

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**
SEC Accession No. **0000313058-95-000002**

([HTML Version](#) on secdatabase.com)

FILER

SOUTHDOWN INC

CIK: **313058** | IRS No.: **720296500** | State of Incorporation: **LA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-06117** | Film No.: **95536329**
SIC: **3241** Cement, hydraulic

Mailing Address

*1200 SMITH STREET SUITE
2400
HOUSTON TX 77002*

Business Address

*1200 SMITH ST STE 2400
HOUSTON TX 77002
7136506200*

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1995

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-6117

SOUTHDOWN, INC.
(Exact name of registrant as specified in its charter)

Louisiana
(State or other jurisdiction of
incorporation or organization)

72-0296500
(I.R.S. Employer
Identification No.)

1200 Smith Street
Suite 2400
Houston, Texas
(Address of principal executive offices)

77002
(Zip Code)

Registrant's telephone number, including area code: (713) 650-6200

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 periods 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

At April 28, 1995 there were 17.3 million common shares outstanding.

SOUTHDOWN, INC. AND SUBSIDIARY COMPANIES

INDEX

	Page No.
Part I. FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	
Consolidated Balance Sheet March 31, 1995 and December 31, 1994	1
Statement of Consolidated Earnings Three months ended March 31, 1995 and 1994	2
Statement of Consolidated Cash Flows Three months ended March 31, 1995 and 1994	3
Statement of Consolidated Revenues and Operating Earnings by Business Segment Three months ended March 31, 1995 and 1994	4
Statement of Shareholders' Equity Three months ended March 31, 1995	4
Notes to Consolidated Financial Statements	5
Independent Accountants' Review Report	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9
Part II. OTHER INFORMATION	

Item 1.	Legal Proceedings	15
Item 6.	Exhibits and Reports on Form 8-K	17

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Southdown, Inc. and Subsidiary Companies

Consolidated Balance Sheet

(Unaudited)

<TABLE>
<CAPTION>

(in millions)

	March 31, 1995	December 31, 1994
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7.2	\$ 7.4
Accounts and notes receivable, less allowance for doubtful accounts of \$8.0 and \$7.2	70.5	73.0
Inventories (Note 3)	73.8	54.0
Deferred income taxes	28.8	26.5
Assets held for sale	11.8	13.2
Prepaid expenses and other	3.1	3.5
	-----	-----
Total current assets	195.2	177.6
Property, plant and equipment, less accumulated depreciation, depletion and amortization of \$313.9 and \$306.0	559.9	560.2
Goodwill	77.9	78.6
Other long-term assets:		
Long-term receivables	18.1	15.3
Other	49.2	49.3
	-----	-----
	\$ 900.3	\$ 881.0
	-----	-----
	-----	-----

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current maturities of long-term debt	\$ 1.0	\$ 0.3
Accounts payable and accrued liabilities	96.4	103.2
	-----	-----
Total current liabilities	97.4	103.5
Long-term debt	212.3	185.8
Deferred income taxes	118.9	122.7
Minority interest in consolidated joint venture	29.3	28.9
Long-term portion of postretirement benefit obligation	81.6	82.0
Other long-term liabilities and deferred credits	20.1	21.0
	-----	-----
	559.6	543.9
	-----	-----
Shareholders' equity:		
Preferred stock redeemable at issuer's option (Note 4)	151.9	152.0
Common stock, \$1.25 par value	21.6	21.6
Capital in excess of par value	126.7	126.6
Reinvested earnings	40.5	36.9
	-----	-----
	340.7	337.1
	-----	-----
	\$ 900.3	\$ 881.0
	-----	-----
	-----	-----

/TABLE

Southdown, Inc. and Subsidiary Companies

Statement of Consolidated Earnings

(Unaudited)

<TABLE>
<CAPTION>

(in millions,
except per share data)

 Three Months Ended
 March 31,

1995

1994

<S>

<C>

<C>

Revenues

\$ 119.1

\$ 111.3

Costs and expenses:

Operating

81.2

80.7

Depreciation, depletion and amortization

9.9

9.9

Selling and marketing

3.6

3.1

General and administrative

9.4

9.9

Other (income) expense, net

(0.9)

0.8

 103.2

 104.4

Minority interest in earnings of consolidated
 joint venture

0.4

-

 103.6

 104.4

Operating earnings

15.5

6.9

Interest, net of amounts capitalized

(6.6)

(8.7)

Earnings (loss) from continuing operations
 before income taxes

8.9

(1.8)

Federal and state income tax (expense) benefit

(2.8)

0.5

Earnings (loss) from continuing operations
 Loss from discontinued operations, net of

6.1

(1.3)

income taxes (Note 2)

-

(0.9)

Net earnings (loss)

\$ 6.1

\$ (2.2)

Dividends on preferred stock (Note 4)

 \$ (2.4)

 \$ (2.1)

Earnings (loss) per common share		
(Note 4 and Exhibit 11):		
Earnings (loss) from continuing operations	\$ 0.21	\$ (0.20)
Loss from discontinued operations, net of income taxes	-	(0.05)
	-----	-----
	\$ 0.21	\$ (0.25)
	-----	-----
	-----	-----
Average shares outstanding (Exhibit 11)		
Primary	17.3	17.1
	-----	-----
	-----	-----
Fully diluted	17.4	17.1
	-----	-----
	-----	-----

/TABLE

Southdown, Inc. and Subsidiary Companies

Statement of Consolidated Cash Flows

(Unaudited)

<TABLE>
<CAPTION>

(in millions)

	Three Months Ended	
	March 31,	

	1995	1994
	-----	-----
<S>	<C>	<C>
Operating activities:		
Earnings (loss) from continuing operations	\$ 6.1	\$ (1.3)
Adjustments to reconcile earnings (loss) from continuing operations to net cash provided by		
(used in) operating activities:		
Depreciation, depletion and amortization	9.9	9.9

Deferred income tax expense (benefit)	1.4	(0.1)
Amortization of debt issuance costs	0.6	1.2
Changes in operating assets and liabilities	(29.4)	(12.6)
Net cash used in discontinued operations	(3.2)	(0.2)
	-----	-----
Net cash used in operating activities	(14.4)	(3.1)
	-----	-----
Investing activities:		
Additions to property, plant and equipment	(6.8)	(6.2)
Acquisitions, net of cash acquired	(2.0)	-
Other	0.1	(1.1)
Net cash used in discontinued operations	(0.9)	(0.3)
	-----	-----
Net cash used in investing activities	(9.6)	(7.6)
	-----	-----
Financing activities:		
Additions to long-term debt	27.2	-
Reductions in long-term debt	(0.1)	(70.0)
Dividends	(3.3)	(0.4)
Proceeds from sale of preferred stock	-	86.3
Securities issuance costs	-	(4.2)
	-----	-----
Net cash provided by financing activities	23.8	11.7
	-----	-----
Net increase (decrease) in cash and cash equivalents	(0.2)	1.0
Cash and cash equivalents at beginning of period	7.4	7.4
	-----	-----
Cash and cash equivalents at end of period	\$ 7.2	\$ 8.4
	-----	-----
	-----	-----

</TABLE>

Cash payments for income taxes totaled \$4.3 million and \$115,000 in the first quarters of 1995 and 1994, respectively. In order not to incur additional interest charges, in early January 1995 the Company also paid a \$7.6 million tax assessment, including interest, proposed by the Internal Revenue Service in

a preliminary audit report issued in late 1994. Interest paid, net of amounts capitalized, was \$1.9 million and \$3.2 million in 1995 and 1994, respectively.

Southdown, Inc. and Subsidiary Companies

Statement Of Consolidated Revenues And Operating Earnings
By Business Segment

(Unaudited)

<TABLE>
<CAPTION>

	(in millions)	
	----- Three Months Ended March 31, -----	
	1995	1994
	-----	-----
<S>	<C>	<C>
Contributions to revenues:		
Cement	\$ 80.1	\$ 73.4
Concrete products	49.7	49.6
Intersegment sales	(10.7)	(11.7)
	-----	-----
	\$ 119.1	\$ 111.3
	-----	-----
Contributions to operating earnings (loss) before interest expense and income taxes:		
Cement	\$ 21.6	\$ 16.9
Concrete products	1.2	(0.8)
Corporate		
General and administrative	(6.4)	(6.9)
Depreciation, depletion and amortization	(1.0)	(1.2)
Miscellaneous income (expense)	0.1	(1.1)
	-----	-----
	\$ 15.5	\$ 6.9
	-----	-----
	-----	-----

/TABLE

Southdown, Inc. and Subsidiary Companies
Statement Of Shareholders' Equity
(Unaudited)

<TABLE>
<CAPTION>

(in millions)

	Preferred Shares	Stock Amount	Common Shares	Stock Amount	Capital in excess of par value	Reinvested earnings
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1994	4.6	\$152.0	17.3	\$ 21.6	\$126.6	\$ 36.9
Net earnings	-	-	-	-	-	6.1
Dividends on preferred stock (Note 4)	-	-	-	-	-	(2.4)
Other	-	(0.1)	-	-	0.1	(0.1)
Balance at March 31, 1995	4.6	\$151.9	17.3	\$ 21.6	\$126.7	\$ 40.5

/TABLE

SOUTHDOWN, INC. AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1 - Unaudited Consolidated Financial Statements:

The Consolidated Balance Sheet of Southdown, Inc. and subsidiary companies (the Company) at March 31, 1995 and the Statements of Consolidated Earnings, Consolidated Cash Flows, Consolidated Revenues and Operating Earnings by Business Segment and Shareholders' Equity for the periods indicated herein have been prepared by the Company without audit. The Consolidated Balance Sheet at December 31, 1994 is derived from the December 31, 1994 audited financial statements, but does not include all disclosures required by generally accepted accounting principles. It is assumed that these financial statements will be read in conjunction with the audited financial statements and notes thereto included in the Company's 1994 Annual Report on Form 10-K.

In the opinion of management, the statements reflect all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows of the Company on a consolidated basis and all such adjustments are of a normal recurring nature. The interim statements for the period ended March 31, 1995 are not necessarily indicative of results to be expected for the full year. Certain data from the prior year has been reclassified for purposes of comparison.

Note 2 - Discontinued Environmental Services Segment:

During the fourth quarter of 1994, the Company adopted a formal plan to exit the environmental services business and recorded a \$21.6 million charge to earnings to reflect (i) the difference between the book value of the environmental services assets and the estimated proceeds from the disposal of these assets and (ii) the estimated losses to be incurred prior to the sale of assets and other direct costs of exiting the business. During April 1995, the Company sold all the outstanding shares of stock of its remaining hazardous waste processing facilities for a combination of \$11.8 million in cash and notes plus certain working capital items. The Company remains contingently liable for certain environmental remediation issues, known and unknown, under the indemnification provisions of the sales agreements.

As of March 31, 1995, balance sheet amounts associated with the discontinued environmental services operations reflect management's estimates of the amounts expected to be realized on the sale of the Company's environmental services business and the estimated amount of liabilities retained and the operating losses expected to be incurred prior to disposition. The amounts the Company may ultimately realize and the liabilities for which the Company may ultimately be held responsible related to the disposition of the environmental services business may differ materially, based on subsequent events or future information, from the amounts assumed in arriving at the loss on disposal of the discontinued operations.

As a result of the decision to exit the environmental services business, prior periods have been restated to present the results from the Environmental Services segment as discontinued operations. Summary operating results of the

discontinued Environmental Services segment and reconciliation to amounts previously reported are as follows:

	(in millions)	

	Three Months Ended	
	March 31, 1994	

Revenue:		
Continuing operations	\$	111.3
Discontinued operations		8.1

	\$	119.4

Pre-tax operating loss from discontinued operations	\$	(1.4)

Note 3 - Inventories:

	(unaudited, in millions)	

	March 31,	December 31,
	1995	1994
	-----	-----
Finished goods	\$ 24.6	\$ 15.1
Work in progress	16.1	6.5
Raw materials	4.8	4.6
Supplies	28.3	27.8
	-----	-----
	\$ 73.8	\$ 54.0
	-----	-----
	-----	-----

Inventories stated on the LIFO method were \$32.5 million of total inventories at March 31, 1995 and \$19.2 million of total inventories at December 31, 1994 compared with current costs of \$40.8 million and \$27.5 million, respectively.

Note 4 - Capital Stock:

Common Stock

At March 31, 1995 17,266,000 shares of common stock were issued and outstanding.

Preferred Stock Redeemable at Issuer's Option

Series A Preferred Stock - The Company had 1,994,000 shares of

Preferred Stock, \$0.70 Cumulative Convertible Series A (Series A Preferred Stock) outstanding at March 31, 1995 and December 31, 1994 and 1,999,000

shares outstanding at March 31, 1994. Dividends paid on the Series A Preferred Stock were approximately \$350,000 during each of the three-month periods ended March 31, 1995 and 1994.

Series B Preferred Stock - The Company had 914,360 shares of Preferred Stock, \$3.75 Convertible Exchangeable Series B (Series B Preferred Stock) outstanding at March 31, 1995, 917,160 shares outstanding at December 31, 1994, and 957,000 shares outstanding at March 31, 1994. Dividends accrued on the Series B Preferred Stock were approximately \$860,000 and \$900,000, respectively, during the three months ended March 31, 1995 and 1994.

Series D Preferred Stock - On January 27, 1994, the Company issued 1,725,000 shares of Preferred Stock, \$2.875 Cumulative Convertible Series D (Series D Preferred Stock) all of which were outstanding at March 31, 1995, December 31, 1994, and March 31, 1994. Dividends accrued on the Series D Preferred Stock were approximately \$1.2 million and \$900,000, respectively, during the three month periods ended March 31, 1995 and 1994.

Note 5 - Contingencies:

See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Known Events, Trends and Uncertainties" for discussion of certain contingencies.

Note 6 - Review by Independent Accountants:

The unaudited financial information presented in this report has been reviewed by the Company's independent public accountants. The review was limited in scope and did not constitute an audit of the financial information in accordance with generally accepted auditing standards such as is performed in the year-end audit of financial statements. The report of Deloitte & Touche LLP relating to its limited review of the financial information as of March 31, 1995 and for the three-month periods ended March 31, 1995 and 1994 follows.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders and

Board of Directors of
Southdown, Inc.
Houston, Texas

We have reviewed the accompanying consolidated balance sheet of Southdown, Inc. and subsidiary companies as of March 31, 1995, and the related consolidated statements of earnings and cash flows for the three months ended March 31, 1995 and 1994 and the statement of shareholders' equity for the three months ended March 31, 1995. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of the interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Southdown, Inc. and subsidiary companies as of December 31, 1994 and the related consolidated statements of earnings, shareholders' equity and cash flows for the year then ended (not presented herein); and in our report dated January 27, 1995, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 1994 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche LLP
Houston, Texas
April 26, 1995

Item 2. Management's Discussion and Analysis of Financial Condition and
Results of Operations.
Results of Operations

Consolidated First Quarter Earnings

Operating earnings for the first quarter of 1995 were \$15.5 million compared with \$6.9 million in the prior year quarter. Net earnings for the three months ended March 31, 1995 were \$6.1 million, \$0.21 per share. The net loss for the prior year quarter was \$2.2 million, \$0.25 per share, including a loss from the discontinued environmental services operations of \$0.9 million, \$0.05 per share.

Consolidated revenues in the first quarter of 1995 increased 7% over the same period of the prior year primarily because of improved sales prices in both the Cement and Concrete Products segments. First quarter 1995 operating earnings improved \$8.6 million over the same quarter of the prior year. The Cement segment benefited from an improvement in sales prices, partially offset by marginally lower sales volumes and higher per unit cost of sales. The Concrete Products segment's continued improvement resulted primarily from higher ready-mixed concrete sales prices also partially offset by lower sales volumes and higher per unit operating costs. Included in the results of the prior year quarter were miscellaneous charges totaling \$1.7 million in conjunction with the disposition of certain lawsuits.

Interest expense for the three months ended March 31, 1995 was \$2.1 million lower than the comparable 1994 quarter because of lower debt levels. The decline in debt levels is primarily the result of the issuance of approximately \$86 million of preferred stock and the application of the proceeds towards early retirement of \$90 million of 12% notes in the first half of 1994.

Segment Operating Earnings

Cement

Operating earnings of the Cement segment for the three month period ended March 31, 1995 were \$21.6 million compared with \$16.9 million in the prior year quarter. Cement sales prices improved an average of \$6.16 per ton for the quarter, reflecting price increases implemented at all locations. Even though manufacturing costs per ton were lower in the current year, cost of sales were higher primarily because of increased purchases of imported finished cement to supplement the Company's production capacity. The slight decline in sales volume reflects primarily the adverse impact of the unusually severe rainy weather in California during the first quarter of 1995.

Sales volumes, average unit price and cost data and unit operating profit margins relating to the Company's cement plant operations appear in the following table:

	Three Months Ended March 31,	
	1995	1994
Tons of cement sold (thousands)	1,216	1,240

Weighted average per ton data:		
Sales price (net of freight)	\$58.16	\$52.00
Cost of sales (1)	44.60	41.84
	-----	-----
Margin	\$13.56	\$10.16
	-----	-----
	-----	-----

(1) Includes fixed and variable manufacturing costs, cost of purchased cement, selling expenses, plant general and administrative costs, other plant overhead and miscellaneous costs.

Concrete Products

The Concrete Products segment's operating earnings for the quarter ended March 31, 1995 were \$1.2 million compared with a \$0.8 million operating loss reported in the prior year period. Revenues increased marginally over the prior year quarter because improved sales prices more than offset lower sales volumes. Higher prices in both the Florida and southern California ready-mix concrete operations were offset to some extent by an 11% decline in ready-mix concrete sales volumes and, primarily in Florida, higher operating costs. The decrease in segment sales volumes reflects the unusually rainy weather in California during the first quarter of 1995 and, in Florida, a decline in residential construction compared with the prior year period.

The segment's operating results also reflect continuing improvement from the block, resale and fly ash operations in Florida and from aggregate operations in southern California which combined totalled \$1.8 million of operating earnings in the 1995 period compared with \$900,000 in the 1994 period.

Sales volumes, unit price and cost data and unit operating margins relating to the Company's sales of ready-mixed concrete appear in the following table:

	Three Months Ended March 31,	
	1995	1994
	-----	-----
Yards of ready-mixed concrete sold (thousands)	791	893
	-----	-----
	-----	-----
Weighted average per cubic yard data:		
Sales price	\$ 50.03	\$ 45.18

Operating costs (1)		50.58	47.04
		-----	-----
Margins (2)	\$	(0.55) \$	(1.86)
		-----	-----
		-----	-----

-
- (1) Includes variable and fixed plant costs, delivery, selling, general and administrative and miscellaneous operating costs.
- (2) Does not include profits from sale of aggregates, concrete block and other related products.

The increase in the weighted average sales price per cubic yard for the three months ended March 31, 1995 compared with the 1994 period reflects price increases implemented in the Company's Florida and southern California markets. The increase in weighted average operating costs per cubic yard for the three months ended March 31, 1995 compared with 1994 is primarily attributable to higher raw material, payroll and lease costs of the Florida operations.

Corporate

Corporate general and administrative expenses were \$6.4 million in the first quarter of 1995 compared with \$6.9 million in the prior year quarter. The current quarter included a \$0.5 million credit to pension expense. The pension credit represents the extent to which the investment return on pension assets exceeded the computed increase in the projected pension benefit obligation.

Miscellaneous expense in the first quarter of 1994 included charges totaling \$1.7 million in conjunction with the disposition of certain lawsuits.

Liquidity and Capital Resources

The discussion of liquidity and capital resources included on pages 30 through 38 of the Company's Annual Report on Form 10-K for the year ended December 31, 1994 should be read in conjunction with the discussion of liquidity and capital resources contained herein.

The Company's Revolving Credit Facility totals \$200 million and matures in November 1996. The Revolving Credit Facility includes \$18.5 million of borrowing capacity that is restricted solely for potential funding of obligations under an agreement between the Company and the U.S. Maritime Administration related to certain shipping operations owned previously by Moore McCormack Resources, Inc. (Moore McCormack), an entity acquired by the

Company in 1988. The terms of the facility also permit the issuance of standby letters of credit up to a maximum of \$95 million in lieu of borrowings. Substantially all of the Company's assets are pledged to secure this facility. At March 31, 1995, \$49.8 million of borrowings and \$51.2 million of letters of credit were outstanding under the Revolving Credit Facility, leaving \$80.5 million of unused and unrestricted capacity.

In the first quarter of 1995, borrowings under the Company's Revolving Credit Facility were utilized to (i) fund working capital requirements, (ii) invest approximately \$8.8 million in plant, property and equipment and (iii) pay dividends on preferred stock.

In the first quarter of 1994, the Company realized approximately \$82 million in net proceeds from the sale of 1,725,000 shares of a new issue of preferred stock. The net proceeds were used to prepay an \$18 million promissory note due in March 1994 and to reduce borrowings under the Company's Revolving Credit Facility, some of which had been utilized in early 1994 to redeem \$45 million of the \$90 million outstanding principal amount of the Company's 12% Senior Subordinated Notes Due 1997. Other borrowings under the Company's Revolving Credit Facility were utilized to finance the seasonal build-up of inventories and make investments of approximately \$6.2 million in property, plant and equipment.

Changes in Financial Condition

The change in the financial condition of the Company between December 31, 1994 and March 31, 1995 reflects borrowings under the Company's Revolving Credit Facility to fund working capital requirements, capital expenditures and preferred stock dividends. The increase in inventories reflects the typical seasonal build-up in cement inventories in preparation for the peak selling months in the second and third quarters. Accounts payable and accrued liabilities decreased because of the timing of payments on normal trade and other obligations.

Known Events, Trends and Uncertainties

Environmental Matters

The Company is subject to extensive Federal, state and local air, water and other environmental laws and regulations. These constantly changing laws regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of certain substances at the Company's various operating facilities.

The Federal Water Pollution Control Act, commonly known as the Clean Water Act, provides comprehensive federal regulation of various sources of water pollution. The Clean Air Act Amendments of 1990 provided

comprehensive federal regulation of various sources of air pollution, and established a new federal operating permit program for virtually all manufacturing operations. The Clean Air Act Amendments will likely result in increased capital and operational expenses for the Company in the future, the amounts of which are not presently determinable. Beginning in mid-1995, the Company must, on a pre-determined phase-in schedule, submit permit applications and pay annual permit fees. In addition, the U.S. Environmental Protection Agency (U.S. EPA) is developing air toxics regulations for a broad spectrum of industrial sectors, including portland cement manufacturing. U.S. EPA has indicated that the new maximum available control technology standards 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 would place the Company at a disadvantage with respect to its competitors. To the contrary, given the age, condition, design and other features of the Company's cement manufacturing facilities, these more stringent standards may enhance the Company's competitive position.

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), as amended by the Superfund Amendments and Reauthorization Act of 1986 (SARA), as well as analogous laws in certain states, create joint and several liability for the cost of cleaning up or correcting releases to the environment of designated hazardous substances. The failure to observe the exacting requirements of these laws and regulations may expose the Company to significant liabilities and costs of cleaning up releases into the environment or claims by employees or others alleging exposure to toxic or hazardous substances. Management believes that the Company's current procedures and practices for handling and management of materials are generally consistent with industry standards and legal requirements and that appropriate precautions are taken to protect employees and others from harmful exposure to hazardous materials. However, because of the complexity of operations and legal requirements, there can be no assurance that past or future operations will not result in operational errors, violations, remediation liabilities or claims by employees or others alleging exposure to toxic or hazardous materials. Owners and operators of industrial facilities may be subject to fines or other actions imposed by the U.S. EPA and corresponding state regulatory agencies for violations of laws or regulations relating to hazardous substances. The Company has incurred fines imposed by various environmental regulatory agencies in the past.

Although several of the Company's previously and currently owned facilities at several locations are presently the subject of various local, state and federal environmental proceedings and inquiries, including being named a potentially responsible party with regard to Superfund sites, primarily at several locations to which they are alleged to have shipped materials for disposal, most of these matters are in their preliminary stages and final results may not be determined for years. Based on the information the Company has developed to date, the Company has no reason to believe it will be required to spend significant sums with regard to these locations

either individually or in the aggregate. However, until it is determined what, if any, contribution the Company made to these locations and until all environmental studies, investigations, remediation work and negotiations with potential sources of recovery have been completed, it is impossible to determine the ultimate cost of resolving these environmental matters.

Cement kiln dust - Industrial operations have been conducted at some of the Company's cement manufacturing facilities for almost 100 years. Many of the raw materials, products and by-products associated with the operation of any industrial facility, including those for the production of cement or concrete products, may contain chemical elements or compounds that are designated as hazardous substances. One such by-product of the cement manufacturing process at many of the Company's cement plants is cement kiln dust (CKD). Under the Bevill amendment to the Resource Conservation and Recovery Act (RCRA), CKD is exempt from management as a hazardous waste, except CKD which is produced by kilns burning hazardous waste derived fuel and which fails to meet certain criteria. On January 31, 1995, the U.S. EPA issued its decision on the regulatory status of CKD stating that although the agency found no evidence of risks to human health or the environment, the U.S. EPA had determined further regulation of CKD was necessary. CKD will not be regulated as a RCRA hazardous waste and the Bevill amendment exemption will remain in effect until the issuance of new CKD management standards. The U.S. EPA will initiate a rule-making process, which is estimated to take at least

two years, in order to develop specially tailored CKD management standards. This change in the status of CKD may require the cement industry to develop new methods for handling this high volume, low toxicity waste.

CKD that is infused with water may produce a leachate with an alkalinity high enough to be classified as hazardous and may also leach certain hazardous trace metals present therein. The Company has recorded charges totaling \$11.7 million as the estimated remediation cost for one site in Ohio where such leaching has occurred. Approximately \$10.5 million of the reserved amount had been expended through March 31, 1995 with most of the balance to be spent during the remainder of 1995.

On a voluntary basis, the Company is also investigating two other inactive Ohio CKD disposal sites. The two additional sites in question were part of a cement manufacturing facility that was owned and operated by a now dissolved cement company from 1924 to 1945 and by a division of USX Corporation (USX) from 1945 to 1975. The Company believes that USX is a responsible party because it owned and operated the larger of the two sites (USX Site) at the time of disposal of the hazardous substances, arranged for the disposal of the hazardous substances and transported the hazardous substances to the USX Site. Therefore, based on the advice of counsel, the Company believes there is a reasonable basis for the apportionment of cleanup costs relating to the USX Site between the Company and USX with USX shouldering substantially all of the cleanup costs because, based on the facts

known at this time, the Company itself disposed of no CKD at the USX Site and is potentially liable under CERCLA only because of its current ownership of the USX Site.

On September 24, 1993, the Company filed a complaint against USX, alleging that USX is a potentially responsible party under CERCLA and under applicable Ohio law, and therefore jointly and severally liable for costs associated with cleanup of the USX Site. Based on the limited information available, the Company has received two preliminary estimates of the potential magnitude of the remediation costs of the USX Site, \$8 million and \$32 million, depending on the assumptions used. The Company and USX have held settlement discussions with respect to this matter. In this regard, in March 1995, the Company and USX reached an agreement in principle whereby USX would reimburse the Company for half of certain costs already incurred by the Company at the USX Site and the Company and USX would jointly fund the initial project of a phased approach to investigating and remediating the problems at the USX Site. The court has granted a jointly requested stay of litigation until October 6, 1995.

Under CERCLA and applicable Ohio law, a court generally applies equitable principles in determining the amount of contribution which a potentially responsible party must provide with respect to a cleanup of hazardous substances and such determination is within the sole discretion of the court. In addition, no regulatory agency has directly asserted a claim against the Company as the owner of the USX Site requiring it to remediate the property, and no cleanup of the USX Site has yet been initiated.

No substantial investigative work has been undertaken at other CKD sites in Ohio or elsewhere. Although data necessary to enable the Company to estimate total remediation costs is not available, the Company acknowledges

that it is at least reasonably possible the ultimate cost to remediate the CKD disposal problem could be significantly more than the amounts reserved.

Other Contingencies

Discontinued Moore McCormack Operations - In conjunction with the acquisition of Moore McCormack in 1988, the Company assumed certain liabilities for operations that Moore McCormack had previously discontinued. These liabilities, some of which are contingent, represent guarantees and undertakings related primarily to Moore McCormack's divestiture of certain businesses in 1986 and 1987. Payments relating to liabilities from these discontinued operations were \$400,000 in the first quarter of 1995, \$300,000 in first quarter of 1994 and \$2.5 million in fiscal 1994. The Company is either a guarantor or directly liable under certain charter hire debt agreements totaling approximately \$7 million at March 31, 1995, declining by approximately \$4 million per year thereafter through February 1997. Although the estimated liability under these guaranties has been included in the

liability for discontinued Moore McCormack operations, enforcement of the guaranty, while not resulting in a charge to earnings, would result in a substantial cash outlay by the Company. However, the Company believes it currently has sufficient borrowing capacity under its Revolving Credit Facility to fund these guaranties, if required, as well as meet its other borrowing needs for the foreseeable future.

Restructured Accounts Receivable - For many years, the Company has from time-to-time offered extended credit terms to certain of its customers, including converting trade receivables into longer term notes receivable. This practice became more prevalent during recent years, particularly in the southern California market area where many of the Company's customers have been adversely affected by the prolonged recession in the construction industry in that region. Four such customers were indebted to the Company at March 31, 1995 in the amount of \$16.4 million. In February 1995, one of the four customers filed for protection under Chapter 11 of the United States Bankruptcy Code and the Company is presently evaluating its options for collection of outstanding balances. In early February 1995, the Company loaned another of the four customers \$750,000 as part of a comprehensive debt restructuring under which the Company became a secured creditor.

The Company is presently in discussions with a third customer included in the group to restructure its balance which matures in June 1995. The fourth member of the group is in compliance with the terms of its agreement with the Company.

In the opinion of management, the Company is adequately reserved for credit risks related to its potentially uncollectible receivables. However, the Company continues to assess its allowance for doubtful accounts and may increase or decrease its periodic provision for doubtful accounts as additional information regarding the collectibility of these and other accounts become available.

Claims for Indemnification - Prior to the sale of the Company's then oil and gas subsidiary, Pelto Oil Company (Pelto) in 1989 to Energy Development Corporation (EDC), Pelto entered into certain gas settlement agreements, including one with Transcontinental Gas Pipe Line Corporation

(Transco). The Minerals Management Service (MMS) of the Department of the Interior has reviewed the 1988 agreement Pelto entered into with Transco to determine whether a payment to Pelto thereunder is associated with Federal or Indian leases and whether, in its view, any additional royalties may be due as a result of that payment. In late December 1993, the Company was notified by EDC that EDC was exercising its indemnification rights under the 1989 stock purchase agreement for Pelto with respect to this matter. By letter dated September 30, 1994, the MMS's Houston Compliance Division advised the Company that it had determined that a \$5.9 million payment made by Transco to Pelto

was for a Contract Buy-Down and was royalty bearing. The letter directed the Company to compute and pay royalties on the \$5.9 million sum. It also indicated that upon receipt of the Company's payment, late payment charges would be computed and assessed from May 1, 1987. On October 30, 1994, the Company timely filed its notice of appeal of the MMS directive, thereby staying compliance with the letter. On December 30, 1994, the Company filed with the MMS its statement of reasons supporting its appeal.

The Company disagrees with the MMS determination; however, if the MMS determination as to the \$5.9 million dollar payment to Pelto is ultimately upheld, the Company could have liability for royalty on that sum, plus late payment charges.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

- (a) The information appearing under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Known Events, Trends and Uncertainties - Environmental Matters" is incorporated hereunder by reference, pursuant to Rule 12b-23.
- (b) The Company owns two inactive CKD disposal sites in Ohio that were formerly owned by a division of USX Corporation (USX). In September 1993, the Company filed a complaint against USX alleging that with respect to the larger of these two sites (USX Site), USX is a potentially responsible party and therefore jointly and severally liable for costs associated with cleanup of the USX Site. (Southdown, Inc. v. USX Corporation, Case No. C-3-93-354, U.S. District Court, Southern District of Ohio Western Division). On July 13, 1994, the Magistrate Judge issued a Supplemental Report and Recommendation recommending that a USX motion to dismiss be denied in its entirety, reconfirming his previous recommendation. On February 27, 1995, the District Judge affirmed the Magistrate Judge's recommendation that the USX motion to dismiss be denied. USX and the Company are continuing their settlement discussions. In this regard, in March 1995, the Company and USX reached an agreement in principle whereby USX would reimburse the Company for half of certain costs already incurred by the Company at the USX Site and the Company and USX would jointly fund the initial project of a phased approach to investigating and remediating the problems at the USX Site. On March 31, 1995, the court held a preliminary pretrial conference wherein the parties informed the court as to the proposed Phase I

project and jointly requested a six-month stay of the litigation to complete the project and achieve settlement. The court

granted this request, and this litigation has been stayed until October 6, 1995.

- (c) In late August 1993, the Company was notified by Energy Development Corporation (EDC), the 1989 purchaser of the common stock of the Company's then oil and gas subsidiary, Pelto Oil Company (Pelto), that EDC was exercising its indemnification rights under the 1989 stock purchase agreement with respect to a Department of Energy (DOE) Remedial Order regarding the audit of crude oil produced and sold during the period September 1973 through January 1981 from an offshore, federal waters field in which the Company's oil and gas subsidiary owned an interest. The DOE alleged certain price overcharges and sought to recover a total of \$68 million in principal and interest from Murphy Oil Corporation (Murphy), as operator of the property. Murphy estimated the Company's share of this total to be approximately \$4 million. On January 24, 1994, the presiding Administrative Law Judge at the Federal Energy Regulatory Commission (FERC) rendered a favorable decision for Murphy, materially reducing the amount it potentially owed to the DOE. This decision also had the effect of precluding the DOE from recovering from Murphy for any alleged overcharges attributable to Pelto's in-kind production. In late July 1994, Murphy notified the Company that it had settled with the DOE by agreeing to pay \$10.7 million and that it would contact the Company later concerning the Company's alleged share of this amount. The Company advised Murphy that it does not accept liability for any portion of the settlement amount paid to the DOE other than its pro rata share of attorney's fees, which the Company has paid. On April 12, 1995, Murphy filed a complaint against the Company in the U.S. District Court for the Southern District of Texas, Houston Division (Murphy Exploration & Production Company v. Southdown, Inc. - Case No. H-95-1049) alleging that the Company is liable for the Company's pro rata share of the \$10.7 million payment made to the DOE by Murphy in its capacity as operator of the property. Murphy alleges this amount is at least \$634,487.
- (d) In late 1988, Southern Prestressed, Inc. (SPI), a wholly owned subsidiary of Lohja, Inc., was designated the Buyer in an Agreement for Sale of Properties (Agreement) whereby certain prestressed concrete product plants owned and operated by the Company were acquired. On March 31, 1995, SPI filed suit against the Company (Southern Prestressed, Inc. v. Florida Mining & Materials Concrete Corp. and Southdown, Inc., Case No. C95-2217, Thirteenth Judicial Circuit Court, Hillsborough County, Florida) alleging environmental contamination at certain of the facilities SPI acquired from the Company and seeking compensation under the indemnification provisions of the Agreement.
- (e) In Jack Blair, et al. vs. Ideal Basic Industries, Inc., United Cement, Lime, Gypsum and Allied Workers International Union, and Dixie Cement Company (Chancery Court of Knox County, Tennessee,

No. 03A1-CH-00029), the plaintiffs are fifteen former employees of Ideal Basic Industries, Inc. (Ideal), and the defendants are Ideal, Dixie Cement Company (Dixie) (a subsidiary of Moore McCormack Resources Inc. which was acquired by the Company in 1988), and the United Cement, Lime, Gypsum and Allied Workers International Union (Union). The plaintiffs' claims arise out of a December 1983 transaction in which Dixie purchased a cement plant from Ideal. Among other things, the plaintiffs allege that they were not hired by Dixie because of their ages, that their retirements were not voluntary because they were induced to r e t i r e through factual misrepresentations made by Ideal employees, allegedly acting as agents of Dixie, as to their retirement benefits and Dixie's plans to rehire former Ideal employees, and that Dixie induced Ideal to breach its collective bargaining agreement with the Union. Dixie has assumed the defense of Ideal with respect to the claim under Section 301 of the National Labor Relations Act based on the indemnification provision of the agreement pursuant to which the Knoxville plant was acquired. The plaintiffs are seeking compensatory damages (including back pay and benefits), liquidated damages (under the federal age discrimination statute), punitive damages, treble damages (under the same statute prohibiting interference with contracts), interest and attorney's fees.

In December 1992, the trial court granted summary judgment in favor of Dixie on all claims against Dixie. However, in November 1994, the Tennessee Court of Appeals reversed the summary judgment order, and remanded the case to the trial court. In January 1995, Dixie filed an application for an appeal by permission to the Supreme Court of Tennessee. In early May 1995, the Supreme Court of Tennessee denied Dixie's application and the case will be returned to the Chancery Court of Knox County, Tennessee for trial.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

- 3.1 Bylaws of the Company amended as of February 14, 1995
- 10.1 Southdown, Inc. Directors' Retirement Plan
- 11 Statement of Computation of Per Share Earnings.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended March 31, 1995.

SIGNATURES

Pursuant to the requirements 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.

SOUTHDOWN, INC.

(Registrant)

Date: May 10 , 1995

By: JAMES L. PERSKY

James L. Persky
Executive Vice President-Finance
and Administration
(Principal Financial Officer)

Date: May 10 , 1995

By: ALLAN KORSAKOV

Allan Korsakov
Corporate Controller
(Principal Accounting Officer)

Exhibit 11

Southdown, Inc. and Subsidiary Companies

Statement of Computation of Per Share Earnings
(In millions, except per share amounts - Unaudited)

<TABLE>
<CAPTION>

	Quarter Ended March 31,	
	1995	1994
	-----	-----
<S>	<C>	<C>
Earnings (loss) for primary earnings per share:		
Earnings (loss) from continuing operations before preferred stock dividends	\$ 6.1	\$ (1.3)
Preferred stock dividends	(2.4)	(2.1)
	-----	-----
Earnings (loss) from continuing operations	3.7	(3.4)
Loss from discontinued operations, net of income taxes	-	(0.9)
	-----	-----
Net earnings (loss) for primary earnings per share	\$ 3.7	\$ (4.3)
	-----	-----
	-----	-----
Earnings (loss) for fully diluted earnings per share:		
Earnings (loss) from continuing operations before		

preferred stock dividends	\$ 6.1	\$ (1.3)
Antidilutive preferred stock dividends	(2.4)	(2.1)
	-----	-----
Earnings (loss) from continuing operations	3.7	(3.4)
Loss from discontinued operations, net of income taxes	-	(0.9)
	-----	-----
Net earnings (loss) for fully diluted earnings per share	\$ 3.7	\$ (4.3)
	-----	-----
	-----	-----
Average shares outstanding:		
Common stock	17.3	17.1
Common stock equivalents from assumed exercise of stock options and warrants (treasury stock method)	-	0.9
	-----	-----
Total for primary earnings per share	17.3	18.0
Other potentially dilutive securities:		
- additional common stock equivalent from assumed exercise of stock options and warrants at ending market price	0.1	-
- assumed conversion of Series A convertible preferred stock at one-half share of common stock	1.0	1.0
- assumed conversion of Series B convertible preferred stock at 2.5 shares of common stock	2.3	2.4
- assumed conversion of the Series D convertible preferred stock at 1.51 shares of common stock	2.6	1.8
	-----	-----
Total for fully diluted earnings per share	23.3	23.2
Less: Antidilutive securities		
Stock options and warrants	-	(0.9)
Series A preferred stock	(1.0)	(1.0)
Series B preferred stock	(2.3)	(2.4)
Series D preferred stock	(2.6)	(1.8)
	-----	-----
	17.4	17.1

	-----	-----
	-----	-----
Earnings (loss) per share:		
Primary		
Earnings (loss from continuing operations)	\$ 0.21	\$ (0.20)
Loss from discontinued operations, net of income taxes	-	(0.05)
	-----	-----
	\$ 0.21	\$ (0.25)
	-----	-----
	-----	-----
Fully diluted		
Earnings (loss from continuing operations)	\$ 0.21	\$ (0.20)
Loss from discontinued operations,		
net of income taxes	-	(0.05)
	-----	-----
	\$ 0.21	\$ (0.25)
	-----	-----
	-----	-----

/TABLE

- As Amended February 14, 1995 -
- Effective May 18, 1995 -

BYLAWS
OF
SOUTHDOWN, INC.

ARTICLE I

Shareholders

Section 1 - Place of Holding Meetings

All meetings of the shareholders shall be held at the principal business office of the corporation in New Orleans, Louisiana, or at such other place as may be specified in the notice of the meeting.

Section 2 - Annual Election of Directors

An annual meeting of shareholders for the election of directors shall be held in each calendar year on such date as the board of directors may determine but not later than 18 months after the date of the annual meeting held the preceding year, at such time as may be specified in the notice of the meeting.

Section 3 - Voting

- (a) On demand of any shareholder, the vote for directors, or on any questions before a meeting, shall be by ballot. All elections shall be had by plurality, and all questions decided by majority, of the votes cast, except as otherwise provided by the articles or by law.
- (b) At each meeting of shareholders, a list of the shareholders entitled to vote, arranged alphabetically and certified by the transfer agent, showing the number and class of shares held by each such shareholder on the record date for the

meeting, shall be produced on the request of any shareholder.

- (c) The date and time of the opening and the closing of the polls for each matter on which the shareholders will vote at any meeting of the shareholders shall be announced at the meeting by the chairman of the meeting. The Board of Directors of the corporation (or any committee designated by it for that purpose) may, to the extent not prohibited by law, adopt by resolution such rules, regulations and procedures for the conduct of any meeting of shareholders as

it may deem appropriate or convenient. Except to the extent inconsistent with such rules, regulations and procedures as adopted by the Board of Directors or any such committee, the chairman of any meeting has the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of the chairman, are appropriate or convenient for the conduct of any meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or any such committee or prescribed by the chairman of any meeting, may, to the extent not prohibited by law, include, without limitation, establishment of the following: (1) an agenda or order of business for the meeting; (2) rules, regulations and procedures for maintaining order at the meeting and the safety of those present; (3) limitations on attendance at or participation in the meeting to shareholders of record of the corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (4) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (5) limitations on the time allotted to questions or comments by participants at the meeting. Unless, and to the extent, determined by the Board of Directors, by a duly appointed committee or by the chairman of the meeting, meetings of shareholders are not required to be held in accordance with the rules of parliamentary procedure.

Section 4 - Quorum

Except as provided herein, any number of shareholders, together holding at least a majority of the outstanding shares entitled to vote thereat, who are present in person or represented by proxy at the meeting, constitute a quorum for the transaction of business despite the subsequent withdrawal or refusal to vote of

any shareholder. If notice of any meeting is mailed to the shareholders entitled to vote at the meeting, stating the purpose or purposes of the meeting and that the previous meeting failed for lack of a quorum, then any number shareholders, present in person or represented by proxy and together holding at least one-fourth of the outstanding shares entitled to vote thereat, constitute a quorum at such meeting.

Section 5 - Adjournment of Meeting

If less than a quorum is in attendance at any time for which a meeting is called, the meeting may be adjourned by a majority in interest of the shareholders present or represented and entitled to vote thereat.

Section 6 - Special Meeting: How Called

Special Meetings of the shareholders for any purpose or purposes may be called in the manner set forth in the Restated Articles of Incorporation.

Section 7 - Notice of Shareholders' Meetings

Written or printed notice, stating the place and time of any meeting, and, if a special meeting, the general nature of the business to be considered, shall be given to each shareholder entitled to vote thereat, at his last known address, at least ten days before the meeting.

Section 8 - Form of Proxies

Without limiting the manner in which a shareholder may authorize another person or persons to act for him as proxy, the following shall constitute a valid means by which a shareholder may grant such authority:

- (a) A shareholder may execute a writing authorizing another person or persons to act for him or her as proxy. Execution may be accomplished by the shareholder or his or her authorized officer, director, employee or agent signing such writing or causing his or her signature to be affixed to such writing by any reasonable means including, but not limited to, by facsimile signature.
- (b) Any copy, facsimile telecommunication or other reliable

reproduction of the writing created under subsection (a) of this section 8 may be substituted or used in place of the original writing for any and all purposes for which the original writing could be used, including filing with the secretary of the corporation at or before the meeting, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing.

ARTICLE II

Directors

Section 1 - Number of Directors

The number of directors is eleven (11); provided, that the number of directors shall be increased automatically (i) by two directors for such period as the holders of Preferred Stock, \$.70 Cumulation Convertible Series A shall be entitled to elect two (2) directors of the corporation and (ii) by two (2) directors for such period as the holders of Preferred Stock, \$3.75 Convertible Exchangeable Series B shall be entitled to elect two (2) directors of the corporation, in each case as set forth in Article III of the Restated Articles of Incorporation, as amended.

3

Section 2 - Place of Holding Meetings

Meetings of the directors, regular or special, may be held at any place, within or outside Louisiana, as the board may determine.

Section 3 - Meeting After Annual Meeting

A meeting of the Board of Directors shall be held immediately following the annual meeting of shareholders, and no notice of such meeting shall be necessary to the directors, whether or not newly elected, in order legally to constitute the meeting, provided a quorum is present; or they may meet at such time and place as fixed by the consent in writing of all of the directors, or by notice given by the majority of the remaining directors. At such meeting, or at any subsequent meeting called for the purpose, the directors shall elect the officers of the

corporation.

Section 4 - Regular Directors' Meeting

Any regular meeting of the directors may be held without notice, if a calendar of regular meeting dates including the date of such meeting has been established by the directors at least two weeks prior to such meeting, at the principal business office of the corporation or at any other location specified in such calendar of regular meeting dates. Any regular meeting of the directors may be held in the absence of establishment of such calendar of regular meeting dates, or at a location other than the principal business office of the corporation or location specified in such calendar, by the given notice as required for special directors' meetings. Any proposed agenda for such regular meetings shall not be exclusive of other matters properly brought before the meeting.

Section 5 - Special Directors' Meeting: How Called

Special meetings of the directors may be called at any time by the board of directors or by the executive committee, if one be constituted, by the chairman of the board of directors, or by the president, or in writing, with or without a meeting, by a majority of the directors or of the members of the executive committee. Special meetings may be held at such place or places within or outside Louisiana as may be designated by the person or persons calling the meeting.

Section 6 - Notice of Special Directors' Meetings

Notice of the place and time of every special meeting of the board of directors (and of the first meeting of the newly-elected board, if held on notice) (i) if given by telephone or telegraph shall be delivered to each director at his residence or usual place of business at least 3 days before the date of the meeting,

4

and (ii) if given by a means other than telephone or telegraph shall be sent to each director at his residence or usual place of business at least 5 days before the date of the meeting. Any proposed agenda or statement of purpose or purposes for a special meeting of directors shall not be exclusive of other matters properly brought before the meeting.

Section 7 - Quorum

At all meetings of the board, a majority of the directors in office constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors, unless the concurrence of a greater proportion is required for such action by law, the articles of the bylaws. If a quorum is not present at any meeting of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present. If a quorum be present, the directors present may continue to act by vote of a majority of a quorum until adjournment, notwithstanding the subsequent withdrawal of enough directors to leave less than a quorum or the refusal of any directors present to vote.

Section 8 - Remuneration to Directors

Directors, as such, shall not receive any stated salary for their services, but by resolution of the Board, expenses of attendance, if any, and except as to salaried officers or employees of the corporation or an affiliated company, a fixed fee for the performance of their duties as directors, as may be determined from time to time by resolution of the Board, may be allowed to directors, but this Section does not preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

Section 9 - Powers of Directors

The board of directors has the management of the business of the corporation, and subject to any restrictions imposed by law, the articles or these bylaws, may exercise all the powers of the corporation. Without prejudice to such general powers, the directors have the following specific powers:

- (a) From time to time, to devolve the powers and duties of any officer upon any other person for the time being.
- (b) To confer upon any officer the power to appoint, remove and suspend, and fix and change the compensation of, subordinated officers, agents and factors.

(c) To determine who shall be entitled to vote, or to assign and transfer any shares of stock, bonds, debentures or other securities of other corporations held by this corporation.

(d) To delegate any of the powers of the board to any standing or special committee or to any officer or agent (with power to sub-delegate) upon such terms as they deem fit.

Section 10 - Resignations

The resignation of a director shall take effect on receipt thereof by the president or secretary, or on any later, date, not more than thirty days after such receipt, specified therein.

Section 11 - Term of Office

Each director of the corporation shall hold office for the full term of office to whom he shall have been elected and until his successor shall have been elected and shall qualify, or until his death, resignation or removal.

Section 12 - Participation in Meetings

Directors may participate in and be present at any meeting of the board by means of conference telephone or similar communications equipment if all persons participating in such meeting can hear and communicate with each other.

Section 13 - Chairman of the Board

The board of directors shall elect one of its members to be chairman of the board, to serve in such capacity at the pleasure of the board. In his capacity as chairman of the board, he shall not be an officer of the corporation. The chairman of the board shall preside at meetings of the board of directors and shareholders and perform such other duties as from time to time may be assigned to him by the board.

Section 14 - Vice Chairman of the Board

The board of directors may elect one of its members to be vice chairman of the board to serve in such capacity at the pleasure of the board. In his capacity as vice chairman of the board, he shall not be an officer of the corporation. In the absence of the chairman of the board, the vice chairman of the board shall preside at meetings of the board of directors and shareholders and perform such other duties as from time to time may be assigned to him by the board.

No person shall be eligible for election or reelection as a director after having attained the age of seventy prior to or on the day of election or reelection. Effective January 1, 1996, a director who attains the age of seventy during his or her term of office shall be eligible to serve only until the annual meeting of shareholders of the corporation next following such director's seventieth birthday, at which meeting the shareholders of the corporation shall elect such director's successor in accordance with Article I of these bylaws.

ARTICLE III

Committees

Section 1 - Executive Committee

The board may appoint an executive committee, which, when the board is not in session, to the full extent of the powers of the board shall have and may exercise the powers of the board in the management of the business and affairs of the corporation and may have power to authorize the seal of the corporation to be affixed to documents, provided that the executive committee shall not have the power to make or alter bylaws, fill vacancies on the board or the executive committee, or change the membership of the executive committee.

Section 2 - Minutes of Meeting of Committees

Any committees designated by the board shall keep regular minutes of their proceedings, and shall report the same to the board when required, but no approval by the board of any action properly taken by a committee shall be required.

Section 3 - Procedure

If the Board fails to designate the chairman of a committee, the Chairman of the Board, if a member, shall be Chairman. Each committee shall meet at such times as it shall determine, and at any time on call of the chairman. A majority of a committee

constitutes a quorum, and the committee may take action by vote of a majority of the members present at any meeting at which there is a quorum. The Board has power to change the members of any committee at any time, to fill vacancies, and to discharge any committee at any time.

Section 4 - Participation in Meetings

Members of a committee may participate in and be present at any meeting of the committee by means of conference telephone or similar communications equipment if all person participating in such meeting can hear and communicate with each other.

7

ARTICLE IV

Officers

Section 1 - Titles

The officers of the corporation shall be a president, one or more v i ce-presidents, a treasurer, a secretary and such other officers, including a chief executive officer and chief operating officer, as may, from time to time, be elected or appointed by the board or appointed by the president. Any two offices may be combined in the same person, provided that no person holding more than one office may sign, in more than one capacity, any certificate or other instrument required by law to be signed by two officers. No officer need be a director.

Section 2 - President

The president shall be the chief executive officer of the corporation. Subject to the direction of the board of directors, he shall have the responsibility for the management and control of the business and affairs of the corporation; he shall see that all orders and resolutions of the board are carried into effect and direct the other officers in the performance of their duties; and he shall perform all duties and have all powers that are commonly incident to the office of chief executive or that are assigned to him by the board of directors. In the absence of the chairman of the board and the vice chairman of the board, he shall preside at shareholders' meetings and at directors' meetings.

Section 3 - Vice Presidents

Each vice president shall have such powers, and shall perform such duties, as shall be assigned to him by the directors, by the chairman of the board, or by the president, and, in the order determined by the board, shall, in the absence or disability of the chairman and president, perform their duties and exercise their powers.

Section 4 - Treasurer

The treasurer has custody of all funds, securities, evidences of indebtedness and other valuable documents of the corporation. He shall receive and give, or cause to be given, receipts and acquittances of moneys paid in on account of the corporation, and shall pay out of the funds on hand all just debts of the corporation of whatever nature, when due. He shall enter, or cause to be entered, in books of the corporation to be kept for that purpose, full and accurate accounts of all moneys received and paid out on account of the corporation, and, whenever

8

required by the president or the directors, he shall render a statement of his accounts. He shall keep or cause to be kept such books as will show a true record of the expenses, gains, losses, assets and liabilities of the corporation; and he shall perform all of the other duties incident to the office of treasurer. If required by the board, he shall give the corporation a bond for the faithful discharge of his duties and for restoration to the corporation, upon termination of his tenure, of all property of the corporation under his control.

Section 5 - Secretary

The secretary shall give, or cause to be given, notice of all meetings of shareholders, directors and committees, and all other notices required by law or by these bylaws, and in case of his absence or refusal or neglect so to do, any such notice may be given by the shareholders or directors upon whose request the meeting is called as provided in these bylaws. He shall record all of the proceedings of the meetings of the shareholders, of the directors, and of committees in a book to be kept for that purpose. Except as otherwise determined by the directors, he has charge of the original stock books, transfer books and stock

ledgers, and shall act as transfer agent in respect of the stock and other securities issued by the corporation. He has custody of the seal of the corporation, and shall affix it to all instruments requiring it; and he shall perform such other duties as may be assigned to him by the directors, the chairman of the board of directors, or the president.

Section 6 - Assistants

Assistant secretaries or treasurers shall have such duties as may be assigned to them by the directors, by the chairman of the board, or by the president, and as may be delegated to them by the secretary and treasurer respectively.

ARTICLE V

Capital Stock

Section 1 - Certificates of Stock

Certificates of Stock, numbered and with the seal of the corporation affixed or imprinted, signed by the Chairman of the Board of Directors, or the President or Vice President, and the Treasurer or Secretary, shall be issued to each shareholder, certifying the number of shares owned by him in the corporation. Where such certificate is countersigned (1) by a transfer agent other than the corporation or its employee, or (2) by a registrar other than the corporation or its employee, any other signature on the certificate may be a facsimile.

9

Section 2 - Lost Certificates

A new certificate of stock may be issued in place of any certificate theretofore issued by the corporation, alleged to have been lost, stolen, mutilated or destroyed or mailed and not received, and the directors may in their discretion require the owner of the replaced certificate to give the corporation a bond, unlimited as to stated amount, to indemnify the corporation against any claim which may be made against it on account of the replacement of the certificate or any payment made or other action taken in respect thereof.

Section 3 - Transfer of Shares

Shares of stock of the corporation are transferrable only on its books, by the holders thereof in person or by their duly authorized attorneys or legal representatives, and upon such transfer, the old certificate shall be surrendered to the person in charge of the stock transfer records, by whom they shall be cancelled, and new certificates shall thereupon be issued. A record shall be made of each transfer, and whenever a transfer is made for collateral security, and not absolutely, it shall be so expressed in the entry of the transfer. The board may make regulations concerning the transfer of shares, and may in their discretion authorize the transfer of shares from the names of deceased persons whose estates are not administered, upon receipt of such indemnity as they may require.

Section 4 - Record Dates

The board may fix a record date for determining shareholders of record for any purpose, such date to be not more than sixty days and, if fixed for the purpose of determining shareholders entitled to notice of and to vote at a meeting, not less than ten days, prior to the date of the action for which the date is fixed.

Section 5 - Transfer Agents, Registrars

The board may appoint and remove one or more transfer agents and registrars for any stock. If such appointments are made, the transfer agents shall effect original issuances of stock certificate and transfers of shares, record and advise the corporation and one another of such issuances and transfers, countersign and deliver stock certificates, and keep the stock, transfer and other pertinent records; and the registrars shall prevent over-issues by registering and countersigning all stock certificates issued. A transfer agent and registrar may be identical.

ARTICLE VI

Miscellaneous Provisions

Section 1 - Corporation Seal

The Corporate seal is circular in form, and contains the name of the corporation and the words "SEAL, LOUISIANA". The seal may be used by causing it, or a facsimile thereof, to be impressed or affixed or otherwise reproduced.

Section 2 - Checks, Drafts, Notes

All checks, drafts, other orders for the payment of money, and notes or other evidences of indebtedness, issued in the name of the corporation, shall be signed by such officer or officers, agent or agents of the corporation and in such manner as shall, from time to time, be determined by the board.

Section 3 - Fiscal Year

The fiscal year of the corporation begins on January 1.

Section 4 - Notice

Whenever any notice is required by these bylaws to be given, personal notice is not meant unless expressly so stated; any notice is sufficient if given by depositing the same in a mail receptacle in a sealed post-paid envelope addressed to the person entitled thereto at his last known address as it appears on the records of the corporation; and such notice is deemed to have been given on the day of such mailing.

Section 5 - Waiver of Notice

Whenever any notice of the time, place or purpose of any meeting of shareholders, directors or committee is required by law, the articles or these bylaws, a waiver thereof in writing, signed by the person or persons entitled to such notice and filed with the records of the meeting before or after the holding thereof, or actual attendance at the meeting of shareholders in person or by proxy or at the meeting of directors or committee in person, is equivalent to the giving of such notice except as otherwise provided by law.

Section 6 - Indemnification of officers, directors, employees, and agents

- (a) The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including any action by or in the right of the corporation by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or

is or was serving at the request of the corporation as a director, officer, employee or agent of another business, foreign or nonprofit corporation, partnership, joint venture or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interest of the corporation, and with respect to any criminal action or proceeding, has no reasonable cause to believe his conduct was unlawful. However, in case of actions by or in the right of the corporation, the indemnity shall be limited to expenses, including attorneys' fees and amounts paid in settlement not exceeding, in the judgment of the board of directors, the estimated expense of litigating the action to conclusion, actually and reasonably incurred in connection with the defense or settlement of such action and no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged by a court of competent jurisdiction, after exhaustion of all appeals t h e refrom, to be liable for willful or intentional misconduct in the performance of his duty to the corporation unless and only to the extent that the court shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, he is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper. The termination of any action, suit or proceeding by judgement, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, or itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

- (b) In any event, a director, officer, employee or agent of the corporation who has been successful on the merits or otherwise in defense of any such action, suit or proceeding, or in defense of any claim, issue or matter therein, shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.
- (c) Any indemnification under subsection (a) of this Section,

unless ordered by the Court shall be made by the corporation only as authorized in a specific case upon a determination that the applicable standard of conduct has been met. Such determination shall be made (1) by the board of directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if

such a quorum is not obtainable and the board of directors so directs, by independent legal counsel or (3) by the shareholders.

- (d) Expenses incurred in defending such an action, suit or proceeding may be paid by the corporation in advance of the final disposition thereof if authorized by the board of directors, without regard to whether participating members thereof are parties to such action, suit, or proceeding, upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the corporation as authorized in this Section.
- (e) The indemnification and advancement of expenses provided by or granted pursuant to the other subsections of this Section shall not be deemed exclusive of any other rights to which the person indemnified or obtaining advancement of expenses is entitled under any agreement, authorization of shareholders or directors, regardless of whether directors authorizing such indemnification are beneficiaries thereof, or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his heirs and legal representative; however, no such other indemnification measure shall permit indemnification of any person for the results of such person's willful or intentional misconduct.
- (f) The corporation shall have power to procure or maintain insurance or other similar arrangement on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another business, nonprofit or foreign corporation,

partnership, joint venture or other enterprise against any liability asserted against or incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of this Section. Without limiting the power of the corporation to procure or maintain any other kind of insurance or similar arrangement, the corporation may create a trust fund or other form of self-insurance arrangement for the benefit of persons indemnified by the corporation and may procure or maintain such insurance with any insurer deemed appropriate by the board of directors regardless of whether all or part of the stock or other securities thereof are owned in whole or part by the corporation. In the absence of actual fraud, the judgment of the board of directors as to the terms and

13

conditions of such insurance or self-insurance arrangement and the identity of the insurer or other person participating in a self-insurance arrangement shall be conclusive, and such arrangements for insurance shall not be subject to voidability and shall not subject the directors approving such arrangement to liability, on any ground, regardless of whether directors participating in approving such insurance arrangements shall be beneficiaries thereof. The provisions of the Insurance Code (Title 22 of the Revised Statutes) will not apply to any wholly-owned subsidiary of this corporation if it issues contracts of insurance only as permitted by this subsection for coverage of a person who is or was a director, officer, employee, or agent of this corporation, or who is or was serving at the request of this corporation as a director, officer, employee, or agent of another business, nonprofit or foreign corporation, partnership, joint venture, or other enterprise, which contracts of insurance for such directors, officers, employees, or agents may be issued by such wholly-owned subsidiary without compliance with the provisions of the Insurance Code.

Section 7 - Redemption of Control Shares

In accordance with Section 140.1 of the Louisiana Business Corporation Law, the Company may redeem any or all control shares acquired in a control share acquisition with respect to which either:

(a) no acquiring person statement has been filed with the Company in accordance with Section 137 of the Louisiana Business Corporation Law; or

(b) the control shares are not accorded full voting rights by the shareholders of the Company as provided in Section 140 of the Louisiana Business Corporation Law.

A redemption pursuant to subparagraph (a) hereof may be made at any time during the period ending sixty (60) days after the last acquisition of control shares by an acquiring person. A redemption pursuant to subparagraph (b) hereof may be made at any time during the period ending two (2) years after the shareholder vote with respect to the voting rights of such control shares. Any redemption pursuant to this Paragraph shall be made at the fair value of the control shares and pursuant to such procedures as may be adopted by resolution of the Board of Directors of the Company.

ARTICLE VII

14

Amendments

Except as otherwise provided in the Restated Articles of Incorporation, the shareholders or the directors, by affirmative vote of a majority of those present or represented, may at any meeting, amend or alter any of the bylaws; subject, however, to the right of the shareholders to change or repeal any bylaws made or amended by the directors.

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

This schedule contains summary financial information extracted from the Company's consolidated balance sheet as of March 31, 1995 and the related statement of consolidated earnings and is qualified in its entirety by reference to such statements.

</LEGEND>

<MULTIPLIER> 1,000,000

<S>	<C>
<PERIOD-TYPE>	3-MOS
<FISCAL-YEAR-END>	DEC-31-1995
<PERIOD-END>	MAR-31-1995
<CASH>	7
<SECURITIES>	0
<RECEIVABLES>	78
<ALLOWANCES>	8
<INVENTORY>	74
<CURRENT-ASSETS>	195
<PP&E>	874
<DEPRECIATION>	314
<TOTAL-ASSETS>	900
<CURRENT-LIABILITIES>	97
<BONDS>	212
<COMMON>	22
<PREFERRED-MANDATORY>	0
<PREFERRED>	152
<OTHER-SE>	167
<TOTAL-LIABILITY-AND-EQUITY>	900
<SALES>	119
<TOTAL-REVENUES>	119
<CGS>	90
<TOTAL-COSTS>	104
<OTHER-EXPENSES>	0
<LOSS-PROVISION>	1
<INTEREST-EXPENSE>	7
<INCOME-PRETAX>	9
<INCOME-TAX>	3
<INCOME-CONTINUING>	6
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	6
<EPS-PRIMARY>	0.21
<EPS-DILUTED>	0.21

</TABLE>

SOUTHDOWN, INC. DIRECTORS' RETIREMENT PLAN

Southdown, Inc. has adopted the Southdown, Inc. Directors' Retirement Plan, effective February 14, 1995, for the members of its Board of Directors to ensure that the overall effectiveness of the Company's compensation program for directors will attract, retain and motivate qualified directors.

1. Definitions. When used herein, the following words shall have the meanings below unless the context clearly indicates otherwise:

- 1.1 Committee means the Southdown, Inc. Employee Benefits Committee as appointed by the Board of Directors to administer the Qualified Retirement Plans.
- 1.2 Company means Southdown, Inc., a Louisiana corporation, and any successor thereto.
- 1.3 Months of Service means the Participant's aggregate number (or any lesser number if the context clearly indicates such) of full months of service on the Company's Board of Directors immediately prior to such Participant's termination of service on the Board of Directors.
- 1.4 Participant means any member of the Company's Board of Directors who meets the eligibility requirements of Paragraph 2.1.
- 1.5 Plan means the Southdown, Inc. Directors' Retirement Plan.
- 1.6 Plan Benefit means the monthly benefit payable in accordance with the Plan.
- 1.7 President means the President of the Company.
- 1.8 Qualified Retirement Plan means the Southdown, Inc. Pension Plan or the Southdown, Inc. Retirement Savings Plan as each may be amended from time to time or any successor thereto.
- 1.9 Recipient means a Participant or a surviving Spouse receiving or entitled to receive a Plan Benefit.
- 1.10 Retirement Date means the first of the month immediately following a Participant's attainment of age 65 or the Participant's termination of service on the Company's Board of Directors, whichever is later.
- 1.11 Spouse means the Participant's lawful spouse as of the date of the Participant's death.

2.1 Eligibility to Participate. A member of the Company's Board of Directors is eligible to become a Participant in the Plan; provided such member (i) has accumulated sixty (60) Months of Service, (ii) has not been removed from the Company's Board of Directors for cause as permitted by applicable law, and (iii) is not a participant in, eligible to participate in, nor entitled to benefits from, a Qualified Retirement Plan.

2.2 Term of Participation. Once a member becomes a

-1-

Participant, he shall remain a Participant until the final and complete payment of all Plan Benefits to which such Participant is entitled under the Plan.

3.1 Eligibility for Benefits. Each Participant is eligible to retire from the Company and receive a Plan Benefit under the Plan beginning on the Participant's Retirement Date.

3.2 Term of Benefit Payments. Plan Benefits payable to a Participant pursuant to Paragraph 4.1, or to a surviving Spouse pursuant to Paragraph 4.2, shall be paid, until the earlier of (i) the date of the last to occur of the Participant's death or the surviving Spouse's death, or (ii) the date on which the aggregate number of monthly payments made to the Participant and surviving Spouse equals the Participant's Months of Service.

3.3 Death Benefits. If a married Participant dies prior to age 65, such benefit due hereunder shall be payable to the Spouse in accordance with Paragraph 4.2 for the term specified in Paragraph 3.2 commencing on the Participant's Retirement Date assuming the Participant had:

- (i) separated from service on the Board on the earlier of the actual date of separation or the date of death,
- (ii) survived to age 65,
- (iii) retired with an immediate joint and survivor annuity based on Participant's Plan Benefit on date of death, and
- (iv) died on the day after the day on which the Participant would have attained age 65.

If a married Participant dies after age 65, but prior to his or her Retirement Date, such benefit due hereunder shall be payable to the Spouse in accordance with Paragraph 4.2 for the term specified in Paragraph 3.2 commencing on the Participant's Retirement Date assuming the Participant had retired with an

immediate joint and survivor annuity on the day before the Participant's date of death.

4.1 Amount of Benefit. Plan Benefits payable to a Participant pursuant to Paragraph 3.1 will be paid in an amount equal to sixty-six and two-thirds percent (66 2/3%) of the per month average of the combined board and committee fees received by such Participant during the last twelve consecutive Months of Service.

4.2 Form and Manner of Payment. The Plan Benefit payable pursuant to Paragraph 4.1 shall be in the form of a joint and survivor annuity. Such joint and survivor annuity following the Participant's death shall be payable to the Spouse at a rate equal to 50% of the rate at which benefits were payable to the Participant. Plan Benefits shall be paid by a check mailed directly to Recipient or a electronic funds transfer, as Recipient shall direct, in accordance with the normal payment cycle of the Company for making supplemental pension payments,

-2-

and shall be subject to all statutory tax withholdings.

5.1 Plan Amendments and Termination. The Company intends the Plan to be permanent but reserves the right to amend or terminate the Plan when, in the sole opinion of the Company, such amendment or termination is advisable. Any such amendment or termination shall be made pursuant to a resolution of the Board of Directors of the Company and shall be effective as of the date of such resolution. No amendment or termination of the Plan shall directly or indirectly deprive any Participant of any Plan Benefit, or the right to a Plan Benefit, which has been earned prior to the effective date of the resolution amending or terminating the Plan.

5.2 Benefits on Plan Termination. In the case of a Plan termination, each Participant's Plan Benefit shall be calculated and payable as set forth herein based on the Participant's Months of Service immediately prior to the effective date of such Plan termination.

5.3 Sale or Merger. The Plan shall not be automatically terminated by a transfer or sale of assets of the Company or by the merger or consolidation of the Company into or with any other corporation or other entity, but the Plan shall be continued after such sale, merger or consolidation only if and to the extent that the transferee, purchaser or successor entity agrees to continue the Plan. In the event the Plan is not continued by

the transferee, purchaser or successor entity, then the Plan shall terminate subject to the provisions of Paragraphs 5.1 and 5.2.

6.1 No Effect on Rights. Nothing contained herein will confer upon any Participant the right to be retained in the service of the Company nor limit the right of the Company to discharge or otherwise deal with Participants without regard to the existence of the Plan.

6.2 Funding. The Plan at all times shall be entirely unfunded and no provision shall at any time be made with respect to segregating any assets of the Company for payment of any benefits hereunder. No Participant shall have any interest in any particular assets of the Company by reason of the right to receive a benefit under the Plan and any such Participant shall have only the rights of a general unsecured creditor of the Company with respect to any rights under the Plan. Nothing contained in the Plan shall constitute a guaranty by the Company or any other entity or person that the assets of the Company will be sufficient to pay any benefit hereunder.

6.3 Spendthrift Provision. No benefit payable under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge prior to actual receipt thereof by the payee; and any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge prior to such receipt shall be void; and the Company shall not be liable in any manner for or subject to the debts,

-3-

contracts, liabilities, engagements or torts of any person entitled to any benefit under the Plan.

6.4 Administration. The Committee shall be responsible for the general operation and administration of the Plan and for carrying out the provisions thereof. It has all powers necessary to accomplish that purpose, including, but not by way of limitation, the following:

- a. To adopt and issue rules and regulations necessary for the proper conduct and administration of the Plan, and to change, alter, or amend such rules and regulations;
- b. To construe and enforce the Plan in accordance with its terms and any rules and regulations it establishes; and
- c. To resolve all questions arising in the administration of the Plan, including those relating to

eligibility, participation under the Plan, and the rights of Participants and surviving Spouses. The Committee's decisions thereon shall be final and binding upon all persons.

6.5 Disclosure. Each Participant shall receive a copy of the Plan and the Committee will make available for inspection by any Participant a copy of the rules and regulations used by the Committee in administering the Plan.

6.6 State Law. The Plan is established under, and the execution, validity, interpretation and performance of this Plan shall be determined and governed exclusively by, the laws of the State of Texas, without reference to the principles of conflict of laws. Exclusive jurisdiction with respect to any legal proceeding brought by a Participant, or any party representing Participant or claiming to have an interest in Participant's Plan Benefit (claiming party), shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. In reaching his or her decision, the arbitrator shall have no authority to change or modify any provision of this Plan. In addition, any and all charges which may be made for the cost of the arbitration and the fees and expenses of the arbitrator shall be borne equally by the parties. Jurisdiction with respect to any legal proceeding brought by Company, concerning any subject matter contained in this Plan shall rest in state or federal courts sitting in the State of Texas or in any jurisdiction where Participant resides, does or has done business, or owns property. Also, Company, at its election, may submit any dispute it has with Participant or claiming party to arbitration in accordance with the procedures set forth in this Paragraph.

6.7 Incapacity of Recipient. In the event a Recipient is declared incompetent and a conservator or other person legally charged with the care of his person or of his estate is appointed, any benefits under the Plan to which such Recipient is entitled shall be paid to such conservator or other person

-4-

legally charged with the care of his or her person or estate. Except as provided above in this paragraph, when the Committee in its sole discretion, determines that a Recipient is unable to manage his or her financial affairs, the Committee may direct the Company to make distributions to any person for the benefit of such Recipient.

6.8 Unclaimed Benefit. Each Recipient shall keep the

Committee informed of his or her current address. The Committee shall not be obligated to search for the whereabouts of any person. If the location of a Recipient is not made known to the Committee within two (2) years after the date on which any payment of the Recipient's Plan Benefit may be made, then the Company shall have no further obligation to pay any benefit hereunder to such Recipient and such benefits shall be irrevocably forfeited.

6.9 Limitations on Liability. Notwithstanding any of the preceding provisions of the Plan, neither the Company nor any individual acting as an employee or agent of the Company or as a member of the Committee shall be liable to any Participant, former Participant, Spouse, Recipient, or any other person for any claim, loss, liability or expense incurred in connection with the Plan.

7.1 Change in Control. In the event of a change in control of the Company, as such term is defined in the Company's 1989 Stock Plan, the following shall be substituted for Paragraph 2.1, but only with respect to members then serving on the Company's Board of Directors:

A member of the Company's Board of Directors is eligible to become a Participant in the Plan; provided such member (i) has not been removed from the Company's Board of Directors for cause as permitted by applicable law, and (i) is not a participant in, eligible to participate in, nor entitled to benefits from, a Qualified Retirement Plan.

Approved:

Date: