COMMERCIAL METALS CO
Form 10-K
October 30, 2009

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

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended August 31, 2009

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 1-4304

Commercial Metals Company
(Exact name of registrant as specified in its charter)

Delaware	**75-0725338**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
6565 MacArthur Blvd, Irving, TX	**75039**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code:
(214) 689-4300

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $0.01 par value	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 under the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act. Yes o No þ

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained herein, 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 amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

The aggregate market value of the common stock on February 27, 2009, held by non-affiliates of the registrant, based on the closing price of $10.21 per share on February 27, 2009, on the New York Stock Exchange was approximately $1,122,561,086. (For purposes of determination of this amount, only directors, executive officers and 10% or greater stockholders have been deemed affiliates.)

The number of shares outstanding of common stock as of October 26, 2009, was 112,631,450.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the following document are incorporated by reference into the listed Part of Form 10-K:

Registrant s definitive proxy statement for the annual meeting of stockholders to be held January 28, 2010 Part III

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PART I

ITEM 1. BUSINESS

GENERAL

We recycle, manufacture, fabricate and distribute steel and metal products and related materials and services through a network of locations throughout the United States and Internationally. Effective at the beginning of our 2008 fiscal year we realigned the management of our businesses into two operating divisions the CMC Americas Division and the CMC International Division. We consider our business to be organized into five segments: Americas Recycling, Americas Mills, Americas Fabrication and Distribution, all operating as part of the CMC Americas Division, with the CMC International Division comprised of two segments, International Mills and International Fabrication and Distribution.

We were incorporated in 1946 in the State of Delaware. Our predecessor company, a metals recycling business, has existed since approximately 1915. We maintain our executive offices at 6565 MacArthur Boulevard in Irving, Texas, telephone number (214) 689-4300. Our fiscal year ends August 31 and all references in this Form 10-K to years refer to the fiscal year ended August 31 of that year unless otherwise noted. Financial information for the last three fiscal years concerning our five business segments and the geographic areas of our operations is incorporated herein by reference from Note 15. Business Segments of the notes to consolidated financial statements which are in Part II, Item 8 of this Form 10-K.

Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports will be made available free of charge through the Investor Relations section of our Internet website, http://www.cmc.com, as soon as practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. Except as otherwise stated in these reports, the information contained on our website or available by hyperlink from our website is not incorporated into this Annual Report on Form 10-K or other documents we file with, or furnish to, the Securities and Exchange Commission.

CMC AMERICAS DIVISION OPERATIONS

AMERICAS RECYCLING SEGMENT

The Americas Recycling segment processes scrap metals for use as a raw material by manufacturers of new metal products. This segment operates 42 scrap metal processing facilities with 20 locations in Texas, 7 in Florida, 4 in South Carolina, 2 in each of Alabama and Missouri, and one each in Arkansas, Georgia, Kansas, Louisiana, North Carolina, Oklahoma and Tennessee.

We purchase ferrous and nonferrous scrap metals, processed and unprocessed, from a variety of sources in a variety of forms for our metals recycling plants. Sources of metal for recycling include manufacturing and industrial plants, metal fabrication plants, electric utilities, machine shops, factories, railroads, refineries, shipyards, ordinance depots, demolition businesses, automobile salvage and wrecking firms. Collectively, small scrap metal collection firms are a major supplier.

In 2009, our scrap metal recycling segment s plants processed and shipped approximately 2,033,000 tons of scrap metal compared to 3,391,000 tons in 2008. Ferrous scrap metals comprised the largest tonnage of metals recycled at approximately 1,817,000 tons, a decrease of approximately 1,236,000 tons as compared to 2008. We shipped approximately 203,000 tons of nonferrous scrap metals, primarily aluminum, copper and stainless steel, a decrease of approximately 102,000 tons as compared to 2008. With the exception of precious metals, our scrap metal recycling plants recycle and process practically all types of metal. In addition, one scrap metal recycling facility operated by our Americas Mills segment processed 304,000 tons of primarily ferrous scrap metal for consumption at the adjoining Americas Mills facility during 2009.

Our scrap metal recycling plants typically consist of an office and warehouse building equipped with specialized equipment for processing both ferrous and nonferrous metal located on several acres of land that we use for receiving, sorting, processing and storing metals. Several of our scrap metal recycling plants use a small portion of their site or a nearby location to display and sell metal products that may be reused for their original purpose without further processing. We equip our larger plants with scales, shears, baling presses, briquetting machines, conveyors and magnetic separators which enable these plants to efficiently process large volumes of scrap metals.

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Two plants have extensive equipment that segregates metallic content from large quantities of insulated wire. To facilitate processing, shipping and receiving, we equip our ferrous metal processing centers with presses, shredders or hydraulic shears to prepare and compress scrap metal for easier handling. Cranes are utilized to handle scrap metals for processing and to load material for shipment. Many facilities have rail access as processed ferrous scrap is primarily transported to consumers by open gondola railcar or barge when water access is available.

Americas Recycling owns six large shredding machines, four in Texas and one in each of Florida and South Carolina, capable of pulverizing obsolete automobiles or other sources of scrap metal. We have three additional shredders, one operated by our Americas Mills segment and two by our International Mills segment.

We sell scrap metals to steel mills and foundries, aluminum sheet and ingot manufacturers, brass and bronze ingot makers, copper refineries and mills, secondary lead smelters, specialty steel mills, high temperature alloy manufacturers and other consumers. Ferrous scrap metal is the primary raw material for electric arc furnaces such as those operated by our Americas Mills segment and other minimills. Some minimills periodically supplement purchases of ferrous scrap metal with direct reduced iron and pig iron for certain product lines. Our Dallas office coordinates the sales of scrap metals from our scrap metal processing plants to our customers. We negotiate export sales through our network of foreign offices as well as our Dallas office.

We do not purchase a material amount of scrap metal from one source. One customer represents 11% of our Americas Recycling segment s revenues. Our recycling segment competes with other scrap metals processors and primary nonferrous metals producers, both domestic and foreign, for sales of nonferrous materials. Consumers of nonferrous scrap metals frequently can utilize primary or virgin ingot processed by mining companies instead of nonferrous scrap metals. The prices of nonferrous scrap metals are closely related to, but generally less than, the prices of primary or virgin ingot.

AMERICAS MILLS SEGMENT

We conduct our Americas Mills operations through a network of:

- 5 steel mills, commonly referred to as minimills or in the case of the Arizona mill a micro mill that produce one or more of reinforcing bar, angles, flats, rounds, small beams, fence-post sections and other shapes;
- a copper tube minimill; and
- one scrap metal shredder processing facility that directly supports the adjoining steel minimill.

We operate four steel minimills which are located in Texas, Alabama, South Carolina and Arkansas and one micro mill located in Arizona. We utilize a fleet of trucks that we own as well as private haulers to transport finished products from the minimills to our customers and our fabricating shops. To minimize the cost of our products, to the extent feasibly consistent with market conditions and working capital demands, we prefer to operate all minimills near full capacity. Market conditions such as increases in quantities of competing imported steel, production rates at domestic competitors, customer inventory levels or a decrease in construction activity may reduce demand for our products and limit our ability to operate the minimills at full capacity. Through our operations and capital improvements, we strive to increase productivity and capacity at the minimills and enhance our product mix. Since the steel minimill business is capital intensive, we make substantial capital expenditures on a regular basis to remain competitive with other low cost producers. Over the past three fiscal years we have spent approximately $284 million or 31% of our total capital expenditures on projects at the steel minimills operated by our Americas Mills segment.

Beginning in 2009, this segment operated a business that purchases and removes rail and other materials from abandoned railroads. Most of the salvaged rail is utilized by our Arkansas minimill. Prior to 2009, this operation was included in the Americas Recycling segment.

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The following table compares the amount of steel (in short tons) melted, rolled and shipped by our four steel minimills in the past three fiscal years:

	2009	2008	2007
Tons melted	1,599,000	2,396,000	2,121,000
Tons rolled	1,478,000	2,101,000	1,957,000
Tons shipped	1,736,000	2,528,000	2,250,000

We acquired our largest steel minimill in 1963. It is located in Seguin, Texas, near San Antonio. In 1983, we acquired our minimill in Birmingham, Alabama, and in 1994 we acquired our minimill in Cayce, South Carolina. We have operated our smallest mill since 1987, and it is located near Magnolia, Arkansas. In September, 2009, we opened our newest mill, a micro mill, in Mesa, Arizona.

The Texas, Alabama and South Carolina minimills each consist of:

melt shop with electric arc furnace that melts ferrous scrap metal;

continuous casting equipment that shape the molten metal into billets;

reheating furnace that prepares billets for rolling;

rolling mill that forms products from heated billets;

mechanical cooling bed that receives hot product from the rolling mill;

finishing facilities that cut, straighten, bundle and prepare products for shipping; and

supporting facilities such as maintenance, warehouse and office areas.

Descriptions of minimill capacity, particularly rolling capacity, are highly dependent on the specific product mix manufactured. Each of our minimills can and do roll many different types and sizes of products in their range depending on market conditions including pricing and demand. Therefore our capacity estimates assume a typical product mix and will vary with the products actually produced. Our Texas minimill has annual capacity of approximately 1,000,000 tons melted and 900,000 rolled. Our Alabama minimill s annual capacity is approximately 700,000 tons melted and 575,000 tons rolled. We have annual capacity at our South Carolina minimill of approximately 800,000 tons melted and 900,000 tons rolled.

Our Texas minimill manufactures a full line of bar size products including reinforcing bar, angles, rounds, channels, flats, and special sections used primarily in building highways, reinforcing concrete structures and manufacturing. It sells primarily to the construction, service center, energy, petrochemical, and original equipment manufacturing industries. The Texas minimill primarily ships its products to customers located in Texas, Louisiana, Arkansas, Oklahoma and New Mexico. It also ships products to approximately 22 other states and to Mexico. Our Texas minimill melted 746,000 tons during 2009 compared to 997,000 tons during 2008, and rolled 667,000 tons, a decrease of 125,000 tons from 2008.

The Alabama minimill recorded 2009 melt shop production of 342,000 tons, a decrease of 334,000 tons from 2008. It rolled 235,000 tons, a decrease of 195,000 tons from 2008. The minimill primarily manufactures products that are larger in size as compared to products manufactured by our other three minimills. Such larger size products include mid-size structural steel products including angles, channels, beams of up to eight inches and special bar quality rounds and flats. It does not produce reinforcing bar. Our Alabama minimill sells primarily to service centers, as well as to the construction, manufacturing, and fabricating industries. The Alabama minimill primarily ships its products to customers located in Alabama, Georgia, Tennessee, North and South Carolina, and Mississippi.

Our South Carolina minimill manufactures a full line of bar size products which primarily include steel reinforcing bar. The minimill also manufactures angles, rounds, squares, fence post sections and flats. The South Carolina minimill ships its products to customers located in the Southeast and mid-Atlantic areas which include the states from

Florida through southern New England. During 2009 the minimill melted 511,000 tons and rolled 481,000 tons compared to 723,000 tons melted and 732,000 tons rolled during 2008.

The primary raw material for our Texas, Alabama and South Carolina minimills is ferrous scrap metal. We purchase the raw material from suppliers generally within a 300 mile radius of each minimill including a substantial amount from the CMC Americas Recycling segment. Our Texas minimill runs an automobile shredding facility as a part of the mill operations with that entire shredder s processed ferrous scrap consumed at the Texas minimill. We believe the supply of ferrous scrap metal is adequate to meet our future needs, but it has historically been subject to

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significant price fluctuations which have occurred more rapidly over the last five years. All three minimills also consume large amounts of electricity and natural gas. We have not had any significant curtailments and believe that supplies are adequate. The supply and demand of regional and national energy and the extent of applicable regulatory oversight of rates charged by providers affect the prices we pay for electricity and natural gas.

The smaller Arkansas minimill does not have a melt shop or continuous casting equipment. The Arkansas minimill manufacturing process begins with a reheating furnace utilizing used rail primarily salvaged from railroad abandonments and excess billets acquired either from our other mills or unrelated suppliers as its raw material. The remainder of the manufacturing process utilizes a rolling mill, cooling bed and finishing equipment and support facilities similar to, but on a smaller scale, than those at our other minimills. The Arkansas minimill primarily manufactures metal fence post stock, small diameter reinforcing bar, sign posts and bed frame angles with some flats, angles and squares. At our Arkansas minimill and at our facilities in San Marcos, Texas, Brigham City, Utah, and West Columbia, South Carolina, we fabricate fence post stock into studded T metal fence posts. Since our Arkansas minimill does not have melting facilities, the minimill depends on an adequate supply of competitively priced used rail or billets. The availability of these raw materials fluctuates with the pace of railroad abandonments, rail replacement by railroads, demand for used rail from competing domestic and foreign rail rerolling mills and the level of excess billet production offered for sale at steel producers. We have annual capacity at our Arkansas minimill of approximately 150,000 tons rolled.

In August, 2009, we began the commissioning process at our new mill in Arizona, designated a micro mill due to its relatively small estimated capacity of approximately 280,000 tons per year. The micro mill utilizes a continuous continuous design where metal flows uninterrupted from melting to casting to rolling. It is more compact than existing, larger capacity steel minimills taking advantage of both lower initial capital construction costs and ongoing operating efficiencies by focusing on cost-effective production of a limited product range, primarily reinforcing bar. Ferrous scrap will be sourced locally. A reinforcing bar fabrication facility is located on the same site. Full startup of this mill is anticipated in early fiscal year 2010.

Our subsidiary, CMC Howell Metal Company, operates a copper tube minimill in New Market, Virginia, which manufacturers copper tube, primarily water tubing, for the plumbing, air conditioning and refrigeration industries. It recently supplemented its product line with selected steel products and copper fittings. Both high quality copper scrap and occasionally virgin copper ingot are melted, cast, extruded and drawn into tubing. The minimill supplies tubing in straight lengths and coils for use in commercial, industrial and residential construction and by original equipment manufacturers. Our customers, largely equipment manufacturers, wholesale plumbing supply firms and large home improvement retailers, are located in 44 states and supplied directly from the minimill as well as from or four warehouses. The demand for copper tube depends on the level of new apartment, hotel/motel and residential construction and renovation. Copper scrap is readily available, but subject to rapid price fluctuations. The price or supply of virgin copper causes the price of copper scrap to fluctuate rapidly. Our Americas Recycling segment supplies a portion of the copper scrap needed by CMC Howell. CMC Howell s facilities include melting, casting, piercing, extruding, drawing, finishing and office facilities. During 2009, the facility produced approximately 46 million pounds of copper tube. CMC Howell has annual manufacturing capacity of approximately 80 million pounds.

No single customer purchases 10% or more of our Americas Mills segment s production. Due to the nature of certain stock products we sell in the Americas Mills segment, we do not have a long lead time between receipt of a purchase order and delivery. We generally fill orders for stock products from inventory or with products near completion. As a result, we do not believe that backlog levels are a significant factor in the evaluation of these operations. Backlog for our four steel minimills at August 31, 2009 was approximately $142 million as compared to $311 million at August 31, 2008. The Arizona micro mill was not yet fully commissioned as of this date.

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AMERICAS FABRICATION AND DISTRIBUTION SEGMENT

We conduct our Americas Fabrication operations through a network of:

steel plants that bend, cut, weld and fabricate steel, primarily reinforcing bar and angles;

warehouses that sell or rent products for the installation of concrete;

plants that produce special sections for floors and ceiling support;

plants that produce steel fence posts; and

plants that treat steel with heat to strengthen and provide flexibility.

Steel Fabrication. Our Americas Fabrication group operates 74 facilities that we consider to be engaged in the various aspects of steel fabrication. Most of the facilities engage in general fabrication of reinforcing and structural steel with eight locations specializing in fabricating joists, special beams and decking for floor and ceiling support and four facilities fabricating only steel fence posts. We obtain steel for these facilities from our own minimills, purchases from other steel manufacturers through our distribution business and directly from unrelated steel vendors. In 2009, we shipped 1,424,000 tons of fabricated steel, a decrease of 302,000 tons from 2008.

We conduct steel fabrication activities in facilities located in Arkansas at Little Rock and Hope; in Arizona at Chandler; California at Bloomington, Claremont, Emeryville (2), Etiwanda, Fontana (2), Fresno, Santee, Stockton, and Tracy; in Colorado at Brighton and Denver; in Florida at Fort Myers, Jacksonville, and Kissimmee; in Georgia at Garden City and Lawrenceville; in Illinois at Kankakee; in Louisiana at Baton Rouge, Keithville and Pearl River; in Mississippi at Lumberton; in North Carolina at Gastonia; in New Mexico at Albuquerque; in Nevada at Las Vegas (3); in Ohio at Cleveland; in Oklahoma at Oklahoma City and Tulsa; in South Carolina at Columbia and Taylors; in Tennessee at Nashville; in Texas at Beaumont, Buda, Corpus Christi, Dallas, Harlingen, Houston (2), Kennedale, Laredo, Melissa, Pharr, San Antonio, Seguin, Victoria, Waco and Waxahachie (2); and in Virginia at Farmville (2), Fredericksburg and Norfolk.

Fabricated steel products are used primarily in the construction of commercial and non-commercial buildings, hospitals, convention centers, industrial plants, power plants, highways, bridges, arenas, stadiums, and dams. Generally, we sell fabricated steel in response to a bid solicitation from a construction contractor or the project owner. Typically, the contractor or owner of the project awards the job based on the competitive prices of the bids and does not individually negotiate with the bidders.

Our joist manufacturing operations headquartered in Hope, Arkansas, manufacture steel joists for roof supports. The joist manufacturing operations fabricate joists from steel obtained primarily from our Americas Mill at facilities in Hope, Arkansas; Starke, Florida; Juarez, Mexico, Cayce and Eastover, South Carolina; Fallon, Nevada; Iowa Falls, Iowa; and New Columbia, Pennsylvania.. We manufacture steel deck, a companion product for joist sales, at facilities in South Plainfield, New Jersey; Peru, Illinois; and Rock Hill, South Carolina. Our typical joist and deck customer is a construction contractor or large chain store owner. Joists are generally made to order and sales may include custom design, fabrication and painting. Deck is often sold in combination with joists. We obtain our sales primarily on a competitive bid basis. We also manufacture and sell castellated and cellular steel beams. These beams, recognizable by their hexagonal or circular pattern of voids, permit greater design flexibility in steel construction, especially floor structures. We fabricate these beams at a facility adjacent to our Hope, Arkansas, joist manufacturing plant.

Construction Services. We sell and rent construction related products and equipment to concrete installers and other construction businesses. We have 44 locations in Texas, Louisiana, Mississippi, South Carolina, Florida, Colorado, Arkansas, Arizona, New Mexico, Oklahoma, Utah, Idaho and California where we store and sell these products which, with the exception of a small portion of steel products, are purchased for resale from unrelated suppliers.

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Heat Treating. Our subsidiary, AHT, Inc. operates plants in Chicora, Pennsylvania, Struthers, Ohio and Pell City, Alabama that heat treat steel products for special applications. AHT works closely with our Alabama minimill, other steel mills and our distribution business that sell specialized heat-treated steel for customer specific use. Such steel is primarily used in original or special equipment manufacturing where special hardening or flexibility is required. A portion of this steel is used for post-manufactured armor plating. We have annual operating capacity in our heat treating operation of approximately 125,000 tons. We also operate a warehousing and distribution operation known as CMC Impact Metals which distributes not only the specialized products provided by AHT, but also similar products obtained from other similar specialty processors located around the world.

CMC Dallas Trading. Our Americas division distribution business consists of our CMC Dallas Trading operation. CMC Dallas Trading markets and distributes semi-finished, long, and flat steel products into the Americas which it purchases from a diverse base of international and domestic sources. During the past year, CMC Dallas Trading sold approximately 580 thousand tons of steel products through and with the assistance of our offices in Irving, Texas. Our network of offices in the International Fabrication and Distribution segment works closely with CMC Dallas Trading to share information regarding supply and demand for the products sold and assists with locating and maintains relationships with sources of supply.

Backlog in our steel fabrication operations was approximately $621 million at August 31, 2009 as compared to $784 million at August 31, 2008. Other backlogs in the Americas Fabrication and Distribution segment are not considered material. No single customer accounts for 10% or more of our Americas Fabrication and Distribution segment s sales.

CMC INTERNATIONAL DIVISION OPERATIONS

INTERNATIONAL MILLS SEGMENT

Our Swiss subsidiary, CMC International AG owns two steel minimills CMC Zawiercie S.A. (CMCZ) with operations at Zawiercie, Poland and CMC Sisak d.o.o. (CMCS) with operations at Sisak, Croatia. These two mills constitute the International Mills segment.

CMCZ is a steel minimill with equipment similar to our domestic steel minimills, but also includes a second rolling mill which produces wire rod and a specialty rod finishing mill. We own all or a substantial interest in several smaller metals related operations, including fourteen scrap metals processing facilities in Poland that directly support CMCZ with approximately one-third of its scrap requirements.

CMCZ has annual melting capacity of approximately 1,900,000 tons with annual rolling capacity of approximately 1,300,000 tons. During 2009, the facility melted 1,269,000 tons of steel compared to 1,502,000 tons the prior year; rolled 997,000 compared to the prior year s 1,100,000 tons and shipped 1,258,000 tons compared to 1,434,000 tons during 2008. Principal products manufactured include rebar and wire rod as well as smaller quantities of merchant bar. CMCZ is a significant manufacturer of rebar and wire rod in Central Europe selling rebar primarily to fabricators, distributors and construction companies. Principal customers for wire rod are meshmakers, end users and distributors. CMCZ s products are generally sold to customers located within a market area of 400 miles of the mill. The majority of sales are to customers within Poland with the Czech Republic, Slovakia, Hungary and Germany being the major export markets. Ferrous scrap metal is the principal raw material for CMCZ and is generally obtained from scrap metal processors and generators within 400 miles of the mill. Ferrous scrap metal, electricity, natural gas and other necessary raw materials for the steel manufacturing process are generally readily available although subject to periodic significant price fluctuations. A large capacity scrap metal shredding facility similar to the largest automobile shredder we operate in the United States is located at CMCZ and supplies CMCZ with a portion of its scrap metal requirements.

During 2009 we had two significant expansions underway at CMCZ. Installation of a new wire rod block at a cost of approximately $40 million which was completed in the second quarter of fiscal 2009. This addition has increased capacity approximately 110,000 tons and enhanced CMCZ s product range. We also began installation of a new rolling mill at an estimated cost of $190 million. The new mill, designed to allow efficient and flexible production of an increased medium section product range, will complement the facility s existing rolling mill dedicated primarily to rebar production. The new mill will have a rolling capacity of approximately 716,000 tons of rebar, merchant bar and wire rod. The first phase of the new mill is expected to be completed during the first quarter of fiscal year 2010 while

the second phase is expected to be completed at the end of fiscal year 2010 or during fiscal year 2011, and is in addition to CMCZ s two existing rolling mills.

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In September 2007, we acquired from the Croatian Privatization Fund all outstanding shares of Valjaonica Cijevi Sisak which we subsequently renamed CMCS. CMCS is an electric arc furnace steel pipe mill. Current melting capacity at CMCS is approximately 80,000 tons. We have announced plans to replace the existing 34 short ton electric arc furnace with a larger 67 short ton furnace and add a ladle furnace. These modifications will increase capacity to approximately 360,000 tons in the first phase and approximately 500,000 tons in the second phase, with the first phase expected to be completed during the second quarter of fiscal 2010. CMCS operates a seamless pipe mill. CMCS discontinued use of a cold processing mill and a welded mill during this fiscal year.

CMCS has an annual capacity of about 116,000 short tons of steel pipe. Prior to our purchase the mill had been operating at minimal production rates due to inadequate financing, poorly maintained equipment and poor employee morale. We commenced what amounted to a restart of the facility, employing new key managers, reviewing and revising operating, maintenance and safety procedures, staffing requirements and analyzing potential capital improvements to increase productivity. CMCS melted 49,000 tons, rolled 63,000 tons and shipped 67,000 tons in 2009.

INTERNATIONAL FABRICATION AND DISTRIBUTION SEGMENT

Our International Distribution operations buy and sell primary and secondary metals, fabricated metals and other industrial products. During the past year, the International Distribution facilities sold approximately 1.5 million tons of steel products. We market and distribute these products through a network of offices, processing facilities and joint venture offices located around the world. We purchase steel products, industrial minerals, ores, metal concentrates and ferroalloys from producers in domestic and foreign markets. Occasionally, we purchase these materials from suppliers, such as trading companies or industrial consumers, who have a surplus of these materials. We utilize long-term contracts, spot market purchases and trading or barter transactions to purchase materials. To obtain favorable long term supply agreements, we occasionally offer assistance to producers by arranging structured finance transactions to suit their objectives. Our exposure to these structured finance transactions is negligible to our business. See discussion in Note 12, Commitments and Contingencies, to our consolidated financial statements.

We sell our products to customers, primarily manufacturers, in the steel, nonferrous metals, metal fabrication, chemical, refractory and transportation businesses. We sell directly to our customers through and with the assistance of our offices in Fort Lee, New Jersey; Sydney, Perth, Melbourne, Brisbane and Adelaide, Australia; Singapore; Zug, Switzerland; Kürten, Germany; Curditt, UK; Temse, Belgium; Hong Kong; Beijing, Guangzhou and Shanghai China. We have a representative office in Moscow. We have agents or joint venture partners in additional offices located in significant international markets. Our network of offices share information regarding demand for our materials, assist with negotiation and performance of contracts and other services for our customers, and identify and maintain relationships with our sources of supply.

In most transactions, we act as principal by taking title and ownership of the products. We are at times designated as a marketing representative, sometimes exclusively, by product suppliers. We utilize agents when appropriate, and on occasion we act as a broker for these products. We buy and sell these products in almost all major markets throughout the world where trade by American-owned companies is permitted.

We market physical products as compared to companies that trade commodity futures contracts and frequently do not take delivery of the commodity. As a result of sophisticated global communications, our customers and suppliers often have easy access to quoted market prices, although such price quotes are not always indicative of actual transaction prices. Therefore, to distinguish ourselves we focus on value added services for both sellers and buyers. Our services include actual physical market pricing and trend information in contrast to market information from more speculative metal exchange futures, and technical information and assistance, financing, transportation and shipping (including chartering of vessels), storage, warehousing, just-in-time delivery, insurance, hedging and the ability to consolidate smaller purchases and sales into larger, more cost efficient transactions. These services are performed in the normal course of business and the majority are included in the transaction price as there is no separate revenue stream for each service. We attempt to limit exposure to price fluctuations by offsetting purchases with concurrent sales. We also enter into currency exchange contracts as economic hedges of sales and purchase commitments denominated in currencies other than the U.S. dollar or the functional currency of our international subsidiaries. Our policies are designed to prohibit speculation on changes in the markets.

We have previously made investments to acquire approximately 11% of the outstanding stock of a Czech Republic long products steel mill and 24% of a Belgium business that processes and pickles hot rolled steel coil.

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These investments allow us to expand our marketing and distribution activities by selling a portion of the products they produce and on occasion supplying a portion of their raw material requirements.

Our Australian operations are believed to be the largest marketer of imported steel in Australia. We utilize warehouse facilities at several Australian ports to facilitate distribution, including just-in-time delivery and logistics management. Our CMC Coil Steels Group is a major distributor and processor of steel sheet and coil products predominately procured from Australian sources and has recently expanded into distribution of long products including reinforcing bar. Coil Steels operates processing facilities in Brisbane, Sydney and Melbourne, warehouses in Adelaide and Perth and smaller regional sales outlets including Darwin and Toowoomba. The Australian operations also operate an industrial products distribution business supplying metals related industries including steel mills, foundries and smelters. In 2008, we acquired the assets of a small Sydney based ferrous and non-ferrous recycling facility.

Our International Fabrication operations have expanded downstream captive uses for a portion of the rebar and wire rod manufactured at CMCZ with construction of a reinforcing bar fabrication facility at CMCZ and the acquisition of rebar fabrication facilities in Rosslau, Germany as well as having commenced operation of a new fabrication facility in Zyrardow, near Warsaw. These three rebar fabrication facilities are similar to those operated by our domestic fabrication facilities and sell fabricated rebar to contractors for incorporation into construction projects generally within 150 miles of each facility. In 2008 we acquired Nike S.A. located in Dabrowa Górnicza, Poland which merged with our downstream operation, CMC Poland, in fiscal year 2009. This operation is a producer of welded steel mesh, cold rolled wire rod and cold rolled reinforcing bar with total production capacity of approximately 99,000 tons of steel products annually. This acquisition enables our International Fabrication operations to supplement sales of fabricated reinforcing bar by also offering wire mesh to customers including metals service centers as well as construction contractors.

In 2008 we acquired a recycling facility in Singapore. The facility is similar to those operated by the Recycling segment of CMC Americas but on a smaller scale, and is operated as part of the International Fabrication and Distribution segment due to its oversight by managers in this segment.

For a discussion of the risks attendant to our foreign operations, see Risk Factors Operating Internationally Carries Risks and Uncertainties which Could Negatively Affect Our Results of Operations.

For financial data on the above segments, see Financial Statements and Supplementary Data Note 15, Business Segments.

SEASONALITY

Many of our mills and fabrication facilities customers are in the construction business. Due to the increase in construction during the spring and summer months, our sales are generally higher in the third and fourth quarters than in the first and second quarters of our fiscal year.

COMPETITION

We believe our Americas Recycling segment is one of the largest entities engaged in the recycling of nonferrous scrap metals in the United States. We are also a major regional processor of ferrous scrap metal. The scrap metal recycling business is subject to cyclical fluctuations based upon the availability and price of unprocessed scrap metal and the demand for steel and nonferrous metals. Buying prices and service to scrap suppliers and generators are the principal competitive factors for the recycling segment. The price offered for scrap metal is the principal competitive factor in acquiring material from smaller scrap metals collection firms, while industrial generators of scrap metal may also consider the importance of other factors such as supplying appropriate collection containers, timely removal, reliable documentation including accurate and detailed purchase records with customized reports, the ability to service multiple locations, insurance coverage, and the buyer s financial strength.

Our Americas Mills compete with regional, national and foreign manufacturers of steel and copper. We do not produce a significant percentage of the total domestic output of most of our products. However, we are considered a substantial supplier in the markets near our facilities. We compete primarily on the price and quality of our products and our service. See Risk Factors - Risks Related to Our Industry.

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Our Americas Fabrication business competes with regional and national suppliers. We believe that we are among the largest fabricators of reinforcing bar in the United States, and our joist facilities are the second largest manufacturer of joists in the United States, although significantly smaller than the largest joist supplier. We believe that we are the largest manufacturer of steel fence posts in the United States.

We believe that CMCZ is the second largest supplier of wire rod and the second largest supplier of reinforcing bar in the Polish market. It competes with several large manufacturers of rebar and wire rod in Central and Eastern Europe, primarily on the basis of price and product availability.

Our distribution business is highly competitive. Our products in the distribution business are standard commodity items. We compete primarily on the price, quality and reliability of our products, our financing alternatives and our additional services. In this business, we compete with other domestic and foreign trading companies, some of which are larger and may have access to greater financial resources. In addition, some of our competitors may be able to pursue business without being restricted by the laws of the United States. We also compete with industrial consumers who purchase directly from suppliers, and importers and manufacturers of semi-finished ferrous and nonferrous products. Our CMC Coil Steels Group, a distributor of steel sheet and coil in Australia, is believed to be the third largest distributor of those products in Australia.

ENVIRONMENTAL MATTERS

A significant factor in our business is our compliance with environmental laws and regulations. See Risk Factors Risks Related to Our Industry below. 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.

Occasionally, we may be required to clean up or take certain remediation action with regard to sites we formerly used in our operations. We may also 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 treated or disposed of hazardous substances on the sites. The U.S. Environmental Protection Agency, or EPA, has named us a potentially responsible party, or PRP, at several federal Superfund sites. The EPA alleges that we and other PRP scrap metal suppliers are responsible for the cleanup of those sites solely because we sold scrap metal to unrelated manufacturers for recycling as a raw material in the manufacturing of new products. We contend that an arms length sale of valuable scrap metal for use as a raw material in a manufacturing process that we have no control of should not constitute an arrangement for disposal or treatment of hazardous substances as defined under federal law. In 2000 the Superfund Recycling Equity Act was signed into law which, subject to the satisfaction of certain conditions, provides legitimate sellers of scrap metal for recycling with some relief from Superfund liability under federal law. Despite Congress clarification of the intent of the federal law, some state laws and environmental agencies still seek to impose such liability. We believe efforts to impose such liability are contrary to public policy objectives and legislation encouraging recycling and promoting the use of recycled materials and we continue to support clarification of state laws and regulations consistent with Congress action.

New federal, state and local laws, regulations and the varying interpretations of such laws by regulatory agencies and the judiciary impact how much money we spend on environmental compliance. In addition, uncertainty regarding adequate control levels, testing and sampling procedures, new pollution control technology and cost benefit analysis based on market conditions impact our future expenditures in order to comply with environmental requirements. We cannot predict the total amount of capital expenditures or increases in operating costs or other expenses that may be required as a result of environmental compliance. We also do not know if we can pass such costs on to our customers through product price increases. During 2009, we incurred environmental costs including disposal, permits, license fees, tests, studies, remediation, consultant fees and environmental personnel expense of approximately $24 million. In addition, we estimate that we spent approximately $5 million during 2009 on capital expenditures for environmental projects. We believe that our facilities are in material compliance with currently applicable environmental laws and regulations. We anticipate capital expenditures for new environmental control facilities during 2010 of approximately $10 million.

EMPLOYEES

During the past year, the Company has adjusted its workforce by implementing global reductions in force of approximately 2,600 employees, with approximately 2,100 of those reductions affecting employees in the U.S. As of

August 31, 2009, we had 13,586 employees. The Americas Recycling segment employed 1,654 people, the Americas Mills segment employed 2,074 people, the Americas Fabrication and Distribution segment employed

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5,314 people, the International Mills segment employed 3,135 people and the International Fabrication and Distribution segment employed 842 people. As of August 31, 2009, we had 567 employees providing services to our divisions and subsidiaries in shared service operations, general corporate administration (including treasury, tax, IT, internal audit and other services), and management. Production employees at one metals recycling plant and two fabrication facilities are represented by unions for collective bargaining purposes. Approximately one half of International Mills employees are represented by unions. We believe that our labor relations are generally good to excellent and our work force is highly motivated.

ITEM 1A. RISK FACTORS

Before making an investment in our company, you should be aware of various risks, including those described below. You should carefully consider these risk factors together with all of the other information included in this annual report on Form 10-K. 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. 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

OUR INDUSTRY IS AFFECTED BY CYCLICAL AND GLOBAL ECONOMIC FACTORS INCLUDING THE RISK OF A RECESSION AND OUR CUSTOMERS ACCESS TO CREDIT FACILITIES.

Our financial results are substantially dependent upon the overall economic conditions in the United States and the European Union. A continued recession in the United States, the European Union, or globally or the public perception that a recession is continuing could substantially decrease the demand for our products and adversely affect our business. Many of our products are commodities subject to cyclical fluctuations in supply and demand in metal consuming industries and construction. Metals industries have historically been vulnerable to significant declines in consumption and product pricing during prolong periods of economic downturn. Likewise the pace of construction has historically slowed significantly during economic downturns. Many of our customers rely on access to credit to adequately fund their operations or to finance construction projects. The inability of our customers to access credit facilities will adversely affect our business by reducing our sales, increasing our exposure to accounts receivable bad debts and reducing our profitability. Our geographic concentration in the southern and southwestern United States as well as Central Europe, Australia, China, and the Middle East 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 in a particular region could also adversely affect our sales and profitability.

Our business supports cyclical industries such as commercial, residential and government construction, energy, metals service center, petrochemical and original equipment manufacturing. These industries may 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. Although the residential housing market is not a significant direct factor in our business, related commercial and infrastructure construction activities, such as shopping centers and roads could be impacted by a prolonged slump in new housing construction.

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

A SIGNIFICANT REDUCTION IN CHINA S STEEL CONSUMPTION OR INCREASED CHINESE STEEL PRODUCTION SUBSTANTIALLY EXCEEDING LOCAL DEMAND MAY RESULT IN CHINA BECOMING A LARGE EXPORTER OF STEEL AND DISRUPTION TO WORLD STEEL MARKETS.

Chinese economic expansion has affected the availability and heightened the volatility of many commodities that we market and use in our manufacturing process, including steel. It is reported that in calendar year 2008 China produced approximately 510 million metric tons of crude steel, representing 38% of world production. China s estimated consumption was approximately 448 million metric tons and was a net exporter of approximately 52 million

tons in 2008. Expansions and contractions in China s economy can have major effects on the pricing of not only the price of our finished steel products but also many commodities that affect us such as secondary metals, energy, marine freight rates, steel making supplies such as ferroalloys and graphite electrodes and materials we

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market such as iron ore and coke. Should Chinese demand weaken or Chinese steel production be allowed to expand unchecked to the point that it significantly exceeds the country s consumption, prices for many of the products that we both sell to and export from China may fall causing erosion in our gross margins and subjecting us to possible renegotiation of contracts or increases in bad debts. Significant exports from China of steel in the product lines we manufacture would cause selling prices to decline and negatively impact our gross margins.

RAPID AND SIGNIFICANT CHANGES IN THE PRICE OF METALS COULD NEGATIVELY IMPACT OUR INDUSTRY.

Prices for most metals in which we deal have experienced increased volatility over the last several years. More recently steel prices sharply declined from their peaks and are at still relatively low levels.. However, should metals prices experience further substantial rapid decreases or increases it would impact us in several ways. Some of our operations, the fabrication operations for example, may benefit from rapidly decreasing steel prices as their material cost for previously contracted fixed price work declines. Others, such as our Americas Mills and International Mills segments, would likely experience reduced margins and may be forced to liquidate high cost inventory at reduced margins or losses until prices stabilized. Sudden increases could have the opposite effect. Overall, we believe that rapid substantial price changes, would not be to our industry s benefit. Our customer and supplier base would be impacted due to uncertainty as to future prices. A reluctance to purchase inventory in the face of extreme price decreases or sell quickly during a period of rapid price increases would likely reduce our volume of business. Marginal industry participants or speculators may attempt to participate to an unhealthy extent during a period of rapid price escalation with a substantial risk of contract default should prices suddenly reverse. Risks of default in contract performance by customers or suppliers as well as an increased risk of bad debts and customer credit exposure would increase during periods of rapid and substantial price changes.

EXCESS CAPACITY IN OUR INDUSTRY COULD INCREASE THE LEVEL OF STEEL IMPORTS INTO THE UNITED STATES RESULTING IN LOWER DOMESTIC PRICES WHICH WOULD ADVERSELY AFFECT OUR SALES, MARGINS AND PROFITABILITY.

Steel-making capacity exceeds demand for steel products in some countries. Rather than reducing employment by rationalizing capacity with consumption, steel manufacturers in these countries (often with local government assistance or subsidies in various forms) have traditionally periodically exported steel at prices significantly below their home market prices and which may not reflect their costs of production or capital. This supply of imports can decrease the sensitivity of domestic steel prices to increases in demand or our ability to recover increased manufacturing costs.

COMPLIANCE WITH AND CHANGES IN ENVIRONMENTAL AND REMEDIATION REQUIREMENTS COULD RESULT IN SUSTANTIALLY INCREASED CAPITAL REQUIREMENTS AND OPERATING COSTS.

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. New facilities that we may build, especially steel minimills, are required to obtain several environmental permits before significant construction or commencement of operations. Delays in obtaining permits or unanticipated conditions in such permits could delay the project or increase construction costs or operating expenses. 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 minimills generate electric arc furnace dust (EAF dust), which 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 shredders operated by our scrap metal recycling facilities are automobile hulks and obsolete household appliances. Approximately 20% of the weight of an automobile hull consists of unrecyclable material known as shredder fluff. After the segregation of ferrous and saleable non-ferrous metals, shredder fluff remains. We, along with others in the recycling industry, interpret Federal regulations to require shredder fluff to meet certain criteria and pass a toxic leaching test to avoid classification as a hazardous waste. We also endeavor to remove hazardous contaminants from the feed material prior to shredding. As a result, we believe the

shredder fluff we generate is not normally considered or properly classified as hazardous waste. If the laws, regulations or testing methods change with regard to EAF dust or shredder fluff, we may incur additional significant expenditures.

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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. Competitors in various regions or countries where environmental regulation might not be so restrictive, subject to different interpretation or generally not enforced, may enjoy a competitive advantage.

We may also be required to conduct additional clean up at sites where we have already participated in remediation efforts or to take 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. In cases of joint and several liability, we may be obligated to pay a disproportionate share of cleanup costs if other responsible parties are financially insolvent.

RISKS RELATED TO OUR COMPANY

POTENTIAL LIMITATIONS ON OUR ABILITY TO ACCESS CREDIT FACILITIES MAY NEGATIVELY IMPACT OUR BUSINESS.

Although we believe we have adequate access to several sources of contractually committed borrowings and other available credit facilities (see the discussion at page 36 of our liquidity), we could be adversely affected if our banks, the buyers of our commercial paper or other of the traditional sources supplying our short term borrowing requirements refused to honor their contract commitments or ceased lending. While we believe the lending institutions participating in our credit arrangements are financially capable, recent events in the global credit markets, including the failure, takeover or rescue by various government entities of major financial institutions, have created uncertainty of credit availability to an extent not experienced in recent decades. Our commercial paper program is ranked in the second highest category by Moody s Investors Service (P-2) and the third highest by Standard & Poor s Corporation (A-3). Our senior unsecured debt is investment grade rated by Standard & Poor s Corporation (BBB) and Moody s Investors Service (Baa2). In determining our credit ratings, the rating agencies consider a number of both quantitative and qualitative factors. These factors include earnings, fixed charges such as interest, cash flows, total debt outstanding, off balance sheet obligations and other commitments, total capitalization and various ratios calculated from these factors. The rating agencies also consider predictability of cash flows, business strategy and diversity, industry conditions and contingencies. Lower ratings on our commercial paper program or our senior unsecured debt could impair our ability to obtain additional financing and will increase the cost of the financing that we do obtain.

WE HAVE INITIATED IMPLEMENTATION OF AN ENTERPRISE RESOURCE PLANNING SYSTEM WHICH, IF NOT EFFECTIVELY MANAGED AND CONTROLLED, COULD THREATEN THE ACHIEVEMENT OF OPERATION AND FINANCIAL GOALS.

In 2006 we began planning and design of a new enterprise resource planning system which continued through 2007 with phased implementation during 2008 and 2009 and currently scheduled to continue through the next several years. There are risks that the effort may not result in a successful implementation resulting in resources being inappropriately diverted, untimely completion, substantial cost overruns, or inadequate information to manage our businesses and prepare accurate financial information. Should the project not be successfully completed the capitalized cost for this project might have to be expensed resulting in an unanticipated reduction in profitability.

SOME OF OUR CUSTOMERS MAY DEFAULT ON THE DEBTS THEY OWE TO US.

Should the recent constraints on access to credit continue for a prolonged period some of our customers may struggle or fail to meet their obligations, especially if they in turn experience defaults on receivables due from their customers. A continued recession could result in our incurring bad debt costs in excess of our expectations and prior experience. In certain markets we have experienced a consolidation among those entities to whom we sell. This consolidation, along with higher metals and other commodity prices, has resulted in an increased credit risk spread

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among fewer customers often without a corresponding strengthening of their financial status. We have expanded our use of credit insurance for accounts receivable in our businesses. While we believe the insurance companies with whom our accounts receivable are insured are capable of meeting their contract obligations, it is possible that we may not be capable of recovering all of our insured losses should they experience significant losses threatening their viability. Additionally, credit insurance policies typically have relatively short policy periods and require pre-approval of customers with maximum insured limits established by customer. Should credit insurers incur large losses, the insurance may be more difficult to secure and when available likely only at increased costs with decreased coverage. While in many international sales transactions we require letters of credit from financial institutions which we believe to be financially secure, we may be at risk in the event the financial institution subsequently fails and the customer is unable to pay for the products we sold. A substantial amount of our accounts receivable are considered to be open account uninsured accounts receivable. We regularly maintain a substantial amount of accounts receivable, at year end $773 million. During the fiscal year, we incured bad debt expense of $34 million, charged off accounts receivable of $13 million and had recoveries of $3 million and at year end our allowance for collection losses was $42 million.

POTENTIAL IMPACT OF OUR CUSTOMERS NON-COMPLIANCE WITH EXISTING COMMERCIAL CONTRACTS AND COMMITMENTS.

Most consumers of the metals products we sell have been negatively impacted by the recession. Many of our customers have experienced reductions, some substantial, in their operations. Prices for many of the metals products we sell have declined, some substantially. These factors have contributed to attempts by some customers to seek renegotiation or cancellation of their existing purchase commitments. Some of our customers have breached previously agreed upon contracts to buy our products by refusing delivery of the products. Where appropriate we have and will in the future pursue litigation to recover our damages resulting from customer contract defaults. A large number of our customers defaulting on existing contractual obligations to purchase our products, would have a material impact on our results of operations.

THE AGREEMENTS GOVERNING THE NOTES AND OUR OTHER DEBT CONTAIN FINANCIAL COVENANTS AND IMPOSE RESTRICTIONS ON OUR BUSINESS.

The indenture governing our 5.625% notes due 2013, 6.50% notes due 2017 and 7.35% notes due 2018 contains restrictions on our ability to create liens, sell assets, enter into sale and leaseback transactions and consolidate or merge. In addition, our credit facility contains covenants that place restrictions on our ability to, among other things:

create liens;

enter into transactions with affiliates;

sell assets;

in the case of some of our subsidiaries, guarantee debt; and

consolidate or merge.

Our credit facility also requires that we meet certain financial tests and maintain certain financial ratios, including a maximum debt to capitalization and interest coverage ratios.

Other agreements that we may enter into in the future may contain covenants imposing significant restrictions on our business that are similar to, or in addition to, the covenants under our existing agreements. These restrictions may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise.

Our ability to comply with these covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions. The breach of any of these restrictions could result in a default under the indenture governing the notes or under our other debt agreements. An event of default under our debt agreements would permit some of our lenders to declare all amounts borrowed from them to be due and payable, together with accrued and unpaid interest. If we were unable to repay debt to our secured lenders or if we incur secured debt in the future, these lenders could proceed against the collateral securing that debt. In addition, acceleration of our other

indebtedness may cause us to be unable to make interest payments on the notes.

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FLUCTUATIONS IN THE VALUE OF THE U.S. DOLLAR RELATIVE TO OTHER CURRENCIES MAY ADVERSELY AFFECT OUR BUSINESS.

Fluctuations in the value of the dollar can be expected to affect our business. In particular major changes in the rate of exchange of China s renminbi or the value of the euro to the U.S. dollar could negatively impact our business. A strong U.S. dollar makes imported metal products less expensive, resulting in more imports of steel products into the United States by our foreign competitors while a weak U.S. dollar may have the opposite impact on imports. With the exception of exports of non-ferrous scrap metal by our Americas Recycling segment we have not recently been a significant exporter of metal products from our United States operations. Economic difficulties in some large steel producing regions of the world resulting in lower local demand for steel products have historically encouraged greater steel exports to the United States at depressed prices and can be exacerbated by a strong dollar. As a result, our products which are made in the United States, 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, profitability and cash flows.

A strong U.S. dollar 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.

OPERATING INTERNATIONALLY CARRIES RISKS AND UNCERTANTIES WHICH COULD NEGATIVELY AFFECT OUR RESULTS OF OPERATIONS.

We have our heaviest concentration of manufacturing facilities in the United States but also have significant facilities in Europe and Australia. Our marketing and trading offices are located in most major markets of the world with our suppliers and our customers located throughout the world. Our marketing and distribution segment relies on substantial international shipments of materials and products in the ordinary course of its business. Our stability, growth and profitability are subject to a number of risks inherent in doing business internationally in addition to the currency exchange risk discussed above, including:

- political, military, terrorist or major pandemic events;
- legal and regulatory requirements or limitations imposed by foreign governments (particularly those with significant steel consumption or steel related production including China, Brazil, Russia and India) including quotas, tariffs or other protectionist trade barriers, adverse tax law changes, nationalization or currency restrictions;
- disruptions or delays in shipments caused by customs compliance or government agencies; and
- potential difficulties in staffing and managing local operations.

WE RELY ON THE AVAILABILITY OF LARGE AMOUNTS OF ELECTRICITY AND NATURAL GAS FOR OUR MINIMILL OPERATIONS. DISRUPTIONS IN DELIVERY OR SUBSTANTIAL INCREASES IN ENERGY COSTS, INCLUDING CRUDE OIL PRICES, COULD ADVERSLY AFFECT OUR FINANCIAL PERFORMANCE.

Minimills melt steel scrap in electric arc furnaces and use natural gas to heat steel billets for rolling into finished products. As large consumers of electricity and gas, often the largest in the geographic area where our minimills are located, we must have dependable delivery of electricity and natural gas in order to operate. Accordingly, we are at risk in the event of an energy disruption. Prolonged black-outs or brown-outs or disruptions caused by natural disasters such as hurricanes or by political considerations would substantially disrupt our production. While we have not suffered prolonged production delays due to our inability to access electricity or natural gas several of our competitors have experienced such occurrences. Prolonged substantial increases in energy costs would have an adverse affect on the costs of operating our minimills and would negatively impact our gross margins unless we were able to fully pass through the additional expense. Our finished steel products are typically delivered by truck. Rapid increases in the price of fuel attributable to increases in crude oil prices will have a negative impact on our costs and many of our customers financial results which could result in reduced margins and declining demand for our products. Rapid increases in fuel costs may also negatively impact our ability to charter ships for international deliveries at

anticipated freight rates thereby decreasing our margins on those transactions or causing our customers to look for alternative sources.

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IF WE LOSE THE SERVICES OF KEY EMPLOYEES WE MAY NOT BE ABLE TO SUCCESSFULLY MANAGE OUR OPERATIONS AND MEET OUR STRATEGIC OBJECTIVES.

Our future success depends, in large part, on the continued service of our officers and other key employees and our ability to continue to attract and retain additional highly qualified personnel. These employees are integral to our success based on their expertise and knowledge of our business and products. We compete for such personnel with other companies including public and private company competitors who may periodically offer more favorable terms of employment. While we have an employment agreement with our Chief Executive Officer, we typically do not have employment agreements with other key employees. The loss or interruption of the services of a number of our key employees would reduce our ability to effectively manage our operations due to the fact that we may not be able to find in a timely manner, appropriate replacement personnel should the need arise.

WE MAY HAVE DIFFICULTY COMPETING WITH COMPANIES THAT HAVE A LOWER COST STRUCTURE OR ACCESS TO GREATER FINANCIAL RESOURCES.

We compete with regional, national and foreign manufacturers and traders. Consolidation among participants in the steel manufacturing and recycling industries has resulted in fewer competitors but several which are significantly larger. Some of our larger competitors 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.

OUR STEEL MINIMILL BUSINESS REQUIRES CONTINUOUS CAPITAL INVESTMENTS THAT WE MAY NOT BE ABLE TO SUSTAIN.

We must make regular substantial capital investments in our steel minimills 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 minimills, 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 ferrous scrap, the primary feedstock for our steel minimills and other supplies such as graphite electrodes and ferroalloys for our steel minimill operations. Although we believe that the supply of scrap is adequate to meet future needs, the price of scrap and other supplies have historically been subject to significant fluctuation. Our future profitability will be adversely affected if we are unable to pass on to our customers increased raw material and supplies costs. We may not be able to adjust our product prices to recover the costs of rapid increases in material prices, especially over the short-term and in our domestic fabrication segment s fixed price fabrication contracts.

The raw material used in manufacturing copper tubing is copper scrap, supplemented occasionally by virgin copper ingot. Copper scrap has generally been readily available, and a small portion of our copper scrap comes from our metal recycling yards. However, copper scrap is subject to rapid price fluctuations related to the price and supply of virgin copper. Price increases for high quality copper scrap could adversely affect our business. Our Arkansas mill does not have melting capacity, so it is dependent on an adequate supply of competitively priced used rail. The availability of used rail fluctuates with the pace of railroad abandonments, rail replacement by railroads in the United States and abroad and demand for used rail from other domestic and foreign rail rerolling mills. Price increases for used rail could adversely affect our business.

UNEXPECTED EQUIPMENT FAILURES MAY LEAD TO PRODUCTION CURTAILMENTS OR SHUTDOWNS.

Interruptions in our production capabilities will adversely affect our production costs, steel available for sales and earnings for the affected period. In addition to equipment failures, our facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions or violent weather conditions. Our manufacturing processes are dependent upon critical pieces of steel-making equipment, such as our furnaces,

continuous casters and rolling equipment, as well as electrical equipment, such as transformers. This equipment

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may, on occasion, be out of service as a result of unanticipated failures. We have experienced and may in the future experience material plant shutdowns or periods of reduced production as a result of such equipment failures.

HEDGING TRANSACTIONS MAY EXPOSE US TO LOSS OR LIMIT OUR POTENTIAL GAINS.

Our product lines and worldwide operations expose us to risks associated with fluctuations in foreign currency exchange, commodity prices and interest rates. As part of our risk management program, we use financial instruments, including commodity futures or forwards, foreign currency exchange forward contracts and interest rate swaps. While intended to reduce the effects of the fluctuations, these transactions may lim