Symbol: WLT GO

Walter Industries, Inc. 1999 Annual Report

WALTER INDUSTRIES IS A DIVERSIFIED COMPANY WITH FOUR CORE OPERATING BUSINESSES:

- HOMEBUILDING AND FINANCING
- WATER TRANSMISSION PRODUCTS
- ENERGY SERVICES
- SPECIALTY ALUMINUM PRODUCTS

DURING 1999, WE...

...recast our operating structure, focusing on businesses which are – or will become – the leaders in specialized manufacturing processes and niche market sectors.

...forged a collective vision among these core businesses, focusing on innovation, maximum cost efficiency, and value creation.

...challenged every area of our operations to strive for excellence.

...equipped each of our operating companies with the capital needed to carry innovation through to opportunity.

...strengthened our commitment to the entrepreneurial ideals upon which the company was founded and the core values which serve as the foundation for our ongoing strategic initiatives.

...refined our strategic vision and harnessed the power of 7,700 employees toward realizing the corporation's objectives.

OUR OVERRIDING GOAL:

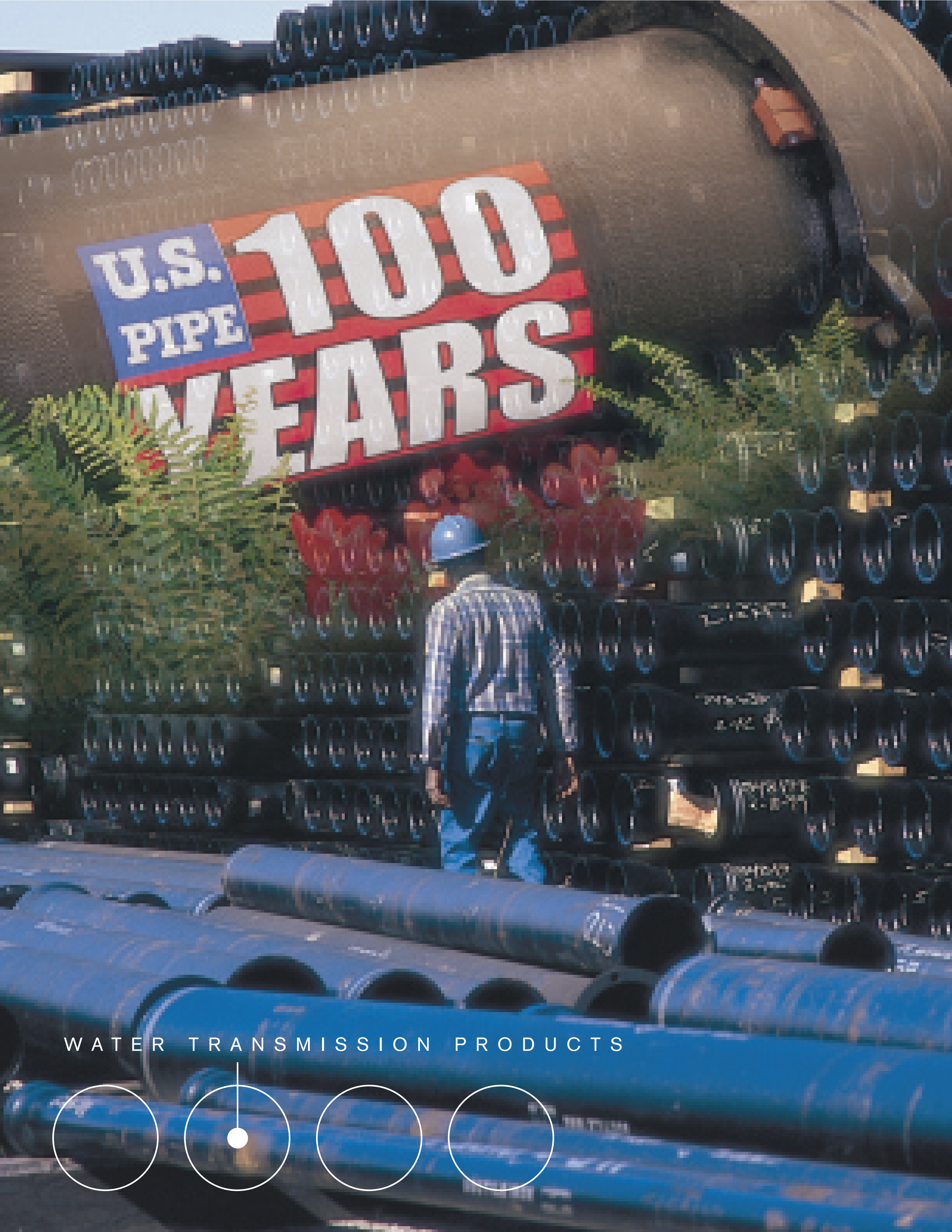
To create consistent earnings growth – the key to sustainable shareholder value.

A DYNAMIC, EVOLVING PROCESS THAT IS PRODUCING MEASURABLE RESULTS...

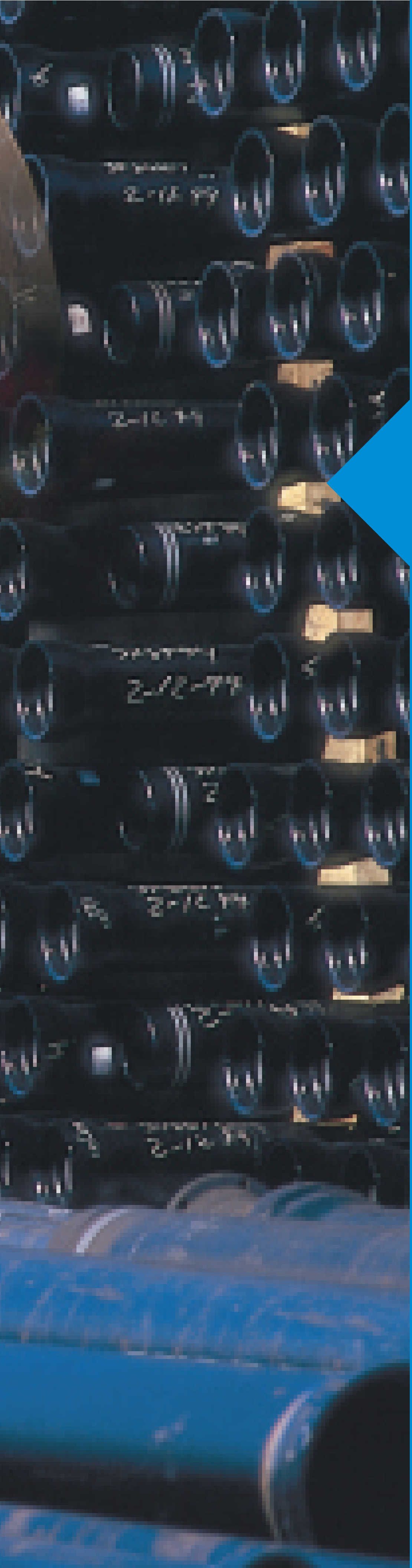
HOMEBUILDING AND FINANCING

COMPLEMENTARY ACQUISITIONS, PRODUCT AND PROCESS ENHANCEMENTS AND ORGANIC EXPANSION INITIATIVES

CONTINUE TO LEAD OUR HOMEBUILDING AND FINANCING GROUP TOWARD NEW HORIZONS



WATER TRANSMISSION PRODUCTS



OUR WATER TRANSMISSION PRODUCTS GROUP ENTERS ITS SECOND CENTURY OF CONTINUOUS OPERATIONS WITH

RENEWED EARNINGS MOMENTUM AND AN ABSOLUTE DEDICATION TO INDUSTRY LEADERSHIP

ENERGY SERVICES

STRATEGIC INVESTMENTS, NEW OUTSOURCING VENTURES AND EMERGING MARKET OPPORTUNITIES

ARE POSITIONING OUR ENERGY SERVICES GROUP TO APPLY ITS INNOVATIVE SOLUTIONS IN AN EVER-GROWING GLOBAL ARENA


OTHER

SUPERIOR CUSTOMER SERVICE AND THE ABILITY TO OUTPACE THE COMPETITION

HAVE ALLOWED OUR SPECIALTY ALUMINUM OPERATIONS TO ACHIEVE 19 CONSECUTIVE YEARS OF GROWTH

To Our Shareholders

"SYMBOL: WLT – GO"

In the Internet age, that's all it takes to locate a wealth of news and information, analysis and opinion on Walter Industries via any number of online data sources. Emerging technology certainly *has* changed everything – from the level of market intelligence now available at the push of a button to the manner in which companies are valued, measured, and perceived.

The investment temptation of high-flying companies with astronomical share price gains is easy to understand. Clearly, we are *not* an Internet company – we are basic industry, with real assets, and proud of it.

Our challenge is to demonstrate – through measurable results – that we can refine and manage our balanced blend of businesses to achieve uncommon earnings stability and sustainable shareholder value.

It's about *staying power* – when the economic tide is rising, and *when the going gets tough*.

In our view, "WLT – GO" is an apt metaphor for the many powerful improvement initiatives we set in motion at our Company during fiscal 1999. It was a year of solid progress, with improved operational performance, aggressive cost containment and productivity enhancement efforts, and a renewed, Companywide commitment to creating genuine shareholder value by focusing our financial and human resources on the core businesses that will drive our growth well into the future.

Our U.S. Pipe and Foundry Company offers an excellent example: under strong leadership, and with a renewed dedication to "out-of-the-box" thinking *and doing*, this company doubled its operating income in 1999, raising the bar for its potential performance and future contributions to Walter Industries.

Each of our core businesses is undergoing similar, rigorous self-assessment and positive change.

Measure us by our results…

1999 FINANCIAL HIGHLIGHTS

Income from continuing operations (before a gain on the sale of a subsidiary) for the fiscal year ended May 31, 1999 rose 67% to $48.6 million versus $29.1 million in fiscal 1998. Diluted earnings per share rose 77% to $0.94 from $0.53.

“Our 1999 operating results were further evidence of the inherent earnings balance we derive from our continuing operations:

- **Income was 67% higher, reaching $49 million* versus $29 million in 1998**
- **Earnings per share rose 77%, to $0.94* versus $0.53**
- **Revenues increased 9%, or $135 million, to just over $1.6 billion**
- **Operating income was 25% higher**
- **EBITDA rose 20%**
- **Free cash flow exceeded $100 million.”**

* *Before* gain on sale of subsidiary

Kenneth E. Hyatt
Chairman, President and
Chief Executive Officer

Fiscal 1999 sales and revenues from continuing operations totaled $1.618 billion versus $1.483 billion in fiscal 1998, a 9% increase.

Operating income from continuing operations for fiscal 1999 was 25% higher, totaling $202.5 million compared with $161.6 million in the prior year. EBITDA rose 20% to $267.6 million versus $222.7 million.

Net income – including non-recurring charges and operating losses associated with our discontinued coal and methane gas operations, partially offset by a gain from the second quarter sale of the window components business – amounted to $35.6 million ($0.69 per diluted share) compared with $56.2 million ($1.03 per diluted share) for fiscal 1998.

Free cash flow – that is, cash flow from operating activities, less changes in marketable securities and restricted cash, and net of capital expenditures – was $105 million for 1999.

STRATEGIC FOCUS

Underlying this progress was a continually evolving effort to simplify our operating structure and redirect our resources to those businesses that we believe offer uncommon opportunities for market growth and earnings sustainability. As a result, we've been both a buyer and seller of companies in recent months, recalibrating our operations mix and directing our capital resources to our best, most promising performers. We are energized and encouraged by this process, and we intend to keep raising the bar ever higher to drive the profitability of each of our core businesses into the new millennium.

KEY OBJECTIVES

At the heart of our ongoing improvement efforts are the goals we introduced to you last year and which we continue to utilize as fundamental yardsticks for our strategic planning, capital investment and decision-making efforts.

- First, we're striving for leadership in our served industries. We're developing each of our core businesses to be the leading supplier of value-added products and services to its specialized or niche markets. Correspondingly, we are working to establish each of these businesses as the undisputed low-cost producer in its respective business niche.
- We've established 15-20% as our target rate of return on capital invested to grow our core businesses or for acquisitions.
- We are seeking 15% or greater annual earnings per share growth over our five-year planning period, which we believe to be both realistic and sustainable.

- We are highly balance sheet focused, and will deploy our free cash flow prudently, balancing the Corporation's required debt payments with strategic investments in each of our continuing operations.

In support of these goals, we've taken a number of steps to build meaningful shareholder value:

We're investing with you...

We don't just *say* we believe our stock is undervalued, we've acted on it. During fiscal 1999 we repurchased approximately 3.6 million shares of Walter Industries common stock, signifying our confidence in WLT as a solid investment choice. Together with 1.4 million shares purchased in mid-1997, we've bought back *five million* shares – roughly 10% of our outstanding share count – in just two years, representing an investment of more than $72 million.

We're simplifying our asset base...

During the second quarter of 1999, we divested our non-core JW Window Components operations, and we are currently negotiating the sale of Vestal Manufacturing. In early March, we initiated a program to explore strategic alternatives for the disposition of Jim Walter Resources – our coal mining and methane gas subsidiary, now reclassified as a discontinued operation. We are proceeding with this project in earnest, toward our goal of definitive action by the end of calendar 1999.

We're investing for our future...

Capital expenditures to modernize or expand our continuing operations amounted to $56.2 million in 1999 ($83.1 million including Jim Walter Resources) compared to $66.9 million ($107.6 million including Jim Walter Resources) in the prior year.

We're upgrading our internal systems...

We are proactively addressing pending Y2K issues while investing in systems designed to shorten our reporting cycles and help us do our jobs better.

We initiated a major upgrade of our computer operating capabilities in 1999 with real-time enterprise resource planning systems that will generate fundamental improvements in the quality of our finance and operating data and raise our information technology capabilities to world-class levels beginning early in calendar 2000.

We're transforming our culture...

Fiscal 1999 saw the roll-out of Companywide Value-Based Management programs aimed at driving profitable growth by intensifying our focus on effective balance sheet management and return on invested capital.

These and countless other, seemingly modest adjustments to the way we approach our business are collectively bringing about meaningful change. We've witnessed it in both the quantity and quality of our recent earnings, and the positive operating trends we're seeing in each of our core business segments.

There is still much to be done, and considerable benefits yet to be realized.

RESULTS OF OPERATIONS

Each of our core businesses made significant contributions to our progress in 1999:

- **Homebuilding and Financing** operating income increased 14% to $113 million on the strength of increased home sales, higher average selling prices, and increased financing income stemming from high levels of mortgage prepayment activity during the year. Revenues increased 3% to $461 million.

Jim Walter Homes and its affiliated homebuilding companies built 3,737 units in 1999, up slightly from 3,702 completions in 1998. However, new home orders increased for 10 consecutive months, leading to the company's highest year-end backlog in 17 years – 2,683 homes compared with 1,883 at the start of 1999, a 42% increase reflecting the roll-out of many new product options and amenity upgrades offered throughout the year, as well as the positive impact of more targeted marketing and advertising programs and strategic acquisitions. Correspondingly, our average home selling price in 1999 was 7% higher at $52,000 compared with $48,700 in the prior year.

We want to be an active consolidator in the affordable homebuilding market. Toward that objective, we've acquired three regional builders to date – Neatherlin Homes in mid-1997, Dream Homes in October 1998 and "modular" builder Crestline Homes in February 1999. Collectively, they will add over 1,100 new home completions to our mix, and provide new opportunities for growing our $4.2 billion mortgage portfolio as well. Crestline, in particular, represents an exciting new direction for our homebuilding companies, one that marries the desirable qualities of our conventional "stick-built" tradition of homebuilding with the efficiencies offered by the factory-built modular process.

- U.S. Pipe and Foundry Company, comprising our **Water Transmission Products** group, celebrated its centennial anniversary in 1999, achieving well-deserved, nationwide recognition for its service as America's leading supplier of ductile iron pipe and complementary valves and fittings. *One hundred years* of continuous operations!

And 1999 was a great year for U.S. Pipe…operating income doubled to $33 million on 8% higher revenues. This outstanding performance speaks volumes about the continuing success of ongoing margin improvement and productivity enhancement measures being driven by a retooled and reenergized management team. As a result, U.S. Pipe is beginning to realize its true potential for dramatic income growth.

One hundred years is a milestone for any company. In U.S. Pipe, we have an enduring, valuable asset, one that offers the unqualified promise of record achievement over the near term.

- **Energy Services,** our third segment, is comprised of the operations of Applied Industrial Materials Corporation (AIMCOR), the world's leading supplier of petroleum coke and a major provider of outsourcing services to major American oil refiners.

During fiscal 1999 – a difficult period, to say the least, for all energy-related companies – AIMCOR generated operating income of $25 million and $361 million in revenues.

These positive results were achieved despite fall-out from the precipitous drop in U.S. and European steel production following last year's Asian economic crisis – a time when many energy-related companies absorbed huge losses. Despite the challenges faced early in the year, AIMCOR rebounded during the fiscal fourth quarter to produce its best operating income performance since we acquired them in October 1997. And while it's never desirable for results of a new acquisition to decline in its first year out of the gate, we fully and confidently expect AIMCOR to be a significant catalyst for above-average earnings growth.

Our strategic thrust over the next five years is to position AIMCOR to take advantage of lucrative partnering opportunities, building upon its well-deserved position as the world's leading marketer of petroleum coke as well as its growing reputation as an unrivaled provider of refinery-based outsourcing services.

- Driving the performance of our **"Other"** operations in 1999 was JW Aluminum Company (JWA), which generated 20% higher operating income on a 12% revenue increase and a 19% increase in shipments, to 179 million pounds.

JWA is a great example of the power of niche market leadership – one of our core strategies. After refocusing their product and marketing emphasis in the late 1980s, they've emerged as a leading supplier of such value-added products as specialty fin stock – used in air conditioning and heat transfer equipment – cable wrap for the telecommunications industry, and litho foil for newspaper printing. Since 1991 their shipment growth has outpaced the rolled aluminum industry three-to-one, and their operating income has grown at a 28% compound annual rate.

Here again, we've invested prudently for maximum value. A $31 million expansion project recently completed at the company's Charleston-area aluminum mini-mill has raised production capacity to 220 million pounds per year – a three-fold increase from 1993 levels – in response to steadily rising demand for their specialized products and highly customized services. The addition later this year of a wide-width precision slitter will complete their current expansion program and position them for a range of new specialized manufacturing and finishing opportunities. Production capacity will reach 240 million pounds – a 60% increase achieved in just two years.

PERSPECTIVE

Moving into fiscal 2000, Walter Industries' prospects for continued operational and financial advances are excellent. Still, our recent stock price reflects the challenges and, frankly, the frustrations we have faced given the stock market's enthusiasm for large cap growth stocks and zero-earnings Internet issues. While we can't change prevailing market sentiment, we *can* take aggressive action to improve our operating structure, and to position Walter Industries for the type of long-term growth and earnings consistency that simply cannot be ignored. In short, we must *stay the course*.

We clearly are a much stronger Company than we were a year ago, and that's a tribute to the 7,700 employees who arrive at work every day prepared to make a meaningful contribution toward our ongoing improvement initiatives. We will not forsake the long-term goals and objectives of this organization for the benefit of short-term gain. We will continue to take a very targeted, disciplined approach to our strategic objectives, and continue to strive for the quarter-to-quarter, year-over-year earnings growth and sustainability we believe is fundamental to creating meaningful shareholder value.

In many ways, Walter Industries is still very early in its development cycle. We have a blend of basic core businesses that are undergoing dynamic change. Our challenge is to be inventive, to generate new concepts and new initiatives, and to translate those opportunities into meaningful action plans that offer a heightened return on your investment. We expect our colleagues on the front lines to play a significant role in this effort – driving innovation, responding to customer needs and reacting to rapidly evolving markets; in short, remaining true to our entrepreneurial roots.

A key player in these efforts has been Dean M. Fjelstul, who retired on July 31 after three years of service as our Chief Financial Officer. We greatly value Dean's contributions and wish him well in retirement. Succeeding

Dean is Arthur W. Huge, formerly Executive Vice President and CFO of the LTV Corporation. We welcome Art to our team and look forward to benefiting from his extensive background as a financial and organizational strategist.

WHO WE *REALLY* ARE

One of our investor relations challenges is that we don't fit neatly into any one industry category. Although most often characterized as a homebuilder, we actually are far less sensitive to housing cyclicality than our peer companies. In fact, we have historically *benefited* from the very factors that negatively impact the homebuilding industry at large.

When interest rates rise or credit availability tightens, one of two things happens: either our smaller, less well-capitalized competitors scale back or close their operations, or a segment of our affordable-home customer base finds itself shut out of the market. And that brings more business to *our* door.

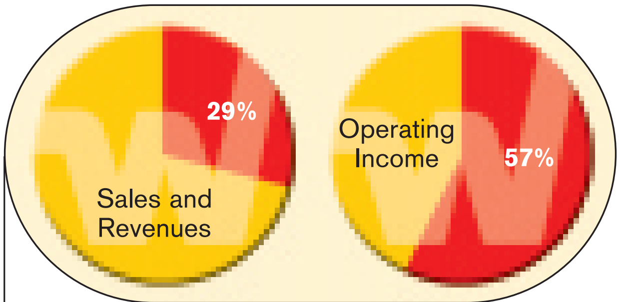
With our formidable mortgage financing resources and "big builder" purchasing power, we've demonstrated, over multiple cycles, the ability to generate a substantial underlying base of consistent earnings from our combined homebuilding and financing operations.

Layered over this platform of earnings strength are our core industrial businesses – U.S. Pipe, AIMCOR and JW Aluminum. Today, more than ever before, each offers opportunities for accelerated *earnings momentum*, as well as a cushion against a downturn in the economy. It's a balance formula that has worked well for our Company in the past, and one which we strongly believe will prove its value in the future.

The underlying power of the "WLT – GO" mindset is a spirit of opportunity and achievement that is spreading to all areas of our Company. The momentum is building at Walter Industries, and we are genuinely excited about our prospects for the future. We look forward to sharing our progress with you throughout the year ahead. And, as always, we appreciate your support.

Kenneth E. Hyatt
Chairman, President and
Chief Executive Officer

HOMEBUILDING AND FINANCING



OPERATING COMPANIES

Jim Walter Homes, Inc.
and affiliated construction companies
On-your-lot construction of detached, single-family houses; modular homebuilding; financial services

	FY 1999	FY 1998
Homes Built	3,737	3,702
Average Price	$ 52,000	$ 48,700
Year-End Backlog	2,683	1,883
Model Display Parks	112	108
Storefront Sales Offices	9	8
Customer Profile:		
Average Income	$ 35,172	$ 33,505
Monthly Payment	$ 521	$ 488
% of Income	17.8	17.5

Mid-State Homes, Inc.
Mortgage servicing for Jim Walter Homes and affiliated companies

Gross $ (000s)	$ 4,191,138	$ 4,238,745
Active Accounts	63,732	68,740
Average Maturity (years)	18.2	17.4
Foreclosure Rate	2.55%	2.38%

Best Insurors, Inc.
Home and general insurance services

Cardem Insurance Co., Ltd.
Reinsurance for customer property and credit life insurance

SALES AND REVENUES ($ in millions)

OPERATING INCOME ($ in millions)

1999 HIGHLIGHTS

- Our Homebuilding and Financing companies generated a 14% increase in operating income on 3% higher sales revenues, producing a fourth consecutive year of record earnings.
- New home orders increased for 10 successive months between August 1998 and May 1999, contributing to our construction companies' highest backlog level since 1982.
- Jim Walter Homes (JWH) introduced five new home models to its product line which now account for nearly 25% of sales, and benefited from a range of new product options and amenity upgrades.
- In September 1998, JWH completed its acquisition of Dream Homes, Inc., a Texas-based builder of conventional, stick-built "on-your-lot" homes. Since the acquisition, Dream Homes added a fifth display park, located in Fort Worth, Texas, to its operations mix.
- In February 1999, JWH expanded its traditional market base by acquiring North Carolina-based Crestline Homes, Inc., the nation's sixth-largest producer of factory-built modular homes. In its most recent year ended February 28, 1999, Crestline built 880 homes. To advance its investment, JWH is now test-marketing a number of modular homes at select display parks outside of Crestline's existing distribution network.
- JWH's capital resources allowed Neatherlin Homes, acquired in June 1997, to expand into the Austin, Texas, market while improving 1999 unit output from its Texas-based sales offices by 20%. Neatherlin has also benefited from JWH's exceptional consumer financing options, extending the company's historic 96% "capture rate" over a range of higher valued mortgages entering the Mid-State Homes portfolio.
- JWH retooled its research, marketing and advertising programs, resulting in a 25% increase in sales leads.

OUTLOOK

To continue its 52-year history of homebuilding industry leadership – and further leverage the company's exceptional financing resources – Jim Walter Homes is broadening its operations mix and implementing a range of innovative product and process enhancements to meet the needs of an ever-changing marketplace.

A top priority is to raise the company's profile in the $80,000 - $120,000 price range, the fastest growing sub-segment of the affordable housing market. Targeted acquisitions and product diversification remain the company's principal strategies supporting this objective, coupled with internal market expansion and ongoing quality and efficiency improvement programs.

Four new sales locations will open in fiscal 2000. New home designs are in development or being tested in response to market research surveys and consumer feedback. Jim Walter Homes is also continuing to refine its traditional base of 30 home model offerings with upgrades to the company's options and finishing packages.

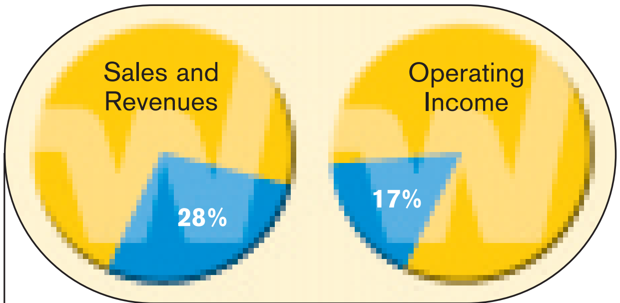
Over the longer-term, Crestline Homes' modular homebuilding process will expand into markets not presently served by its independent distributor network. Coupling the modular concept with Jim Walter Homes' 19-state retail presence would enable the Homebuilding and Financing Group to capture higher sales and financing margins than Crestline's current focus as a wholesaler to its existing distribution network.

JWH is leveraging its core strengths of financing, collections and other property-related services over a wider range of market opportunities. Under active consideration are home/land financing packages, the creation of a separate financial services subsidiary, and establishment of strategic partnerships with complementary lending and servicing institutions.

Fiscal 1999 witnessed many positive steps for our Homebuilding and Financing operations; Fiscal 2000 promises an acceleration of this positive momentum and a deeper exploration of market opportunities on the expanded homebuilding horizon.

Backed by 52 years as the nation's foremost supplier of affordable "stick-built" homes — and the strength of a $4.2 billion mortgage portfolio — Jim Walter Homes is aggressively pursuing internal expansion and targeted acquisitions, including its new entry into a fast-growing industry sub-sector — "modular construction" — with the 1999 acquisition of Crestline Homes, Inc., the nation's sixth-largest modular builder.

WATER TRANSMISSION PRODUCTS



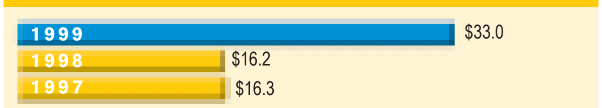
OPERATING COMPANIES

United States Pipe and Foundry Company, Inc.
Ductile iron pipe, valves, hydrants and fittings; gray and ductile iron castings

	FY 1999	FY 1998
Product Shipments (tons)	615,800	574,500
Pipe Backlog (tons)	119,900	121,709

SALES AND REVENUES ($ in millions)

OPERATING INCOME ($ in millions)



1999 HIGHLIGHTS

- U.S. Pipe and Foundry Company achieved a 104% increase in operating income on 8% higher sales revenues.
- Return on assets rose 50%, while two of the company's manufacturing plants – in Burlington, New Jersey and Union City, California – generated record profits.
- Strategic reductions in hourly and administrative staff, combined with process enhancements to plant loading, casting and pipe annealing speeds and more aggressive scrap metal purchasing, resulted in a $20.5 million reduction in U.S. Pipe's ongoing annualized cost structure.
- Capital projects at the Bessemer and North Birmingham, Alabama plants generated significant productivity improvements while reducing annual maintenance, fuel and overtime costs by nearly $2.0 million.
- U.S. Pipe's research and development team affirmed its longstanding reputation for technical and engineering innovation with the introduction of the industry's first 30-inch resilient seated gate valve, which surpassed sales projections by more than 50%.
- The company's Bessemer pipe plant and Chattanooga, Tennessee valve and hydrant plant each achieved ISO 9002 quality certifications, joining the company's previously certified North Birmingham plant.

OUTLOOK

Few companies can boast of being in business for more than a century. Fewer still can lay claim to the type of continuing strength, technical leadership and growth prospects that U.S. Pipe can so proudly attest.

It is difficult to overstate the significance of U.S. Pipe's contributions to the ductile iron pipe industry and, in a far more meaningful way, to one of society's most basic needs: water. The company's water transmission products continue to impact and improve the lives of countless individuals across all corners of America and, increasingly, around the world.

Today, after 100 years of continuous operations, U.S. Pipe remains the market leader in the manufacture of ductile iron pressure pipe and related valve, hydrant and fittings products. A new management team assembled within the past two years is moving the company into its second century of growth and expansion with renewed vitality and a series of aggressive process and productivity enhancements that are yielding dramatic results.

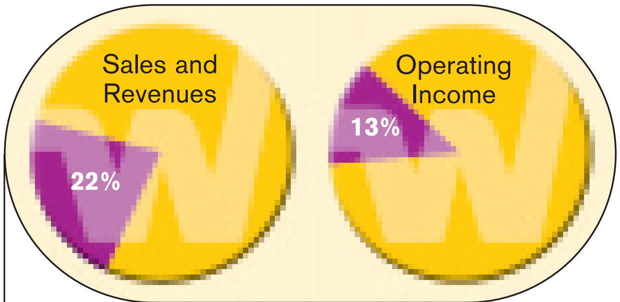
For fiscal 2000, U.S. Pipe has identified a range of additional cost containment and productivity enhancement measures designed to leverage its low cost producer status and position it to achieve further operating income gains.

Proprietary, value-added products to be introduced in 2000 include the industry's first 36-inch resilient seated gate valve, a new generation of fusion bonded, epoxy coated fittings, and an assortment of specialty gaskets and fittings pressure rated to 350 PSI.

In support of a stepped-up focus on its higher margin valve and fittings products, U.S. Pipe initiated a 14-month, $15 million modernization effort at its Chattanooga production plant in July 1999. The company will also work to secure ISO 9002 quality certification at its Burlington, New Jersey and Union City, California pipe production plants as it completes its quest for global quality assurance recognition.

U.S. Pipe and Foundry Company celebrated its 100th year of continuous operations in a position of renewed strength, leading the industry in product innovation — highlighted by the company's 1999 introduction of a 30-inch resilient seated gate valve. U.S. Pipe enters its second century of leadership with renewed earnings momentum.

ENERGY SERVICES



OPERATING COMPANIES

Applied Industrial Materials Corporation – Carbon Group
Industrial carbon products; refinery outsourcing services; bulk materials handling

	FY 1999	FY 1998*
Revenues $ (000s)	$ 288.3	$ 229.1
Carbon Products Sold (metric tons)	6.4MM	4.0MM
Bulk Products Serviced (metric tons)	7.7MM	6.2MM

Metals Group
Alloys, metals and metallurgical process materials

Revenues $ (000s)	$ 73.0	$ 56.9
Shipments (tons)	134,000	98,100

SALES AND REVENUES ($ in millions)

OPERATING INCOME ($ in millions)

* Partial year contribution – October 1, 1997 to May 31, 1998.

1999 HIGHLIGHTS

- The Applied Industrial Materials Corporation (AIMCOR) Carbon Group generated a 26% revenue increase on 60% higher carbon product sales and a 24% improvement in bulk product volumes serviced compared with the prior year eight-month reporting period.
- The AIMCOR Metals Group generated a 28% revenue increase on 37% higher shipment volumes.
- AIMCOR's positive contributions were particularly noteworthy given extreme volatility in global energy and steel markets following last year's Asian economic crisis, which led to a steep – though short-lived – decline in U.S. and European steel production.
- RAIN Calcining, Ltd., a state-of-the-art calciner and power plant – in which AIMCOR holds a five percent equity stake – completed its first full year of operations in Visakhapatnam, India, increasing AIMCOR's marketable coke supply by more than 440,000 metric tons. As a contracted, multi-year service provider – feeding the plant with raw petcoke while marketing refined calcined coke to industrial manufacturers worldwide – RAIN embodies AIMCOR's ability to leverage its services and technical know-how over multiple revenue streams.
- AIMCOR's integration of Texas International Terminals, acquired in fiscal 1998, has successfully enhanced the company's bulk handling and servicing capabilities over a range of non-petcoke products transported via the Galveston shipping channel.
- AIMCOR's March 1998 purchase of the Long Beach, California warehousing operations of Koch Industries has significantly increased the company's presence and servicing capabilities in the refinery-rich West Coast market, where AIMCOR has been the leading coke marketer and service provider for more than three decades.
- AIMCOR Metal's Alabama-based Tennessee Alloys Company completed a $2.5 million maintenance and upgrade program to enhance the plant's production capabilities and cost competitiveness, resulting in a 9% increase in daily production volumes.

OUTLOOK

As a global leader in the refinery byproducts and services industry for more than 30 years, AIMCOR's Carbon Group is well-positioned to accelerate its growth by leveraging the company's international distribution network, technological expertise and market leadership over a range of emerging opportunities. One of AIMCOR's enduring strengths is its ability to generate new markets for its products and services while establishing long-term customer and supplier relationships.

Moving forward, AIMCOR's focus is on developing mutually beneficial partnering opportunities and capitalizing on its ability to provide refinery-based outsourcing services such as product cutting, blending, inventory management, stockpiling, handling and, ultimately, marketing and distribution.

The fact that a far greater percentage of the oil drilled today is heavier crude – thus requiring a higher degree of refining – also works to AIMCOR's advantage. This influx of denser crudes is driving the need for more cokers – multiple U.S. and international facilities are already beyond the drawing board stage – which means more product and more opportunities for AIMCOR to provide its value-added services and solutions.

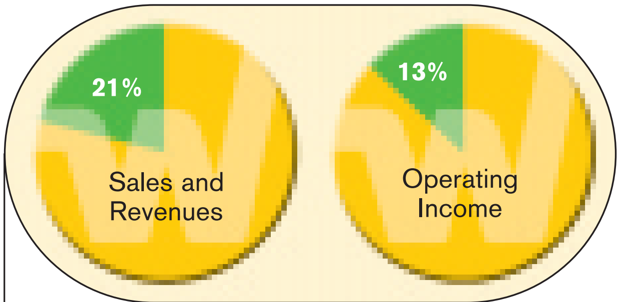
In addition to its 5% equity position, AIMCOR plays a central, ongoing role in the RAIN Calcining venture. The company first locates and supplies the precise qualities of petcoke required to fuel the plant's power generating process and to create the blends for the refined, higher value-adding calcined petcoke produced by RAIN's ISO 9002-rated calcining facilities. AIMCOR then works to establish long-term global markets for calcined coke. Each function enhances AIMCOR's share of worldwide market supply with plant-specific needs and in new sourcing and market regions of the Middle East and Asia.

Fiscal 2000 process and equipment upgrades to the Galveston and Texas City terminal operations will allow AIMCOR to accommodate larger cargo vessels, thus supporting greater volume throughput and a range of new bulk handling service opportunities.

AIMCOR's Metals Group is similarly focused on innovative market opportunities and maintaining the group's low-cost producer status within its served markets. The installation of new briquetting facilities at the group's Metallurgical Process Materials plant will extend AIMCOR's blending and packaging capabilities to meet a wider range of customer requirements. Complementary efforts to improve ferroalloy conversion capabilities at the group's Masterloy plant will allow more latitude in its raw material sourcing and position the group for greater operational stability and purchasing power.

Strategic partnerships, such as its RAIN Calcining, Ltd. venture, have further strengthened AIMCOR's reputation for excellence in the global refinery byproducts and services industry, where the company's Carbon Group has cultivated value-adding market opportunities for more than 30 years.

OTHER



OPERATING COMPANIES

JW Aluminum Company
Aluminum foil and sheet

Sloss Industries Corporation
Furnace coke, foundry coke, slag fiber, specialty chemicals

Southern Precision Corporation
Foundry patterns, tooling molds, resin-coated sand, numerically controlled machining

United Land Corporation
Coal, timber, oil and gas royalties; land sales

SALES AND REVENUES ($ in millions)

OPERATING INCOME ($ in millions)

1999 HIGHLIGHTS

- JW Aluminum Company (JWA) achieved its 19th consecutive year of shipment growth, generating a 20% increase in operating income on 12% higher sales revenues.
- A two-year, $31 million expansion project at JWA's South Carolina-based mini-mill was completed in the fiscal fourth quarter, raising interim plant production capacity to 220 million pounds per year to meet existing demand. This "Phase IV" expansion was made possible through the 1997 acquisition of high-quality casting and rolling equipment from a discontinued South Korean aluminum mill.
- Expanded capacity, coupled with aggressive process and productivity enhancements, led to a 44% improvement in JWA's "pounds per day" output rate, a key measure of plant productivity.
- JWA's shipments grew at six times the total rolled aluminum products industry in fiscal 1999, while its market share increased by 13%. Since 1991, its shipments have outpaced the rolled aluminum products industry three-to-one and operating income has grown at a 28% compound annual rate.
- In response to ever more exacting requirements of its major heating and air conditioning customers, JWA is leading the industry in the development of proprietary fin stock products and coatings requiring specific metal properties achieved by custom chemistry and tempering processes. This, in turn, generated a 24% increase in fin stock shipments for 1999.
- The addition of a new, multi-year supply contract has established Sloss Industries as the nation's leading provider of slag fiber to the ceiling tile industry.
- Southern Precision Corporation completed a $1.5 million expansion of its computerized numerically controlled (CNC) machining operations, increasing plant capacity while expanding the company's market capabilities over a range of larger scale, closer tolerance customer requirements.

OUTLOOK

After refocusing its product and marketing strategy in the late 1980s, JWA has demonstrated the power of niche market leadership, evolving from a small, captive building products supplier to a core operation central to Walter Industries' ongoing growth.

The company has fueled this evolution by developing a range of value-added product and process solutions and by expanding its capabilities and production volumes in line with growing market demand.

During the fiscal 2000 third quarter, JWA will add a wide-width precision slitter to its production mix, thus positioning the company for a host of new specialty manufacturing and finishing opportunities. By fully leveraging the capabilities of the acquired Korean equipment, JWA's annual production capacity will rise to 240 million pounds – a 60% increase achieved in just two years.

JWA has targeted $1.5 million in cost-reduction initiatives for fiscal 2000, largely centering on enhanced raw material management, improved metal recovery rates, reduced energy usage and effective implementation of a companywide enterprise resource planning system.

The company will also reinforce its position as the industry leader in custom-coatings and continuous cast process solutions. JWA is already working on enhancements to its lithographic plate product for high-end printing applications as well as a new generation of lightweight fin stock coatings.

Sloss's Specialty Chemicals division will enhance its fiscal 2000 profit margin by commercializing a number of products developed and piloted for such clients as Monsanto, General Electric, Dupont, National Starch, Shell Chemical and Goodyear Chemical. Equipment upgrades and automation initiatives at the company's Alexandria, Indiana slag fiber plant will complement this effort by enhancing product throughput and reducing manpower costs.

Southern Precision Corporation will advance its leadership as the premier machine shop in the Southeast with the October 1999 integration of a Zeiss C9 Coordinate Measuring Machine (CMM). The Zeiss C9 will allow the company to certify its custom-machined parts on-site while expanding its market into third-party contract inspection, particularly in the automotive, aerospace and satellite communications industries.

A $31 million equipment expansion project has increased JW Aluminum's production capacity by 60% in just two years, allowing the company to meet rising demand for its specialty aluminum products, including fin stock — used in air conditioning and heat transfer equipment — and lithographic print foil.

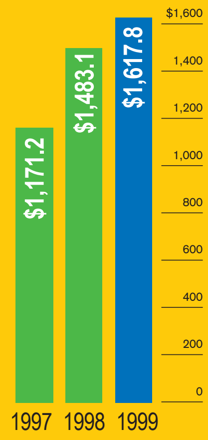
Consolidated Financial Highlights

(from continuing operations, except as noted)

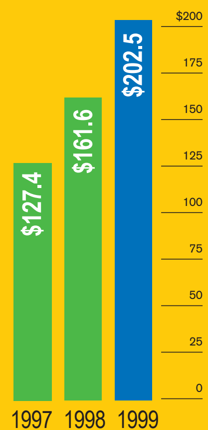
FOR THE YEARS ENDED MAY 31,	1999	1998	1997
CONSOLIDATED RESULTS			
($ in thousands except share amounts)			
Net sales and revenues	$ 1,617,835	$ 1,483,051	$ 1,171,183
EBITDA (a)	267,574	222,673	179,738
Operating income (a)	202,485	161,566	127,374
Income from continuing operations before gain on sale of subsidiary	48,602	29,073	16,504
Gain on sale of subsidiary, net of tax	4,913	–	–
Income from continuing operations	53,515	29,073	16,504
EPS from continuing operations before gain on sale of subsidiary	.94	.53	.30
Gain on sale of subsidiary, net of tax	.10	–	–
EPS from continuing operations	1.04	.53	.30
Net income	35,598	56,241	37,117
EPS	.69	1.03	.67
Average shares outstanding	51,745,000	54,383,000	55,064,000
BALANCE SHEET ($ in thousands)			
Total assets	$ 3,362,026	$ 3,562,670	$ 3,027,385
Total recourse debt	555,200	595,250	313,450
Stockholders' equity	342,919	359,087	319,412
CASH FLOWS ($ in thousands)			
Cash flows from operations	$ 290,159	$ 138,631	$ 202,406
Cash flows used in investing	(59,563)	(449,210)	(41,709)
Cash flows from (used in) financing	(244,171)	329,111	(142,466)
OTHER			
Capital expenditures ($ in thousands)	$ 56,154	$ 66,895	$ 46,791
Employees (all operations)	7,683	8,067	7,584
Book value per share	$ 6.82	$ 6.67	$ 5.80

(a) Before pre-tax loss from sale of subsidiary in 1999.

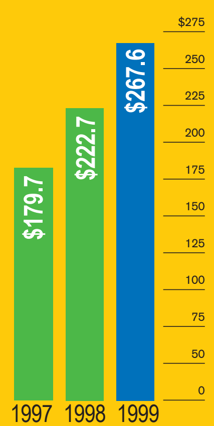
SALES AND REVENUES
($ in millions)



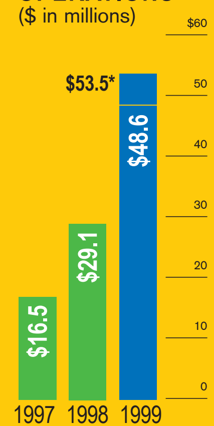
OPERATING INCOME
($ in millions)



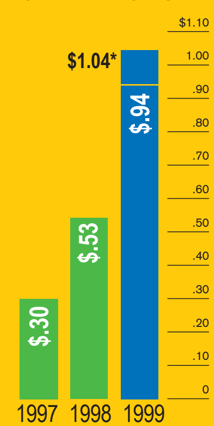
EBITDA
($ in millions)



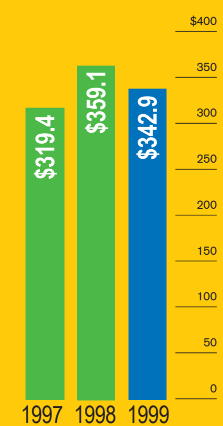
INCOME FROM CONTINUING OPERATIONS
($ in millions)



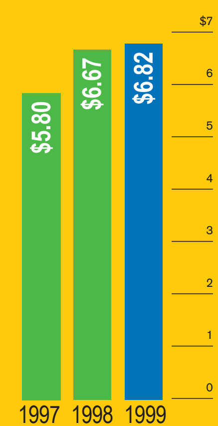
EPS FROM CONTINUING OPERATIONS



STOCKHOLDERS' EQUITY
($ in millions)



BOOK VALUE PER SHARE



* Includes non-recurring gain on sale of subsidiary.

Quarterly Highlights

FISCAL YEAR 1999 (in thousands, except per share amounts)	Quarter ended Aug. 31	Nov. 30	Feb. 28	May 31
Net sales and revenues	$ 408,552	$ 426,333	$ 352,577	$ 430,373
Gross profit	65,270	69,262	58,709	83,652
Income from continuing operations before gain on sale of subsidiary	10,800	13,163	6,906	17,733
Gain on sale of subsidiary, net of tax	–	6,679	–	(1,766)
Income from continuing operations	10,800	19,842	6,906	15,967
Income (loss) from discontinued operation	(1,763)	(107)	(17,832)	1,785
Net income	9,037	19,735	(10,926)	17,752
Diluted earnings per share*:				
Income from continuing operations before gain on sale of subsidiary	.20	.25	.14	.35
Gain on sale of subsidiary, net of tax	–	.13	–	(.03)
Income from continuing operations	.20	.38	.14	.32
Income (loss) from discontinued operation	(.03)	–	(.35)	.03
Net income (loss)	.17	.38	(.21)	.35

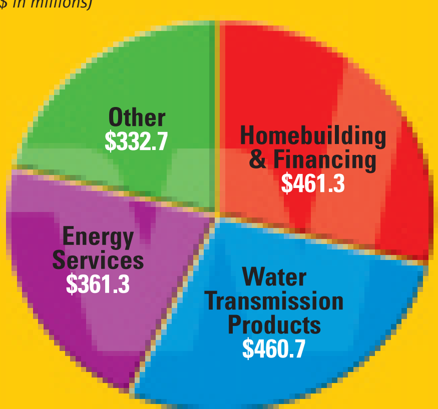
FISCAL YEAR 1998 (in thousands, except per share amounts)	Quarter ended Aug. 31	Nov. 30**	Feb. 28**	May 31**
Net sales and revenues	$ 299,886	$ 360,788	$ 376,959	$ 445,418
Gross profit	47,232	56,848	58,914	71,951
Income from continuing operations	6,300	5,978	1,496	15,299
Income from discontinued operation	7,765	6,663	6,212	9,191
Extraordinary item, net of tax	–	(2,663)	–	–
Net income	14,065	9,978	7,708	24,490
Basic earnings per share:				
Income from continuing operations	.11	.12	.03	.28
Income from discontinued operation	.15	.12	.11	.17
Extraordinary item	–	(.05)	–	–
Net income	.26	.19	.14	.45
Diluted earnings per share:				
Income from continuing operations	.11	.11	.03	.28
Income from discontinued operation	.15	.12	.11	.17
Extraordinary item	–	(.05)	–	–
Net income	.26	.18	.14	.45

** Basic earnings per share are equivalent to diluted earnings per share in stated reporting period.*

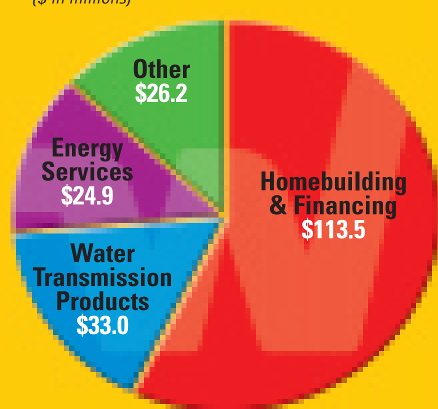
*** Includes AIMCOR results from October 1, 1997-May 31, 1998.*

OPERATING GROUP CONTRIBUTIONS — FISCAL 1999

SALES AND REVENUES
($ in millions)



OPERATING INCOME
($ in millions)



Key Terms Defined

SAFE HARBOR STATEMENT

This Annual Report contains various forward-looking statements and includes assumptions concerning Walter Industries' operations, future results and prospects. These forward-looking statements are based on current expectations and are subject to risks and uncertainties. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, Walter Industries provides the following cautionary statement identifying important economic, political, and technology factors which, among others, could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions. Such factors include the following: (i) changes in the current and future business environment, including interest rates and capital and consumer spending; (ii) competitive factors and competitor responses to Walter Industries' initiatives; (iii) successful development and market introductions of anticipated new products; (iv) changes in government laws and regulations, including taxes; (v) continuation of the favorable environment to make acquisitions, domestic and foreign, including regulatory requirements and market value of candidates.

Following are key terms defined as they are used in this report:

Beneficial Interest – Residual interest remaining in the assets of the Mid-State Trusts after all outstanding obligations of the Trusts have been satisfied. Represents the value of mortgages used to "overcollaterize" each Trust as protection against possible loan losses.

Credit Facilities – Bank financings which constitute substantially all of the Company's Other Senior Debt. They consist of a $350 million revolving credit facility and a $450 million term loan. At May 31, 1999, balances owed on these facilities were $127.2 million and $425.0 million, respectively.

EBITDA – Earnings before corporate interest expense, taxes, depreciation and amortization of goodwill. Within Walter Industries, the mortgage-related interest expense of Mid-State Homes is considered a cost of doing business and therefore is not added back to operating income in calculating EBITDA.

Economic Balance – A calculation of the present value of all future scheduled monthly payments due on the instalment notes comprising the Mid-State Homes mortgage portfolio.

Effective Tax Rate – The federal statutory tax rate (35%) as adjusted for permanent differences between the income for books (as reported in the consolidated financial statements) and income for tax (as reported in corporate tax returns). In fiscal 1999 the Company's effective tax rate from continuing operations was 39.8%.

Free Cash Flow – Cash flow from operating activities less changes in restricted cash and marketable securities, and net of capital expenditures.

Goodwill – The difference between the purchase price and the estimated fair market value of purchased assets and their assumed liabilities. Walter Industries' consolidated goodwill amortization from continuing operations amounted to $43.1 million, equivalent to $0.77 per share, after tax benefit in fiscal 1999. The Company's goodwill is amortized over a range of 15-35 years and is deducted from the reported operating earnings of each business segment.

Gross Portfolio Value – The sum of all principal and time charge payments due on the instalment notes comprising the Mid-State mortgage portfolio. (See Instalment Notes Receivable)

Gross Profit – Net sales minus cost of sales.

Instalment Notes Receivable – Notes secured by first mortgages arising from the sale of single-family homes by JWH's homebuilding businesses. As reported on the Company's consolidated balance sheet, gross instalment notes receivable totaled $4.2 billion at May 31, 1999, representing 63,732 active mortgage accounts.

Mid-State Trust II, III, IV, VI, VII – Long-term financing vehicles used to monetize the assets of the Mid-State Homes mortgage portfolio. These Trusts are self-sustaining and non-recourse to the Company.

Mid-State Trust V – A $400 million "warehouse" facility for the temporary funding of mortgages generated by the sale of single-family homes. This facility is periodically paid down by rolling its indebtedness into a permanent trust financing.

Non-Recourse Debt – Debt of the Company associated with the mortgage/asset-backed notes (the Mid-State Trusts). At May 31, 1999, this non-recourse debt represented $1.8 billion of the $2.3 billion of long-term senior debt shown on the Company's consolidated balance sheet.

Postretirement Benefits Obligation – Actuarially estimated future costs of benefits available to certain retirees of the Company. Annual postretirement benefit expenses ($7.8 million from continuing operations in 1999) are deducted from the operating earnings of each business segment.

Recourse Debt – The "true" senior debt of the corporation (as opposed to non-recourse, mortgage/asset-backed debt). Comprised of other senior debt and short-term notes payable, as presented on the Company's consolidated balance sheet. At May 31, 1999, recourse debt totaled $552.2 million.

Restricted Short-Term Investments – Cash set aside solely for a specific future purpose. For Walter Industries, this term principally relates to two items: cash received from the Company's mortgage payment collections, which is temporarily invested until it is needed to satisfy the regular, quarterly obligations of the Mid-State Trusts; and excess funds held by Mid-State Trust II that are over and above the expenses of the Trust and the principal and interest of the debt related to the Trust.

Tax Loss Carry Forward – A net operating loss generated in the fiscal year ended May 31, 1995 which the Company elected to carry forward to reduce future taxable income and thus reduce its tax base. The tax loss carry forward was $30.9 million at May 31, 1999 and is expected to be fully utilized in fiscal 2000.

Time Charges – Revenue derived from monthly payments made by JWH's mortgage customers, as shown on the Company's consolidated statements of operations.

Unearned Time Charges – As shown on the Company's consolidated balance sheet, represents the time charge income that will be received over the life of the instalment notes currently comprising the Mid-State mortgage portfolio.

CORPORATE DIRECTORY AND STOCKHOLDER INFORMATION

OFFICERS

Kenneth E. Hyatt, Chairman, President and Chief Executive Officer

Richard E. Almy, Executive Vice President and Chief Operating Officer

Arthur W. Huge, Executive Vice President and Chief Financial Officer

Frank A. Hult, Vice President, Controller and Chief Accounting Officer

Robert W. Michael, Senior Vice President and Group Executive; President, Jim Walter Homes, Inc.

Edward A. Porter, Vice President-General Counsel and Secretary

David L. Townsend, Vice President-Administration

Joseph J. Troy, Vice President-Treasurer

Cynthia B. Eisch, Assistant Controller; Tax Director

Stephen H. Foxworth, Assistant Treasurer

Kathy H. Love, Assistant Controller; Director of Operations Audit

Kimberly A. Perez, Assistant Controller; Director of Accounting and Strategic Planning

Mary C. Snow, Assistant General Counsel; Assistant Secretary

Joseph W. Spransy, Assistant Secretary

Stephen R. Winslow, Assistant Treasurer

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
400 North Ashley St., Suite 2800
Tampa, Florida 33601

BOARD OF DIRECTORS

Kenneth E. Hyatt, Chairman, President and Chief Executive Officer, Walter Industries, Inc.

Richard E. Almy, Executive Vice President and Chief Operating Officer, Walter Industries, Inc.

Donald N. Boyce, Chairman, IDEX Corporation (1,2,4,5)

Howard L. Clark, Jr., Vice Chairman, Lehman Brothers, Inc. (1,2,3,5)

Perry Golkin, Member, Kohlberg Kravis Roberts & Co., LLC (3,4,6)

James L. Johnson, Chairman Emeritus, GTE Corporation (1,3,4,5,6)

Charles E. Long, Retired Vice Chairman, Citicorp (1,3,5,6)

Michael T. Tokarz, Member, Kohlberg Kravis Roberts & Co., LLC (2,4,6)

James W. Walter, Chairman Emeritus and founder, Walter Industries, Inc. (2,4,6)

(1) Audit Committee, (2) Finance Committee, (3) Compensation Committee, (4) Environmental, Health and Safety Committee, (5) Special Tax Oversight Committee, (6) Nominating Committee

COMMON STOCK

Trading
New York Stock Exchange
Trading Symbol: **WLT**

Transfer Agent and Registrar
Harris Trust and Savings Bank
311 W. Monroe
Chicago, Illinois

QUARTERLY STOCK PRICE RANGE – FISCAL 1999

	1Q	2Q	3Q	4Q
High	19 3/16	14 15/16	16 1/8	13 9/16
Low	14 1/8	10 13/16	12 1/4	10 3/8

ANNUAL MEETING

The Annual Meeting of Stockholders of Walter Industries, Inc. will be held October 14, 1999 at 10:00 a.m. at the Hyatt Regency Tampa at Two Tampa City Center, Tampa, Florida.

CORPORATE WEB SITE

The Walter Industries Corporate Web Site, **www.walterind.com,** offers access to information on Walter Industries, Inc. and its operating subsidiaries, downloadable corporate news releases, financial statements, common stock information and direct links to a number of our corporate subsidiaries. The site also offers extensive financial and investor relations data, a direct electronic mail link to the Walter Industries Corporate Communications Department, and an electronic mailing list where users can register to receive corporate news and information headlines via E-mail as released.

INVESTOR/ MEDIA CONTACT

For further information about Walter Industries, Inc. and its subsidiaries, please contact:

Corporate Communications, 8-E
Walter Industries, Inc.
P.O. Box 31601
Tampa, Florida 33631-3601
(813) 871-4448
Fax (813) 871-4430

FORM 10-K

A copy of the Company's annual report to the Securities and Exchange Commission on Form 10-K for 1999 is available upon written request to:

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Corporate Communications, 8-E
P.O. Box 31601
Tampa, Florida 33631-3601

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