

COMMERCIAL METALS CO

Form S-4

January 27, 2004

As filed with the Securities and Exchange Commission on January 27, 2004

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Commercial Metals Company

(Exact name of registrant as specified in its charter)

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

5051
*(Primary Standard
Industrial
Classification Code
Number)*

75-0725338
*(I.R.S. Employer
Identification No.)*

**6565 N. MacArthur Blvd., Suite 800
Irving, Texas 75039
(214) 689-4300**

*(Address, including zip code, and telephone number,
including area code, of registrant's principal
executive offices)*

**David M. Sudbury
Vice President, Secretary and General Counsel
6565 N. MacArthur Blvd., Suite 800
Irving, Texas 75039
(214) 689-4300**

*(Name and address, including zip code, and
telephone
number, including area code, of agent for service)*

Copies of communications to:

**William R. Hays, III
Wm. S. Kleinman
Haynes and Boone, LLP
901 Main Street, Suite 3100
Dallas, Texas 75202
(214) 651-5000**

Approximate date of commencement of proposed sale of securities to the public: As soon as practicable after the Registration Statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following. o_____

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective

registration statement for the same offering. o_____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o_____

CALCULATION OF REGISTRATION FEE

Title of each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
5.625% Senior Notes due 2013	\$200,000,000	100%	\$200,000,000	\$ 16,180

(1) Estimated solely for the purposes of calculating the registration fee pursuant to Rule 457(f) of the rules and regulations under the Securities Act of 1933, as amended.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information contained in this prospectus is not complete and may be changed. We may not exchange these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY 27, 2004

PRELIMINARY PROSPECTUS

Commercial Metals Company

OFFER TO EXCHANGE

**\$200,000,000 principal amount of its 5.625% Senior Notes due 2013
which have been registered under the Securities Act,
for any and all of its outstanding 5.625% Senior Notes due 2013**

The exchange offer expires at 5:00 p.m., Eastern Standard time, on _____, 2004, unless we extend the offer.

We will exchange all outstanding notes, which we refer to in this prospectus as the old notes, that are validly tendered and not validly withdrawn for an equal principal amount of new notes that are registered under the Securities Act, which we refer to in this prospectus as the new notes.

The exchange offer is not subject to any conditions other than that it not violate applicable law or any applicable interpretation of the staff of the SEC.

You may withdraw tenders of old notes at any time before the exchange offer expires.

The exchange of notes will not be a taxable event for U.S. federal income tax purposes.

We will not receive any proceeds from the exchange offer.

The terms of the new notes are substantially identical to the old notes, except for transfer restrictions, registration rights and the circumstances for the payment of additional interest relating to the old notes.

You may tender old notes only in denominations of \$1,000 and multiples of \$1,000.

Our affiliates may not participate in the exchange offer.

No public market exists for the old notes. We do not intend to list the new notes on any securities exchange and, therefore, no active public market is anticipated.

**Please refer to Risk Factors beginning on page 8 of this prospectus
for a description of the risks you should consider before investing in the new notes.**

We are not making this exchange offer in any state where it is not permitted.

Each broker-dealer that receives new notes pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. If the broker-dealer acquired the old notes as a result of market making or other trading activities, such broker-dealer may be a statutory underwriter and may use this prospectus for the exchange offer, as supplemented or amended, in connection with the resale of the new notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the new notes or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2004.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference contain forward-looking statements with respect to our financial condition, results of operations, cash flows and business, and our expectations or beliefs concerning future events, including net earnings, product pricing and demand, production rates, energy expense, freight expense, interest rates, inventory levels, acquisitions and general market conditions. These forward-looking statements can generally be identified by phrases such as we or our management expects, anticipates, believes, plans to, ought, will, should, likely, appears, projects, forecasts or other similar words or phrases. There is inherent risk and uncertainty in any forward-looking statements. Variances will occur and some could be materially different from our current opinion. Developments that could impact our expectations include the following:

interest rate changes;

construction activity;

decisions by governments affecting the level of steel imports, including tariffs and duties;

litigation claims and settlements;

difficulties or delays in the execution of construction contracts resulting in cost overruns or contract disputes;

metals pricing over which we exert little influence;

increased capacity and product availability from competing steel minimills and other steel suppliers including import quantities and pricing;

court decisions;

industry consolidation or changes in production capacity or utilization;

global factors including credit availability;

currency fluctuations;

scrap, energy, freight and supply prices; and

the pace of overall economic activity.

See the section entitled Risk Factors in this prospectus for a more complete discussion of these risks and uncertainties and for other risks and uncertainties. In addition, see our filings with the Securities and Exchange Commission, or the SEC, including our Annual Report on Form 10-K for the year ended August 31, 2003, as amended, and our Quarterly Report on Form 10-Q for the quarter ended November 30, 2003. These factors and the other risk factors described in this prospectus are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. Consequently, we cannot assure you that the actual results or developments we anticipate will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us. Given these uncertainties, we caution prospective investors not to place undue reliance on such forward-looking statements. We undertake no obligation to publicly update or revise any

forward-looking statements, whether as a result of new information, future events or otherwise.

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MARKET DATA

Market data used throughout this prospectus, including information relating to, and our relative position in, the industries we operate in, are based on the good faith estimates of management, which estimates are based upon their review of internal surveys, independent industry publications, reports or studies commissioned by companies in our industry (including us or our competitors) and other publicly available information. Although we believe that these sources are reliable, we do not guarantee the accuracy or completeness of this information, and we have not independently verified this information.

Table of Contents**PROSPECTUS SUMMARY**

The following summary highlights selected information about this exchange offer. It may not contain all the information that is important to you. For a more complete understanding of this exchange offer, we encourage you to read this entire document and the documents we incorporate by reference into this prospectus. Unless indicated otherwise, the term "notes" refers to both the old notes and the new notes.

Our Company

We manufacture, recycle, market and distribute steel and metal products and related materials and services through a network of locations located throughout the United States and internationally. Steel and steel-related products represent over 75% of our business. We consider our business to be organized into three segments: manufacturing, recycling and marketing and distribution. During the fiscal year ended August 31, 2003, we derived approximately 36% of our adjusted operating profit from our manufacturing segment, approximately 26% from our recycling segment and approximately 38% from our marketing and distribution segment.

Our management uses a non-GAAP measure, adjusted operating profit, to compare and evaluate the financial performance of our segments. Adjusted operating profit, as presented below and used in this prospectus, is the sum of our earnings before income taxes and financing costs. In the following table we are providing a reconciliation of the non-GAAP measure, adjusted operating profit (loss), to net earnings (loss) (in thousands):

Segment	Manufacturing	Recycling	Marketing and Distribution	Corporate and Eliminations	Total
Three months ended November 30, 2003:					
Net earnings (loss)	\$12,509	\$3,868	\$4,919	\$(8,668)	\$12,628
Income taxes	7,745	1,846	1,271	(3,477)	7,385
Interest expense	30	1	47	5,016	5,094
Discounts on sales of accounts receivable	41	19	30	26	116
Adjusted operating profit (loss)	<u>\$20,325</u>	<u>\$5,734</u>	<u>\$6,267</u>	<u>\$(7,103)</u>	<u>\$25,223</u>

Segment	Manufacturing	Recycling	Marketing and Distribution	Corporate and Eliminations	Total
Year ended August 31, 2003:					
Net earnings (loss)	\$13,557	\$10,006	\$15,529	\$(20,188)	\$18,904

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Income taxes	6,477	5,104	4,753	(4,844)	11,490
Interest expense	130	5	1,313	13,890	15,338
Discounts on sales of accounts receivable	201	91	189	103	584
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Adjusted operating profit (loss)	\$20,365	\$15,206	\$21,784	\$(11,039)	\$46,316
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

We were incorporated in 1946 in the State of Delaware. Our predecessor company, a secondary metals recycling business, has existed since approximately 1915. We maintain our executive offices at 6565 N. MacArthur Boulevard, Suite 800, Irving, Texas 75039, telephone (214) 689-4300. Our website address is *www.commercialmetals.com*. The information on our website does not constitute part of this prospectus. Our fiscal year ends August 31 and all references to years in this prospectus refer to the fiscal year ended August 31 of that year unless otherwise noted.

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The Exchange Offer

The Exchange Offer	We are offering to exchange the new notes for the old notes that are properly tendered and accepted. You may tender old notes only in denominations of \$1,000 and multiples of \$1,000. We will issue the new notes on or promptly after the exchange offer expires. As of the date of this prospectus, \$200,000,000 principal amount of old notes is outstanding.
Expiration Date	The exchange offer will expire at 5:00 p.m., Eastern Standard time, on _____, 2004, unless extended, in which case the expiration date will mean the latest date and time to which we extend the exchange offer; provided, however, that the maximum period of time during which the exchange offer, including any extension thereof, may be in effect will not exceed 45 days.
Conditions to the Exchange Offer	The exchange offer is not subject to any condition other than that it not violate applicable law or any applicable interpretation of the staff of the SEC. The exchange offer is not conditioned upon any minimum principal amount of old notes being tendered for exchange.
Procedures for Tendering Old Notes	<p>If you wish to tender your old notes for new notes pursuant to the exchange offer, you must transmit to JP Morgan Chase Bank, as exchange agent, on or before the expiration date, either:</p> <ul style="list-style-type: none">a computer generated message transmitted through The Depository Trust Company's automated tender offer program system and received by the exchange agent and forming a part of a confirmation of book-entry transfer in which you acknowledge and agree to be bound by the terms of the letter of transmittal; ora properly completed and duly executed letter of transmittal, which accompanies this prospectus, or a facsimile of the letter of transmittal, together with your old notes (which may be delivered by book-entry transfer through the facilities of The Depository Trust Company) and any other required documentation, to the exchange agent at its address listed in this prospectus and on the front cover of the letter of transmittal. <p>If you cannot satisfy either of these procedures on a timely basis, then you should comply with the guaranteed delivery procedures described below. By executing the letter of transmittal, you will make the representations to us described under The Exchange Offer-Procedures for Tendering.</p>
Special Procedures for Beneficial Owners	If you are a beneficial owner whose old notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your old notes in the exchange offer, you should contact the registered

holder promptly and instruct the registered holder to tender on your behalf. If you wish to tender on your own behalf, you must either (1) make appropriate arrangements to register ownership of the old notes in your name or (2) obtain a properly completed bond power from the registered holder before completing and executing the letter of transmittal and delivering your old notes.

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Guaranteed Delivery Procedures	If you wish to tender your old notes and time will not permit the documents required by the letter of transmittal to reach the exchange agent before the expiration date, or the procedure for book-entry transfer cannot be completed on a timely basis, you must tender your old notes according to the guaranteed delivery procedures described in this prospectus under the heading The Exchange Offer-Guaranteed Delivery Procedures.
Acceptance of the Old Notes and Delivery of the New Notes	Subject to the satisfaction or waiver of the conditions to the exchange offer, we will accept for exchange any and all old notes which are validly tendered in the exchange offer and not withdrawn before 5:00 p.m., Eastern Standard time, on the expiration date. We will deliver the new notes on or promptly after the expiration date.
Withdrawal Rights	You may withdraw the tender of your old notes at any time before 5:00 p.m., Eastern Standard time, on the expiration date, by complying with the procedures for withdrawal described in this prospectus under the heading The Exchange Offer-Withdrawal of Tenders.
Material U.S. Federal Tax Considerations	The exchange of notes will not be a taxable event for United States federal income tax purposes. For a discussion of certain federal tax considerations relating to the exchange of notes, see Material U.S. Federal Income Tax Considerations.
Exchange Agent	JP Morgan Chase Bank, the trustee under the indenture governing the old notes and the new notes, is serving as the exchange agent.
Consequences of Failure to Exchange	If you do not exchange your old notes for new notes, you will continue to be subject to the restrictions on transfer provided in the old notes and in the indenture governing the old notes. In general, the old notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not currently plan to register the resale of the old notes under the Securities Act.
Registration Rights Agreement	We issued \$200,000,000 aggregate principal amount of the old notes on November 12, 2003 to Goldman, Sachs & Co., Banc of America Securities LLC, ABN AMRO Incorporated and Tokyo-Mitsubishi International plc, the initial purchasers. Simultaneously with the sale of the old notes, we entered into a registration rights agreement that provides for, among other things, this exchange offer. You are entitled to exchange your old notes for new notes with substantially identical terms. This exchange offer satisfies that right. After the exchange offer is completed, you will no longer be entitled to any exchange or registration rights with respect to your old notes.

Table of Contents**The New Notes**

The summary below describes the principal terms of the new notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The Description of Notes section of this prospectus contains a more detailed description of the terms of the new notes.

The form and terms of the new notes are the same as the form and terms of the old notes, except that the new notes will be registered under the Securities Act and, therefore, the new notes will not generally be subject to the transfer restrictions, registration rights and provisions providing for an increase in the interest rate applicable to the old notes. The new notes will evidence the same debt as the old notes and will be governed by the same indenture as the old notes.

Issuer	Commercial Metals Company.
Notes	\$200,000,000 of 5.625% Senior Notes due 2013.
Maturity	November 15, 2013.
Ranking	The notes are our senior unsecured obligations and rank equally in right of payment with all of our existing and future senior unsecured indebtedness and senior to all our existing and future subordinated debt. The notes rank junior to any of our secured debt to the extent of the assets securing such debt. In addition, the notes are structurally subordinated to all liabilities of our subsidiaries, including trade payables.
Interest Payment Dates	May 15 and November 15 of each year, beginning May 15, 2004.
Sinking Fund	None.
Optional Redemption	We may redeem the notes, in whole or in part, at any time and from time to time at the redemption price described under the heading Description of Notes-Optional Redemption.
Additional Issuances	We may from time to time, without notice to or the consent of the holders of any series of notes issued under the indenture, create and issue additional notes ranking equally and ratably with the notes of those series.
DTC Eligibility	The new notes will be issued in book-entry form and will be represented by one or more permanent global certificates deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company, or DTC, in New York, New York. Beneficial interests in any such securities will be shown on, and transfers will be effected only through, records maintained by DTC and its direct and indirect participants. Any such interest may not be exchanged for certificated securities, except in limited circumstances. See Description of Notes-Book-Entry System.

Use of Proceeds

We will not receive any proceeds from the exchange offer.

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Risk Factors

We urge you to read the Risk Factors section beginning on page 8 of this prospectus so that you understand the risks associated with an investment in the new notes.

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The summary income statement data and balance sheet data presented below are for the three months ended November 30, 2003 and 2002 and for the years ended August 31, 2003, 2002, 2001, 2000 and 1999 and as of November 30, 2003 and August 31, 2003, 2002, 2001, 2000 and 1999. The per share amounts have been adjusted to reflect a two-for-one stock split in the form of a stock dividend on our common stock effective June 28, 2002. In 2002, as reported in our Annual Report on Form 10-K for the year ended August 31, 2002, as amended, we restated the financial statements. The following information should be read in conjunction with the section Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes incorporated by reference in this prospectus.

	Three Months Ended November 30,		Year Ended August 31,				
	2003	2002	2003	2002	2001	2000	1999
	(in millions, except per share data)						
Income Statement Data:							
Net sales	\$ 830	\$ 636	\$2,876	\$2,480	\$2,470	\$2,661	\$2,251
Cost of goods sold	737	575	2,587	2,162	2,173	2,334	1,949
Selling, general and administrative expense	65	54	244	236	223	229	207
Interest expense	5	4	15	19	28	27	20
Loss on reacquisition of debt	3						
Litigation accrual					8		
Earnings before income taxes	20	3	30	63	38	71	75
Provision for income taxes	7	1	11	22	14	26	28
Net earnings	<u>\$ 13</u>	<u>\$ 2</u>	<u>\$ 19</u>	<u>\$ 41</u>	<u>\$ 24</u>	<u>\$ 45</u>	<u>\$ 47</u>
Net earnings per share (basic)	<u>\$0.45</u>	<u>\$0.08</u>	<u>\$ 0.67</u>	<u>\$ 1.48</u>	<u>\$ 0.91</u>	<u>\$ 1.59</u>	<u>\$ 1.62</u>
Net earnings per share (diluted)	<u>\$0.44</u>	<u>\$0.08</u>	<u>\$ 0.66</u>	<u>\$ 1.43</u>	<u>\$ 0.90</u>	<u>\$ 1.56</u>	<u>\$ 1.61</u>

Cash dividends paid per common share	\$0.08	\$0.08	\$ 0.32	\$0.275	\$ 0.26	\$ 0.26	\$ 0.26
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	Three Months Ended November 30,		Year Ended August 31,				
	2003	2002	2003	2002	2001	2000	1999
	(in millions, except ratios)						
Other Financial Data:							
EBITDA (1)	\$40.2	\$22.7	\$106.9	\$143.4	\$133.3	\$164.6	\$146.5
Ratio of earnings to fixed charges (2)	4.20	1.73	2.57	3.77	2.19	3.25	3.60
Ratio of EBITDA to interest expense	7.9	5.7	7.0	7.7	4.8	6.0	7.5
Ratio of total debt to EBITDA(3)	2.3	2.8	2.5	1.8	2.0	2.2	2.0

	November 30,	August 31,				
	2003	2003	2002	2001	2000	1999
	(in millions)					

Balance Sheet Data (at end of period):

Cash and cash equivalents (4)	\$ 133.5	\$ 75.1	\$ 124.4	\$ 56.0	\$ 20.1	\$ 44.7
Total assets	\$1,419.3	\$1,275.4	\$1,230.1	\$1,081.9	\$1,170.1	\$1,079.1
Long-term debt (5)	\$ 362.4	\$ 255.0	\$ 256.0	\$ 251.6	\$ 261.9	\$ 265.6
Total debt (5)	\$ 375.0	\$ 270.6	\$ 256.6	\$ 265.7	\$ 363.2	\$ 289.8
Stockholders equity	\$ 528.5	\$ 506.9	\$ 501.3	\$ 433.1	\$ 418.8	\$ 418.3

- (1) We have included a financial statement measure in the table above that was not derived in accordance with generally accepted accounting principles (GAAP). Earnings before interest expense, income taxes, depreciation and amortization, or EBITDA, is a non-GAAP liquidity measure. In calculating EBITDA, we exclude our largest recurring non-cash charge, depreciation and amortization. We use EBITDA as one guideline to assess our ability to pay our current debt obligations as they mature and a tool to calculate possible future levels of leverage capacity. Reconciliations to net earnings are provided below.

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	Three Months Ended November 30,		Year Ended August 31,				
	2003	2002	2003	2002	2001	2000	1999
	(in millions)						
Net earnings	\$ 12.6	\$ 2.2	\$ 18.9	\$ 40.5	\$ 23.8	\$ 44.6	\$ 47.0
Interest expense	5.1	4.0	15.3	18.7	27.6	27.3	19.6
Income taxes	7.4	1.3	11.5	22.6	14.6	26.1	27.8
Depreciation and amortization	15.1	15.2	61.2	61.6	67.3	66.6	52.1
EBITDA	<u>\$40.2</u>	<u>\$22.7</u>	<u>\$106.9</u>	<u>\$143.4</u>	<u>\$133.3</u>	<u>\$164.6</u>	<u>\$146.5</u>

- (2) For the purposes of calculating the ratio of earnings to fixed charges, earnings represents earnings before income taxes, interest expense, interest imputed on rent and amortization of capitalized interest. Fixed charges include interest expense, interest capitalized and the portion of operating rental expense that management believes is representative of the appropriate interest component of rent expense.
- (3) EBITDA for the quarters ended November 30, 2003 and 2002 has been annualized for purposes of calculating the ratio. Quarterly results are not necessarily indicative of results to be expected for the entire year.
- (4) Subsequent to November 30, 2003, we (a) used \$51.9 million cash to purchase 71.1% of the shares of Huta Zawiercie, (b) used \$48.8 million cash in connection with the Lofland acquisition and (c) acquired \$4.8 million in cash in connection with the Huta acquisition.
- (5) Subsequent to November 30, 2003, we assumed \$46.7 million in debt upon the acquisition of Huta Zawiercie SA.

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RISK FACTORS

There are many risks that may affect your investment in the new notes, including those described below. You should carefully consider these risk factors together with all of the other information included in this prospectus and the documents we have incorporated by reference into this prospectus, including our financial statements and related notes and schedules. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or those we currently deem to be immaterial may also materially and adversely affect our business, financial condition, results of operations or cash flows and our ability to make payment obligations on the new notes. If any of these risks actually occur, our business, financial condition, results of operations or cash flows could be materially adversely affected and you may lose all or part of your investment.

Risks Related to Our Industry

Excess capacity in our industry adversely affects prices and margins.

Global steel-making capacity exceeds global demand for steel products. In many foreign countries steel production greatly exceeds domestic demand and these countries must export substantial amounts of steel in order to maintain high employment and production levels. Accordingly, steel manufacturers in these countries have traditionally exported steel at prices that are significantly below their home market prices. The high level of imports into the United States over the last few years has severely depressed domestic steel prices. Furthermore, this vast supply of imports can decrease the sensitivity of domestic steel prices to increases in demand. This surge of low priced imports, coupled with increases in the cost of ferrous scrap and the rise in energy prices, has resulted in an erosion of our gross margins.

In light of President Bush's decision to rescind duties and tariffs, steel imports into the U.S. may again rise or domestic prices may fall, which would adversely affect our sales, margins and profitability.

In recent history, the United States has been an importer of steel products. From 1987 until 1998, less than 20% of the domestic supply was imported. However, with the cumulative effect of various economic crises, including economic weakness in Asia, Russia and Latin America, foreign producers have looked to the United States as the country with the healthiest economy, the strongest currency and as the buyer of first resort. In addition, foreign governments that own steel production facilities have sought to increase output. Consequently, commencing in 1997 foreign steel products began to flood the domestic market. As a result, imports accounted for approximately 26% of domestic steel consumption in 1998 and remained above 20% through 2002.

In 2000, our mini-mills joined other steel manufacturers in an antidumping petition filed with the United States International Trade Commission, called the ITC. The ITC determined that there was a reasonable indication of material or threatened injury to U.S. rebar manufacturers, such as us, due to unfairly priced imports of rebar from several foreign countries. In the spring of 2001, the U.S. Department of Commerce determined that dumping of rebar from eight countries had occurred, and the ITC reached a final determination that dumped imports were causing material injury to our industry. As a result, penalty duties, initially ranging from 17% to 232%, were imposed. Although adjusted annually as a result of review investigations by the Department of Commerce, dumping duties are normally in effect for five years and may be extended if, after five years, the ITC determines that removal of the duties would lead to a recurrence of injury. We benefit from these duties. If these duties are subsequently modified or reduced by the Department of Commerce, our sales, margins and profitability may decrease.

In 2001, President Bush instituted an investigation under Section 201 of the Trade Act of 1974 to determine if increased imports of selected steel products into the United States were an actual or

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threatened cause of serious injury to domestic manufacturers of steel products. The ITC, in October 2001, found that U.S. steel producers had been seriously injured by these imports and, in December 2001, recommended remedies to President Bush. In March 2002, President Bush announced three-year safeguard tariffs that cover the majority of our mini-mills products, ranging from 15% to 30% for the first year and declining over the next two years. Excluded from the tariffs were imports from Mexico and Canada as well as imports from developing countries identified by the World Trade Organization. These tariffs, which were applied in addition to the antidumping duties, were further strengthened by an import licensing and monitoring system and an anti-surge mechanism that have been implemented to monitor foreign trade activities in the applicable products.

We benefited from President Bush's decision. However, several foreign governments appealed President Bush's decision to the World Trade Organization. In response, the World Trade Organization ruled against these tariffs. The United States government further appealed this adverse ruling; however, the World Trade Organization ruled against the U.S. appeal in November 2003. On December 4, 2003, President Bush rescinded the steel safeguard tariffs effective immediately. The rescission of the steel safeguard tariffs could result in a resurgence of steel imports, even though the antidumping duties on imports of rebar from several countries imposed by the ITC in 2001 were not changed by this decision. A surge in imports would put downward pressure on steel prices, which would have a negative impact on our sales, margins and profitability.

Our industry is affected by cyclical and regional factors.

Many of our products are commodities subject to cyclical fluctuations in supply and demand in metal consuming industries. Periods of economic slowdown or a recession in the United States, or the public perception that a slowdown or recession may occur, could decrease the demand for our products and adversely affect our business. Our overall financial results will be dependent substantially upon the extent to which conditions in both the United States and global economies improve. A slower than expected recovery or another recession will further adversely affect our financial results. Our geographic concentration in the southern and southwestern United States as well as areas of Europe, Australia and China exposes us to the local market conditions in these regions. Economic downturns in these areas or decisions by governments that have an impact on the level and pace of overall economic activity could adversely affect our sales and profitability.

Our business supports cyclical industries such as commercial and residential construction, energy, service center, petrochemical and original equipment manufacturing. These industries experience significant fluctuations in demand for our products based on economic conditions, energy prices, consumer demand and decisions by governments to fund infrastructure projects such as highways, schools, energy plants and airports. Many of these factors are beyond our control. As a result of the volatility in the industries we serve, we may have difficulty increasing or maintaining our level of sales or profitability. If the industries we serve suffer a prolonged downturn, then our business may be adversely affected.

Our industry is characterized by low backlogs, which means that our results of operations are promptly affected by short-term economic fluctuations.

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Compliance with and changes in various environmental requirements and environmental risks applicable to our industry may adversely affect our results of operations and financial condition.

Existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations, may have a material adverse effect on our results of operations and financial condition. Compliance with environmental laws and regulations is a significant factor in our business. We are subject to local, state, federal and international environmental laws and regulations concerning, among other matters, waste disposal, air emissions, waste and storm water effluent and disposal and employee health. Our manufacturing and recycling operations produce significant amounts of by-products, some of which are handled as industrial waste or hazardous waste. For example, our mini-mills generate electric arc furnace dust, or EAF dust, which the United States Environmental Protection Agency, or the EPA, and other regulatory authorities classify as hazardous waste. EAF dust requires special handling, recycling or disposal.

In addition, the primary feed materials for the eight shredders operated by our scrap metal recycling facilities are automobile hulks and obsolete household appliances. Approximately 20% of the weight of an automobile hulk consists of unrecyclable material known as shredder fluff. After the segregation of ferrous and saleable non-ferrous metals, shredder fluff remains. Federal and state environmental regulations require shredder fluff to pass a toxic leaching test to avoid classification as a hazardous waste. We endeavor to remove hazardous contaminants from the feed material prior to shredding. As a result, we believe the shredder fluff we generate is not hazardous waste. If the laws, regulations or testing methods change with regard to EAF dust or shredder fluff, we may incur additional significant expenditures.

Although we believe that we are in substantial compliance with all applicable laws and regulations, legal requirements are changing frequently and are subject to interpretation. New laws, regulations and changing interpretations by regulatory authorities, together with uncertainty regarding adequate pollution control levels, testing and sampling procedures, new pollution control technology and cost benefit analysis based on market conditions are all factors that may increase our future expenditures to comply with environmental requirements. Accordingly, we are unable to predict the ultimate cost of future compliance with these requirements or their effect on our operations. We cannot predict whether such costs can be passed on to customers through product price increases.

We may also be required to clean up additional sites than we already are or take certain remediation action with regard to sites formerly used in connection with our operations. We may be required to pay for a portion of the costs of clean up or remediation at sites we never owned or on which we never operated if we are found to have arranged for treatment or disposal of hazardous substances on the sites.

Risks Related to Our Company

We may have difficulty competing with companies that have a lower cost structure than ours.

We compete with regional, national and foreign manufacturers and traders. Some of these competitors are larger, have greater financial resources and more diverse businesses than us. Some of our foreign competitors may be able to pursue business opportunities without regard for the laws and regulations with which we must comply, such as environmental regulations. These companies may have a lower cost structure, more operating flexibility and consequently they may be able to offer better prices and more services than we can. We cannot assure you that we will be able to compete successfully with these companies.

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Furthermore, over the past few years, many integrated domestic steel producers and secondary metal recyclers have entered bankruptcy proceedings. While in bankruptcy proceedings, these companies can forgo certain costs, giving them a competitive advantage. The companies that reorganize and emerge from bankruptcy often have more competitive capital cost structures. In addition, asset sales by these companies during the reorganization process tend to be at depressed prices, which enable the purchasers to acquire greater capacity at lower cost.

Fluctuations in the value of the United States dollar and weakness in foreign economies may adversely affect our business.

Fluctuations in the value of the dollar can be expected to affect our business. The U.S. dollar, when strong, makes imported metal products less expensive, resulting in more imports of steel products into the U.S. by our foreign competitors. Weakness in foreign economies compared to the U.S., such as Eastern Europe, Asia and Latin America, may increase competition from foreign producers. Economic difficulties in these regions may result in lower local demand for steel products and may encourage greater steel exports to the U.S. at depressed prices. As a result, those of our products that are made in the U.S., may become relatively more expensive as compared to imported steel, which has had and in the future could have a negative impact on our sales, revenues and profitability.

The U.S. dollar, when strong, hampers our international marketing and distribution business. Weak local currencies limit the amount of U.S. dollar denominated products that we can import for our international operations and limits our ability to be competitive against local producers selling in local currencies.

Our steel mini-mill business requires continuous capital investments that we may not be able to sustain.

We must make regular substantial capital investments in our steel mini-mills to lower production costs and remain competitive. We cannot be certain that we will have sufficient internally generated cash or acceptable external financing to make necessary substantial capital expenditures in the future. The availability of external financing depends on many factors outside of our control, including capital market conditions and the overall performance of the economy. If funding is insufficient, we may be unable to develop or enhance our mini-mills, take advantage of business opportunities and respond to competitive pressures.

Scrap and other supplies for our businesses are subject to significant price fluctuations, which may adversely affect our business.

We depend on obsolete steel and non-ferrous metals, called scrap, and other supplies for our businesses. Although the scrap and other supplies may be sufficient to meet our future needs, the prices of scrap and other supplies have historically fluctuated greatly. Our future profitability will be adversely affected if we are unable to pass on higher material costs to our customers. We may not be able to adjust our product prices, especially in the short-term, to recover the costs of increases in material prices.

For example, we depend on the ready availability of scrap a