during the next five fiscal years are: 2002, \$80; 2003, \$80; 2004, \$268,500; 2005, \$80; 2006, zero; thereafter, \$10,008.

## CREDIT FACILITY

On November 10, 2000, the Company's \$35 million unsecured revolving credit facility used to finance its working capital and capital expenditures requirements was cancelled and replaced with a new \$325 million senior revolving credit facility (the "New Credit Facility"). The principal balance amount of the New Credit Facility matures on November 10, 2003. The borrowings under the New Credit Facility are guaranteed by all major operating subsidiaries of the Company. Outstanding principal amounts on the New Credit Facility bear interest at a variable rate equal to, at the election of the Company, (i) LIBOR, plus an agreed upon margin (ranging from 100 to 175 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 1/2% per annum, plus an agreed upon range (from zero to 75 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, minimum tangible net worth, and limitations on dividends and capital expenditures. At March 31, 2001, the Company had \$268,500 outstanding under the New Credit Facility.

Also, on November 10, 2000, a subsidiary of the Company assumed \$100 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 subsidiary, in whole or in part, at any time after July 15, 2003. Upon the assumption of the Notes on November 10, 2000, the subsidiary was required to commence a tender offer for the Notes at 101%. On December 20, 2000, \$89,992 in principal amount of the Notes were tendered, leaving \$10,008 outstanding. Subsequent to March 31, 2001, the Company commenced a cash tender offer to purchase all of the \$10,008 Notes outstanding at a price of 108.75%. The Notes include financial and other covenants of the kind generally included in similar indebtedness. The Company was in compliance with such financial ratios and tests at March 31, 2001, and throughout the fiscal year then ended for both the Notes and the New Credit Facility.

The New Credit Facility has a \$15.0 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, 2001, the Company had \$4.1 million of letters of credit outstanding.

## Centex Construction Products, Inc. and Subsidiaries

## (D) INCOME TAXES

The provision for income taxes includes the following components:

	For the Years Ended March 31,		
	2001	2000	1999
Current Provision			
Federal	\$ 7,423	\$ 56,034	\$ 36,547
State	2,034	5,745	4,382
	9,457	61,779	40,929
Deferred Provision (Benefit)			
Federal	20,900	(1,045)	1,951
State	2,477	1,211	958
	23,377	166	2,909
Provision for Income Taxes	\$ 32,834	\$ 61,945	\$ 43,838

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

	For the Years Ended March 31,		
	2001	2000	1999
Earnings Before Income Taxes	\$ 92,263	\$ 170,177	\$ 121,127
Income Taxes at Statutory Rate	\$ 32,292	\$ 59,562	\$ 42,394
Increases (Decreases) in Tax Resulting from -			
State Income Taxes, net	2,932	4,522	3,469
Statutory Depletion in Excess of Cost	(2,600)	(2,413)	(2,297)
Other	210	274	272
Provision for Income Taxes	\$ 32,834	\$ 61,945	\$ 43,838
Effective Tax Rate	36%	36%	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,		
	2001	2000	1999
Excess Tax Depreciation and Amortization	\$ 32,919	\$ 3,391	\$ 4,347
Bad Debts	(9,364)	(305)	6
Uniform Capitalization	(73)	10	106
Accrual Changes	(317)	(2,971)	(1,259)
Other	212	41	(291)
	\$ 23,377	\$ 166	\$ 2,909

## Centex Construction Products, Inc. and Subsidiaries

Components of deferred income taxes are as follows:

	March 31,	
	2001	2000
Items Giving Rise to Deferred Taxes		
Excess Tax Depreciation and Amortization	\$ 66,207	\$ 33,288
Other	4,399	4,187
	-----	-----
	70,606	37,475
	-----	-----
Items Giving Rise to Prepaid Taxes		
Accrual Changes	(11,433)	(12,080)
Bad Debts	(10,387)	(1,023)
Uniform Capitalization	(85)	(12)
	-----	-----
	(21,905)	(13,115)
	-----	-----
Net Deferred Income Tax Liability	\$ 48,701	\$ 24,360
	=====	=====

The Company anticipates being subject to the alternative minimum tax in fiscal 2001. At March 31, 2001 alternative minimum tax credit carry forwards amount to \$366.

## (E) BUSINESS SEGMENTS

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 are 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, eleven cement distribution terminals, four gypsum wallboard plants, ten gypsum wallboard reload centers, a gypsum wallboard distribution center, two recycled paperboard mills, ten readymix concrete batch plant locations, and three 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 is 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.

## Centex Construction Products, Inc. and Subsidiaries

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

	For the Years Ended March 31,		
	2001	2000	1999
Revenues			
Cement	\$ 178,783	\$ 175,395	\$ 168,534
Gypsum Wallboard	187,347	244,245	170,906
Paperboard	31,492	--	--
Concrete and Aggregates	61,101	55,906	47,278
Other, net	3,673	1,231	1,717
	-----	-----	-----
	462,396	476,777	388,435
Less: Intersegment Sales	(21,269)	(6,312)	(6,535)
	-----	-----	-----
	\$ 441,127	\$ 470,465	\$ 381,900
	=====	=====	=====
Segment Operating Earnings			
Cement	\$ 59,614	\$ 53,005	\$ 56,825
Gypsum Wallboard	27,097	107,624	56,570
Paperboard	1,368	--	--
Concrete and Aggregates	7,554	9,263	7,350
Other, net	3,673	1,231	1,717
	-----	-----	-----
	\$ 99,306	\$ 171,123	\$ 122,462
	=====	=====	=====
Identifiable Assets			
Cement	\$ 145,696	\$ 147,270	\$ 139,183
Gypsum Wallboard	345,679	159,780	143,464
Paperboard	265,789	--	--
Concrete and Aggregates	33,233	30,018	23,634
Corporate and Other	19,563	101,071	58,402
	-----	-----	-----
	\$ 809,960	\$ 438,139	\$ 364,683
	=====	=====	=====
Capital Expenditures			
Cement	\$ 6,199	\$ 10,306	\$ 7,536
Gypsum Wallboard	4,521	10,783	24,204
Paperboard	489	--	--
Concrete and Aggregates	4,859	6,890	2,050
Corporate and Other	182	40	24
	-----	-----	-----
	\$ 16,250	\$ 28,019	\$ 33,814
	=====	=====	=====
Depreciation, Depletion and Amortization			
Cement	\$ 8,219	\$ 8,742	\$ 7,768
Gypsum Wallboard	10,529	7,210	6,005
Paperboard	3,164	--	--
Concrete and Aggregates	2,924	2,465	2,190
Corporate and Other	35	172	224
	-----	-----	-----
	\$ 24,871	\$ 18,589	\$ 16,187
	=====	=====	=====

Segment operating earnings represent revenues less direct operating expenses, segment depreciation, and segment selling, general and administrative expenses. Corporate assets consist primarily of cash and cash equivalents, general office assets and miscellaneous other assets.

## Centex Construction Products, Inc. and Subsidiaries

## (F) COMMITMENTS AND CONTINGENCIES

The Company, in the ordinary course of business, has various litigation, commitments and contingencies. Management believes that none of the litigation in which it or any subsidiary is 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 estimated costs of known and anticipated claims.

The Company has a contract until October, 2015 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 2001, 2000, and 1999 totaled \$2.6 million, \$3.2 million and \$3.1 million, respectively. Minimum annual rental commitments as of March 31, 2001, under noncancelable operating leases are set forth as follows:

Fiscal Year - - - - -	Total -----
2002	\$ 2,571
2003	\$ 2,768
2004	\$ 1,815
2005	\$ 1,392
2006	\$ 861
Thereafter	\$ 1,530
	-----
	\$ 10,937
	=====

## (G) STOCK OPTION PLANS

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

## Centex Construction Products, Inc. and Subsidiaries

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 two plans is presented below.

	For the Years Ended March 31,					
	2001		2000		1999	
	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	803,208	\$ 31.72	528,552	\$ 27.82	362,699	\$ 12.64
Granted	393,500	\$ 22.63	370,000	\$ 35.34	370,000	\$ 36.40
Exercised	(31,330)	\$ 12.79	(51,867)	\$ 14.04	(173,147)	\$ 12.81
Cancelled	(119,369)	\$ 32.55	(43,477)	\$ 36.22	(31,000)	\$ 36.56
Outstanding Options at End of Year	1,046,009	\$ 28.77	803,208	\$ 31.72	528,552	\$ 27.82
Options Exercisable at End of Year	336,994		218,139		183,252	
Weighted Average Fair Value of Options Granted during the Year	\$ 11.50		\$ 18.52		\$ 19.57	

The following table summarizes information about stock options outstanding at March 31, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares Outstanding	Wtd. Avg. Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares Outstanding	Weighted Average Exercise Price
\$12.00 to \$24.06	465,499	7.9 years	\$ 20.18	107,999	\$ 12.03
\$33.31 to \$34.91	292,633	8.0 years	\$ 34.81	79,790	\$ 34.91
\$35.19 to \$39.53	287,877	7.1 years	\$ 36.53	149,205	\$ 36.56
	1,046,009	7.7 years	\$ 28.77	336,994	\$ 28.31

Shares available for future stock option grants were 1,257,099 at March 31, 2001.

The Company has adopted the disclosure-only provisions of SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123") and continues to account for stock-based compensation as it has in the past using the intrinsic value method prescribed in APB Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recognized for the stock option plans. Had compensation cost for options issued under the 1994 Plan been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, pro forma net earnings would have been \$57,445, \$106,917 and \$76,085 for the fiscal years ended March 31, 2001, 2000 and 1999, respectively. Basic and diluted earnings per share for fiscal year ended March 31, 2001 would have been \$3.12 and \$3.11, respectively, for fiscal year ended March 31, 2000 would have been \$5.59 and \$5.57, respectively and for fiscal year ended March 31, 1999 would have been \$3.67 and \$3.65, respectively.

## Centex Construction Products, Inc. and Subsidiaries

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	For the Years Ended March 31,		
	2001	2000	1999
Expected Volatility	32.5%	33.6%	35.3%
Risk-free Interest Rate	6.4%	5.8%	5.8%
Dividend Yield	.9%	.6%	.6%
Expected Life (Years)	10	10	10

## (H) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of the Company's long-term debt of which 96% has floating rate terms has 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 approximates 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 receivables, accounts payable and accrued liabilities approximate their fair values due to the short-term maturities of these assets and liabilities.

## (I) AGREEMENTS WITH CENTEX CORPORATION

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, will provide 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 \$220 in fiscal 2001, \$198 in fiscal 2000 and \$95 in fiscal 1999. In addition, the Company reimburses CSC for its out-of-pocket expenses incurred in connection with the performance of such services.

## Centex Construction Products, Inc. and Subsidiaries

## (J) Acquisitions

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;
- (4) A 50,000 ton-per-year Commerce City (Denver), Colorado paper mill; and
- (5) Three recycled paper fiber collection sites.

Pursuant to the purchase agreement, the Purchasers paid aggregate consideration consisting of (1) \$338,200 in cash, plus (2) the assumption by the subsidiary of \$100,000 of 9.5% senior subordinated notes due in 2008. In exchange for this consideration, the subsidiary acquired the assets described above and a \$24,300 secured note receivable, which is expected to be retired within twelve months from the date of the acquisition.

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 (amortized over a 20-year period) and other intangible assets (amortized over various periods from seven months to 15 years) are as follows:

Cash Consideration Paid		
CXP Cash	\$	150,000
Bank Borrowings		188,200
		-----
		338,200
CXP Transaction Costs		4,000
Subordinated Debt Assumed		100,000
		-----
Total Consideration		442,200
Liabilities Assumed		24,358
		-----
		466,558
Fair Value of Property, Plant, Equipment, Inventory, Receivables and Other Miscellaneous Assets		(407,701)
		-----
Goodwill and Other Intangible Assets	\$	58,857
		=====

The unaudited pro forma results for the fiscal years ended March 31, 2001 and March 31, 2000, assumes that the acquisition was completed on April 1, 1999:

	For the Years Ended March 31,	
	2001	2000
	-----	-----
Revenues	\$ 520,380	\$ 621,884
Net Earnings	\$ 44,975	\$ 121,306
Earnings per Dilutive Share	\$ 2.43	\$ 6.31



## Centex Construction Products, Inc. and Subsidiaries

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, 1999 or of future results of operations of the consolidated entities.

## (K) PENSION AND PROFIT SHARING PLANS

The Company has several defined benefit and defined contribution retirement plans covering substantially all of its employees. Benefits paid under the defined benefit plans 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 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, 2001 and a statement of the funded status as of March 31, 2001 and 2000:

	2001	2000
	-----	-----
Reconciliation of Benefit Obligations		
Benefit Obligation at April 1,	\$ 4,228	\$ 4,539
Service Cost - Benefits Earned During the Period	209	192
Interest Cost on Projected Benefit Obligation	379	306
Actuarial Loss (Gain)	951	(661)
Benefits Paid	(178)	(148)
	-----	-----
Benefit Obligation at March 31,	5,589	4,228
Reconciliation of Fair Value of Plan Assets		
Fair Value of Plan Assets at April 1,	5,872	5,264
Actual Return on Plan Assets	(1,003)	756
Employer Contributions	--	--
Benefits Paid	(178)	(148)
	-----	-----
Fair Value of Plans at March 31,	4,691	5,872
Funded Status		
Funded Status at March 31,	(898)	1,644
Unrecognized Loss (Gain) from Past Experience Different than that Assumed and Effects of Changes in Assumptions	1,229	(663)
Unrecognized Prior-Service Cost	583	107
	-----	-----
Net Amount Recognized (Prepaid Pension Cost Included in Other Assets)	\$ 914	\$ 1,088
	=====	=====

## Centex Construction Products, Inc. and Subsidiaries

Net periodic pension cost for the fiscal years ended March 31, 2001, 2000 and 1999, included the following components:

	For the Years Ended March 31,		
	2001	2000	1999
Service Cost - Benefits Earned During the Period	\$ 209	\$ 192	\$ 200
Interest Cost of Projected Benefit Obligation	379	306	287
Expected Return on Plan Assets	(463)	(401)	(417)
Amortization of Transition Asset	(52)	(53)	(44)
Amortization of Prior-Service Cost	101	54	57
Net Periodic Pension Cost	\$ 174	\$ 98	\$ 83

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:

	2001	2000	1999
Weighted Average Discount Rate	7.5%	7.8%	7.0%
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 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 \$1,514, \$1,369 and \$991, in fiscal years 2001, 2000 and 1999, respectively.

In addition, as a part of the November 2000 asset purchase, the Company agreed to provide former employees of the Seller who became employed by the Company as a result of the November 2000 asset purchase benefits substantially comparable to those provided under 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 \$184 for these employees during fiscal 2001.

## (L) NET INTEREST INCOME/EXPENSE

The following components are included in interest income/expense, net:

	For the Years Ended March 31,	
	2001	2000
Interest (Income)	\$ (6,694)	\$ (3,826)
Interest Expense	8,766	89
Other Expenses	280	0
Interest Expense (Income), net	\$ 2,352	\$ (3,737)

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 and the new bank credit facility and commitment fees based on the unused portion of the new bank credit facility. Other expenses include amortization of debt issue costs and bank credit facility costs.

## Centex Construction Products, Inc. and Subsidiaries

Report of Independent  
Public Accountants

To the Stockholders and Board of Directors of Centex Construction Products,  
Inc.:

We have audited the accompanying consolidated balance sheets of Centex Construction Products, Inc. (a Delaware corporation) and subsidiaries as of March 31, 2001 and 2000, and the related statements of consolidated earnings, comprehensive earnings, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2001. 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 financial position of Centex Construction Products, Inc. and subsidiaries as of March 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Dallas, Texas,  
May 9, 2001

## Centex Construction Products, Inc. and Subsidiaries

Management's Discussion and  
Analysis of Results of Operations  
and Financial Condition

## FISCAL YEAR 2001 COMPARED TO FISCAL YEAR 2000

Although Centex Construction Products, Inc.'s Cement group reported record operating earnings and each of CXP's business segments had higher shipments than last year's shipments, dramatically falling Gypsum Wallboard prices caused net earnings to decline this year after six consecutive fiscal years of record results.

Consolidated. Total net revenues for Fiscal 2001 were \$441.1 million, down 6% from \$470.5 million in Fiscal 2000. Increased sales volume in all business segments offset by falling Gypsum Wallboard sales prices resulted in the revenue decline. Operating earnings of \$99.3 million were down 42% or \$71.8 million from last year mainly due to a \$80.5 million decline in Gypsum Wallboard operating earnings. Other income of \$3.7 million was \$2.4 million greater than last fiscal year mostly due to a \$1.9 million gain from the sale of investment securities the Company owned. Net interest expense was \$2.4 million in Fiscal 2001 compared to net interest income of \$3.7 million in Fiscal 2000. During November 2000, the Company utilized \$150 million of cash, incurred \$188 million of debt and assumed \$100 million of subordinated debt in order to fund the purchase of certain strategic assets. The Company's Fiscal 2001 effective tax rate of 35.6% decreased from 36.4% in Fiscal 2000 due to reduced state taxes. As a result of the foregoing, Fiscal 2001 net earnings of \$59.4 million declined 45% from \$108.2 million in Fiscal 2000. Diluted earnings per share in Fiscal 2001 of \$3.22 were 43% lower than \$5.63 for Fiscal 2000. Diluted earnings per share for Fiscal 2001 decreased less than net earnings due to fewer average shares outstanding in Fiscal 2001.

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	
	2001	2000	2001	2000	2001	2000
Cement (Ton)	2,387	2,295	\$ 67.65	\$ 69.25	\$ 24.98	\$ 23.09
Gypsum Wallboard (MSF)	1,584	1,363	\$ 91.12	\$ 153.57	\$ 17.11	\$ 78.96
Paperboard (Ton)	80	0	\$ 386.32	0	\$ 17.04	0
Concrete (Cubic Yard)	808	788	\$ 53.70	\$ 52.07	\$ 7.38	\$ 7.53
Aggregates (Ton)	4,009	3,368	\$ 4.16	\$ 4.29	\$ 0.40	\$ 0.99

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

Cement. Cement revenues for Fiscal 2001 were \$178.8 million, up 2% over \$175.4 million for the prior fiscal year due to increased sales volume being partially offset by lower average sales prices. Operating earnings of \$59.6 million, an all-time high, increased 12% over \$53.0 million in Fiscal 2000 due to a 4% increase in sales volume and an 8% improvement in operating margins. Sales volume of 2.4 million tons was 92,000 tons higher than last fiscal year's record high sales volume primarily due to favorable weather conditions and a 17% increase in sales volume at the Laramie plant. All plants operated at capacity and were again "sold out". The Company purchased 157,000 tons of cement in Fiscal 2001, down 44% from last fiscal year, to supplement its manufactured cement shipments. U.S. cement consumption of 109 million metric tons in calendar 2000 was a record high. The average net sales price in Fiscal 2001 was \$67.65 per ton, 2% less than \$69.25 per ton last fiscal year due to pressures from imports in the Texas market and softer northern California pricing. Price increases in certain of CXP's Cement markets have been announced, effective April 2001, and are expected to be realized. Operating margins of \$24.98 per ton increased \$1.89 per ton mainly due to a 8% reduction in cost of sales. The cost of sales decrease resulted from a 5% reduction in manufacturing costs and the replacement of 123,000 tons of lower-margin purchased cement sales volume last year with higher-margin manufactured cement sales volume this year. The decrease in manufacturing costs resulted

## Centex Construction Products, Inc. and Subsidiaries

from lower maintenance expenses and a 20% improvement in manufacturing costs at the Laramie plant. Power and fuel costs increased slightly during the last half of Fiscal 2001 and are not expected to significantly impact manufacturing costs in Fiscal 2002.

**Gypsum Wallboard.** Gypsum Wallboard revenues of \$187.3 million for Fiscal 2001 decreased 23% or \$56.9 million from Fiscal 2000. Increased sales volume offset by dramatically lower average sales prices resulted in the revenue decline. Operating earnings from Gypsum Wallboard totaled \$27.1 million in Fiscal 2001, down 75% from \$107.6 million in the prior fiscal year. The earnings decline resulted from increased sales volume being offset by a 78% reduction in operating margins. Fiscal 2001 sales volume of 1,584 million square feet ("MSF") increased 16% over Fiscal 2000 due to sales volume from the Duke, Oklahoma plant acquired in November 2000. Excluding Duke's sales volume, CXP's Fiscal 2001 sales volume was level with last fiscal year's sales volume. U.S. gypsum wallboard consumption of 28 billion square feet in calendar 2000 was down 3% from prior year's record consumption. Lower consumption, along with industry-wide excess production capacity, has dropped average plant utilization rates below 80%. The Company's wallboard plants operated at full capacity prior to the November assets purchase. They are currently operating on a reduced schedule. Correspondently, Gypsum Wallboard average net pricing declined 41% in Fiscal 2001 to \$91.12 per thousand square feet ("MSF") from \$153.57 per MSF in Fiscal 2000. Average net pricing for the March 2001 quarter was \$68.49 per MSF. Operating margins of \$17.11 per MSF in Fiscal 2001 declined \$61.85 per MSF or 78% from prior year's operating margin of \$78.96 per MSF. All of the operating margin decline resulted from lower sales prices. Although gas and power costs increased in the last half of the fiscal year, lower raw materials costs and the cost benefits from higher plant operating efficiencies resulted in Fiscal 2001 cost of sales of \$74.01 per MSF, one percent lower than prior year's cost of sales. Excess production capacity has resulted in lower plant utilization rates. This, along with higher natural gas costs, are expected to negatively impact production costs in Fiscal 2002.

**Paperboard.** In November 2000, the Company acquired two recycled paperboard mills and three recycled paper collection centers. Paperboard reported Fiscal 2001 operating earnings of \$1.4 million. Paperboard revenues for Fiscal 2001 were \$31.5 million at an average net sales price of \$386.32 per ton. Sales prices were negatively impacted by a high percentage to total sales of lower-priced, off-grade Lawton paper sales. The off-grade paper sales volume is higher than normal as the new Lawton, Oklahoma mill completes its start-up. Sales volume for Fiscal 2001 was 80,000 tons. Although Paperboard cost of sales are negatively impacted by higher gas costs, manufacturing costs are expected to decline when the Lawton mill reaches rated production capacity. Operating earnings of \$171,000 from the recycled paper collection centers is reported in other income. During April 2001, the Company idled the Denver mill and transferred Denver's production to the new Lawton mill. The additional production volume should allow the more efficient Lawton mill to run at a higher plant utilization rate.

**Concrete and Aggregates.** Revenues from Concrete and Aggregates in Fiscal 2001 were \$61.1 million, up 9% over \$55.9 million in Fiscal 2000. The revenue gain resulted from increased Concrete and Aggregates sales volume along with higher Concrete sales prices. Fiscal 2001 segment operating earnings of \$7.6 million declined 18% from \$9.3 million in Fiscal 2000 mostly due to a 60% reduction in Aggregates operating margins. Concrete operating earnings of \$6.0 million in Fiscal 2001 were level with prior fiscal year's operating earnings. Concrete sales volume of 808,000 cubic yards in Fiscal 2001 increased 3% over Fiscal 2000 due to a 12% sales volume gain at the northern California operation. Fiscal 2001 Concrete net sales price of \$53.70 per cubic yard was 3% higher than prior fiscal year's sales price. Cost of sales in Fiscal 2001 was \$46.32 per cubic yard, 4% higher than Fiscal 2000 as result of increased materials and maintenance costs. Aggregates operating earnings of \$1.6 million in Fiscal 2001 declined 52% from Fiscal 2000 operating earnings mostly due to a \$0.59 per ton decrease in operating margins. Fiscal 2001 Aggregates sales volume of 4,009,000 tons was 19% higher than Fiscal 2000 sales volume due to 602,000 tons of additional sales volume from the new Georgetown road aggregates operation. The average Fiscal 2001 Aggregates net sales price was \$4.16 per ton, 3% below Fiscal 2000 due to the impact on total net pricing of the lower priced Georgetown sales volume. Cost of sales of \$3.76 per ton in Fiscal 2001 was 14% greater than in Fiscal 2000 due to higher major maintenance and power costs.

## Centex Construction Products, Inc. and Subsidiaries

Net Interest Expense. Net interest expense in Fiscal 2001 was \$2.4 million compared to \$3.7 million of net interest income in Fiscal 2000. During November 2000, the Company utilized \$150.0 million of cash on hand, incurred \$188.0 million of debt and assumed \$100.00 million of subordinated debt to purchase certain strategic assets. During Fiscal 2001, interest expense of \$9.0 million was partially offset by \$6.7 million of interest income from invested excess cash prior to the November 2000 assets purchase.

Other Income. Fiscal 2001 other income of \$3.7 million increased \$2.4 million over Fiscal 2000 mostly due to a \$1.9 million gain on the disposition of investment securities owned by the Company.

## FISCAL YEAR 2000 COMPARED TO FISCAL YEAR 1999

Record results from its Gypsum Wallboard and Concrete and Aggregates business segments resulted in Centex Construction Products, Inc. reporting the highest revenues, net earnings and earnings per share in its history for the fiscal year ending March 31, 2000, the sixth consecutive fiscal year of record results.

Consolidated. Consolidated net revenues for Fiscal 2000 totaled \$470.5 million, a 23% gain over \$381.9 million in Fiscal 1999. Increased sales volume and higher average net sales prices in all business segments generated the revenue gain. Benefitting from increased operating margins in each of its product lines, except Cement, operating earnings of \$171.1 million improved 40% over Fiscal 1999 operating earnings of \$122.5 million. Corporate overhead of \$4.7 million increased 7% over Fiscal 1999 mainly due to additional incentive compensation. Higher invested cash balances resulted in \$3.7 million of net interest income in Fiscal 2000, versus \$3.0 million in Fiscal 1999. The Company's effective Fiscal 2000 tax rate of 36.4% increased from 36.2% in Fiscal 1999 due to higher state income taxes. As a result of the foregoing, Fiscal 2000 net earnings of \$108.2 million increased 40% over \$77.3 million in Fiscal 1999. Diluted Fiscal 2000 earnings per share of \$5.63 were 52% greater than \$3.71 for Fiscal 1999. Diluted earnings per share for Fiscal 2000 increased more than net earnings due to fewer average shares outstanding in Fiscal 2000.

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

	Cement (Ton)		Gypsum Wallboard (MSF)		Concrete (Cubic Yard)		Aggregates (Ton)		Paperboard (Ton)	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
Sales Volume (Thousands)	2,295	2,218	1,363	1,155	788	706	3,368	2,916	--	--
Average Net Sales Price(1)	\$ 69.25	\$ 68.75	\$153.67	\$122.55	\$ 52.07	\$ 49.78	\$ 4.29	\$ 4.02	--	--
Operating Margin	\$ 23.09	\$ 25.62	\$ 78.96	\$ 48.97	\$ 7.53	\$ 7.08	\$ 0.99	\$ 0.81	--	--

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

Cement. Cement revenues of \$175.4 million for Fiscal 2000 were 4% higher than \$168.5 million for the prior fiscal year due to increased sales volume and slightly higher average sales price. Operating earnings fell 7% to \$53.0 million from \$56.8 million in Fiscal 1999 due to a 3% increase in sales volume that was more than offset by a 7% increase in cost of sales. Sales volume of 2.3 million tons was 77,000 tons higher than last fiscal year's record high sales volume primarily due to favorable weather conditions in all markets and increased purchased cement sales volume. All plants operated at capacity and were again "sold out". The Company purchased 281,000 tons of cement in Fiscal 2000, up 85% from last fiscal year, to supplement its manufactured cement shipments. Although U.S. cement consumption was at a record high, average net pricing of \$69.25 per ton increased only \$0.50 per ton over \$68.75 per ton in Fiscal 1999. Cement pricing in the Texas and northern California markets softened due to additional cement imports and competitors' efforts to increase market share. Operating margins declined \$2.53 per ton mainly due to increased cost of sales. The cost of sales increase resulted from the Laramie plant having one of its kilns down 35 days for a major rebuild and the increased percentage this year of higher costing purchased cement sales to total sales.

Gypsum Wallboard. Gypsum Wallboard revenues of \$244.2 million for Fiscal 2000 increased 43% over Fiscal 1999 revenues of \$170.9 million due to increased sales volume and higher average sales prices. Segment operating earnings totaled \$107.6 million for Fiscal 2000, a 90% increase over \$56.6 million for

## Centex Construction Products, Inc. and Subsidiaries

Fiscal 1999. The operating earnings gain resulted from higher sales volume and a 61% improvement in operating margins. Gypsum Wallboard Fiscal 2000 sales volume of 1,363 million square feet ("MMSF") increased 18% over Fiscal 1999 due to higher utilization rates at all three plants and increased production capacity at the Albuquerque and Eagle plants. The Company's plants operated at capacity during the fiscal year. The operating margin gain resulted from higher average sales prices being partially offset by increased cost of sales. Gypsum Wallboard Fiscal 2000 average sales prices of \$153.57 per thousand square feet ("MSF") increased 25% over \$122.55 per MSF in Fiscal 1999 as a result of record high industry consumption. Although Gypsum Wallboard prices peaked during October 1999, demand softened during December 1999 and January 2000. This, along with new industry capacity coming on line, lowered the Company's average Gypsum Wallboard sales prices to \$145.00 per MSF for the March 2000 quarter. Although the Eagle plant was down for a period of time early in the fiscal year to tie-in the plant upgrade project, unit cost of sales increased only one percent in Fiscal 2000 to \$74.61 per MSF.

Concrete and Aggregates. Revenues from Concrete and Aggregates were \$55.9 million, up 18% from \$47.3 million in Fiscal 1999. The revenue gain resulted from increased sales volume and higher average sales prices. Segment operating earnings of \$9.3 million in Fiscal 2000 increased 26% from \$7.4 million in the prior fiscal year. Increased sales volume and higher operating margins generated the operating earnings gain. Concrete operating earnings of \$5.9 million in Fiscal 2000 were 19% greater than last fiscal year's earnings due to increased operating margins and higher sales volume. The operating margin gain resulted from a 5% increase in average Concrete sale prices being partially offset by higher materials and operating costs. Concrete sales volume of 788,000 cubic yards in Fiscal 2000 increased 12% over Fiscal 1999 due to strong demand in the Austin, Texas market. Aggregates operating earnings of \$3.3 million for Fiscal 2000 increased 41% over Fiscal 1999 operating earnings of \$2.4 million due to increased sales volume and higher operating margins. Aggregates sales volume of 3.4 million tons increased 16% over Fiscal 1999 sales volume mainly due to strong California sales volume. Product mix and higher net sales prices raised the Aggregates net sale price to \$4.29 per ton, an increase of 7% over \$4.02 per ton for last year. Operating margins increased 22% over the prior fiscal year to \$0.99 per ton due to higher net sales prices being partially offset by increased cost of sales, primarily from product mix and higher administrative expenses.

Corporate Overhead. Corporate Overhead of \$4.7 million increased \$303,000 over last fiscal year due to additional corporate personnel and higher incentive compensation.

Interest Income. Net interest income of \$3.7 million for Fiscal 2000 increased \$692,000 over last fiscal year due to higher average invested cash balances during Fiscal 2000.

## LIQUIDITY AND CAPITAL RESOURCES

On November 10, 2000 the Company's \$35 million unsecured revolving credit facility used to finance its working capital and capital expenditures requirements was cancelled and replaced with a new \$325 million senior revolving credit facility (the "New Credit Facility"). The principal balance amount of the New Credit Facility matures on November 10, 2003. At March 31, 2001, the Company had \$268,500,000 outstanding under the New Credit Facility. Borrowings under the New Credit Facility were utilized to purchase certain strategic assets on November 10, 2000. The borrowings under the New Credit Facility are guaranteed by all major operating subsidiaries of the Company. Outstanding principal amounts on the New Credit Facility bear interest at a variable rate equal to, at the election of the Company, (i) LIBOR, plus an agreed upon margin (ranging from 100 to 175 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 1/2% per annum, plus an agreed upon range (from zero to 75 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, minimum tangible net worth, and limitations on dividends and capital expenditures. Also, on November 10, 2000, a subsidiary of the Company assumed \$100 million of 9.5% senior

## Centex Construction Products, Inc. and Subsidiaries

subordinated notes (the "Notes") of the seller 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 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 subsidiary was required to commence a tender offer for the Notes at 101%. On December 20, 2000, \$89,992,000 in principal amount of the Notes were tendered, leaving \$10,008,000 outstanding. The Notes include financial and other covenants of the kind generally included in similar indebtedness. The Company was in compliance with such financial and other covenants at March 31, 2001 and throughout the Fiscal year for both the Notes and New Credit Facility.

Based on its financial condition at March 31, 2001, the Company believes that its internally generated cash flow coupled with funds available under the new credit facility will enable the Company to provide adequately for its current operations and future growth.

Working capital at March 31, 2001 was \$67.2 million as compared to \$116.2 million at March 31, 2000. The decline resulted mainly from a \$87.4 million decrease in cash and a \$18.7 million increase in accounts payable and accrued liabilities partially offset by a \$55.6 million increase in accounts and notes receivable and inventories.

Cash and cash equivalents decreased \$87.4 million from March 31, 2000 to \$8.7 million at March 31, 2001. The net cash used in or provided by the operating, investing, and financing activities for Fiscal 2001 and 2000 is summarized as follows.

	For the Years Ended March 31,	
	2001	2000
	(dollars in thousands)	
Net Cash (Used In) Provided by:		
Operating Activities	\$ 101,980	\$ 118,627
Investing Activities	(358,450)	(26,073)
Financing Activities	169,047	(46,030)
Net (Decrease) Increase in Cash	\$ (87,423)	\$ 46,524
	=====	=====

Cash provided by operating activities of \$102.0 million for Fiscal 2001 decreased \$16.6 million from Fiscal 2000 due to the combination of a \$48.8 million reduction in net earnings, a \$2.4 million change in net working capital, \$6.3 million additional depreciation and a \$23.4 million increase in deferred income taxes. Cash used for investing activities increased by \$332.3 million over last fiscal year due to the \$342.2 million in strategic assets purchased this year partially offset by a \$11.8 million decline in capital expenditures. Capital expenditures of \$16.3 million for Fiscal 2001 declined from \$28.0 million for the prior fiscal year as a result of the completion last year of the Eagle gypsum wallboard and Illinois cement plant expansion projects. Planned capital expenditures for Fiscal 2002 are approximately \$40 million. Major planned capital expenditures include the Georgetown aggregates plant expansion (\$13 million) and projects related to the Duke, Oklahoma gypsum wallboard plant and Lawton, Oklahoma paperboard mill acquired in November 2000 (\$15 million). Cash provided by financing activities for Fiscal 2001 increased \$215.1 million from last fiscal year due to a \$37.0 million decrease in the amount of stock repurchased this fiscal year and a \$178.4 increase in long-term debt.

## STOCK REPURCHASE PROGRAM

During Fiscal 2001 the Company's Board of directors approved the repurchase of 412,800 additional shares of the Company's common stock. A cumulative total of 6,101,430 shares have been authorized for repurchase since the Company became publicly held in April 1994. The Company repurchased from the public 264,300 shares during Fiscal 2001. As a consequence of such stock repurchases, Centex Corporation now owns approximately 65.2% of the outstanding shares of the Company's common stock. There are approximately 743,300 shares remaining under the Company's current repurchase authorization.



## Centex Construction Products, Inc. and Subsidiaries

## PURCHASE OF STRATEGIC ASSETS

On November 10, 2000 the Company acquired selected strategic assets. The purchase price was \$442 million (which included the assumption by a subsidiary of \$100 million of subordinated debt plus accrued interest). Funding came from cash on hand and borrowings under a new \$325 million senior credit facility entered into during November 2000.

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; a recently completed 220,000 ton-per-year lightweight recycled paperboard mill in Lawton, Oklahoma; a 50,000 ton-per-year Commerce City (Denver), Colorado recycled paperboard mill; and three recycled paper fiber collection sites. The gypsum wallboard operations will be operated by CXP's American Gypsum Company located in Albuquerque, New Mexico. The paperboard operations will be located in Lawton, Oklahoma and will focus primarily on the gypsum 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 3.4% in calendar 2000, 2.7% in 1999, and 1.6% in 1998. 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 impact of inflation on income from operations for Fiscal 2001 has been a factor along with decreasing Gypsum Wallboard sales prices due to industry over capacity. These factors resulted in lower per unit profit margins for the Company's Gypsum Wallboard operations.

## GENERAL OUTLOOK

Demand for the Company's products remains steady and Cement price increases have been announced effective April 2001 in certain of CXP's markets. Gypsum Wallboard prices fell dramatically during the past year, mainly due to excessive new production capacity coming on stream, but as of April 2001, Gypsum Wallboard pricing appears to have stabilized in certain markets. The Company's earnings from Gypsum Wallboard, Cement, Paperboard and Aggregates continue to be negatively impacted by higher fuel and power costs.

The Company will report lower earnings for Fiscal 2002 than it did for Fiscal 2001. However, the Company's earnings for Fiscal 2002 will be enhanced if Gypsum Wallboard prices increase from current levels.

## FORWARD-LOOKING STATEMENTS

Certain sections of this Management's Discussion and Analysis of Financial Condition and Results of Operations 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, the cyclical and seasonal nature of the Company's business, public infrastructure expenditures, adverse weather, availability of raw materials, unexpected operational difficulties, governmental regulation and changes in governmental and public policy, changes in economic conditions specific to any one or more of the Company's markets, competition, announced increases in capacity in the gypsum wallboard, paperboard, and cement industries, general economic conditions, and interest rates. Investors should take such risks and uncertainties into account when making investment decisions.

## Centex Construction Products, Inc. and Subsidiaries

Summary of Selected  
Financial Data

(dollars in thousands, except per share data)

(unaudited)

	For the Years Ended March 31,		
	2001	2000	1999
Revenues(1)	\$ 441,127	\$ 470,465	\$ 381,900
Net Earnings	\$ 59,429	\$ 108,232	\$ 77,289
Total Assets	\$ 809,960	\$ 438,139	\$ 364,683
Total Long-term Debt	\$ 278,828	\$ 400	\$ 480
Total Debt	\$ 278,828	\$ 400	\$ 480
Deferred Income Taxes	\$ 48,701	\$ 24,360	\$ 25,158
Stockholders' Equity	\$ 392,320	\$ 340,472	\$ 279,920
Total Debt as a Percent of Total Capitalization (Total Debt, Deferred Income Taxes and Stockholders' Equity)	38.7%	0.1%	0.2%
Net Earnings as a Percent of Beginning Stockholders' Equity	17.5%	38.7%	28.1%
Per Common Share -			
Diluted Net Earnings(2)	\$ 3.22	\$ 5.63	\$ 3.71
Cash Dividends(3)	\$ 0.20	\$ 0.20	\$ 0.20
Book Value Based on Shares Outstanding at Year End(2)	\$ 21.40	\$ 18.33	\$ 14.18
Stock Prices(2) -			
High	\$ 33.50	\$ 41.81	\$ 45.13
Low	\$ 21.75	\$ 22.63	\$ 31.25

(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.

## Centex Construction Products, Inc. and Subsidiaries

	For the Years Ended March 31,						
	1998	1997	1996	1995	1994	1993	1992
Revenues(1)	\$ 344,264	\$ 278,144	\$ 258,637	\$ 222,672	\$ 193,038	\$ 158,912	\$ 150,702
Net Earnings	\$ 56,533	\$ 41,799	\$ 33,944	\$ 21,820	\$ 10,240	\$ 3,112	\$ 713
Total Assets	\$ 351,112	\$ 305,637	\$ 269,575	\$ 250,103	\$ 257,315	\$ 258,994	\$ 267,303
Total Long-term Debt	\$ 560	\$ 640	\$ 720	\$ 24,500	\$ 15,585	\$ 34,519	\$ 37,713
Total Debt	\$ 560	\$ 2,640	\$ 720	\$ 24,500	\$ 16,200	\$ 38,943	\$ 49,308
Deferred Income Taxes	\$ 22,250	\$ 18,835	\$ 14,344	\$ 6,705	\$ 37,925	\$ 36,224	\$ 35,881
Stockholders' Equity	\$ 274,803	\$ 239,436	\$ 216,462	\$ 183,405	\$ 170,839	\$ 160,599	\$ 157,487
Total Debt as a Percent of Total Capitalization (Total Debt, Deferred Income Taxes and Stockholders' Equity)	0.2%	1.0%	0.3%	11.4%	7.2%	16.5%	20.3%
Net Earnings as a Percent of Beginning Stockholders' Equity	23.6%	19.3%	18.5%	12.8%	6.4%	2.0%	0.5%
Per Common Share -							
Diluted Net Earnings(2)	\$ 2.56	\$ 1.89	\$ 1.47	\$ 0.95	\$ 0.45	\$ 0.14	\$ 0.03
Cash Dividends(3)	\$ 0.20	\$ 0.20	\$ 0.05	--	--	--	--
Book Value Based on Shares Outstanding at Year End(2)	\$ 12.77	\$ 10.89	\$ 9.42	\$ 7.99	\$ 7.43	\$ 6.98	\$ 6.85
Stock Prices(2) -							
High	\$ 39.00	\$ 20.00	\$ 15.50	\$ 14.38	--	--	--
Low	\$ 18.00	\$ 12.50	\$ 11.38	\$ 8.88	--	--	--

## Centex Construction Products, Inc. and Subsidiaries

## Quarterly Results

(dollars in thousands, except per share data)

(unaudited)

	March 31,	
	2001	2000
<b>FIRST QUARTER</b>		
Revenues	\$ 115,065	\$ 108,749
Earnings Before Income Taxes	\$ 36,619	\$ 35,669
Net Earnings	\$ 23,290	\$ 22,757
Diluted Earnings Per Share	\$ 1.25	\$ 1.16
<b>SECOND QUARTER</b>		
Revenues	\$ 114,876	\$ 131,453
Earnings Before Income Taxes	\$ 32,942	\$ 52,288
Net Earnings	\$ 20,951	\$ 33,184
Diluted Earnings Per Share	\$ 1.14	\$ 1.71
<b>THIRD QUARTER</b>		
Revenues	\$ 105,295	\$ 121,154
Earnings Before Income Taxes	\$ 18,139	\$ 45,745
Net Earnings	\$ 11,536	\$ 29,094
Diluted Earnings Per Share	\$ 0.63	\$ 1.52
<b>FOURTH QUARTER</b>		
Revenues	\$ 105,891	\$ 109,109
Earnings Before Income Taxes	\$ 4,563	\$ 36,475
Net Earnings	\$ 3,652	\$ 23,197
Diluted Earnings Per Share	\$ 0.20	\$ 1.24

## Centex Construction Products, Inc. and Subsidiaries

BOARD OF DIRECTORS Robert L. Clarke(2,3) Partner Bracewell & Patterson, L.L.P.	CENTEX CONSTRUCTION PRODUCTS, INC. Richard D. Jones, Jr. President and Chief Executive Officer	AMERICAN GYPSUM COMPANY H.D. House President	NEVADA CEMENT COMPANY Bruce E. Ballinger President
Timothy R. Eller Chairman and Chief Executive Officer, Centex Homes and Executive Vice President, Centex Corporation	H.D. House Executive Vice President-- Gypsum/Paperboard	Kerry G. Gannaway Vice President	John R. Bremner Vice President
Laurence E. Hirsch(1) Chairman and Chief Executive Officer, Centex Corporation	Steven R. Rowley Executive Vice President-- Cement/Concrete and Aggregates	Geoff W. Gray Vice President	Gary J. Roma Vice President
Richard D. Jones, Jr.(1) President and Chief Executive Officer	Arthur R. Zunker, Jr. Senior Vice President--Finance, Treasurer and Chief Financial Officer	Keith W. Metcalf Vice President	Nicholas Stiren Vice President
Michael R. Nicolais (2,3) Partner Olivhan Investments, L.P.	David A. Greenblatt Senior Vice President-- Mergers and Acquisitions	CENTEX MATERIALS LP Mark J. Hamilton Vice President	REPUBLIC PAPERBOARD COMPANY LLC H.D. House President
David W. Quinn (1) Vice Chairman, Centex Corporation	James H. Graass Senior Vice President and Legal Counsel	J. David Loftis Vice President	John Fortunato Vice President
Harold K. Work (2,3) Chairman, Elcor Corporation	Rodney E. Cummickel Vice President	ILLINOIS CEMENT COMPANY Wayne W. Emmer President	TEXAS-LEHIGH CEMENT COMPANY LP Gerald J. Essl President
(Numbers in parentheses indicate Board Committees)	Hubert L. Smith, Jr. Vice President	Thomas F. Clarke Vice President	R. Lee Hunter Vice President
(1) Executive Committee		Frank P. Koeppel Vice President	Larry E. Roberson Vice President
(2) Compensation and Stock Option Committee		MATHEWS READYMIX, INC. Craig J. Callaway President	WESTERN AGGREGATES, INC. Craig J. Callaway President
(3) Audit Committee		James D. Elliott Vice President	James D. Elliott Vice President
		MOUNTAIN CEMENT COMPANY Bruce E. Ballinger President	
		John Arellano Vice President	

## Centex Construction Products, Inc. and Subsidiaries

## CORPORATE HEADQUARTERS

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

## TRANSFER AGENT AND REGISTRAR

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

## STOCK LISTINGS

New York Stock Exchange  
Ticker Symbol "CXP"

## ANNUAL MEETING

The Annual Meeting of Stockholders of Centex Construction Products, Inc. will be held on Tuesday, July 17, 2001 at 10:00 a.m. in the Red Oak Room at the Sheraton Suites Market Center, 2101 Stemmons Freeway, Dallas, Texas.

## STOCKHOLDER INQUIRIES

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

## FORM 10-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.

[CXP's corporate logo]

The following is a list of subsidiaries of Centex Construction Products, Inc., wholly-owned unless otherwise stated. This list of subsidiaries includes all of the significant subsidiaries of Centex Construction Products, Inc. as of May 31, 2001.

Entity Name -----	Jurisdiction of Organization -----
AMERICAN GYPSUM COMPANY	Delaware
AMERICAN GYPSUM MARKETING COMPANY d/b/a American Gypsum Marketing Company, Inc.	Delaware
BP SAND & GRAVEL, INC.	Delaware
CENTEX CEMENT CORPORATION	Nevada
CENTEX MATERIALS GP LTD, LLC	Delaware
CENTEX MATERIALS LP LTD, LLC d/b/a Centex Materials, LLC	Delaware
CENTEX MATERIALS, LP	Texas
CCP CEMENT COMPANY	Nevada
CCP CONCRETE/AGGREGATES COMPANY	Nevada
CCP GYPSUM COMPANY	Nevada
CCP LAND COMPANY	Nevada
HOLLIS & EASTERN RAILROAD COMPANY LLC	Delaware
ILLINOIS CEMENT COMPANY	Illinois
ILLINOIS CEMENT COMPANY, JOINT VENTURE	Texas
LAPORTE MINERALS LLC	Delaware
M & W DRYWALL SUPPLY COMPANY	Nevada
MATHEWS READYMIX, INC.	California
MOUNTAIN CEMENT COMPANY	Nevada
NEVADA CEMENT COMPANY	Nevada
REPUBLIC FIBER COMPANY LLC	Delaware

50%  
50%



EXHIBIT 21

REPUBLIC GYPSUM COMPANY, LP		Delaware
REPUBLIC GYPSUM HOLDING LLC		Delaware
REPUBLIC GYPSUM OPERATING LLC		Delaware
REPUBLIC HOLDING CORPORATION		Nevada
REPUBLIC PAPERBOARD COMPANY LLC		Delaware
REPUBLIC RESOURCE CONTROL LLC		Delaware
TEXAS CEMENT COMPANY		Nevada
TEXAS LEHIGH CEMENT COMPANY LP	50%	Texas
d/b/a Texas Lehigh Cement		
TLCC GP LLC		Delaware
TLCC LP LLC		Delaware
WESTERN AGGREGATES, INC.		Nevada
d/b/a Centex Western Aggregates		
WESTERN CEMENT COMPANY OF CALIFORNIA		California
WISCONSIN CEMENT COMPANY	50%	Wisconsin

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference in this Form 10-K of our report dated May 9, 2001, included in the Centex Construction Products, Inc. (the "Company") annual report to stockholders. We also hereby consent to the incorporation by reference of our report dated May 9, 2001, into the Company's previously filed registration statements on Form S-8 (No. 33-82820; No. 33-82928; No. 33-84394; and No. 333-54102) and to all references to our firm included in these registration statements.

ARTHUR ANDERSEN LLP

Dallas, Texas  
June 26, 2001