A photograph of two industrial workers in a factory setting. They are wearing heavy, yellow and orange protective suits and white hard hats. They are focused on a large, vertical, rusted metal pipe, with one worker's hands on it and the other looking on. The background is filled with industrial machinery and structures.

# CARBO

CERAMICS

DEMANDING MORE

2000 ANNUAL REPORT



*ARBO Ceramics is the world's leading producer of ceramic proppants – high strength, spherical pellets used in the hydraulic fracturing of natural gas and oil wells. Hydraulic fracturing is the most widely used method of stimulating production from gas and oil bearing formations. In the hydraulic fracturing process, large volumes of proppant are mixed with a highly viscous fluid to form a slurry. Using high-pressure hydraulic pumps, the slurry is pumped into the well, at pressure sufficient to create a fracture in the rock formation that contains the gas or oil. Once the fracture is created, the pressure is removed and the proppants remain in the fracture, creating a highly permeable pathway through which the gas or oil can flow more readily. The end result is increased production rates and improved economics for the operator of the well.*

# F I N A N C I A L   H I G H L I G H T S

(in thousands, except per share amounts)

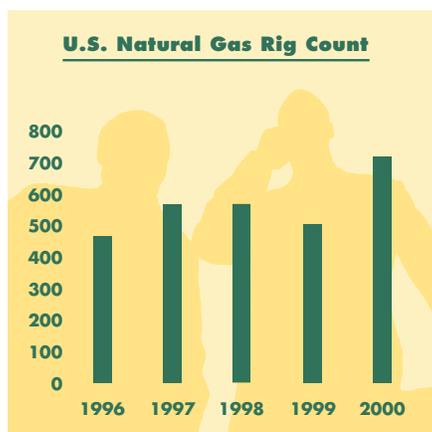
	2000	1999	1998	1997	1996
<b>Summary Statement of Income Data</b>					
Revenues	<b>\$ 93,324</b>	\$ 69,738	\$ 84,095	\$ 85,122	\$ 65,151
Gross profit	<b>35,561</b>	28,020	42,430	42,936	30,634
Operating profit	<b>23,157</b>	16,259	32,453	34,021	22,508
Income before income taxes	<b>23,425</b>	15,971	33,427	35,025	22,683
Net income (pro forma in 1996)	<b>14,830</b>	10,512	20,708	22,089	14,290
Diluted earnings per share (pro forma in 1996)	<b>\$ 1.00</b>	\$ 0.71	\$ 1.40	\$ 1.50	\$ 0.97
Average shares outstanding - diluted	<b>14,826</b>	14,712	14,771	14,771	14,673

## Summary Balance Sheet Data

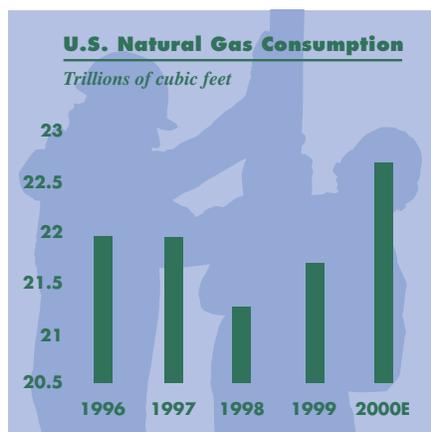
Current Assets	<b>\$ 47,415</b>	\$ 23,809	\$ 23,783	\$ 46,861	\$ 38,158
Total assets	<b>125,422</b>	106,980	99,427	80,954	60,405
Current Liabilities	<b>9,415</b>	7,457	8,638	7,616	5,204
Shareholders' Equity	<b>106,140</b>	93,400	87,269	70,942	53,234

## Other Data

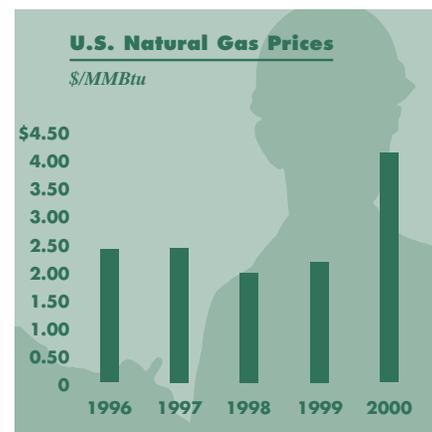
Depreciation	<b>\$ 6,767</b>	\$ 4,632	\$ 2,154	\$ 1,953	\$ 1,901
EBITDA	<b>30,230</b>	20,900	35,581	37,033	25,986
Capital Expenditures	<b>1,603</b>	14,027	41,837	13,799	3,010



Source: Baker Hughes Inc.



Source: Energy Information Administration



Source: Natural Gas Week Spot Wellhead Gas Price Report

CARBO Ceramics' solid results for 2000 reflect the recovery in worldwide exploration for oil and gas which was led by a resurgence in North American natural gas drilling. We believe the industry environment is right and we have the assets in place to continue our growth in 2001 and beyond.

Natural gas drilling and development activity is the primary driver of our business. Increased demand for natural gas and record natural gas prices in North America pushed the U.S. drilling rig count to a 10-year high in December 2000. With higher prices for natural gas, exploration and production companies are motivated to maximize production from new wells and recomplete existing wells to improve economic returns. That translates into greater demand for the ceramic proppants that we manufacture for use in the hydraulic fracturing process to accelerate production and profits from natural gas and oil wells.

Our sales volumes increased 34 percent in 2000 compared with the previous year. While this is impressive growth, we believe the response of exploration and production companies to higher commodity prices was somewhat cautious. The ramp-up in drilling activity was tempered both by concerns about future prices and by a shortage of manpower and equipment that constrained the ability to drill more wells. In short, while a recovery in drilling began in 2000, we believe higher prices will boost drilling activity in 2001 and throughout this decade as companies attempt to replace depleting gas reserves and meet the increasing demand for natural gas. Despite the improvements we saw in our operating and financial results in 2000, we are demanding more from our business in 2001.

**Demanding more: North American markets.** In 2000, 76 percent of our sales were in the U.S., Canada and Mexico. The U.S. drilling rig count increased by 47 percent versus the previous year, with nearly 80 percent of all wells drilled in the U.S. in 2000 targeting natural gas.

Demand for natural gas in the U.S. is projected to grow by over 50 percent by 2020 due to rapid growth in the demand for gas in electricity generation. Use of natural gas in power generation is expected to triple over the next 20 years, as the electric industry moves to less capital-intensive and more efficient natural gas generation technologies. As demand increases, pressure on natural gas supply will grow.

We are in a strong position to grow our sales and revenues with increased gas exploration and development activity.

We have made great strides in improving the efficiency of our McIntyre production facility completed in 1999 and have significant production capacity available to meet increasing demand. We have added engineering and marketing staff to support our efforts to educate exploration and production companies on the benefits of high-conductivity ceramic proppants, and we have an aggressive strategy to expand the market share of ceramic proppants.

**Demanding more: international markets.** Our international shipments to Europe, South America, the Middle East and Asia Pacific regions increased 35 percent in 2000. Although many of our international shipments are for use in oil wells, the demand for natural gas is beginning to increase outside the U.S. and our gas-directed shipments to these areas are increasing. To reduce our international shipping time and costs, we are conducting engineering, design and costing studies on the feasibility of building a ceramic proppant manufacturing facility in China. The plant would potentially serve key markets in Southeast Asia, Russia and Australia. We expect to decide during the first half of 2001 whether to proceed with construction of our first production facility outside the U.S.

**Demanding more: a new market in shallower wells.** Ceramic proppants are widely used in deep, tight gas wells, and by our estimate, now account for approximately 14 percent of the total proppants market. We are the leading supplier of ceramic proppants, producing nearly 60 percent of the ceramic proppants sold worldwide. We believe the total market share for ceramic proppants can be expanded by demonstrating their value in shallower wells. We have partnered with oilfield service companies to conduct field trials that demonstrate to exploration and production companies the economic benefits our lightweight products provide in shallower wells. Results from the field clearly show that the uniform size and spherical shape of ceramic proppants can accelerate production and profits for these companies.

We've expanded our technical marketing staff and are using data gathered in field trials to develop this new market. Our sales engineers make presentations directly to exploration and production companies using sophisticated computer models to project the economic benefits of using our products in specific reservoirs and well conditions. We expect to see the benefits of this program starting in 2001.

CARBO Ceramics' management team: From left, Mark Pearson, senior vice president, marketing and technology; Terry Keefe, vice president, manufacturing; Jesse Orsini, president and chief executive officer; and Paul Vitek, senior vice president, finance and administration.

**Demanding more: production capacity.** When worldwide drilling reached a 50-year low in 1999, our investment in a new manufacturing plant that increased our production capacity by nearly 60 percent may have appeared ill-timed. Today, that increased capacity is serving us well. We have overcome the initial learning curve at the plant, brought production costs under control, and are ready with sufficient capacity to support market expansion.

**Demanding more: financial performance.** With the McIntyre plant start-up costs behind us, we expect to further improve our financial performance in 2001. In January 2001, we implemented a price increase on all of our products that averaged 9 percent. These price increases should offset the higher energy costs incurred for natural gas we consume in our production processes, and should contribute to earnings growth. We're debt-free, and we produce strong cash flow to fund our growth strategies.

Our non-energy proppant products provided less than 2 percent of our revenues in 2000, but we will continue to develop this profitable, incremental business. We sold one million pounds of our products in industrial markets in a single month for the first time in 2000. Although we are disappointed that progress has not been faster, we will continue to pursue new applications of our products outside the oil industry.

**Demanding more: CARBO Ceramics stock.** We took strategic actions in 2000 to improve the liquidity of our common stock and establish CARBO Ceramics as a more recognized name with investors. In May 2000, CARBO Ceramics moved from the NASDAQ to the New York Stock Exchange, where a majority of oilfield services companies are listed. We also increased the number of shares traded with a secondary offering of 1.9 million shares from existing shareholders.

**A legacy of growth.** Since its founding in 1978, CARBO Ceramics has grown sales volume at a compound annual rate of 20 percent. That's an enviable record in a business that is subject to the up and down cycles of the oil and gas business.

I have thoroughly enjoyed leading this business for 22 years but will be retiring from my position as president and CEO on April 10, 2001. I am pleased that with my retirement I will be leaving the company in excellent hands and with exciting prospects. Our Board of Directors has named



Dr. C. Mark Pearson to succeed me as president and CEO in April 2001. Mark joined the company in 1997, and currently serves as senior vice president of marketing and technology. An expert in the field of ceramic proppants and hydraulic fracturing, he is a leading authority on the enhancement of oil and gas well production. His technical knowledge and operational experience, combined with his strong relationships within the petroleum industry, will greatly benefit the company and complement our solid management team.

Natural gas drives our business, and the rapidly rising demand for natural gas alone makes our prospects for growth bright. In addition, we believe there is a significant opportunity to increase our market share that is yet to be realized. We have the financial resources, technical marketing expertise, production capacity and distribution system to make it happen. I am confident that the entire CARBO Ceramics team will capitalize on these opportunities and sustain the company's record of exceptional growth and performance.

A handwritten signature in cursive script, reading "Jesse P. Orsini".

Jesse P. Orsini  
*President and Chief Executive Officer*

## DEMANDING MORE

### DOMESTIC NATURAL GAS DRILLING

Our business is based on helping operators of natural gas and oil wells improve production and profitability through the use of high-quality ceramic proppants in the hydraulic fracturing of their wells. Hydraulic fracturing is the most common method of stimulating production from both new and existing wells. In the hydraulic fracturing process, oilfield service companies pump viscous fluids into a well at high pressure to create fractures in the rock formation containing gas or oil. As the fracture is created, granular materials called proppants are blended with the fluids to “prop” open a permeable channel that permits the hydrocarbons to flow more freely through the rock formation. The three primary proppants used in hydraulic fracturing are sand, resin-coated sand and ceramics.

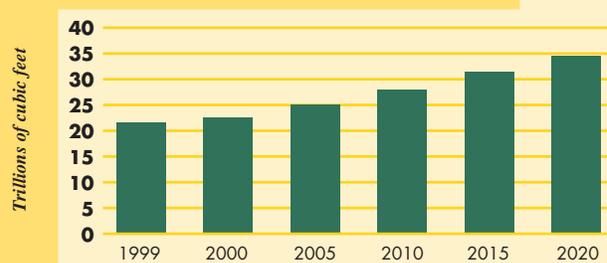
We are the world’s leading producer of ceramic proppants. Our premium products have two major advantages over alternative, sand-based proppants: improved strength and more uniform size and shape. Due to their high strength, ceramic proppants have historically been utilized in deep wells where very high stress is exerted on the proppant. Because of this, the primary use of our products has been in the fracturing of deep natural gas wells.

The market for these wells improved in 2000 and should continue to improve over the next decade as the demand for natural gas grows. Since late 1998, the annual number of rigs actively drilling for natural gas in the U.S. has increased from under 500 to over 900. In addition to the increase in drilling activity, wells in North America continue to get deeper. From 1991 through 1999, the average depth of natural gas wells completed in the U.S. increased by more than 25 percent.

We expect the increase in deep natural gas drilling activity to have a positive impact on our sales growth in the future. The U.S. consumed a record 22.7 trillion cubic feet (Tcf) of gas in 2000 and natural gas consumption is projected to grow to almost 35 Tcf by 2020, according to the reference case forecast in the Annual Energy Outlook 2001 published by the U.S. Energy Information Administration (EIA).



**Projected U.S. Natural Gas Consumption**



Source: EIA

MCALLEN, TEXAS



*The increasing trend toward deep natural gas drilling is contributing to our sales growth. We've successfully expanded sales in the South Texas region by demonstrating the productivity improvements generated by our products. TotalFinaElf has changed its job design in the region to incorporate lightweight ceramic proppants after a field trial showed a 30 percent improvement in initial production rates using higher volumes of our lightweight product. Shown are Keith Froebel of TotalFinaElf and Tom McGuigan of CARBO Ceramics as a well is being hydraulically fractured in McAllen, Texas.*

## GREEN RIVER BASIN, WYOMING



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*We are accelerating our growth by expanding the use of ceramic proppants in the large market for shallower wells. In a field trial in southwestern Wyoming with Chevron, the uniform size and spherical shape of our lightweight ceramic proppants increased initial production rates by 28 percent, and increased recovered reserves by 33 percent in the first year. Above, CARBO Ceramics Petroleum Engineer Pat Handren analyzes the results from field trials showing the production improvements gained by using ceramic proppants.*



## DEMANDING MORE

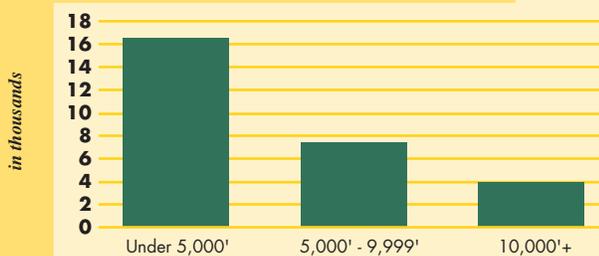
### A NEW MARKET IN SHALLOWER WELLS

While we expect the increasing demand for natural gas to generate growth in our business in the future, we would like to accelerate our growth by expanding the market share of ceramic proppants. Although ceramic proppants are known for their high strength, their uniform size and shape offer operators improved performance as well. Recent field trials show that the uniform size and spherical shape of our products can provide substantial production increases in shallower wells where high strength proppants are not otherwise required. With these encouraging results, we are increasing the use of our products in the large market for wells drilled to less than 10,000 feet.

In the Green River Basin of southwestern Wyoming, a field trial with Chevron showed that hydraulically fracturing shallower wells with our ceramic proppants improved the profitability of marginally performing natural gas wells. In the field trial, five wells were recompleted and hydraulically fractured using ceramic proppants at depths ranging from 6,800 to 8,500 feet. As we had forecast, the uniform size and shape of our lightweight ceramic proppants increased initial production rates in the wells by 28 percent, and increased recovered reserves by 33 percent in the first year. The jump in production in the five wells translated into a cash flow increase of nearly \$2 million in the first year alone.

We have initiated four additional field trials in Wyoming, South Texas and Oklahoma that we hope will further demonstrate to the industry how ceramic proppants can improve profits and production in shallower wells.

U.S. Well Completions by Depth - 2000



Source: American Petroleum Institute

## HOUSTON, TEXAS



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*Our outstanding technical support and results-based marketing approach directly to well operators will enable us to expand the total market share for ceramic proppants. Using computer models, our sales engineers can forecast production increases and the return on investment achievable by using ceramic proppants compared with other proppants. Above, CARBO Ceramics Sales Engineers Marty Hupp (left) and Mark McGill are part of our expanded sales staff based in Houston.*



## DEMANDING MORE

### ADVANCED TECHNICAL SUPPORT

Armed with new technical data from our field trials, we have shifted our marketing focus to reaching the end users of our products — the operators of natural gas and oil wells that hire the service companies to fracture their wells. We've opened a sales office in Houston and expanded our technical sales force to educate exploration and production companies about the compelling economic returns that ceramic proppants can provide, despite their higher initial cost.

Using well simulation software, our sales engineers can forecast production increases and the return on investment achievable by using ceramic proppants compared with other proppants. Our computer model considers a variety of well conditions including depth, closure stress and reservoir permeability, as well as comparing the cost and performance of ceramic proppants versus other proppants. Our model and field results show that companies have not achieved maximum results using lower-cost sand products.

We believe that our outstanding technical support and our results-based marketing approach to well operators will enable us to expand the total market share for ceramic proppants. With our superior technical support, manufacturing capacity and distribution capability, we expect to gain the largest piece of this growing market.

## DEMANDING MORE

### GROWING INTERNATIONAL SALES

Our sales outside of North America accounted for about 24 percent of total sales in 2000. We expect our export market to grow in the short-term with the worldwide recovery in drilling activity stimulated by higher oil and gas prices. Longer term, worldwide demand for natural gas is also forecast to increase due to the abundance, efficiency and environmental benefits of natural gas as a source of energy. Already many countries are building the infrastructure to support more natural gas usage.

Our export marketing efforts are conducted by sales agents located in South America, China, Australia and Scotland. We distribute to international locations through stocking facilities in Europe and China, which are supplied with products from our U.S. plants by container ships.

Our worldwide production strategy is to invest in capacity in advance of demand. We have evaluated worldwide drilling activity in search of geographic regions that have both an adequate supply of the raw materials we require and sufficient demand for our products. In response to growing demand for our products in the Asia Pacific markets, we are analyzing the feasibility of building a plant in China, a country with abundant supplies of kaolin and bauxite and a growing demand for high-quality ceramic proppants. With large domestic natural gas reserves and increasing environmental concerns, China has embarked on a major expansion of its gas development and transportation infrastructure. Gas consumption is expected to more than triple by 2010, requiring accelerated development of its domestic reserves.

We are obtaining engineering and cost estimates for a China plant with annual capacity of 30 to 40 million pounds that could be in production by 2003. A plant in China would considerably shorten shipping times and reduce shipping costs to serve the growing markets in China, Southeast Asia, Australia and Russia.



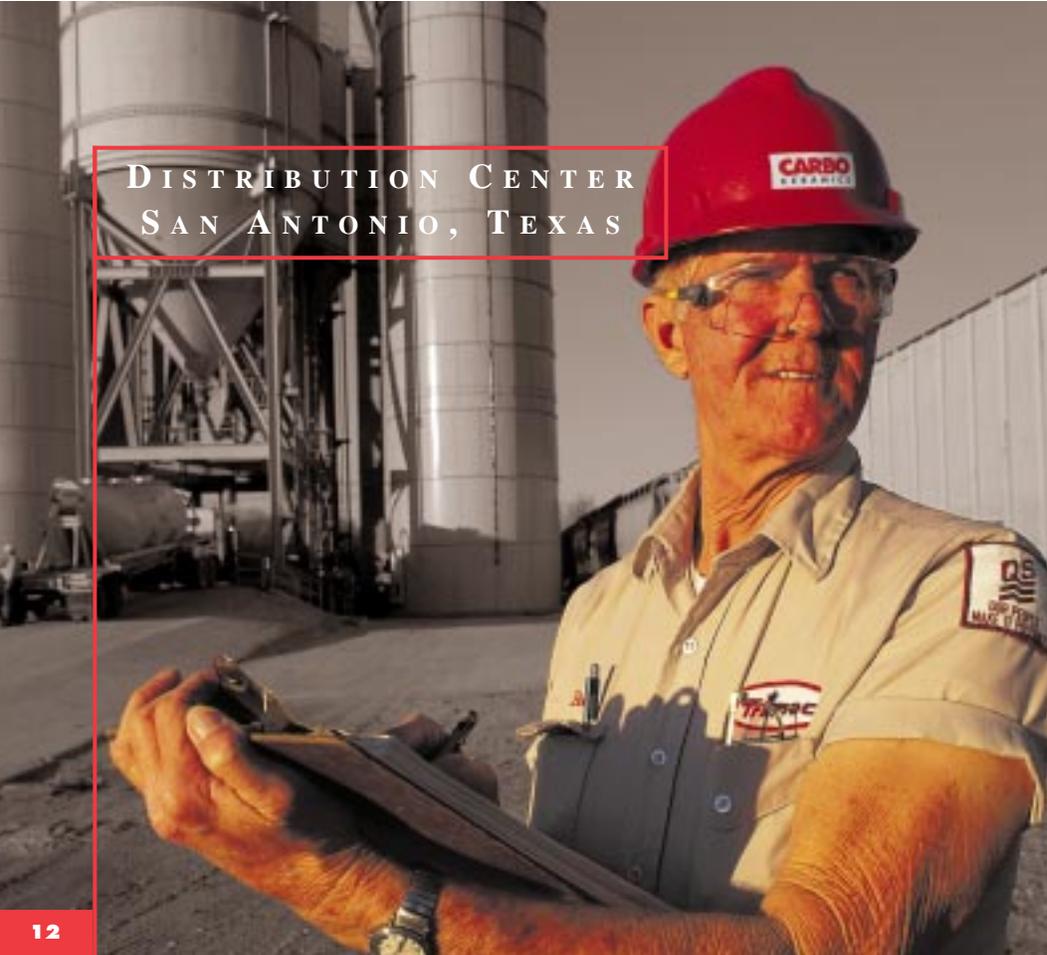
TIANJIN, CHINA

天津港  
保税区



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*Worldwide drilling activity is increasing in response to higher commodity prices and increasing demand for clean-burning natural gas. We are analyzing the feasibility of building a plant in China to serve the growing Asia Pacific market. We currently have stocking facilities and a sales office in China. Shown are CARBO Ceramics China Business Development Manager Stan Tan (right) and sales agent Simon Hao in Tianjin, China.*



DISTRIBUTION CENTER  
SAN ANTONIO, TEXAS

*Delivery performance is critical to our customers, and our distribution system is the best in the industry. We provide just-in-time delivery to our customers' wellsites from storage and distribution facilities in all major North American markets. Shown is our San Antonio, Texas, distribution facility, which serves the large South Texas market.*

DEMANDING MORE

DELIVERY PERFORMANCE

In addition to the technical merits and economic benefits of ceramic proppants, our customers consider product availability and delivery performance in deciding to buy our products. Completed in mid-1999, our new facility in McIntyre, Georgia, is now fully operational and running efficiently, making us the largest ceramic proppant producer by a considerable margin. We have manufacturing capacity to support the current upturn in natural gas drilling activity and plan to continue to invest in new capacity.

Our distribution system is the best in the industry. We have storage and distribution facilities in all major North American markets, allowing us to provide just-in-time delivery to our customers' wellsites. We are constructing a second distribution facility in Canada to support the increased drilling activity in the northwest region of Alberta and we are expanding the capacity of our stocking facility in Rock Springs, Wyoming.

As the world demands more energy and customers demand more of our products, we are demanding more than ever from ourselves. Our unmatched technical support, product availability and delivery system have made us the industry leader, and give us the competitive edge we need to continue to grow our business.

# C O R P O R A T E I N F O R M A T I O N

## BOARD OF DIRECTORS

**William C. Morris**  
*Chairman of the Board*  
*Chairman, J. & W. Seligman & Co., Inc.*

**Claude E. Cooke, Jr.**  
*of Counsel*  
*Baker Botts L.L.P.*

**John J. Murphy**  
*Former Chairman of the Board*  
*Dresser Industries*

**Jesse P. Orsini**  
*President and Chief Executive Officer*  
*CARBO Ceramics Inc.*

**Robert S. Rubin**  
*Managing Director*  
*Salomon Smith Barney*

## CORPORATE OFFICERS

**Jesse P. Orsini**  
*President and Chief Executive Officer*

**Dr. C. Mark Pearson**  
*Sr. Vice President, Marketing and Technology*

**Paul G. Vitek**  
*Sr. Vice President, Finance & Administration*  
*and Chief Financial Officer*

**Terry P. Keefe**  
*Vice President, Manufacturing*

## CORPORATE OFFICES

6565 MacArthur Boulevard  
Suite 1050  
Irving, Texas 75039  
(972) 401-0090

## STOCK EXCHANGE LISTING

The New York Stock Exchange  
Symbol: CRR

## TRANSFER AGENT AND REGISTRAR

Mellon Investor Services, L.L.C.  
Overpeck Centre  
85 Challenger Road  
Ridgefield Park, NJ 07660  
(800) 635-9270

## INDEPENDENT AUDITORS

Ernst & Young LLP  
New Orleans, Louisiana

## FORM 10-K

A copy of the company's Annual Report to the Securities and Exchange Commission (Form 10-K) is available free of charge by contacting:

Paul G. Vitek  
Sr. Vice President, Finance & Administration  
CARBO Ceramics Inc.  
6565 MacArthur Boulevard, Suite 1050  
Irving, Texas 75039

## ANNUAL MEETING

The company's Annual Meeting of Shareholders will be held at 9:00 a.m. on April 10, 2001, at The Mansion on Turtle Creek, 2821 Turtle Creek Boulevard, Dallas, Texas.

## INVESTOR RELATIONS

Additional corporate information is available from our Web site at [www.carboceramics.com](http://www.carboceramics.com) or by emailing the company at [IR@carboceramics.com](mailto:IR@carboceramics.com).

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**Form 10-K**

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000.**
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**

Commission File No. 0-28178

**Carbo Ceramics Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**72-1100013**  
(I.R.S. Employer  
Identification Number)

**6565 MacArthur Boulevard**  
**Suite 1050**  
**Irving, Texas 75039**  
(Address of principal executive offices)

**(972) 401-0090**  
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered Pursuant to Section 12(g) of the Act:

**Common Stock, par value \$0.01 per share**

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing sale price of the Common Stock on February 28, 2001, as reported on the New York Stock Exchange, was approximately \$198,488,550. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 28, 2001, Registrant had outstanding 14,875,850 shares of Common Stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for Registrant's Annual Meeting of Shareholders to be held April 10, 2001 are incorporated by reference in Part III.

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## PART I

### ITEM 1. *Business*

#### General

CARBO Ceramics Inc. is the world's largest producer and supplier of ceramic proppants for use in the hydraulic fracturing of natural gas and oil wells. Demand for ceramic proppants depends primarily upon the demand for natural gas and oil and on the number of natural gas and oil wells drilled, completed or recompleted worldwide. More specifically, the demand for ceramic proppants is dependent on the number of oil and gas wells that are hydraulically fractured to stimulate production.

Hydraulic fracturing is the most widely used method of increasing production from oil and gas wells. The hydraulic fracturing process consists of pumping fluids down a natural gas or oil well at pressures sufficient to create fractures in the hydrocarbon-bearing rock formation. A granular material, called a proppant, is suspended in the fluid and packs the newly created fracture, keeping the fracture open once high-pressure pumping stops. The proppant-filled fracture creates a permeable channel through which the hydrocarbons can flow more freely from the formation to the well and then to the surface.

There are three primary types of proppant that can be utilized in the hydraulic fracturing process: sand, resin-coated sand and ceramic. Sand is the least expensive proppant, resin-coated sand is more expensive and ceramic proppants are typically the highest cost. The higher initial cost of ceramic proppants is justified by the fact that the use of these proppants in certain well conditions results in increased production of oil and gas and increased cash flow for the operators of oil and gas wells. The increased production rates are primarily attributable to the higher strength and more uniform size and shape of ceramic proppants versus alternative materials.

CARBO Ceramics was formed in 1987 for the purpose of purchasing the assets of Standard Oil Proppants Company Ltd. (SOPCO). SOPCO was a joint venture formed to operate the combined proppant businesses of the Carborundum Company and Dresser Industries. These proppant businesses were started in 1978 and 1984, respectively. While the Carborundum Company and Dresser Industries had primarily manufactured high strength, premium priced proppants for use in very deep wells, CARBO Ceramics has pursued a strategy of introducing new, lower-priced, lightweight, intermediate strength ceramic proppants to capture a greater portion of the large market for sand-based proppants.

Based on the Company's internally generated market information and information contained in the United States Geological Survey Minerals Yearbook, the Company estimates that it supplies nearly 60% of the ceramic proppants and 8% of all proppants used worldwide. During the year ended December 31, 2000, the Company generated approximately 63% of its revenues in the U.S. and 37% in international markets.

#### Products

The Company manufactures four distinct ceramic proppants. *CARBOHSP™2000* and *CARBOPROP®* are premium priced, high strength proppants designed primarily for use in deep gas wells. *CARBOHSP™2000* was introduced in January 2000 and is an improved version of *CARBOHSP™*, which was introduced in 1979 as the original ceramic proppant. *CARBOHSP™2000* has the highest strength of the ceramic proppants manufactured by CARBO Ceramics and is used primarily in the fracturing of deep gas wells. *CARBOPROP®*, which was introduced by the Company in 1982, is slightly lower in weight and strength than *CARBOHSP™2000* and was developed for use in deep gas wells that do not require the strength of *CARBOHSP™2000*.

The *CARBOLITE®* and *CARBOECONOPROP®* products are lightweight, intermediate strength proppants designed for use in gas wells of moderate depth and shallower oil wells. The products are manufactured and sold to compete directly with sand-based proppants. *CARBOLITE®*, introduced in 1984, is used in medium depth oil and gas wells, where the additional strength of ceramic proppants may not be essential, but where higher production rates can be achieved due to the product's roundness and uniform grain size.

CARBOECONOPROP<sup>®</sup>, introduced in 1992 to compete directly with sand-based proppants, has been the Company's lowest priced and fastest growing product. The introduction of CARBOECONOPROP<sup>®</sup> has resulted in ceramics being used in many new markets by end users that had not previously used ceramic proppants. The Company believes that many of the users of CARBOECONOPROP<sup>®</sup> had previously used sand or resin-coated sand.

### **Competition and Market Share**

The Company's chief worldwide competitor is Norton-Alcoa Proppants ("Norton-Alcoa"). Norton-Alcoa is a joint venture of Compagnie de Saint-Gobain, a French glass and materials company, and Aluminum Company of America. Norton-Alcoa manufactures ceramic proppants that directly compete with each of the Company's products. In addition, Mineraco Curimbaba ("Curimbaba") based in Brazil, manufactures a sintered bauxite product similar to the Company's CARBOHSP<sup>™</sup>, which is marketed in the United States under the name "Sinterball." The Company believes that Curimbaba has not expanded its U.S. product line to include a full range of ceramic proppants and is unlikely to do so in light of patents held by the Company and Norton-Alcoa. The Company believes that it supplies approximately 60% of the ceramic proppants and approximately 8% of all proppants used by the oilfield services companies that perform fracturing services worldwide.

Competition for CARBOHSP<sup>™</sup>2000 and CARBOPROP<sup>®</sup> includes ceramic proppants manufactured by Norton-Alcoa and Curimbaba. The Company's CARBOLITE<sup>®</sup> and CARBOECONOPROP<sup>®</sup> products compete with ceramic proppants produced by Norton-Alcoa and with sand-based proppants for use in the hydraulic fracturing of medium depth natural gas and oil wells. The leading suppliers of mined sand are Unimin Corp., Badger Mining Corp., Fairmount Minerals Limited, Inc. and Ogelbay-Norton Company. The leading suppliers of resin-coated sand are Borden Proppants Corp. and Santrol, a subsidiary of Fairmount Minerals.

The Company believes that the most significant factors that influence a customer's decision to purchase the Company's products are (i) price/performance ratio, (ii) on-time delivery performance, (iii) technical support and (iv) proppant availability. The Company believes that its products are competitively priced and that its delivery performance is excellent. The Company also believes that its superior technical support has enabled it to persuade customers to use ceramic proppants in an increasingly broad range of applications and thus increased the overall market for the Company's products.

Prior to 1997, the Company had generally maintained sufficient inventory to satisfy demand for its products. However, beginning in 1997 and continuing through the first half of 1998, it became obvious to the management of the Company that previous capacity additions were insufficient to satisfy demand in an improving market. The Company addressed this issue through the construction of a new manufacturing facility in McIntyre, Georgia, which was completed and began limited production in June 1999. During the year 2000, the McIntyre facility increased production to approximately 60 percent of its design capacity. In total, the Company's manufacturing facilities operated at approximately 70 percent of capacity in 2000.

The Company continually conducts testing and development activities with respect to alternative raw materials to be used in the Company's existing production methods and alternative production methods. The Company is not aware of the development of alternative products for use as proppants in the hydraulic fracturing process. The Company believes that the main barriers to entry for additional competitors are the patent rights held by the Company and certain of its current competitors and the capital costs involved in building production facilities of sufficient size to be operated efficiently.

### **Customers and Marketing**

The Company's largest customers are, in alphabetical order, BJ Services Company, Halliburton Company and Schlumberger, the three largest participants in the worldwide petroleum pressure pumping industry. These companies collectively accounted for approximately 78 percent of the Company's 2000 revenues and approximately 85 percent of the Company's 1999 revenues. However, the end users of the Company's products are the operators of natural gas and oil wells that hire the pressure pumping service

companies to hydraulically fracture wells. The Company works both with the pressure pumping service companies and directly with the operators of natural gas and oil wells to present the economic advantages of using ceramic proppants. The Company generally supplies its customers with products on a just-in-time basis, with transactions governed by individual purchase orders. Continuing sales of product depend on the Company's direct customers and the well operators being satisfied with both product quality and delivery performance.

The Company recognizes the importance of a technical marketing program when selling a product that offers financial benefits over time but is initially more costly than alternative products. The Company must market its products both to its direct customers and to owners and operators of natural gas and oil wells. The Company's sales and marketing staff regularly calls on and keeps close contact with the people who are influential in the proppant purchasing decision: production companies, regional offices of oilfield service companies that offer pressure pumping services, and various completion engineering consultants. Beginning in 1999, the Company increased its marketing efforts to production companies. The Company expanded its technical sales force in 2000 and plans to continue to increase its efforts to educate end users on the benefits of using ceramic proppants in the future. The Company currently provides a variety of technical support services and has developed computer software that models the return on investment achievable by using the Company's ceramic proppants versus that of other proppants in the hydraulic fracturing of a natural gas or oil well.

The Company's Senior Vice President of Marketing and Technology coordinates worldwide sales and marketing activities. The Company's export marketing efforts in 2000 were conducted through its sales office in Aberdeen, Scotland and through commissioned sales agents located in South America, China and Australia.

The Company's ceramic proppants are used worldwide by U.S. customers operating abroad and by foreign customers. Sales outside the United States accounted for 37%, 39% and 35% of the Company's sales for 2000, 1999 and 1998, respectively. The distribution of the Company's export and domestic revenues is shown below, based upon the region in which the customer used the proppants:

<u>Location</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(\$ in millions)		
United States .....	\$58.9	\$42.3	\$54.3
International .....	34.4	27.4	29.8
Total .....	<u>\$93.3</u>	<u>\$69.7</u>	<u>\$84.1</u>

### **Distribution**

The Company maintains finished goods inventories at its plants in New Iberia, Louisiana, Eufaula, Alabama, and McIntyre, Georgia, and at eight remote stocking facilities located in: Rock Springs, Wyoming; Oklahoma City, Oklahoma; San Antonio, Texas; Fairbanks, Alaska; Edmonton, Alberta, Canada; Rotterdam, The Netherlands; and Tianjin and Shanghai, China. The North American remote stocking facilities consist of bulk storage silos with truck trailer loading facilities. The Company owns the facilities in San Antonio, Rock Springs and Edmonton and subcontracts the operation of the facilities and transportation to a local trucking company in each location. The remaining stocking facilities are owned and operated by local trucking companies under contract with the Company. The North American sites are supplied by rail, and the sites in the Netherlands and China are supplied by container ship. In total, the Company leases 149 rail cars for use in the distribution of its products. The price of the Company's products sold for delivery in the lower 48 United States and Canada includes just-in-time delivery of proppants to the operator's well site, which eliminates the need for customers to maintain an inventory of ceramic proppants.

### **Raw Materials**

Ceramic proppants are made from alumina-bearing ores (commonly referred to as bauxite, bauxitic clay or kaolin, depending on the alumina content), that are readily available on the world market. Bauxite is largely

used in the production of aluminum metal, refractory material and abrasives. The main deposits of alumina-bearing ores in the United States are in Arkansas, Alabama and Georgia; other economically mineable deposits are located in Australia, China, Jamaica, Russia and Surinam.

For the production of CARBOHSP™2000, the Company uses calcined, abrasive-grade bauxite imported from Australia and typically purchased on the spot market. The Company has entered into an agreement with a sole supplier to supply its anticipated need for this ore in 2001. For the production of CARBOPROP®, the Company uses bauxitic clay mined in Arkansas. The Company has entered into a contract for the processing and supply of Arkansas bauxitic clay. The Company believes that this agreement, which stipulates a fixed price for the ore, subject to annual upward adjustments in accordance with a producer price index, will provide a sufficient supply of bauxite and bauxitic clay to meet its anticipated requirement through 2001. The Company is currently evaluating alternative sources of supply.

The Company's Eufaula facility exclusively employs locally mined uncalcined kaolin for the production of CARBOLITE® and CARBOECONOPROP®. The Company has entered into a contract that requires a supplier to sell to the Company up to 200,000 net tons of kaolin per year and the Company to purchase from the supplier 80% of the Eufaula facility's annual kaolin requirements, each through 2003. This agreement stipulates a fixed price, subject to annual adjustment in accordance with fluctuations (within an 8% annual limit) in the producer price index.

The new production facility in McIntyre, Georgia, uses the imported calcined bauxite and domestic bauxitic clays discussed above for the production of CARBOHSP™2000 and CARBOPROP® and uses locally mined uncalcined kaolin for the production of CARBOLITE® and CARBOECONOPROP®. The Company has entered into a long-term supply agreement for kaolin that stipulates a fixed price subject to annual adjustments for changes in the producer price index and fuel costs. The agreement requires the Company to purchase at least 80% of the McIntyre facility's annual kaolin requirement from the supplier. The supply contract provides for a twenty-year supply of raw materials.

### **Production Process**

Ceramic proppants are made by grinding or dispersing ore to a fine powder, combining the powder into small, green (*i.e.*, unfired) pellets and sintering the pellets at 2,500°F to 3,000°F in a rotary kiln.

The Company uses two different methods to produce ceramic proppants. The Company's plants in New Iberia, Louisiana, and McIntyre, Georgia, use a dry process (the "Dry Process") which starts with bauxite, bauxitic clay or kaolin that has been dried to remove both free water and water which was chemically bound within the ore. This drying process is referred to as calcining. For the production of CARBOHSP™2000 and CARBOPROP®, calcined ores are received at the plant and ground into a dry powder. For the production of CARBOLITE® and CARBOECONOPROP® at the McIntyre plant, ores are calcined at the plant before being ground into a powder. Pellets are formed by combining the powder with water and binders and introducing the mixture into high-shear mixers. The process is completed once the green pellets are sintered in a rotary kiln. The Company's competitors also use the Dry Process to produce ceramic proppants.

The Company's plant in Eufaula, Alabama, uses a wet process (the "Wet Process"), which starts with moist, uncalcined kaolin from local mines. The kaolin is dispersed with chemicals in a water slurry. With an atomizer, the slurry is sprayed into a dryer that causes the slurry to harden into green pellets. These green pellets are then sintered in rotary kilns. The Company believes that the Wet Process is unique to its plant in Eufaula, Alabama.

### **Patent Protection**

The Company's ceramic proppants are made by processes and techniques that involve a high degree of proprietary technology, some of which are protected by patents.

The Company owns outright six issued U.S. patents and seven issued foreign patents; three of these U.S. patents and four of these foreign patents relate to the CARBOPROP® product produced by the Dry Process.

The Company jointly owns with A/S NIRO Atomizer (“NIRO”), the Danish designer and manufacturer of the spray atomizer device used in the Wet Process, three issued U.S. patents and 17 issued foreign patents. The patents owned jointly with NIRO generally relate to the Wet Process, and the products produced thereby (CARBOLITE® and CARBOECONOPROP®).

The Company’s six most important U.S. patents expire at various times in the years 2002 through 2009 with its two key product patents expiring in 2006 and 2009. The Company believes that these patents have been and will continue to be important in enabling the Company to compete in the market to supply proppants to the natural gas and oil industry. The Company intends to enforce and has in the past vigorously enforced its patents. The Company may be involved from time to time in the future, as it has been in the past, in litigation to determine the enforceability, scope and validity of its patent rights. Past disputes with its main competitor have been resolved in ways that permit the Company to continue to benefit fully from its patent rights. The Company and this competitor have cross-licensed certain of their respective patents relating to intermediate and low density proppants on both a royalty-free and royalty-bearing basis. (Royalties under these licenses are not material to the Company’s financial results.) The Company and NIRO have not granted any licenses to third parties relating to the use of the Wet Process. As a result of these cross licensing arrangements, both the Company and its main competitor are able to produce a broad range of ceramic proppants, while third parties are unlikely to be able to enter the ceramic proppants market without infringing on the patent rights held by the Company, its main competitor or both.

### **Production Capacity**

The Company believes that constructing adequate capacity ahead of demand while incorporating new technology to reduce manufacturing costs are important competitive strategies to increase its overall share of the market for proppants. Prior to 1993, the Company’s production capacity was substantially in excess of its sales requirements. Since that time, however, the Company has been expanding its capacity in order to meet the generally increasing demand for its products. In October 1993, the Company increased the capacity of the Eufaula facility from 90 million pounds per year to 170 million pounds per year, in response to the increasing demand for the Company’s CARBOLITE® and CARBOECONOPROP® products. In May 1995, the Company completed a 40 million-pound per year capacity expansion at the New Iberia facility, intended to meet increasing demand for CARBOHSP™ and CARBOPROP®. In February 1996, the Company commenced operation of its second 80 million-pound per year expansion of the Eufaula plant. Total annual capacity is currently 100 million pounds at the New Iberia facility and 250 million pounds at the Eufaula facility.

In June 1999, the Company substantially completed construction of a new manufacturing facility in McIntyre, Georgia. Design capacity of the plant is 200 million pounds per year and the total cost of the plant was approximately \$60 million. The plant consists of two distinct production lines housed in a single building. Initial production was generated from the first production line in June 1999 and full design throughput was achieved on that line in November 1999. Initial production from the second production line began in December 1999 and the plant operated at approximately 60 percent of its design capacity in 2000. The plant is capable of producing all of the Company’s product lines and has been designed to be expandable to a capacity of 400 million pounds per year.

The following table sets forth the date of construction of and recent expansion of the Company's manufacturing facilities:

<u>Location</u>	<u>Year of Completion</u>	<u>Annual Capacity</u> (Millions of pounds)	<u>Products</u>
New Iberia, Louisiana			
Plant 1 . . . . .	1979	20	CARBOHSP™ 2000 and CARBOPROP®
Plant 2 . . . . .	1981	40	CARBOHSP™ 2000 and CARBOPROP®
1995 Expansion . . . .	1995	<u>40</u>	CARBOHSP™ 2000 and CARBOPROP®
Total . . . . .		<u>100</u>	
Eufaula, Alabama			
	1983	90	CARBOLITE® and CARBOECONOPROP®
1993 Expansion . . . . .	1993	80	CARBOLITE® and CARBOECONOPROP®
1996 Expansion . . . . .	1996	<u>80</u>	CARBOLITE® and CARBOECONOPROP®
Total . . . . .		<u>250</u>	
McIntyre, Georgia			
	1999	<u>200</u>	CARBOLITE®, CARBOECONOPROP® CARBOHSP™ 2000 and CARBOPROP®

### Order Backlog

The Company generally supplies its customers with products on a just-in-time basis and operates without any material backlog.

### Environmental and Other Governmental Regulations

The Company believes that its operations are in substantial compliance with applicable federal, state and local environmental and safety laws and regulations. The Company does not anticipate any significant expenditures in order to continue to comply with such laws and regulations.

### Employees

At December 31, 2000, the Company had 168 full-time employees. In addition to the services of its employees, the Company employs the services of consultants as required. The Company's employees are not represented by labor unions. There have been no work stoppages or strikes during the last three years that have resulted in the loss of production or production delays. The Company believes its relations with its employees are satisfactory.

### Forward-Looking Information

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This Form 10-K, the Company's Annual Report to Shareholders, any Form 10-Q or any Form 8-K of the Company or any other written or oral statements made by or on behalf of the Company may include forward-looking statements which reflect the Company's current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from such statements. This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning, among other things, the Company's prospects, developments and business strategies for its operations, all of which are subject to certain risks, uncertainties and assumptions. These risks and uncertainties include, but are not limited to, changes in the demand for oil and natural gas, the development of alternative stimulation techniques and the development of alternative proppants for use in hydraulic fracturing. The words "believe," "expect," "anticipate," "project" and similar expressions identify forward-looking statements. Readers are

cautioned not to place undue reliance on these forward-looking statements, each of which speaks only as of the date the statement was made. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## **ITEM 2. *Properties***

The Company maintains its corporate headquarters (approximately 5,000 square feet of leased office space) in Irving, Texas, owns its manufacturing facilities, land and substantially all of the related production equipment in New Iberia, Louisiana, and Eufaula, Alabama, and leases its McIntyre, Georgia, facility through 2009 at which time title will be conveyed to the Company.

The facility in New Iberia, Louisiana, located on 24 acres of land owned by the Company, consists of two production units (approximately 85,000 square feet), a laboratory (approximately 4,000 square feet) and an office building (approximately 3,000 square feet). The Company also owns an 80,000 square foot warehouse on the plant grounds in New Iberia, Louisiana.

The facility in Eufaula, Alabama, located on 14 acres of land owned by the Company, consists of one production unit (approximately 111,000 square feet), a laboratory (approximately 2,000 square feet) and an office (approximately 1,700 square feet).

The facility in McIntyre, Georgia includes real property, consisting of approximately 36 acres, plant and equipment that are leased by the Company from the Development Authority of Wilkinson County. The term of the lease commenced on September 1, 1997 and terminates on January 1, 2009. At the termination of the lease, title to all of the real property, plant and equipment will be conveyed to the Company in exchange for nominal consideration. The Company has the right to purchase the property, plant and equipment at any time during the term of the lease for a nominal price.

The Company's customer service and distribution operations are located at the New Iberia facility, while its quality control, testing and development functions operate at the New Iberia, Eufaula and McIntyre facilities. The Company owns distribution facilities in San Antonio, Texas, Rock Springs, Wyoming and Edmonton, Alberta, Canada.

## **ITEM 3. *Legal Proceedings***

On April 26, 1999, the Company was served with a U.S. federal grand jury subpoena requesting the production of documents in connection with an investigation by the Antitrust Division of the U.S. Department of Justice of possible anti-competitive activity in the proppants industry. The Company has complied with this request. It is not possible at this time to predict how this investigation will proceed or the effect, if any, of its ultimate outcome on the Company.

From time to time, the Company is the subject of legal proceedings arising in the ordinary course of business. The Company does not believe that any of these proceedings will have a material adverse effect on its business or its results from operations.

## **ITEM 4. *Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2000.

### **Executive Officers of the Registrant**

Jesse P. Orsini (age, 60): Mr. Orsini, President and Chief Executive Officer, has served as President, Chief Executive Officer and a Director of the Company since its organization in 1987.

Terry P. Keefe (age, 52): Mr. Keefe has been Vice President of Manufacturing since July 1997. Prior to being elected Vice President of Manufacturing, Mr. Keefe was Plant Manager of the Company's Eufaula, Alabama plant since the organization of the Company in 1987.

Dr. C. Mark Pearson (age, 44): Dr. Pearson has served as Senior Vice President of Marketing and Technology since January 2000. Dr. Pearson joined the Company as Vice President of Marketing and Technology in March 1997. Prior to joining the Company, Dr. Pearson served as Associate Professor of Petroleum Engineering at the Colorado School of Mines from December 1995 and held various engineering and management positions with Arco Petroleum Company from 1984 through December 1995.

Paul G. Vitek (age, 41): Mr. Vitek has been the Senior Vice President of Finance and Administration since January 2000. Prior to serving in his current capacity, Mr. Vitek served as Vice President of Finance from February 1996 and has served as Treasurer and Secretary of the Company since 1988.

Dr. C. Mark Pearson has been named to succeed Jesse P. Orsini as President and Chief Executive Officer of the Company, upon Mr. Orsini's retirement from the Company on April 10, 2001.

All officers are elected at the Annual Meeting of the Board of Directors for one-year terms or until their successors are duly elected. There are no arrangements between any officer and any other person pursuant to which he was selected as an officer. There is no family relationship between any of the named executive officers or between any of them and the Company's directors.

## PART II

### ITEM 5. *Market for Registrant's Common Equity and Related Shareholder Matters*

#### *Common Stock Market Prices and Dividends*

The Company's Common Stock is traded on the New York Stock Exchange (ticker symbol CRR). The approximate number of holders, including both record holders and individual participants in security position listings, of the Company's Common Stock at February 28, 2001 was 2,100.

High and low stock prices and dividends for the last two fiscal years were:

<u>Quarter Ended</u>	<u>2000</u>			<u>1999</u>		
	<u>Sales Price</u>		<u>Cash Dividends Declared</u>	<u>Sales Price</u>		<u>Cash Dividends Declared</u>
	<u>High</u>	<u>Low</u>		<u>High</u>	<u>Low</u>	
March 31 .....	\$29.500	\$20.000	\$0.075	\$22.250	\$14.000	\$0.075
June 30 .....	36.250	25.625	0.075	30.438	17.750	0.075
September 30 .....	38.250	25.000	0.075	32.250	20.000	0.075
December 31 .....	37.875	25.000	0.075	30.000	19.000	0.075

The Company expects to continue its policy of paying quarterly cash dividends at the rate of \$0.075 per share, although there is no assurance as to future dividends because they depend on future earnings, capital requirements and financial condition.

### ITEM 6. *Selected Financial Data*

The following selected financial data are derived from the audited consolidated financial statements of the Company. The data should be read in conjunction with Management's Discussion and Analysis of Financial

Condition and Results of Operations and the financial statements and notes thereto included elsewhere in this Report.

	Years ended December 31,				
	2000	1999	1998	1997	1996
	(In thousands, except per share data)				
<b>Statement of Income Data:</b>					
Revenues .....	\$ 93,324	\$ 69,738	\$84,095	\$85,122	\$65,151
Cost of goods sold .....	<u>57,763</u>	<u>41,718</u>	<u>41,665</u>	<u>42,186</u>	<u>34,517</u>
Gross profit .....	35,561	28,020	42,430	42,936	30,634
Selling, general and administrative expenses(1) .....	<u>12,404</u>	<u>11,761</u>	<u>9,977</u>	<u>8,915</u>	<u>8,126</u>
Operating profit .....	23,157	16,259	32,453	34,021	22,508
Other, net .....	<u>268</u>	<u>(288)</u>	<u>974</u>	<u>1,004</u>	<u>175</u>
Income before income taxes .....	23,425	15,971	33,427	35,025	22,683
Income taxes .....	<u>8,595</u>	<u>5,459</u>	<u>12,719</u>	<u>12,936</u>	<u>5,883</u>
Net income .....	<u>\$ 14,830</u>	<u>\$ 10,512</u>	<u>\$20,708</u>	<u>\$22,089</u>	<u>\$16,800</u>
<b>Earnings per share</b>					
Basic .....	<u>\$ 1.01</u>	<u>\$ 0.72</u>	<u>\$ 1.42</u>	<u>\$ 1.51</u>	
Diluted .....	<u>\$ 1.00</u>	<u>\$ 0.71</u>	<u>\$ 1.40</u>	<u>\$ 1.50</u>	
<b>Pro Forma Data (Unaudited) (2):</b>					
Income before income taxes .....					\$22,683
Pro forma income taxes .....					<u>8,393</u>
Pro forma net income .....					<u>\$14,290</u>
<b>Pro forma earnings per share(3)</b>					
Basic .....					<u>\$ 0.98</u>
Diluted .....					<u>\$ 0.97</u>
<b>Balance Sheet Data:</b>					
Current assets .....	\$ 47,415	\$ 23,809	\$23,783	\$46,861	\$38,158
Current liabilities excluding bank borrowings ..	9,415	5,648	8,638	7,616	5,204
Bank borrowings — current .....	—	1,809	—	—	—
Property, plant and equipment, net .....	78,007	83,171	75,644	34,093	22,247
Total assets .....	125,422	106,980	99,427	80,954	60,405
Total shareholders' equity .....	106,140	93,400	87,269	70,942	53,234
Cash dividends per share(4) .....	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.15

- (1) Selling, general and administrative (SG&A) expenses for 2000, 1999 and 1998 include plant start-up costs of \$27,000, \$1,464,000 and \$451,000, respectively. In 1996, SG&A expenses include an incremental charge of \$877,225 relating to the accelerated recognition of compensation expense for the vesting of restricted stock in connection with the Company's initial public offering.
- (2) Pro forma data reflects the effects on historical income statement data for the year ended December 31, 1996 as if the Company had been treated as a C Corporation for the entire year for income tax purposes, with an estimated effective income tax rate of 37%. The Company terminated its S Corporation election on April 23, 1996 prior to its initial public offering.
- (3) The earnings per share amounts prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128, *Earnings Per Share*.
- (4) Cash dividends per share for 1996 is based on cash dividends declared subsequent to the Company's initial public offering and does not include S Corporation distributions paid prior to and in conjunction with the initial public offering.

## **ITEM 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations***

### **General Business Conditions**

CARBO Ceramics Inc. manufactures and sells ceramic proppants for use in the hydraulic fracturing of oil and natural gas wells. Hydraulic fracturing is the most common technique used to stimulate production from hydrocarbon bearing formations. The process involves pumping fluids into an oil or gas well at very high pressure in order to fracture the rock formation that contains the hydrocarbons. As the fracture is created, the fluids are blended with granular materials, or proppants, which fill the fracture and prop it open after the pressure pumping ceases. The proppant filled fracture creates a highly permeable channel that enables the oil or gas to flow more freely from the formation, thereby increasing production from the well.

Ceramic proppants are premium products that are sold at higher prices than sand or resin-coated sand, the two primary alternative proppants. The principal advantage of ceramic proppants is that they are stronger than sand-based proppants. The higher strength of ceramic proppants results in higher production rates in deep wells where sand or resin-coated sand may be crushed under high closure stress. Consequently, the level of deep drilling activity (generally defined as wells deeper than 7,500 feet) influences the Company's business. Ceramic proppants are also more uniform in size and shape than sand-based proppants. This uniformity can result in higher production rates than sand-based proppants when used in wells that do not otherwise require ceramics for their higher strength.

As deep drilling, particularly in North America, is typically focused on the production of natural gas, the Company's business is significantly impacted by the number of natural gas wells drilled in North America. In markets outside North America, sales of the Company's products are less dependent on natural gas markets but are influenced by the overall level of drilling activity. Furthermore, because the decision to use ceramic proppants is based on the present value economics of comparing the higher cost of ceramic proppants to the future value derived from increased production rates, the Company's business is influenced by the price of natural gas and oil.

In 1997, demand for ceramic proppants increased to the point that the availability of all ceramic products was limited. Based on the strong market demand, the Company raised prices on its products by an average of 5%, effective in the first quarter 1997. Drilling activity and the demand for ceramic proppants remained strong throughout 1997 and the Company generated record earnings for the year. Because management believed that the worldwide demand for natural gas would continue to increase due to the abundance, relatively low cost and environmental benefits of natural gas as a source of energy, the Company initiated construction of a new manufacturing facility in McIntyre, Georgia in July 1997. The plant cost approximately \$60 million and added 200 million pounds per year of additional capacity (a 60% increase).

The Company raised prices on its products by an average of 5%, effective in the first quarter of 1998. Strong demand for ceramic proppants continued through the first half of 1998, with the Company realizing record financial results for the first three-quarters of the year. However, in the second half of 1998, a rapid decline in oil prices resulted in a significant reduction in the number of oil and gas wells drilled and completed. The Company felt the effects of this decline in the fourth quarter of 1998 as revenues decreased by 29 percent versus the previous quarter and 33 percent from the fourth quarter of 1997.

Oil and gas prices remained depressed through much of the first half of 1999 and worldwide drilling activity decreased dramatically. In 1999, the worldwide rig count averaged 1,442, a decline of 22 percent from 1998 and 33 percent from 1997. The Company's financial results for 1999 were adversely effected by a decrease in its average selling price due to competitive pressures associated with the depressed industry conditions and by the additional fixed costs incurred in connection with the start-up of its new production facility in McIntyre, Georgia.

The price of oil and natural gas and drilling activity improved significantly in 2000. The recovery was particularly evident in the North American natural gas activity that is a key driver of the Company's business. As a result, sales volume, average selling prices, revenues and profitability all increased versus the previous year. The increase in profitability was tempered by the impact of high natural gas prices on the Company's

manufacturing costs and the continued impact of start-up operations at the McIntyre, Georgia facility early in the year.

### Net Income

	<u>2000</u>	<u>Percent Change</u>	<u>1999</u>	<u>Percent Change</u>	<u>1998</u>
	(\$ in thousands)				
Net Income .....	\$14,830	41%	\$10,512	(49)%	\$20,708

The Company reported net income for 2000 that was 41% higher than the previous year. A significant increase in oil and gas drilling activity (and in oil and natural gas prices) began during the second quarter 2000 and continued through the remainder of the year. The domestic rig count throughout 2000 was 47 percent higher than 1999, while the average price of natural gas increased by 93 percent over the previous year. Decreased costs at the New Iberia facility (due to higher production rates resulting from an increase in screening capacity) and the start-up of the second line at McIntyre contributed to income improvement, with increased SG&A costs off-setting some of these gains.

The Company reported net income for 1999 that was 49 percent below the previous year. A significant reduction in oil and gas drilling activity, combined with higher than expected costs at the Company's manufacturing facilities, start-up costs at the Company's new facility in McIntyre, Georgia and price pressure on high-strength products in the South Texas market were the primary causes of the decline.

Individual components of net income are discussed below.

### Revenues

	<u>2000</u>	<u>Percent Change</u>	<u>1999</u>	<u>Percent Change</u>	<u>1998</u>
	(\$ in thousands)				
Revenues.....	\$93,324	34%	\$69,738	(17)%	\$84,095

Carbo Ceramics Inc.'s 2000 revenues of \$93.3 million were 34 percent higher than 1999 revenues. Total sales volumes increased by 34 percent, with domestic volumes up 39 percent and export volumes up by 25 percent. The increased domestic volumes were driven by a 70% increase in the South Texas market, while increased export sales were led by improved sales into Australia, China, Russia, and Canada. Revenues were also positively impacted by a June 2000 price increase on our CARBOECONOPROP® product. The average selling price for the year was \$0.241 per pound. While this was unchanged versus the previous year, the average selling price improved in each quarter during 2000 due to a change in the product mix and a price increase on CARBOECONOPROP® that went into effect at mid-year.

The Company's 1999 revenues of \$69.7 million were 17 percent lower than 1998 revenues. Total sales volumes decreased by 12 percent, with domestic volumes down 15 percent and export volumes down 7 percent from 1998. The decline in domestic volumes was due in large part to a significant decline in sales of CARBOECONOPROP® into the south Texas market — the result of a dramatic drop in rig activity in that area of the country, and a significant decrease in Alaskan activity — the direct result of lower oil prices. Revenues were also negatively impacted by price pressure on high strength products in the South Texas market. The decline in export volume was due primarily to a decrease in sales into the Pacific Rim region.

### Gross Profit

	<u>2000</u>	<u>Percent Change</u>	<u>1999</u>	<u>Percent Change</u>	<u>1998</u>
	(\$ in thousands)				
Gross Profit .....	\$35,561	27%	\$28,020	(34)%	\$42,430
Gross Profit % .....	38%		40%		50%

The Company's cost of goods sold consists of manufacturing costs and packaging and transportation expenses associated with the delivery of the Company's products to its customers. Variable manufacturing expenses include raw materials, labor, utilities and repair and maintenance supplies. Fixed manufacturing expenses include depreciation, property taxes on production facilities, insurance and factory overhead.

Gross profit increased by 27 percent from 1999 to 2000. Gross profit as a percentage of sales was 38 percent for 2000, compared to 40 percent for 1999. The increase in gross profit was driven primarily by the significant increase in sales volume. The major contributor to reduced gross profit margins was the significant increase in the cost of natural gas at all three manufacturing facilities. Natural gas costs represent approximately 19 percent of the Company's total manufacturing costs in 2000 compared to 12 percent in 1999. The negative effects of the gas price increases were mitigated somewhat by increased production rates at the New Iberia and McIntyre facilities which resulted in lower costs per pound. At the McIntyre facility, throughput rates have improved due to increased familiarity with new equipment and employees.

Gross profit for 1999 was \$14.4 million lower than 1998. Gross profit as a percentage of sales was 40 percent for 1999, compared to 50 percent for 1998. The significant decrease in gross profit was the result of the decrease in revenues discussed above and an increase in production expenses. The increase in production expenses resulted from management's decision to start-up the new production facility in McIntyre, Georgia despite the weak demand experienced through much of 1999. This decision was made to position the Company for a recovering market in 2000 but caused all three of the Company's manufacturing facilities to operate at less than full capacity. In addition, costs at the New Iberia facility were adversely affected by a six-week maintenance shutdown in May/June to install a new kiln shell and replace the rotation system. These increases in cost were partially offset by lower freight costs experienced in transferring finished goods from the Eufaula manufacturing facility to the remote storage facility in San Antonio, Texas. High freight costs were incurred in 1998 due to rail service problems related to the merger of the Union Pacific and Southern Pacific railway systems.

#### Selling, General & Administrative Expenses and Plant Start-Up Costs

	<u>2000</u>	<u>Percent Change</u>	<u>1999</u>	<u>Percent Change</u>	<u>1998</u>
	(\$ in thousands)				
SG&A .....	\$12,404	5%	\$11,761	18%	\$9,977
SG&A as a % of Revenues .....	13%		17%		12%

Selling, general and administrative expenses increased by \$643,000 in 2000 over 1999. However, SG&A expenses decreased as a percentage of sales to 13 percent in 2000 from 17 percent in 1999. The single largest item was a drop in start-up costs related to the new manufacturing facility in McIntyre, Georgia from \$1.5 million in 1999 to \$27,000 in 2000. Excluding the start-up costs, SG&A expenses increased by \$2.1 million (or 20%) from 1999 to 2000. Increased costs in 2000 are those that relate directly to higher activity levels — distribution, marketing, and management incentive expense, as well as distribution and marketing expenses related to the development of the China market, New York Stock Exchange listing fees, and increased legal expenses.

Selling, general and administrative expenses increased by \$1.8 million in 1999 over 1998. SG&A expenses also increased as a percentage of sales to 17 percent in 1999 from 12 percent in 1998. The single largest contributor to the increase was start-up costs related to the new manufacturing facility in McIntyre, Georgia. These costs totaled \$1.5 million in 1999, compared to \$0.5 million during 1998. Other significant items include expenses related to exploring the marketing and manufacturing potentials in China, New Iberia plant trials to develop products for non-oilfield applications (charged to research and development), legal fees related to a Department of Justice inquiry, and a write-off of most of the receivables of one of our customers. That customer was subsequently acquired by one of our three major customers.

## **Liquidity and Capital Resources**

Cash and cash equivalents as of December 31, 2000 were \$14.8 million compared to \$0.2 million at the beginning of the year. The Company generated cash from operations of \$21.7 million and realized proceeds from the issuance of common stock through the exercise of employee stock options of \$1.7 million. Total capital expenditures for the year were \$1.6 million, cash dividends paid totaled \$4.4 million, repayment of debt against the Company's line of credit was \$1.8 million, and purchases of investment securities was \$1.0 million. There were no major new capital additions during the year and capital spending for the maintenance of existing assets was below the historical average. The Company estimates that normal maintenance capital spending for the existing asset base should be approximately \$3.0 million per year.

The Company's current intention, subject to its financial condition, the amount of funds generated from operations and the level of capital expenditures is to continue to pay quarterly dividends to shareholders of its common stock at the rate of \$0.075 per share.

The company maintains an unsecured line of credit of \$10.0 million. As of December 31, 2000, there was no outstanding debt under the credit agreement. The Company anticipates that cash provided by operating activities and funds available under its line of credit will be sufficient to meet planned operating expenses, tax obligations and capital expenditures through 2001.

See "Forward-Looking Information" under Item 1 hereof.

### **ITEM 7A. *Quantitative and Qualitative Disclosures about Market Risk***

The Company does not have operations subject to material risk of foreign currency fluctuations, nor does it use derivative financial instruments in its operations or investment portfolio. The Company has a \$10.0 million line of credit with its primary commercial bank. Under the terms of the revolving credit agreement, the Company may elect to pay interest at either a fluctuating base rate established by the bank from time to time or at a rate based on the rate established in the London inter-bank market. The Company does not believe that it has any material exposure to market risk associated with interest rates.

### **ITEM 8. *Financial Statements and Supplementary Data***

The information required by this Item is contained in pages F-1 through F-14 of this Report.

### **ITEM 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

Not applicable.

## **PART III**

Certain information required by Part III is omitted from this Report in that the Registrant will file a definitive proxy statement pursuant to Regulation 14A (the "Proxy Statement") not later than 120 days after the end of the fiscal year covered by this Report and certain information included therein is incorporated herein by reference. Only those sections of the Proxy Statement that specifically address the items set forth herein are incorporated by reference. Such incorporation does not include the Compensation Committee Report or the Performance Graph included in the Proxy Statement.

### **ITEM 10. *Directors and Executive Officers of the Registrant***

Information concerning the Company's directors required by this Item is incorporated by reference to the Company's Proxy Statement. Information concerning executive officers is set forth in Part I of this Form 10-K.

### **ITEM 11. *Executive Compensation***

The information required by this Item is incorporated by reference to the Company's Proxy Statement.

**ITEM 12. *Security Ownership of Certain Beneficial Owners and Management***

The information required by this Item is incorporated by reference to the Company's Proxy Statement.

**ITEM 13. *Certain Relationships and Related Transactions***

The information required by this Item is incorporated by reference to the Company's Proxy Statement.

**PART IV**

**ITEM 14. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

*(a) Consolidated Financial Statements:*

The consolidated financial statements of CARBO Ceramics Inc. listed below are contained in pages F-1 through F-14 of this Report:

Report of Independent Auditors  
Consolidated Balance Sheets at December 31, 2000 and 1999  
Consolidated Statements of Income for each of the three years ended December 31, 2000, 1999 and 1998  
Consolidated Statements of Shareholders' Equity for each of the three years ended December 31, 2000, 1999 and 1998  
Consolidated Statements of Cash Flows for each of the three years ended December 31, 2000, 1999 and 1998

*(b) Reports on Form 8-K:*

There were no reports on Form 8-K filed during the fourth quarter of 2000.

*(c) Exhibits:*

The exhibits listed on the accompanying Exhibit Index are filed as part of, or incorporated by reference into, this Report.

*(d) Financial Statement Schedules:*

All schedules have been omitted since they are either not required or not applicable.

## SIGNATURES

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

### CARBO Ceramics Inc.

By:           /s/  JESSE P. ORSINI            
                                  Jesse P. Orsini  
                                  *President and Chief Executive Officer*

By:           /s/  PAUL G. VITEK            
                                  Paul G. Vitek  
                                  *Sr. Vice President, Finance and  
                                  Chief Financial Officer*

Dated: March 7, 2001

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Jesse P. Orsini and Paul G. Vitek, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>          /s/  WILLIAM C. MORRIS          </u> William C. Morris	Chairman of the Board	March 7, 2001
<u>          /s/  JESSE P. ORSINI          </u> Jesse P. Orsini	President, Chief Executive Officer and Director (Principal Executive Officer)	March 7, 2001
<u>          /s/  PAUL G. VITEK          </u> Paul G. Vitek	Sr. Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 7, 2001
<u>          /s/  CLAUDE E. COOKE, JR.          </u> Claude E. Cooke, Jr.	Director	March 7, 2001
<u>          /s/  JOHN J. MURPHY          </u> John J. Murphy	Director	March 7, 2001
<u>          /s/  ROBERT S. RUBIN          </u> Robert S. Rubin	Director	March 7, 2001

## **REPORT OF INDEPENDENT AUDITORS**

The Board of Directors and Shareholders  
CARBO Ceramics Inc.

We have audited the accompanying consolidated balance sheets of CARBO Ceramics Inc. as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CARBO Ceramics Inc. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

New Orleans, Louisiana  
February 5, 2001

**CARBO CERAMICS INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**ASSETS**

	December 31,	
	2000	1999
	(\$ in thousands)	
Current assets:		
Cash and cash equivalents .....	\$ 14,757	\$ 193
Investment securities .....	1,000	—
Trade accounts receivable .....	17,783	10,883
Refundable income taxes .....	—	288
Inventories:		
Finished goods .....	8,407	7,123
Raw materials and supplies .....	4,067	4,154
Total inventories .....	12,474	11,277
Prepaid expenses and other current assets .....	570	481
Deferred income taxes .....	831	687
Total current assets .....	47,415	23,809
Property, plant and equipment:		
Land and land improvements .....	944	944
Buildings .....	7,442	7,378
Machinery and equipment .....	92,201	90,092
Construction in progress .....	728	1,298
Total .....	101,315	99,712
Less accumulated depreciation .....	23,308	16,541
Net property, plant and equipment .....	78,007	83,171
Total assets .....	\$125,422	\$106,980

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current liabilities:		
Bank borrowings .....	\$ —	\$ 1,809
Accounts payable .....	1,293	1,477
Accrued payroll and benefits .....	1,945	1,954
Accrued freight .....	1,816	1,545
Accrued utilities .....	937	451
Accrued income taxes .....	2,581	—
Other accrued expenses .....	843	221
Total current liabilities .....	9,415	7,457
Deferred income taxes .....	9,867	6,123
Shareholders' equity:		
Preferred stock, par value \$0.01 per share, 5,000 shares authorized: none outstanding .....	—	—
Common stock, par value \$0.01 per share, 40,000,000 shares authorized: 14,699,500 and 14,602,000 shares issued and outstanding at December 31, 2000 and 1999, respectively .....	147	146
Additional paid-in capital .....	45,225	42,919
Retained earnings .....	60,768	50,335
Total shareholders' equity .....	106,140	93,400
Total liabilities and shareholders' equity .....	\$125,422	\$106,980

The accompanying notes are an integral part of these statements.

**CARBO CERAMICS INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Years ended December 31,		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(\$ in thousands, except per share data)		
Revenues .....	\$93,324	\$69,738	\$84,095
Cost of goods sold .....	<u>57,763</u>	<u>41,718</u>	<u>41,665</u>
Gross profit .....	35,561	28,020	42,430
Selling, general and administrative expenses .....	12,377	10,297	9,526
Plant start-up costs .....	<u>27</u>	<u>1,464</u>	<u>451</u>
Operating profit .....	23,157	16,259	32,453
Other income (expense):			
Interest income .....	302	5	800
Interest expense .....	(38)	(297)	—
Other, net .....	<u>4</u>	<u>4</u>	<u>174</u>
	<u>268</u>	<u>(288)</u>	<u>974</u>
Income before income taxes .....	23,425	15,971	33,427
Income taxes .....	<u>8,595</u>	<u>5,459</u>	<u>12,719</u>
Net income .....	<u>\$14,830</u>	<u>\$10,512</u>	<u>\$20,708</u>
Earnings per share:			
Basic .....	<u>\$ 1.01</u>	<u>\$ 0.72</u>	<u>\$ 1.42</u>
Diluted .....	<u>\$ 1.00</u>	<u>\$ 0.71</u>	<u>\$ 1.40</u>

The accompanying notes are an integral part of these statements.

**CARBO CERAMICS INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
	(\$ in thousands)			
Balances at January 1, 1998.....	\$146	\$42,919	\$27,877	\$ 70,942
Net income .....	—	—	20,708	20,708
Cash dividends (\$0.30 per share) .....	—	—	(4,381)	(4,381)
Balances at December 31, 1998 .....	146	42,919	44,204	87,269
Net income .....	—	—	10,512	10,512
Cash dividends (\$0.30 per share) .....	—	—	(4,381)	(4,381)
Balances at December 31, 1999 .....	146	42,919	50,335	93,400
Net income .....	—	—	14,830	14,830
Exercise of stock options .....	1	1,663	—	1,664
Income tax benefit from exercise of stock options .....	—	643	—	643
Cash dividends (\$0.30 per share) .....	—	—	(4,397)	(4,397)
Balances at December 31, 2000 .....	<u>\$147</u>	<u>\$45,225</u>	<u>\$60,768</u>	<u>\$106,140</u>

The accompanying notes are an integral part of these statements.

**CARBO CERAMICS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years ended December 31,		
	2000	1999	1998
	(\$ in thousands)		
<b>Operating activities</b>			
Net income .....	\$14,830	\$ 10,512	\$ 20,708
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation .....	6,767	4,632	2,154
Deferred income taxes .....	3,600	2,936	876
Changes in operating assets and liabilities:			
Trade accounts receivable .....	(6,900)	417	2,943
Inventories .....	(1,197)	(1,050)	(1,846)
Prepaid expenses and other current assets .....	(89)	133	47
Accounts payable .....	(184)	(289)	(365)
Accrued payroll and benefits .....	(9)	(655)	161
Accrued freight .....	271	753	(59)
Accrued utilities .....	486	101	(72)
Income taxes .....	3,512	(554)	(752)
Other accrued expenses .....	622	(766)	241
Net cash provided by operating activities .....	21,709	16,170	24,036
<b>Investing activities</b>			
Maturities of investment securities .....	—	—	13,905
Purchases of investment securities .....	(1,000)	—	—
Purchases of property, plant and equipment .....	(1,603)	(14,027)	(41,837)
Net cash used in investing activities .....	(2,603)	(14,027)	(27,932)
<b>Financing activities</b>			
Proceeds from bank borrowings .....	5,273	18,059	—
Repayments on bank borrowings .....	(7,082)	(16,250)	—
Proceeds from issuance of common stock .....	1,664	—	—
Dividends paid .....	(4,397)	(4,381)	(4,381)
Net cash used in financing activities .....	(4,542)	(2,572)	(4,381)
Net increase (decrease) in cash and cash equivalents .....	14,564	(429)	(8,277)
Cash and cash equivalents at beginning of year .....	193	622	8,899
Cash and cash equivalents at end of year .....	<u>\$14,757</u>	<u>\$ 193</u>	<u>\$ 622</u>
<b>Supplemental cash flow information</b>			
Interest paid .....	<u>\$ 38</u>	<u>\$ 297</u>	<u>\$ —</u>
Income taxes paid .....	<u>\$ 1,483</u>	<u>\$ 3,077</u>	<u>\$ 12,595</u>
Purchases of property, plant and equipment through accounts payable ..	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,868</u>

The accompanying notes are an integral part of these statements.

**CARBO CERAMICS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Significant Accounting Policies**

*Description of Business*

CARBO Ceramics Inc. (the "Company") was formed in 1987 and is a manufacturer of ceramic proppants. The Company has production plants operating in New Iberia, Louisiana, Eufaula, Alabama and McIntyre, Georgia. The Company predominantly markets its proppant products through pumping service companies that perform hydraulic fracturing for major oil and gas companies. Finished goods inventories are stored at the three plant sites and eight remote distribution facilities located in: Rock Springs, Wyoming; Oklahoma City, Oklahoma; San Antonio, Texas; Fairbanks, Alaska; Edmonton, Alberta, Canada; Rotterdam, The Netherlands; and Tianjin and Shanghai, China.

*Principles of Consolidation*

The consolidated financial statements include the accounts of CARBO Ceramics Inc. and its wholly owned subsidiaries, CARBO Ceramics Sales Corporation and CARBO Ceramics (UK) Limited. CARBO Ceramics Sales Corporation was formed on July 31, 1996 under the laws of Barbados. CARBO Ceramics (UK) Limited was formed on December 19, 1997 under the laws of Scotland. All significant intercompany transactions have been eliminated.

*Concentration of Credit Risk*

The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Receivables are generally due within 30 days. The majority of the Company's receivables are from customers in the petroleum pressure pumping industry. Credit losses historically have been insignificant.

*Cash Equivalents*

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The carrying amounts reported in the balance sheet for cash equivalents approximate fair value.

*Investment Securities*

Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. Debt securities are classified as held-to-maturity when the Company has both the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. At December 31, 2000, investment securities consisted of auction-rate preferred stock, which were classified as held-to-maturity. The fair value of the investments approximated the carrying value at December 31, 2000. The Company held no investment securities at December 31, 1999.

*Inventories*

Inventories are stated at the lower of cost (first-in, first-out method) or market. Finished goods inventories include costs of materials, plant labor and overhead incurred in the production of the Company's products.

**CARBO CERAMICS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

*Property, Plant and Equipment*

Property, plant and equipment are stated at cost. Repair and maintenance costs are expensed as incurred. Depreciation is computed on the straight-line method for financial reporting purposes using the following estimated useful lives:

Buildings and improvements . . . . .	15 to 30 years
Machinery and equipment . . . . .	3 to 30 years

*Revenue Recognition*

Revenue is recognized when title passes to the customer.

*Shipping and Handling Costs*

Shipping costs, which consist of transportation costs associated with the delivery of the Company's products to customers, are classified as cost of goods sold. Handling costs are charged to selling, general and administrative expenses and include labor and overhead costs related to maintaining finished goods inventory and operating the Company's remote distribution facilities. Handling costs incurred in 2000, 1999 and 1998 were \$3,175,000, \$2,616,000 and \$2,711,000, respectively.

*Cost of Start-Up Activities*

Effective January 1, 1999, the Company adopted Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities," issued by the American Institute of Certified Public Accountants. This Statement requires that costs related to start-up activities, including organization costs, be expensed as incurred. The Company's policy has always been to expense the costs of start-up operations. Start-up costs for 2000, 1999 and 1998 represent labor, materials and utilities expended in bringing installed equipment to normal operating conditions at the Company's new production facility in McIntyre, Georgia. The Company incurred no start-up costs beyond the first quarter of 2000.

*Use of Estimates*

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

*Research and Development Costs*

Research and development costs are charged to operations when incurred and are included in selling, general and administrative expenses. The amounts incurred in 2000, 1999 and 1998 were \$676,000, \$703,000 and \$81,000, respectively.

*Stock Based Compensation*

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation" (Statement 123), requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

**CARBO CERAMICS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**2. Bank Borrowings**

Under the terms of an unsecured revolving credit agreement with a bank, dated December 31, 2000, the Company may borrow up to \$10.0 million through December 31, 2003, with the option of choosing either the bank's fluctuating Base Rate or LIBOR Fixed Rate (as defined in the credit agreement). At December 31, 2000 the unused portion of the credit facility was \$10.0 million. The credit agreement requires the Company to maintain certain financial ratios. The terms of the credit agreement further provide for certain affirmative and negative covenants, including a restriction on capital expenditures. The Company was in compliance with these covenants at December 31, 2000. Commitment fees are payable quarterly at the annual rate of three-eighths of one percent of the unused line of credit.

**3. Leases**

The Company leases railroad equipment under operating leases. Minimum future rental payments due under non-cancelable operating leases with remaining terms in excess of one year as of December 31, 2000 are as follows (\$ in thousands):

2001 .....	\$ 652
2002 .....	451
2003 .....	368
2004 .....	335
2005 .....	<u>52</u>
Total .....	<u><u>\$1,858</u></u>

Leases generally provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Rent expense for all operating leases was \$1,560,000 in 2000, \$1,168,000 in 1999, and \$800,000 in 1998.

**4. Income Taxes**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31 are as follows:

	<u>2000</u>	<u>1999</u>
	(\$ in thousands)	
Deferred tax assets:		
Employee benefits .....	\$ 152	\$ 200
Inventories .....	523	457
Other .....	<u>156</u>	<u>30</u>
Total deferred tax assets .....	<u>831</u>	<u>687</u>
Deferred tax liabilities:		
Depreciation .....	9,749	6,007
Other .....	<u>118</u>	<u>116</u>
Total deferred tax liabilities .....	<u>9,867</u>	<u>6,123</u>
Net deferred tax liabilities .....	<u><u>\$9,036</u></u>	<u><u>\$5,436</u></u>

**CARBO CERAMICS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Significant components of the provision for income taxes are as follows:

	<b>2000</b>	<b>1999</b>	<b>1998</b>
	(\$ in thousands)		
Current:			
Federal .....	\$4,450	\$2,285	\$10,596
State .....	545	238	1,247
Total current .....	4,995	2,523	11,843
Deferred:			
Federal .....	3,208	2,695	784
State .....	392	241	92
Total deferred .....	3,600	2,936	876
	<b>\$8,595</b>	<b>\$5,459</b>	<b>\$12,719</b>

The reconciliation of income taxes computed at the U.S. statutory tax rate to the Company's income tax expense is as follows:

	<b>2000</b>		<b>1999</b>		<b>1998</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
	(\$ in thousands)					
U.S. statutory rate .....	\$8,199	35.0%	\$5,592	35.0%	\$11,715	35.0%
State income taxes, net of federal tax benefit .....	937	4.0	479	3.0	1,339	4.0
Foreign sales corporation benefit and other .....	(541)	(2.3)	(612)	(3.8)	(335)	(1.0)
	<b>\$8,595</b>	<b>36.7%</b>	<b>\$5,459</b>	<b>34.2%</b>	<b>\$12,719</b>	<b>38.0%</b>

**5. Shareholders' Equity**

*Common Stock*

Holders of Common Stock are entitled to one vote per share on all matters to be voted on by shareholders and do not have cumulative voting rights. Subject to preferences of any Preferred Stock that may be issued in the future, the holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Board of Directors out of funds legally available for that purpose. In the event of liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of Preferred Stock, if any, then outstanding. The Common Stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the Common Stock. All outstanding shares of Common Stock are fully paid and nonassessable.

On January 8, 2001, the Board of Directors declared a cash dividend of \$0.075 per share. The dividend is payable on February 15, 2001 to shareholders of record on January 31, 2001.

*Preferred Stock*

The Company's charter authorizes the issuance of 5,000 shares of Preferred Stock. The Board of Directors has the authority to issue the Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the Company's shareholders. No shares of

**CARBO CERAMICS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Preferred Stock are currently outstanding, and the Company has no present plans to issue any shares of Preferred Stock.

**6. Stock Option Plan**

The Company's 1996 Stock Option Plan for Key Employees (the "Option Plan") has authorized the grant of options to purchase an aggregate of 1,000,000 shares of the Company's Common Stock to certain officers and key employees of the Company chosen by a committee appointed by the Board of Directors (the "Compensation Committee") to administer such plan. Under the Option Plan, all options granted have 10-year terms, and conditions relating to the vesting and exercise of options are determined by the Compensation Committee for each option. Options granted under the Option Plan are "non-statutory options" (options which do not afford income tax benefits to recipients, but the exercise of which may provide tax deductions for the Company). Each option will have an exercise price per share equal to the fair market value of a share of Common Stock on the date of grant and no individual employee may be granted options to purchase more than an aggregate of 500,000 shares of Common Stock. The options vest annually over a four-year period.

Pro forma information regarding net income and earnings per share is required by Statement 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2000, 1999 and 1998, respectively: risk-free interest rates of 5.00%, 6.40% and 4.44%; a dividend yield of 1.0%; volatility factors of the expected market price of the Company's Common Stock of .509, .464 and .452; and a weighted-average expected life of the option of 5 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options (net of related expected tax benefits) is amortized to expense over the options' vesting period. The Company's pro forma information follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(\$ in thousands, except per share data)		
Net income:			
As reported .....	<u>\$14,830</u>	<u>\$10,512</u>	<u>\$20,708</u>
Pro forma including the effect of options .....	<u>\$14,133</u>	<u>\$ 9,498</u>	<u>\$19,793</u>
Basic earnings per share:			
As reported .....	<u>\$ 1.01</u>	<u>\$ 0.72</u>	<u>\$ 1.42</u>
Pro forma including the effect of options .....	<u>\$ 0.96</u>	<u>\$ 0.65</u>	<u>\$ 1.36</u>
Diluted earnings per share:			
As reported .....	<u>\$ 1.00</u>	<u>\$ 0.71</u>	<u>\$ 1.40</u>
Pro forma including the effect of options .....	<u>\$ 0.95</u>	<u>\$ 0.65</u>	<u>\$ 1.34</u>

**CARBO CERAMICS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

A summary of the Company's stock option activity, and related information for the years ended December 31 follows:

	2000		1999		1998	
	Options (000)	Weighted-Average Exercise Price	Options (000)	Weighted-Average Exercise Price	Options (000)	Weighted-Average Exercise Price
Outstanding — beginning of year .....	925	\$20	895	\$20	850	\$20
Granted .....	20	23	30	24	45	26
Exercised .....	97	17	—	—	—	—
Forfeited .....	30	29	—	—	—	—
Outstanding — end of year .....	818	\$21	925	\$20	895	\$20
Exercisable at end of year ..	704	\$20	579	\$19	355	\$19
Weighted-average fair value of options granted during the year .....	\$10.63		\$10.93		\$10.96	

Following is a summary of the status of fixed options outstanding at December 31, 2000:

Exercise Price Range	Outstanding Options			Exercisable Options	
	Options (000)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options (000)	Weighted Average Exercise Price
\$17-24	668	6 years	\$18	596	\$17
32-35	150	7 years	33	108	32
	818		21	704	20

**7. Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share:

	2000	1999	1998
	(\$ in thousands, except per share data)		
Numerator for basic and diluted earnings per share:			
Net income .....	\$ 14,830	\$ 10,512	\$ 20,708
Denominator:			
Denominator for basic earnings per share — weighted average shares .....	14,655,679	14,602,000	14,602,000
Effect of dilutive securities:			
Employee stock options (See Note 6) .....	170,624	109,865	168,709
Dilutive potential common shares .....	170,624	109,865	168,709
Denominator for diluted earnings per share — adjusted weighted-average shares .....	14,826,303	14,711,865	14,770,709
Basic earnings per share .....	\$ 1.01	\$ 0.72	\$ 1.42
Diluted earnings per share .....	\$ 1.00	\$ 0.71	\$ 1.40

**CARBO CERAMICS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**8. Quarterly Operating Results — (Unaudited)**

Quarterly results of operations for the years ended December 31, 2000 and 1999 were as follows:

	Three Months Ended,			
	March 31	June 30	September 30	December 31
	(\$ in thousands, except per share data)			
<b>2000</b>				
Revenues .....	\$22,101	\$21,998	\$25,269	\$23,956
Gross profit .....	6,747	9,080	10,302	9,432
Net income .....	2,462	3,825	4,355	4,188
Earnings per share				
Basic .....	\$ 0.17	\$ 0.26	\$ 0.30	\$ 0.28
Diluted .....	\$ 0.17	\$ 0.26	\$ 0.29	\$ 0.28
<b>1999</b>				
Revenues .....	\$20,078	\$15,404	\$16,888	\$17,368
Gross profit .....	10,002	6,978	6,021	5,019
Net income .....	4,099	2,528	2,472	1,413
Earnings per share:				
Basic .....	\$ 0.28	\$ 0.17	\$ 0.17	\$ 0.10
Diluted .....	\$ 0.28	\$ 0.17	\$ 0.17	\$ 0.10

Quarterly data may not sum to the full year data reported in the Company's consolidated financial statements due to rounding.

**9. Sales to Customers**

The following schedule presents the percentages of total revenues related to the Company's three major customers for the three-year period ended December 31, 2000:

	Major Customers			Others	Total
	A	B	C		
2000 .....	35.4%	22.4%	20.2%	22.0%	100%
1999 .....	38.7%	30.0%	16.4%	14.9%	100%
1998 .....	43.4%	26.1%	18.2%	12.3%	100%

**10. International Sales**

The Company's ceramic proppants are used worldwide by U.S. customers operating abroad and by foreign customers. Sales outside the United States accounted for 37%, 39% and 35% of the Company's revenues for 2000, 1999, and 1998, respectively.

	2000	1999	1998
	(\$ in millions)		
Location			
United States .....	\$58.9	\$42.3	\$54.3
International .....	34.4	27.4	29.8
Total .....	\$93.3	\$69.7	\$84.1

**CARBO CERAMICS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**11. Benefit Plans**

The Company has a defined contribution savings and profit sharing plan pursuant to Section 401(k) of the Internal Revenue Code. Employees who have completed one year of service are eligible to participate. Employees may contribute up to 15% of their monthly compensation.

For employee contributions up to 5% of monthly compensation, the Company matches the employee contribution at a rate of 50%. Additional contributions by the Company are discretionary and are determined annually by the Board of Directors. These discretionary contributions to the plan are allocated to the participants pro rata based on their respective salary levels.

Benefit costs recognized as expense under this plan consisted of the following:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(\$ in thousands)		
Contributions:			
Profit sharing .....	\$325	\$275	\$207
Savings .....	191	151	145
	<u>\$516</u>	<u>\$426</u>	<u>\$352</u>

**12. Commitments**

In 1995, the Company entered into an agreement with a supplier to purchase options to purchase 200,000 tons of green ore for its New Iberia, Louisiana plant at a specified contract price. All of the green ore purchased by the Company pursuant to the options will be processed by the supplier at a specified price. The Company is required to purchase at least 80% of its estimated annual requirements of processed ore from the supplier until all green ore purchased pursuant to the options has been processed. The Company anticipates termination of the agreement by its terms during 2001 and is currently evaluating alternative sources of supply.

In 1995, the Company entered into an agreement with a supplier to purchase kaolin for its Eufaula, Alabama plant at a specified contract price. The term of the agreement is eight years commencing January 1, 1996. Beginning January 1, 1997, the agreement requires the Company to purchase from the supplier at least 80% of the Company's estimated annual requirements of kaolin for its Eufaula plant.

In 1997, the Company entered into an agreement with a supplier to purchase kaolin for its McIntyre, Georgia plant at a specified contract price. The term of the agreement is twenty years commencing on January 1, 1998. The Company has the right to purchase up to 2.5 million tons of kaolin during the term of the agreement. The agreement requires the Company to purchase from the supplier at least 80% of the Company's estimated annual requirements of kaolin for its McIntyre plant.

The Company was in compliance with the terms of all agreements through December 31, 2000.

**13. Employment Agreements**

The Company has an employment agreement with its current President, which will expire upon his retirement, scheduled for April 10, 2001. The agreement provides for an annual base salary and an incentive bonus as defined in the agreement. In the event the President is terminated without cause prior to April 10, 2001, the Company will be obligated to pay the President two years base salary and a prorated incentive bonus. In addition, all non-vested stock options granted to the President will vest immediately and become exercisable. The agreement also contains a five-year non-competition covenant that would become effective upon termination for any reason.

The Company has an employment agreement with its Senior Vice President of Marketing and Technology (President Elect), which becomes effective April 10, 2001. The agreement expires on

**CARBO CERAMICS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

December 31, 2002. The agreement provides for an annual base salary and an incentive bonus as defined in the agreement. In the event the President is terminated without cause prior to December 31, 2002, the Company will be obligated to pay the President two years base salary and a prorated incentive bonus. In addition, all non-vested stock options granted to the President will vest immediately and become exercisable. The agreement also contains a two-year non-competition covenant that would become effective upon termination for any reason.

**14. Legal Proceedings**

The Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

## Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>
3.1	— Certificate of Incorporation of CARBO Ceramics Inc. (incorporated by reference to exhibit 3.1 to the registrant's Form S-1 Registration Statement No. 333-1884)
3.2	— Bylaws of CARBO Ceramics Inc. (incorporated by reference to exhibit 3.2 to the registrant's Form S-1 Registration Statement No. 333-1884)
4.1	— Form of Common Stock Certificate of CARBO Ceramics Inc. (incorporated by reference to exhibit 4.1 to the registrant's Form S-1 Registration Statement No. 333-1884)
10.1	— Second Amended and Restated Credit Agreement dated as of December 31, 2000, between Brown Brothers Harriman & Co. and CARBO Ceramics Inc.
10.2	— Form of Tax Indemnification Agreement between CARBO Ceramics Inc. and William C. Morris, Robert S. Rubin, Lewis C. Glucksman, George A. Wieggers, William A. Griffin, and Jesse P. Orsini (incorporated by reference to exhibit 10.2 to the registrant's Form S-1 Registration Statement No. 333-1884)
10.3	— Form of Employment Agreement between CARBO Ceramics Inc. and Jesse P. Orsini (incorporated by reference to exhibit 10.4 to the registrant's Form S-1 Registration Statement No. 333-1884)
10.4	— Purchase and Sale Agreement dated as of March 31, 1995, between CARBO Ceramics Inc. and GEO Specialty Chemicals, Inc., as amended (incorporated by reference to exhibit 10.5 to the registrant's Form S-1 Registration Statement No. 333-1884)
10.5	— Raw Material Requirements Agreement dated as of November 21, 1995, between CARBO Ceramics Inc. and C-E Minerals Inc. (incorporated by reference to exhibit 10.6 to the registrant's Form S-1 Registration Statement No. 333-1884)
10.6	— Incentive Compensation Plan (incorporated by reference to exhibit 10.8 to the registrant's Form S-1 Registration Statement No. 333-1884)
10.7	— CARBO Ceramics Inc. 1996 Stock Option Plan for Key Employees (incorporated by reference to exhibit 10.9 to the registrant's Form S-1 Registration Statement No. 333-1884)
10.8	— Form of Stock Option Award Agreement (incorporated by reference to exhibit 10.10 to the registrant's Form S-1 Registration Statement No. 333-1884)
10.9	— Raw Material Supply Agreement dated as of November 18, 1997 between CARBO Ceramics Inc. and Arcilla Mining and Land Co. (incorporated by reference to exhibit 10.9 to the registrant's Form 10-K Annual Report for the year ended December 31, 1997)
10.10	— Amendment to Employment Agreement between CARBO Ceramics Inc. and Jesse P. Orsini (incorporated by reference to exhibit 10.10 to the registrant's Form 10-K Annual Report for the year ended December 31, 1999)
10.11	— Form of Employment Agreement between CARBO Ceramics Inc. and C. Mark Pearson
23.1	— Consent of Ernst & Young LLP