

BUILDING MATERIALS
FOR THE LIVES WE LEAD



2001 ANNUAL REPORT

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BUILDING MATERIALS FOR THE LIVES WE LEAD:



COMPANY PROFILE

TXI is a leading supplier of building materials, primarily cement and structural steel.

The Company's principal cement markets are Texas and California, the two largest cement markets in the United States as well as the two states receiving the largest increases in highway funding under the federal transportation act. TXI is the largest cement producer in Texas.

In structural steel, the Company is the second largest supplier in North America, providing material to nonresidential markets throughout the continent.

Our strategy focuses on achieving leadership positions in desirable markets while maintaining a low-cost profile. The innovation of new products and processes, particularly in the area of recycling, is key in maintaining and enhancing TXI's competitive strengths.

AT HOME

TXI provides the materials that make our homes.

Whether it's the concrete for a foundation, the beam that provides the frame for a manufactured home, or the pre-mix that helps build the backyard barbecue,

our products are there. Our cement, aggregate and concrete operations are focused in Texas and California, where the outlook for population growth and new home construction is excellent.

In fact, TXI is the largest supplier of cement in Texas and we entered the California market just three years ago.



TO OUR SHAREHOLDERS

Fiscal 2001 was a poor earnings year. Increased energy costs and a wave of dumped structural steel imports combined to drastically lower net income. Record rainfall in the winter didn't help, either.

In spite of these difficult external forces, we continued to build toward our vision of becoming a larger, more efficient supplier of building materials with the successful completion of our cement expansion in North Texas.

The Texas cement project and our Virginia steel plant are key parts of our strategy for enhancing the Company's competitive position in very desirable markets. With both now in place, we have moved closer to realizing the earnings potential of a larger, better TXI for our shareholders.

OUR VISION

Our vision for TXI remains in place - a leading, growing building materials supplier in desirable markets. Our primary focus is to provide superior service for building applications that use cement and structural steel. Ninety percent of everything we sell goes into construction.



BOB ROGERS,
President and CEO

We are in very desirable markets. Cement, aggregate and concrete operations are centered in Texas and California, the two largest cement markets in the nation. These are also the two states receiving the largest increases in federal highway spending dollars. The market for structural steel extends throughout North America and is primarily supplied by two major domestic players.

We strive for leadership in the markets we choose to serve. In Texas, TXI is the largest supplier of cement; in California, we are an important player. We are also the second largest supplier of structural steel products and have the capacity to supply about one-third of the North American market for wide flange beams.

Being a market leader in our businesses also means maintaining a low-cost profile. The expansions in steel and cement not only increase production, they also enhance overall production efficiencies. In fact, continuous cost improvement in all operations is a requirement.

Realizing our vision will bring profitable growth for the Company and above average returns for shareholders. Short-term external events have only hindered, but not blocked, our path to that goal.

2001 – A SLIP BUT NOT A FALL

Fiscal 2001 saw operating profit in both business segments decline from the previous year. Residential and commercial construction activity remained solid in our markets, while highway contract awards began to increase during the year. However, the outside factors already mentioned depressed both shipments and margins throughout the Company.

Cement, aggregate and concrete (CAC) operating profit fell from \$170 million last year to \$135 million in 2001. Unfavorable weather during the fall and winter delayed construction projects in both Texas and California and, as a result, hindered shipments of building materials until spring. As the fiscal year closed, however, pent-up demand caused by the weather and continued strength in new

construction combined to create strong levels of shipments. Rising energy costs pared margins in all operations but, as might be expected, the market began to adjust with announced price increases late in the year.

Steel generated an operating loss of \$23 million for the year. Early in the year, dumped structural steel imports captured market share from domestic producers. Due to the oversupply of product, realized structural prices declined as the year progressed. As in CAC operations, increased energy costs reduced margins in steel. And like the CAC operations, steel margins should recover as the market adjusts to higher energy costs.

At year-end, conditions were in place for the beginning of a recovery in steel. Structural steel import volumes were down dramatically. Excess inventories in TXI's operations had been worked down during the final quarter, and customer inventories declined as well. As a result, structural steel order and shipment rates for TXI's operations are rising. The announced closure of a domestic producer late in the fiscal year, combined with the reduction of imported product, should restore the supply – demand balance for structural steel in North America as we move into 2002.



AT WORK

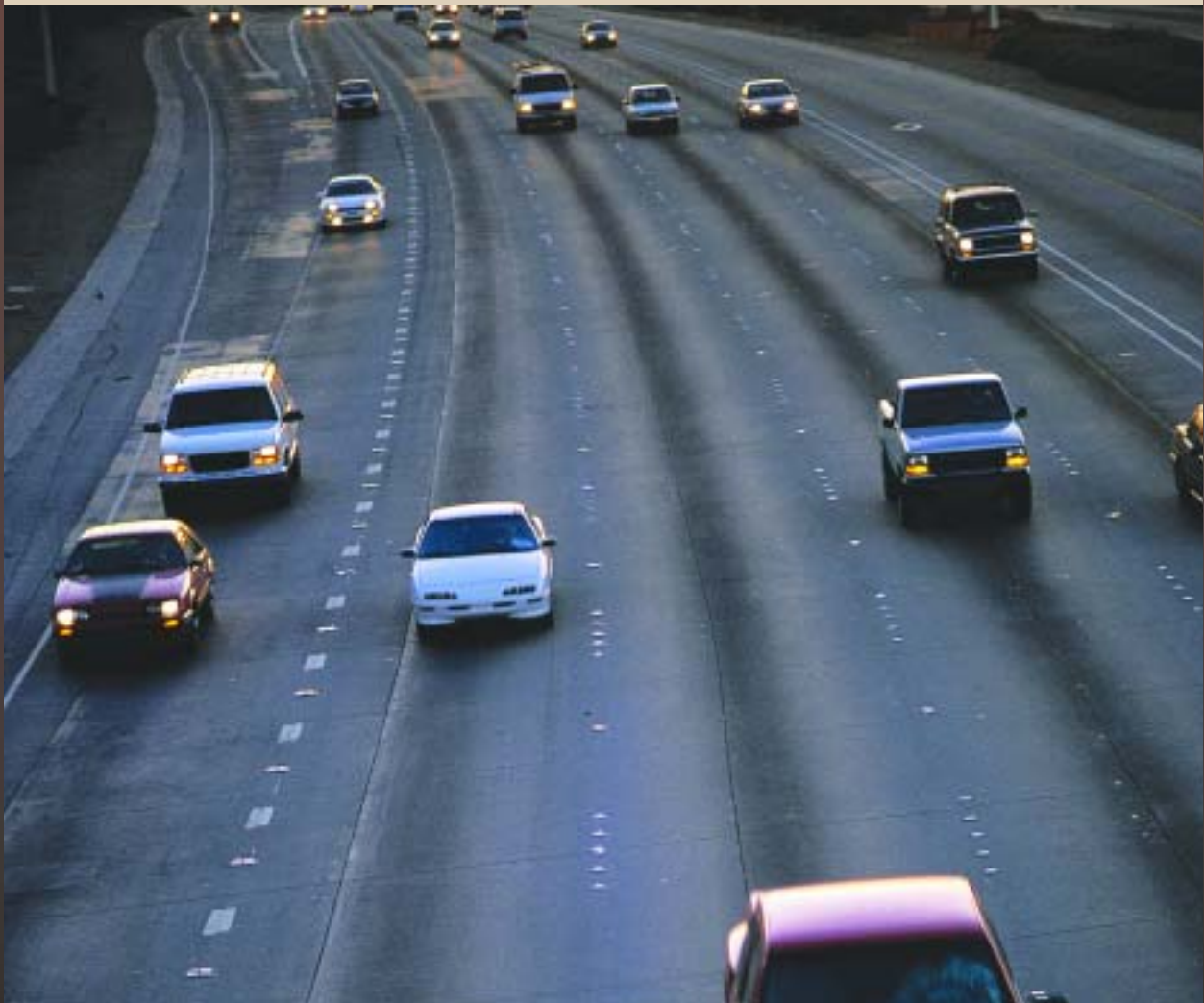
Office buildings, shopping centers, schools, warehouses, ballparks - we work in so many different places with such a variety of designs. Steel beams and concrete support them all. TXI is the second largest supplier of



structural steel products in North America, with the capacity to provide about one-third of the continent's wide flange beam needs for this type of construction.

ON THE MOVE

Travel continues to be an increasing part of our lives and expanding our nation's highways and airports will make the journey easier. Texas and California, TXI's home markets, lead the nation in increased federal highway spending. Enhancing the transportation system of both states will help sustain demand for TXI's building products for years to come, making the Company's recently completed North Texas cement expansion (above) the right project... in the right market... at the right time.



BUILDING TXI

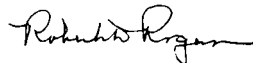
Investments in the North Texas cement and Virginia steel projects have been completed but expected returns from either are still to be realized. Given today's market conditions, though, we are confident that fiscal 2002 will see significant progress in reaching TXI's profitability standards for both.

The expansion of our North Texas cement plant was successfully completed during the second half of the fiscal year. Increased shipments and improved production efficiencies from the investment should augment cement results in the coming year. TXI now accounts for almost one-third of Texas' total cement capacity.

The Company has struggled to bring the Virginia steel plant up to potential. However, progress in production capability and efficiency is being made. Fiscal 2002 will see the continued commissioning of the facility's entire product range and production will likely be somewhat constrained by the aftermath of the oversupply conditions of 2001. With the fixed costs of the plant already fully absorbed, improvements in production and shipments will result in improved returns.

We welcome David A. Reed, former Senior Vice Chairman of Ernst & Young, to TXI's Board of Directors. David's broad experience in international financial matters will certainly complement the Board's strengths.

Fiscal 2001 marks the 50th Anniversary of TXI. We mark fifty years but certainly celebrate much more. We celebrate employees who have created the success of TXI through their commitment to excellence, pioneering and creative spirit, and willingness to embrace change and pursue opportunities that expand and strengthen the Company. We celebrate this heritage, but more importantly, we look forward to a still brighter future.



Robert D. Rogers
Chief Executive Officer
July 11, 2001



TXI'S 50TH ANNIVERSARY

TXI celebrates its fiftieth anniversary in 2001. In fifty years, the Company has expanded from the Texas region to both coasts of the United States. Within that time, production of cement and steel has increased more than ten-fold. We



have also become a leading recycling company, transforming scrap steel into high grade products for construction and conserving nonrenewable energy sources through the use of substitute fuels in making cement. Our combined operational and technical expertise in cement and steel resulted in the development of CemStarSM, which uses a by-product from steel-making to expand cement production. The employees of TXI are the reason for this innovation and growth; they are also the reason why the first fifty years are just a beginning.

TEXAS INDUSTRIES, INC. AND SUBSIDIARIES
SELECTED FINANCIAL DATA

<i>\$ In thousands except per share</i>	2001	2000	1999	1998	1997
RESULTS OF OPERATIONS					
Net sales	\$1,252,232	\$1,306,407	\$1,126,800	\$1,196,275	\$ 973,824
Operating profit	112,219	184,955	178,260	195,251	154,535
Net income	26,223	69,829	88,743	102,130	75,474
Return on average common equity	3.7%	10.6%	14.9%	20.5%	17.3%
PER SHARE INFORMATION					
Net income (diluted)	\$ 1.24	\$ 3.15	\$ 3.92	\$ 4.69	\$ 3.42
Cash dividends	.30	.30	.30	.30	.25
Book value	33.43	32.30	29.28	25.36	20.43
FOR THE YEAR					
Cash from operations*	\$ 151,178	\$ 155,565	\$ 242,225	\$ 215,020	\$ 109,899
Capital expenditures	136,892	317,096	475,464	440,781	85,188
YEAR END POSITION					
Total assets	\$1,857,361	\$1,815,680	\$1,531,053	\$1,185,831	\$ 847,923
Net working capital	192,992	203,739	162,411	226,968	242,994
Long-term debt	614,250	623,284	456,365	405,749	176,056
Preferred securities	200,000	200,000	200,000	—	—
Shareholders' equity	712,245	698,026	632,550	553,326	452,811
Long-term debt to total capitalization	40.2%	41.0%	35.4%	42.3%	28.0%
OTHER INFORMATION					
Diluted average common shares outstanding (in 000s)	21,307	24,502	24,492	21,819	22,163
Number of common shareholders	3,109	3,326	3,546	3,630	3,796
Number of employees	4,400	4,500	4,200	4,100	3,400
Wages, salaries and employee benefits	\$ 222,070	\$ 216,970	\$ 189,722	\$ 168,530	\$ 145,953
Common stock prices (high-low)	34 - 20	43 - 28	59 - 19	68 - 23	34 - 20

*Includes \$40 million in 2001 and \$100 million in 1999 from sale of receivables.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The Company is a leading supplier of construction materials through two business segments: cement, aggregate and concrete products (the "CAC" segment); and structural steel and specialty bar products (the "Steel" segment). Through the CAC segment, the Company produces and sells cement, stone, sand and gravel, expanded shale and clay aggregate and concrete products. Through its Steel segment, the Company produces and sells structural steel, piling products, specialty bar products, merchant bar-quality rounds, reinforcing bar and channels.

The Company's CAC facilities are concentrated primarily in Texas, Louisiana and California, with several products marketed throughout the United States. The Company owns long-term reserves of limestone, the primary raw material for the production of cement. TXI's expansion of its Midlothian, Texas cement plant was completed during the May 2001 quarter, increasing the plant's production from 1.3 to 2.8 million tons per year.

The Company's steel facilities follow a market mill concept which entails producing a wide variety of products utilizing recycled steel obtained from crushed automobiles and other sources as its principal raw material. Steel products are sold principally to steel service centers, fabricators, cold finishers, forgers and original equipment manufacturers. The Company distributes primarily to markets in North America. TXI's structural steel facility in Virginia began operations during the August 1999 quarter, and after the start-up phase will expand TXI's steel capacity by approximately two-thirds.

Both the CAC and Steel businesses require large amounts of capital investment, energy, labor and maintenance.

Corporate resources include administration, financial, legal, environmental, human resources and real estate activities which are not allocated to operations and are excluded from operating profit.

RESULTS OF OPERATIONS

Net Sales

Consolidated 2001 net sales declined \$54.2 million from 2000 to \$1,252.2 million.

CAC net sales, at \$678.0 million, were comparable to the prior year. Demand has remained solid for building materials in the Company's CAC markets. Total cement sales increased \$14.1 million on 11% higher shipments. Average trade prices, which declined 6% from the prior year due to the impact of imports on supply, stabilized in the May quarter. Ready-mix sales declined \$28.2 million on 6% lower volumes at 5% lower average prices. With the return to more normal weather conditions, volumes in the May quarter were up 5% from the prior year quarter. Aggregate sales increased \$8.0 million on 6% higher shipments.

Steel sales at \$574.2 million were \$52.4 million below the prior year. Competition from imports and higher levels of customer inventories resulted in a decline in both shipments and prices of structural products. Structural steel shipments were 13% below the prior year. Although average realized prices for the year were up 3%, prices which had been increasing during the prior year peaked in the August quarter. Since the August quarter, prices have declined 21%. Bar sales declined 5% for the year on 2% lower shipments and 3% lower realized prices.

Consolidated 2000 net sales increased \$179.6 million from 1999 to \$1,306.4 million.

CAC net sales, at \$679.8 million, were \$35.4 million above the prior year. Total cement sales increased \$17.2 million on 7% higher shipments. Average trade prices were down slightly from the prior year. However, average trade prices in the May quarter were 7% below the prior year quarter due primarily to the impact of imports on supply. Ready-mix sales increased \$7.7 million on 3% higher average prices. Aggregate sales increased \$8.7 million on 9% higher shipments with average trade prices somewhat lower.

Steel sales at \$626.6 million were \$144.2 million above the prior year. Shipments increased 36% with realized prices 4% below the prior year. There continued to be strong demand for structural products in North America. Realized structural steel prices continued to recover throughout the year. In the May quarter, prices increased 5% over the February quarter to levels 25% above the May 1999 quarter. Bar mill sales increased 6% for the year on 12% higher shipments with average prices 5% lower.

BUSINESS SEGMENTS

<i>In thousands</i>	<i>Year ended May 31,</i>		
	2001	2000	1999
TOTAL SALES			
Cement	\$ 326,065	\$ 311,981	\$ 294,808
Ready-mix	235,201	263,375	255,626
Stone, sand & gravel	114,326	106,318	97,656
Structural mills	451,895	499,967	365,291
Bar mill	105,391	110,679	104,286
UNITS SHIPPED			
Cement (tons)	4,570	4,135	3,852
Ready-mix (cubic yards)	3,949	4,197	4,203
Stone, sand & gravel (tons)	20,834	19,653	18,010
Structural mills (tons)	1,286	1,470	1,030
Bar mill (tons)	324	331	296
NET SALES			
Cement	\$ 254,019	\$ 234,790	\$ 215,345
Ready-mix	234,674	262,962	254,980
Stone, sand & gravel	80,547	74,061	69,161
Other products	108,761	107,954	104,871
TOTAL CAC	678,001	679,767	644,357
Structural mills	451,895	499,967	365,291
Bar mill	105,391	110,679	104,286
Other	16,945	15,994	12,866
TOTAL STEEL	574,231	626,640	482,443
TOTAL NET SALES	\$1,252,232	\$1,306,407	\$1,126,800

BUSINESS SEGMENTS *continued*

Year ended May 31,

<i>In thousands</i>	2001	2000	1999
CAC OPERATIONS			
Gross profit	\$ 207,283	\$ 248,645	\$ 236,505
Less: Depreciation, depletion & amortization	40,283	39,139	36,633
Selling, general & administrative	48,761	43,286	41,540
Other income	(16,506)	(3,497)	(6,978)
OPERATING PROFIT	134,745	169,717	165,310
STEEL OPERATIONS			
Gross profit	59,035	85,232	69,599
Less: Depreciation & amortization	59,884	57,033	36,468
Selling, general & administrative	24,940	25,399	26,381
Other income	(3,263)	(12,438)	(6,200)
OPERATING PROFIT (LOSS)	(22,526)	15,238	12,950
TOTAL OPERATING PROFIT	112,219	184,955	178,260
CORPORATE RESOURCES			
Other income	6,599	3,565	9,535
Less: Depreciation & amortization	1,218	1,092	946
Selling, general & administrative	31,968	39,711	31,442
	(26,587)	(37,238)	(22,853)
INTEREST EXPENSE	(37,061)	(32,743)	(11,310)
INCOME BEFORE TAXES & OTHER ITEMS	\$ 48,571	\$ 114,974	\$ 144,097
CAPITAL EXPENDITURES			
CAC	\$ 107,692	\$ 228,772	\$ 43,531
Steel	26,252	82,030	423,880
Corporate resources	2,948	6,294	8,053
	\$ 136,892	\$ 317,096	\$ 475,464
IDENTIFIABLE ASSETS			
CAC	\$ 700,976	\$ 637,485	\$ 405,694
Steel	1,039,083	1,063,499	1,017,937
Corporate resources	117,302	114,696	107,422
	\$1,857,361	\$1,815,680	\$1,531,053

See notes to consolidated financial statements.

Operating Costs

Consolidated cost of products sold including depreciation, depletion and amortization was \$1,082.0 million, an increase of \$17.5 million from 2000. CAC costs were \$506.9 million, an increase of \$40.9 million as a result of increased cement shipments and aggregate production and the impact of higher energy costs on unit costs. Steel costs were \$575.1 million, a decrease of \$23.4 million. Lower shipments reduced costs \$56.3 million offset by higher unit production costs resulting from increased energy costs and lower production levels.

CAC selling, general and administrative expense including depreciation and amortization at \$52.8 million increased \$5.3 million due primarily to additional administrative expenses attributed to operations offset somewhat by \$2.5 million lower incentive compensation. CAC other income increased due to gains from the disposal of surplus real estate. Steel expenses at \$24.9 million decreased \$459,000 due to \$800,000 lower incentive compensation offset by increased selling costs. Steel other income in the prior year included \$6.3 million from the Company's litigation against certain graphite electrode suppliers.

Operating Profit

Operating profit at \$112.2 million decreased 39% from 2000. CAC profits declined \$35.0 million. Lower realized prices and higher energy costs reduced margins. Steel operating profit declined \$37.8 million. The impact of imports and growth in customer inventories on sales and higher energy costs reduced margins. Higher unit costs in the May quarter due to lower production to reduce inventories further reduced margins and could continue to affect near term results.

Corporate Resources

Selling, general and administrative expenses including depreciation and amortization at \$33.2 million decreased \$7.6 million. This reflects the increased administrative expense attributed to operations and \$3.9 million lower incentive accruals offset by a \$1.4 million increase in costs associated with the Company's agreement to sell receivables. Other income increased \$3.0 million primarily due to higher real estate income.

Interest Expense

Interest expense at \$37.1 million was \$4.3 million higher than prior year due to a \$7.2 million increase in interest incurred as a result of higher average outstanding debt offset by a \$2.9 million increase in interest capitalized.

Income Taxes

The Company's 2001 effective tax rate was 30.2% compared to 32.8% in 2000. The primary reason that the tax rate differs from the 35% statutory corporate rate is due to goodwill expense that is not tax deductible, percentage depletion that is tax deductible and state income tax expense.

Dividends on Preferred Securities - Net of Tax

Dividends on preferred securities of subsidiary net of tax benefit amounted to \$7.2 million in both 2001 and 2000.

LIQUIDITY AND CAPITAL RESOURCES

Lower operating profit in both CAC and Steel reduced net income \$43.6 million from the prior year. Cash from operations funded \$136.9 million of capital expenditures. The long-term debt to total capitalization ratio at 40.2% was comparable to the prior year. The Company has an agreement to sell, on a revolving basis, an interest in a defined pool of trade accounts receivable of up to \$125 million. At May 31, 2001, the entire amount available under this agreement had been sold. The Company has a \$450 million revolving credit facility that expires in March 2004. At May 31, 2001, \$220 million was outstanding under the credit facility and an additional \$108.3 million had been utilized to support letters of credit. The Company's total debt is limited based on the ratio of debt to earnings before interest, taxes, depreciation and amortization. At May 31, 2001, \$93.7 million of additional borrowing could have been incurred.

Net cash provided by operations was \$151.2 million in 2001, compared to \$155.6 million in the prior year. Changes in working capital items, increased depreciation and deferred taxes were offset by lower net income. Sales of receivables provided \$40 million in operating cash flow in 2001 while reducing cash flow \$15 million in 2000. Receivables include a tax refund claim of \$18.6 million. Lower Steel shipments decreased receivables \$12.6 million and increased inventories \$14.1 million. Accounts payable and accrued expenses increased \$23.7 million due to higher accounts payable offset in part by lower income tax accruals. Deferred taxes include a \$15.6 million alternative minimum tax credit carryforward that is available for offset against future regular income tax.

Net cash used by investing activities was \$125.1 million in 2001, compared to \$321.6 million in the prior year, consisting principally of capital expenditure items. Capital expenditures for normal replacement and technological upgrades of existing equipment and expansions of the Company's operations excluding major plant expansions were \$88.6 million, up \$37.8 million from 2000. The fiscal year 2002 capital expenditure budget is estimated currently at approximately \$50 million. Capital expenditures for plant expansions included \$48.3 million incurred in completing the expansion of the Company's Midlothian, Texas cement plant. In 2000, \$192.4 million was incurred for the cement plant expansion and \$73.9 million was incurred in completing the Company's Virginia steel facility.

Net cash used by financing activities was \$24.3 million in 2001, compared to \$155.4 million provided in the prior year. Long-term debt was reduced \$9.2 million. The Company purchased, at a cost of \$7.8 million, approximately 339,000 shares of its Common Stock for general corporate purposes. The Company's quarterly cash dividend at \$.075 per common share remained unchanged from the prior year.

The Company generally finances its major capital expansion projects with cash from operations and long-term borrowing. Maintenance capital expenditures and working capital are funded by cash from operations. The Company expects cash from operations and borrowings under its revolving credit facility to be sufficient to provide funds for capital expenditure commitments, scheduled debt repayments and working capital needs.

OTHER ITEMS

Litigation

On November 25, 1998, Chaparral Steel Company ("Chaparral"), a wholly owned subsidiary, filed an action seeking damages, trebled as allowed by law, plus interest and costs, in the District Court of Ellis County, Texas against Showa Denko Carbon, Inc. ("SDC"); Showa Financing, K.K.; Showa Denko, K.K.; The Carbide/Graphite Group, Inc. ("CGG"); SGL Carbon Aktiengesellschaft and SGL Carbon Corp. ("SGL"); and UCAR Carbon Company, Inc. and UCAR International, Inc. ("UCAR") (collectively "Defendants") asserting causes of action for illegal restraints of trade in the sale of graphite electrodes. In December 1999, Nippon Carbon Co., Ltd.; SEC Corporation; Tokai Carbon U.S.A., Inc.; Tokai Carbon Company, Ltd.; VAW Aluminium Aktiengesellschaft; and VAW Carbon GMBH were added by Chaparral to the action. SDC and its affiliates, UCAR and its affiliates, VAW Aluminium Aktiengesellschaft, and VAW Carbon GMBH have settled with Chaparral and have been removed from the action. In related criminal actions, two of the remaining Defendants have pled guilty to criminal violations of the U.S. antitrust laws and have paid fines, and a third Defendant has announced that it has agreed to cooperate with the U.S. Department of Justice investigation into the graphite electrode industry in exchange for immunity from criminal prosecution for it and some of its executives. For these reasons, although the Company's action is still in its discovery stages, the Company believes that it should, subject to inherent uncertainties of litigation, prevail in its claims against the remaining Defendants.

Environmental Matters

The Company is subject to federal, state and local environmental laws and regulations concerning, among other matters, air emissions, furnace dust disposal and wastewater discharge. The Company believes it is in substantial compliance with applicable environmental laws and regulations, however, from time to time the Company receives claims from federal and state environmental regulatory agencies and entities asserting that the Company is or may be in violation of certain environmental laws and regulations. Based on its experience and the information currently available to it, the Company believes that such claims will not have a material impact on its financial condition or results of operations. Despite the Company's compliance and experience, it is possible that the Company could be held liable for future charges which might be material but are not currently known or estimable. In addition, changes in federal or state laws, regulations or requirements or discovery of currently unknown conditions could require additional expenditures by the Company.

Market Risk

The Company does not enter into derivatives or other financial instruments for trading or speculative purposes. Because of the short duration of the Company's investments, changes in market interest rates would not have a significant impact on their fair value. The current fair value of the Company's long-term debt, including current maturities, does not exceed its carrying value. Market risk, when estimated as the potential increase in fair value resulting from a hypothetical 10% decrease in the Company's weighted average long-term borrowing rate, would not have a significant impact on the carrying value of long-term debt.

New Accounting Pronouncements

Effective June 1, 2001, the Company will adopt Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes a comprehensive standard for the recognition and measurement of derivatives and hedging activities. Due to the Company's limited use of derivatives, the impact will not be material.

The Company plans to adopt, effective June 1, 2001, Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142") which requires that goodwill not be amortized but instead be tested for impairment annually by each reporting unit. Although a final determination of the fair values of the respective reporting units has not been made, the adoption of SFAS No. 142 is not expected to have an immediate effect on the financial statements of the Company. Annual amortization of goodwill that amounted to \$4.5 million in 2001, will be eliminated subsequent to adoption.

Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

Certain statements contained in this annual report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Potential risks and uncertainties include, but are not limited to, the impact of competitive pressures and changing economic and financial conditions on the Company's business, construction activity in the Company's markets, abnormal periods of inclement weather, changes in the cost of raw materials, fuel, and energy and the impact of environmental laws and other regulations. For further information refer to the Company's annual report on Form 10-K.

TEXAS INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

May 31,

<i>In thousands</i>	2001	2000
ASSETS		
CURRENT ASSETS		
Cash	\$ 8,734	\$ 6,988
Receivables	77,297	79,180
Inventories	262,411	246,910
Deferred taxes and prepaid expenses	36,510	38,926
TOTAL CURRENT ASSETS	384,952	372,004
OTHER ASSETS		
Real estate and other investments	15,923	18,572
Goodwill and other intangibles	147,717	152,309
Other	48,789	43,712
	212,429	214,593
PROPERTY, PLANT AND EQUIPMENT		
Land and land improvements	194,348	190,671
Buildings	99,981	90,160
Machinery and equipment	1,740,178	1,470,369
Construction in progress	84,650	256,594
	2,119,157	2,007,794
Less allowances for depreciation	859,177	778,711
	1,259,980	1,229,083
	\$1,857,361	\$1,815,680
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade accounts payable	\$ 129,375	\$ 94,077
Accrued interest, wages and other items	53,348	64,815
Current portion of long-term debt	9,237	9,373
TOTAL CURRENT LIABILITIES	191,960	168,265
LONG-TERM DEBT	614,250	623,284
DEFERRED FEDERAL INCOME TAXES AND OTHER CREDITS	138,906	126,105
COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY HOLDING SOLELY COMPANY CONVERTIBLE DEBENTURES	200,000	200,000
SHAREHOLDERS' EQUITY		
Common stock, \$1 par value	25,067	25,067
Additional paid-in capital	258,531	258,325
Retained earnings	524,104	504,161
Cost of common stock in treasury	(95,457)	(89,527)
	712,245	698,026
	\$1,857,361	\$1,815,680

See notes to consolidated financial statements.

TEXAS INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

Year ended May 31,

<i>In thousands except per share</i>	2001	2000	1999
NET SALES	\$1,252,232	\$1,306,407	\$1,126,800
COSTS AND EXPENSES (INCOME)			
Cost of products sold	1,082,012	1,064,477	889,502
Selling, general and administrative	110,956	113,713	104,604
Interest	37,061	32,743	11,310
Other income	(26,368)	(19,500)	(22,713)
	1,203,661	1,191,433	982,703
INCOME BEFORE THE FOLLOWING ITEMS	48,571	114,974	144,097
Income taxes	15,198	37,995	48,283
	33,373	76,979	95,814
Dividends on preferred securities - net of tax	(7,150)	(7,150)	(7,071)
NET INCOME	\$ 26,223	\$ 69,829	\$ 88,743
BASIC			
Average shares	21,051	21,172	21,265
Earnings per share	\$ 1.26	\$ 3.31	\$ 4.18
DILUTED			
Average shares	21,307	24,502	24,492
Earnings per share	\$ 1.24	\$ 3.15	\$ 3.92
Cash dividends per share	\$.30	\$.30	\$.30

See notes to consolidated financial statements.

TEXAS INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended May 31,

<i>In thousands</i>	2001	2000	1999
OPERATING ACTIVITIES			
Net income	\$ 26,223	\$ 69,829	\$ 88,743
Gain on disposal of assets	(15,790)	(2,497)	(2,807)
Non-cash items			
Depreciation, depletion and amortization	101,385	97,264	74,047
Deferred taxes	22,659	15,372	4,960
Other - net	1,004	6,311	5,868
Changes in operating assets and liabilities			
Receivables sold	40,000	(15,000)	100,000
Receivables	(27,992)	(24,844)	10,085
Inventories and prepaid expenses	(22,684)	(20,496)	(47,978)
Accounts payable and accrued liabilities	23,724	28,598	3,739
Real estate and investments	2,649	1,028	5,568
NET CASH PROVIDED BY OPERATIONS	151,178	155,565	242,225
INVESTING ACTIVITIES			
Capital expenditures - expansions	(48,261)	(266,346)	(379,240)
Capital expenditures - other	(88,631)	(50,750)	(96,224)
Proceeds from disposal of assets	16,084	5,351	13,372
Other - net	(4,287)	(9,842)	(1,436)
NET CASH USED BY INVESTING	(125,095)	(321,587)	(463,528)
FINANCING ACTIVITIES			
Proceeds of long-term borrowing	372,972	296,826	313,186
Net proceeds from issuance of subsidiary preferred securities	—	—	193,504
Debt retirements	(382,148)	(129,714)	(266,792)
Purchase of treasury shares	(7,765)	(143)	(6,086)
Common dividends paid	(6,280)	(6,313)	(6,349)
Other - net	(1,116)	(5,298)	(5,226)
NET CASH PROVIDED (USED) BY FINANCING	(24,337)	155,358	222,237
INCREASE (DECREASE) IN CASH	1,746	(10,664)	934
CASH AT BEGINNING OF YEAR	6,988	17,652	16,718
CASH AT END OF YEAR	\$ 8,734	\$ 6,988	\$ 17,652

See notes to consolidated financial statements.

TEXAS INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>In thousands</i>	Common Stock \$1 Par Value	Additional Paid-in Capital	Retained Earnings	Treasury Common Stock	Total Shareholders' Equity
May 31, 1998	\$25,067	\$255,735	\$358,307	\$(85,783)	\$553,326
Net income			88,743		88,743
Common dividends paid - \$.30 a share			(6,349)		(6,349)
Treasury shares issued for bonuses and options - 49,814 shares		2,038	(56)	934	2,916
Treasury shares purchased - 247,261 shares				(6,086)	(6,086)
May 31, 1999	25,067	257,773	440,645	(90,935)	632,550
Net income			69,829		69,829
Common dividends paid - \$.30 a share			(6,313)		(6,313)
Treasury shares issued for bonuses and options - 82,695 shares		552		1,551	2,103
Treasury shares purchased - 3,913 shares				(143)	(143)
May 31, 2000	25,067	258,325	504,161	(89,527)	698,026
Net income			26,223		26,223
Common dividends paid - \$.30 a share			(6,280)		(6,280)
Treasury shares issued for bonuses and options - 97,865 shares		206		1,835	2,041
Treasury shares purchased - 339,476 shares				(7,765)	(7,765)

Other comprehensive income for the years presented is the same as net income.

At May 31, 2001, Common Stock and Additional Paid-in Capital include \$127.8 million of accumulated transfers from Retained Earnings in connection with stock dividends.

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Texas Industries, Inc. ("TXI" or the "Company") is a leading supplier of construction materials through two business segments: cement, aggregate and concrete products (the "CAC" segment); and structural steel and specialty bar products (the "Steel" segment). Through the CAC segment, the Company produces and sells cement, stone, sand and gravel, expanded shale and clay aggregate and concrete products from facilities concentrated in Texas, Louisiana and California, with several products marketed throughout the United States. Through its Steel segment, the Company produces and sells structural steel, piling products, specialty bar products, merchant bar-quality rounds, reinforcing bar and channels for markets in North America.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries. Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation.

Estimates

The preparation of financial statements and accompanying notes in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The estimated fair value of each class of financial instrument as of May 31, 2001 approximates its carrying value except for long-term debt having fixed interest rates and mandatorily redeemable preferred securities of subsidiary. The fair value of long-term debt at May 31, 2001, estimated by applying discounted cash flow analysis based on interest rates currently available to the Company for such debt with similar terms and remaining maturities, is approximately \$598.4 million compared to the carrying amount of \$623.5 million. The fair value of mandatorily redeemable preferred securities of subsidiary at May 31, 2001, estimated based on NYSE quoted market prices, is approximately \$133.1 million compared to the carrying amount of \$200.0 million.

Cash Equivalents

For cash flow purposes, temporary investments which have maturities of less than 90 days when purchased are considered cash equivalents.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Provisions for depreciation are computed generally using the straight-line method. Provisions for depletion of mineral deposits are computed on the basis of the estimated quantity of recoverable raw materials. Useful lives for the Company's primary operating facilities range from 10 to 20 years. Maintenance and repairs are charged to expense as incurred. Costs incurred for scheduled shut-downs to refurbish the Steel facilities are amortized over the production period, typically 12 to 18 months.

Intangible Assets

Goodwill and other intangibles is presented net of accumulated amortization of \$37.9 million at May 31, 2001 and \$32.0 million at May 31, 2000, adjusted for write-offs. Goodwill resulting from the acquisitions of Chaparral Steel Company and Riverside Cement Company is being amortized currently on a straight-line basis over 40-year periods. Goodwill, net of accumulated amortization, for Chaparral totaled \$81.8 million at May 31, 2001 and \$83.9 million at May 31, 2000 and for Riverside totaled \$61.3 million at May 31, 2001 and \$62.6 million at May 31, 2000. Other intangibles that have finite lives are being amortized on a straight-line basis over periods of 2 to 15 years. Management reviews remaining goodwill and other intangibles with consideration toward recovery through future operating results (undiscounted) at the current rates of amortization.

Debt Issuance Cost

Debt issuance costs associated with various debt issues are being amortized over the terms of the related debt.

Other Credits

Other credits of \$31.3 million at May 31, 2001, compared to \$31.5 million at the prior year-end, are composed primarily of liabilities related to the Company's retirement plans and deferred compensation agreements.

Net Sales

Sales, net of delivery costs, are recognized when title has transferred and products are delivered.

Income Taxes

Accounting for income taxes uses the liability method of recognizing and classifying deferred income taxes. The Company joins in filing a consolidated return with its subsidiaries. Current and deferred tax expense is allocated among the members of the group based on a stand-alone calculation of the tax of the individual member.

Earnings Per Share ("EPS")

Basic EPS is computed by adjusting net income for the amortization of additional goodwill in connection with a contingent payment for the acquisition of Chaparral Steel Company, then dividing by the weighted average number of common shares outstanding during the period including certain contingently issuable shares. Diluted EPS also adjusts net income for the net dividends on preferred securities of subsidiary and the outstanding shares for the dilutive effect of preferred securities, stock options and awards.

Basic and Diluted EPS are calculated as follows:

<i>In thousands except per share</i>	2001	2000	1999
Earnings:			
Net income	\$26,223	\$69,829	\$88,743
Contingent price amortization	233	233	233
Basic earnings	26,456	70,062	88,976
Dividends on preferred securities - net of tax	—	7,150	7,071
Diluted earnings	\$26,456	\$77,212	\$96,047
Shares:			
Weighted-average shares outstanding	20,908	21,037	21,145
Contingently issuable shares	143	135	120
Basic weighted-average shares	21,051	21,172	21,265
Preferred securities	—	2,889	2,889
Stock option and award dilution	256	441	338
Diluted weighted-average shares ⁽¹⁾	21,307	24,502	24,492
Basic earnings per share	\$ 1.26	\$ 3.31	\$ 4.18
Diluted earnings per share	\$ 1.24	\$ 3.15	\$ 3.92
⁽¹⁾ Shares excluded due to antidilutive effect:			
Preferred securities	2,889	—	—
Stock options and awards	903	541	607

New Accounting Pronouncements

Effective June 1, 2001, the Company will adopt Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes a comprehensive standard for the recognition and measurement of derivatives and hedging activities. Due to the Company's limited use of derivatives, the impact will not be material.

The Company plans to adopt, effective June 1, 2001, Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142") which requires that goodwill not be amortized but instead be tested for impairment annually by each reporting unit. Although a final determination of the fair values of the respective reporting units has not been made, the adoption of SFAS No. 142 is not expected to have an immediate effect on the financial statements of the Company. Annual amortization of goodwill that amounted to \$4.5 million in 2001, will be eliminated subsequent to adoption.

WORKING CAPITAL

Working capital totaled \$193.0 million at May 31, 2001, compared to \$203.7 million at the prior year-end.

Receivables include tax refund claims of \$18.6 million at May 31, 2001. Notes and accounts receivable of \$58.7 million at May 31, 2001, compared with \$79.2 million in 2000, are presented net of allowances for doubtful receivables of \$2.6 million in 2001 and \$3.3 million in 2000.

The Company has an agreement to sell, on a revolving basis, an interest in a defined pool of trade receivables of up to \$125 million. The agreement is subject to annual renewal. The maximum amount outstanding varies based upon the level of eligible receivables. Fees are variable and follow commercial paper rates. The interest sold totaled \$125 million at May 31, 2001, compared to \$85 million at the prior year-end. Sales are reflected as reductions of accounts receivable and as operating cash flows. As collections reduce previously sold interests, new accounts receivable are customarily sold. Fees and expenses of \$7.6 million, \$6.2 million and \$1.1 million are included in selling, general and administrative expenses in 2001, 2000 and 1999, respectively. The Company, as agent for the purchaser, retains collection and administration responsibilities for the participating interests of the defined pool.

Inventories are summarized as follows:

<i>In thousands</i>	2001	2000
Finished products	\$ 88,606	\$ 61,255
Work in process	48,572	51,785
Raw materials and supplies	125,233	133,870
	\$262,411	\$246,910

Inventories are stated at cost (not in excess of market) with approximately 58% of inventories using the last-in, first-out method (LIFO). If the average cost method (which approximates current replacement cost) had been used, inventory values would have been higher by \$9.8 million in 2001 and \$7.8 million in 2000.

LONG-TERM DEBT

Long-term debt is comprised of the following:

<i>In thousands</i>	2001	2000
Revolving credit facility maturing in 2004, interest rates average 7.65%	\$220,000	\$240,000
Senior notes		
Notes due through 2017, interest rates average 7.28%	200,000	200,000
Notes due through 2008, interest rates average 7.28%	75,000	75,000
Notes due through 2004, interest rates average 10.2%	24,000	32,000
Variable-rate industrial development revenue bonds		
Bonds maturing in 2028, interest rate approximately 3.5%	50,000	50,000
Bonds maturing in 2029, interest rate approximately 3.5%	25,000	25,000
Bonds maturing in 2029, interest rate approximately 3.5%	20,500	303
Pollution control bonds, due through 2007, interest rate 5.25% (75% of prime)	5,215	5,895
Other, maturing through 2009, interest rates from 7.5% to 10%	3,772	4,459
	623,487	632,657
Less current maturities	9,237	9,373
	\$614,250	\$623,284

Annual maturities of long-term debt for each of the five succeeding years are \$9.2, \$9.2, \$274.2, \$41.2 and \$45.9 million.

The Company has available a bank-financed \$450 million long-term revolving credit facility. An interest rate at the applicable margin above either prime or LIBOR is selected at the time of each borrowing. Commitment fees at a current annual rate of .5% are paid on the unused portion of this facility. There is \$220.0 million currently outstanding under this facility. In addition, \$108.3 million has been utilized to support letters of credit issued primarily to secure the Company's variable-rate industrial development revenue bonds, which allows the interest rates on these bonds to closely follow the tax-exempt commercial paper rates.

Loan agreements contain covenants that provide for restrictions on the payment of dividends on common stock and place limitations on incurring certain indebtedness, purchasing treasury stock, and making capital expenditures and certain investments. Under the most restrictive of these agreements, the Company's total debt is limited based on the ratio of debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"). At May 31, 2001, \$93.7 million of additional borrowing could have been incurred. In addition, the aggregate amount of annual fixed charges which includes cash dividends on common stock is limited based on the ratio of EBITDA to fixed charges. At May 31, 2001, \$27.2 million of additional fixed charges could have been incurred. The Company is in compliance with all loan covenant restrictions.

The amount of interest paid was \$50.9 million in 2001, \$40.6 million in 2000 and \$33.4 million in 1999. Interest capitalized totaled \$15.6 million in 2001, \$12.7 million in 2000 and \$23.2 million in 1999.

PREFERRED SECURITIES OF SUBSIDIARY

On June 5, 1998, TXI Capital Trust I (the "Trust"), a Delaware business trust wholly owned by the Company, issued 4,000,000 of its 5.5% Shared Preference Redeemable Securities ("Preferred Securities") to the public for gross proceeds of \$200 million. The combined proceeds from the issuance of the Preferred Securities and the issuance to the Company of the common securities of the Trust were invested by the Trust in \$206.2 million aggregate principal amount of 5.5% convertible subordinated debentures due June 30, 2028 (the "Debentures") issued by the Company. The Debentures are the sole assets of the Trust.

Holders of the Preferred Securities are entitled to receive cumulative cash distributions at an annual rate of \$2.75 per Preferred Security (equivalent to a rate of 5.5% per annum of the stated liquidation amount of \$50 per Preferred Security). The Company has guaranteed, on a subordinated basis, distributions and other payments due on the Preferred Securities, to the extent the Trust has funds available therefor and subject to certain other limitations (the "Guarantee"). The Guarantee, when taken together with the obligations of the Company under the Debentures, the Indenture pursuant to which the Debentures were issued, and the Amended and Restated Trust Agreement of the Trust (including its obligations to pay costs, fees, expenses, debts and other obligations of the Trust [other than with respect to the Preferred Securities and the common securities of the Trust]), provide a full and unconditional guarantee of amounts due on the Preferred Securities.

The Debentures are redeemable for cash, at the option of the Company, in whole or in part, on or after June 30, 2001, or under certain circumstances relating to federal income tax matters, at par, plus accrued and unpaid interest. Upon any redemption of the Debentures, a like aggregate liquidation amount of Preferred Securities will be redeemed. The Preferred Securities do not have a stated maturity date, although they are subject to mandatory redemption upon maturity of the Debentures on June 30, 2028, or upon earlier redemption.

Each Preferred Security is convertible at any time prior to the close of business on June 30, 2028, at the option of the holder into shares of the Company's common stock at a conversion rate of .72218 shares of the Company's common stock for each Preferred Security (equivalent to a conversion price of \$69.235 per share of TXI Common Stock).

SHAREHOLDERS' EQUITY

Common stock consists of:

<i>In thousands</i>	2001	2000
Shares authorized	40,000	40,000
Shares outstanding at May 31	20,828	21,070
Shares held in treasury	4,239	3,997
Shares reserved for stock options and other	3,698	3,787

There are authorized 100,000 shares of Cumulative Preferred Stock, no par value, of which 20,000 shares are designated \$5 Cumulative Preferred Stock (Voting), redeemable at \$105 per share and entitled to \$100 per share upon dissolution. An additional 25,000 shares are designated Series B Junior Participating Preferred Stock. The Series B Preferred Stock is not redeemable and ranks, with respect to the payment of dividends and the distribution of assets, junior to (i) all other series of the Preferred Stock unless the terms of any other series shall provide otherwise and (ii) the \$5 Cumulative Preferred Stock. Pursuant to a Rights Agreement, in November 1996, the Company distributed a dividend of one preferred share purchase right for each outstanding share of the Company's Common Stock. Each right entitles the holder to purchase from the Company one two-thousandth of a share of the Series B Junior Participating Preferred Stock at a price of \$122.50, subject to adjustment. The rights will expire on November 1, 2006 unless the date is extended or the rights are earlier redeemed or exchanged by the Company pursuant to the Rights Agreement.

STOCK OPTION PLAN

The Company's stock option plan provides that non-qualified and incentive stock options to purchase Common Stock may be granted to directors, officers and key employees at market prices at date of grant. Outstanding options become exercisable in installments beginning one year after date of grant and expire ten years later. The Company has elected to continue utilizing the accounting prescribed by APB No. 25 for stock issued under this plan. If compensation cost had been recognized based on the fair value at the date of grant consistent with the method prescribed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

<i>In thousands except per share</i>	2001	2000	1999
Net income			
As reported	\$26,223	\$69,829	\$88,743
Pro forma	22,869	66,644	85,755
Basic earnings per share			
As reported	1.26	3.31	4.18
Pro forma	1.10	3.16	4.04
Diluted earnings per share			
As reported	1.24	3.15	3.92
Pro forma	1.08	3.02	3.80

Because the method of accounting under SFAS No. 123 has not been applied to options granted prior to June 1, 1995, the pro forma compensation cost may not be representative of that to be expected in future years.

The weighted-average fair value of options granted in 2001, 2000 and 1999 was \$11.77, \$17.39 and \$12.15, respectively. The fair value of each option grant was estimated on the date of grant for purposes of the pro forma disclosures using the Black-Scholes option-pricing model based on the following weighted average assumptions:

	2001	2000	1999
Dividend yield	1.01%	.74%	1.02%
Volatility factor	.343	.327	.331
Risk-free interest rate	5.16%	6.57%	4.85%
Expected life in years	6.4	6.4	6.4

A summary of option transactions for the three years ended May 31, 2001, follows:

	Shares Under Option	Weighted-Average Option Price
Outstanding at May 31, 1998	1,816,963	\$27.51
Granted	293,250	31.45
Exercised	(39,390)	13.85
Canceled	(15,700)	30.61
Outstanding at May 31, 1999	2,055,123	28.31
Granted	251,800	40.75
Exercised	(75,518)	21.41
Canceled	(69,280)	32.58
Outstanding at May 31, 2000	2,162,125	29.86
Granted	397,850	29.71
Exercised	(90,020)	19.31
Canceled	(67,950)	37.43
Outstanding at May 31, 2001	2,402,005	\$30.02

Options exercisable as of May 31 were 1,401,705 shares in 2001, 1,132,855 shares in 2000 and 795,753 shares in 1999 at a weighted-average option price of \$27.29, \$25.29 and \$23.54, respectively. The following table summarizes information about stock options outstanding as of May 31, 2001:

	Range of Exercise Prices		
	\$12.03 - \$16.85	\$21.84 - \$37.13	\$41.53 - \$50.57
Options outstanding			
Shares outstanding	298,161	1,521,004	582,840
Weighted-average remaining life in years	3.13	6.68	7.38
Weighted-average exercise price	\$15.25	\$27.17	\$45.00
Options exercisable			
Shares exercisable	298,161	848,204	255,340
Weighted-average exercise price	\$15.25	\$25.93	\$45.88

The Company has reserved 1,128,560 shares for future grants.

INCOME TAXES

The Company made income tax payments of \$13.5 million, \$3.9 million and \$42.5 million in 2001, 2000 and 1999, respectively.

The provisions for income taxes are composed of:

<i>In thousands</i>	2001	2000	1999
Current (benefit)	\$(7,461)	\$22,623	\$43,323
Deferred	22,659	15,372	4,960
Expense *	\$15,198	\$37,995	\$48,283

*Excludes tax benefit of \$3.9 million, \$3.9 million and \$3.8 million in 2001, 2000 and 1999, respectively, related to preferred securities of subsidiary.

A reconciliation from statutory federal taxes to the preceding provisions follows:

<i>In thousands</i>	2001	2000	1999
Taxes at statutory rate	\$17,000	\$40,241	\$50,434
Additional depletion	(4,505)	(4,619)	(4,663)
Nondeductible goodwill	1,007	993	981
State income tax	583	1,648	2,060
Nontaxable insurance benefits	(736)	(640)	(455)
Other - net	1,849	372	(74)
	\$15,198	\$37,995	\$48,283

The components of the net deferred tax liability at May 31 are summarized below:

<i>In thousands</i>	2001	2000
Deferred tax assets		
Deferred compensation	\$ 8,652	\$ 7,802
Expenses not currently tax deductible	5,255	6,936
Tax cost in inventory	1,832	4,337
Alternative minimum tax credit carryforward	15,635	7,607
Total deferred tax assets	31,374	26,682
Deferred tax liabilities		
Accelerated tax depreciation	122,313	95,014
Deferred real estate gains	5,022	4,970
Other	1,555	1,555
Total deferred tax liabilities	128,890	101,539
Net tax liability	97,516	74,857
Less current portion (asset)	(10,091)	(19,703)
Net deferred tax liability	\$107,607	\$94,560

As of May 31, 2001, the Company has \$15.6 million of alternative minimum tax credit carryforward. The credit carryforward, which does not expire, is available for offset against future regular income tax.

LEGAL PROCEEDINGS AND CONTINGENT LIABILITIES

The Company is subject to federal, state and local environmental laws and regulations concerning, among other matters, air emissions, furnace dust disposal and wastewater discharge. The Company believes it is in substantial compliance with applicable environmental laws and regulations, however, from time to time the Company receives claims from federal and state environmental regulatory agencies and entities asserting that the Company is or may be in violation of certain environmental laws and regulations. Based on its experience and the information currently available to it, the Company believes that such claims will not have a material impact on its financial condition or results of operations. Despite the Company's compliance and experience, it is possible that the Company could be held liable for future charges which might be material but are not currently known or estimable. In addition, changes in federal or state laws, regulations or requirements or discovery of currently unknown conditions could require additional expenditures by the Company.

The Company and subsidiaries are defendants in lawsuits which arose in the normal course of business. In management's judgment (based on the opinion of counsel) the ultimate liability, if any, from such legal proceedings will not have a material effect on the consolidated financial position of the Company.

Information regarding the Company's litigation against certain graphite electrode suppliers is presented on page 14 under "Other Items" of Management's Discussion and Analysis of Financial Condition and Results of Operations.

RETIREMENT PLANS

Substantially all employees of the Company are covered by a series of defined contribution retirement plans. The amount of pension expense charged to costs and expenses for the above plans was \$5.5 million in 2001, \$3.2 million in 2000 and \$3.2 million in 1999. It is the Company's policy to fund the plans to the extent of charges to income.

Certain employees and retirees of an acquired subsidiary are covered by defined retirement and postretirement health benefit plans. The plan assets approximate the plan benefit obligations. The postretirement liability for these plans was \$8.8 million at May 31, 2001. The amount of pension expense charged to costs and expenses was \$1.2 million in 2001, \$1.1 million in 2000 and \$1.2 million in 1999. Payments under these plans amounted to \$1.4 million in 2001, \$200,000 in 2000 and \$1.1 million in 1999.

INCENTIVE PLANS

All personnel employed as of May 31 share in the pretax income of the Company for the year then ended based on predetermined formulas. The duration of most of the plans is one year; certain executives are additionally covered under a three-year plan. All plans are subject to annual review by the Company's Board of Directors. The expense included in selling, general and administrative was \$7.2 million, \$13.6 million and \$19.0 million for 2001, 2000 and 1999, respectively.

Certain executives of Chaparral participate in a deferred compensation plan based on a five-year average of earnings. Amounts recorded as reductions to prior year accruals under the plan were \$1.8 million, \$1.0 million and \$500,000 for 2001, 2000 and 1999, respectively.

OPERATING LEASES

Total expense for operating leases for mobile equipment, office space and other items (other than for mineral rights) amounted to \$32.0 million in 2001, \$24.3 million in 2000 and \$20.7 million in 1999. Non-cancelable operating leases with an initial or remaining term of more than one year totaled \$50.9 million at May 31, 2001. Annual lease payments for the five succeeding years are \$20.3 million, \$14.4 million, \$6.8 million, \$6.5 million and \$2.3 million.

BUSINESS SEGMENTS

The Company has two reportable segments: cement, aggregate and concrete products (the "CAC" segment) and steel (the "Steel" segment). The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because of significant differences in manufacturing processes, distribution and markets served. Through the CAC segment the Company produces and sells cement, stone, sand and gravel, expanded shale and clay aggregate and concrete products. Through its Steel segment, the Company produces and sells structural steel, piling products, specialty bar products, merchant bar-quality rounds, reinforcing bar and channels. Operating profit is net sales less operating costs and expenses, excluding general corporate expenses and interest expense. Identifiable assets by segment are those assets that are used in the Company's operation in each segment. Corporate assets consist primarily of cash, real estate and other financial assets not identified with a major business segment. Business segment information is presented on pages 11 and 12.

QUARTERLY FINANCIAL INFORMATION (Unaudited)

The following is a summary of quarterly financial information (in thousands except per share):

2001	AUG.	NOV.	FEB.	MAY
Net sales				
CAC	\$193,237	\$159,673	\$133,665	\$191,426
Steel	171,935	140,899	120,772	140,625
	365,172	300,572	254,437	332,051
Operating profit (loss)				
CAC	43,221	28,178	11,700	51,646
Steel	13,173	3,939	(10,209)	(29,429)
	56,394	32,117	1,491	22,217
Net income (loss)	25,664	9,932	(11,517)	2,144
Per share				
Net income (loss)				
Basic	1.21	.47	(.55)	.11
Diluted	1.13	.47	(.55)	.10
Dividends	.075	.075	.075	.075
Stock price				
High	34.94	34.00	30.94	34.55
Low	28.06	20.88	22.13	26.83

Net sales				
CAC	\$183,719	\$168,434	\$149,116	\$178,498
Steel	128,176	148,806	165,166	184,492
	311,895	317,240	314,282	362,990
Operating profit (loss)				
CAC	48,752	41,251	31,506	48,208
Steel	(8,139)	(5,518)	10,971	17,924
	40,613	35,733	42,477	66,132
Net income	16,394	10,672	13,884	28,879
Per share				
Net income				
Basic	.78	.51	.65	1.36
Diluted	.75	.50	.64	1.26
Dividends	.075	.075	.075	.075
Stock price				
High	39.63	39.75	43.38	35.38
Low	31.50	31.50	29.44	28.69

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders
Texas Industries, Inc.

We have audited the accompanying consolidated balance sheets of Texas Industries, Inc. and subsidiaries (the Company) as of May 31, 2001 and 2000, and the related consolidated statements of income, cash flows, and shareholders' equity for each of the three years in the period ended May 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Texas Industries, Inc. and subsidiaries at May 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 31, 2001, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Dallas, Texas
July 11, 2001

BOARD OF DIRECTORS AND OFFICERS

DIRECTORS

Gerald R. Heffernan
Chairman of the Board

Robert D. Rogers
President and Chief Executive Officer

Robert Alpert
*President and Chairman of the Board -
Angelholm Corp. d/b/a - The Alpert Companies*

John M. Belk
Chairman of the Board and CEO, Belk Stores Services, Inc.

Gordon E. Forward
Private Investments

James M. Hoak, Jr.
Chairman and Principal - Hoak Capital Corporation

David A. Reed
Managing Partner - Causeway Capital Partners, L.P.

Eugenio Clariond Reyes
President and CEO - Grupo IMSA, S.A.

Ian Wachtmeister
Vice Chairman - The Empire, AB

Elizabeth C. Williams
Treasurer, Southern Methodist University

OFFICERS

Robert D. Rogers
President and Chief Executive Officer

Mel G. Brekhus
Executive Vice President, Cement, Aggregate and Concrete

Tommy A. Valenta
Executive Vice President, Steel

Richard M. Fowler
Executive Vice President, Finance

Barry M. Bone
Vice President, Real Estate

Carlos E. Fonts
Vice President, Development

William J. Durbin
Vice President, Human Resources

Robert C. Moore
Vice President, General Counsel and Secretary

OPERATIONS AND STAFF OFFICERS

Kenneth R. Allen
Vice President and Treasurer

Timothy J. Bourcier
Vice President, Texas Plant Manager - Steel

Larry L. Clark
Vice President, Controller

J. Lynn Davis
Vice President, Cement Production

William H. Dickert
Vice President, Steel Marketing and Sales

George E. Eure
Vice President, Expanded Shale and Clay

E. Leo Faciane
Vice President, Environmental Affairs

David A. Fournie
Vice President, Steel Production

Julia P. Fuller
Assistant Treasurer

J. Celtyn Hughes
Vice President, Logistics and Steel Finance

H. Duff Hunt
Vice President, Recycled Products

Richard T. Jaffre
Vice President, Raw Materials

D. Randall Jones
Vice President, Communications and Government Affairs

J. Michael Link
Vice President, Controller; Cement, Aggregate and Concrete

Stephen D. Mayfield
Vice President, Aggregates

Daniel J. McAuliffe
Vice President, Real Estate Marketing

James R. McCraw
Vice President, Accounting and Information Services

Michael E. Perkins
Vice President, Concrete

J. Barrett Reese
Vice President, Marketing, Cement, Aggregate and Concrete

Robert J. Simcoe
Vice President, Virginia Plant Manager - Steel

Peter H. Wright
Vice President, Bar Product Sales

S H A R E H O L D E R I N F O R M A T I O N

WEB ADDRESS

<http://www.txi.com>

TO RECEIVE FINANCIAL INFORMATION VIA FAX-ON-DEMAND

1 800 964 4231

FORM 10-K REQUESTS

Shareholders may obtain, without charge, a copy of the Company's Form 10-K for the year ended May 31, 2001, as filed with the Securities and Exchange Commission. Written requests should be addressed to Investor Relations or by email to: investor@txi.com

The information contained herein is not given in connection with any sale or offer of, or solicitation of any offer to buy, any securities.

TRANSFER AGENT AND REGISTRAR

Mellon Investor Services, LLC

Shareholder Inquiries 1 800 635 9270

STOCK EXCHANGE LISTING

New York Stock Exchange

Texas Industries, Inc. - TXI

TXI Capital Trust I Preferred - TXI Pr S

ANNUAL MEETING

The Annual Meeting of Shareholders of Texas Industries, Inc. will be held on Tuesday, October 16, 2001 at 9:30 a.m. at TXI's Midlothian Cement Plant, located at 245 Ward Road in Midlothian, Texas. Proxies for this meeting will be requested by Management. All Shareholders are cordially urged to attend in order to comment and advise on matters concerning the Company.



TEXAS INDUSTRIES, INC.

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