COMMERCIAL METALS CO
Form S-4/A
April 26, 2004

As filed with the Securities and Exchange Commission on April 26, 2004

Registration No. 333-112243

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

Amendment No. 1
to

Form S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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

Delaware	**5051**	**75-0725338**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(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 box. 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 ______

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.

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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 APRIL 26, 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.

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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Indenture
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This prospectus incorporates important business and financial information about us that is not included in or delivered with this prospectus. This information is available without charge to you upon written or oral request. If you would like a copy of any of this information, please submit your request to Commercial Metals Company, 6565 N. MacArthur, Suite 800, Irving, Texas 75039, Attn: Corporate Secretary or call (214) 689-4300 and ask to speak to our Corporate Secretary. In addition, to obtain timely delivery of any information you request, you must submit your request no later than , 2004, which is five business days before the date the exchange offer expires.

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.

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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;
- 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;
- industry consolidation or changes in production capacity or utilization;
- global factors including military uncertainties;
- credit availability;
- currency fluctuations;
- scrap, energy, and freight prices;
- decisions by governments impacting the level of steel imports; and
- the pace of overall economic activity, particularly China.

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 February 29, 2004. 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 have not independently verified this information.

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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. During the fiscal year ended August 31, 2003, steel products represented over 60% of our net sales. We consider our business to be organized into five business segments: domestic mills, CMC Zawiercie (acquired December 2003), fabrication, recycling, and marketing and distribution. During the fiscal year ended August 31, 2003, we derived approximately 34% of our adjusted operating profit from our domestic mills segment, approximately 1% of our adjusted operating profit from our fabrication segment, approximately 27% of our adjusted operating profit from our recycling segment and approximately 38% of our adjusted operating profit from our marketing and distribution segment. See Note J, Business Segments, to our condensed consolidated financial statements for the three month period ended February 29, 2004, which are incorporated by reference into this prospectus, for a reconciliation of adjusted operating profit to net earnings.

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 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	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: 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; or a 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. 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.

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.
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 before the expiration of 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 material 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.

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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, because our subsidiaries have not guaranteed the notes. As of February 29, 2004, the total amount of our outstanding indebtedness was $419 million, of which approximately $60 million was owed by our subsidiaries. Commercial Metals Company is the obligor for approximately $159 million of indebtedness which is equal in right of payment (*pari passu*) with the notes.
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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Summary Consolidated Financial Information and Other Data

The summary income statement data and balance sheet data presented below are for the six months ended February 29, 2004 and February 28, 2003 and for the years ended August 31, 2003, 2002, 2001, 2000 and 1999 and as of February 29, 2004 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.

	Six Months Ended		Year Ended August 31,				
	February 29, 2004	February 28, 2003	2003	2002	2001	2000	1999
	(in millions, except per share data)						
Income Statement Data:							
Net sales	$1,898	$1,297	$2,876	$2,480	$2,470	$2,661	$2,251
Cost of goods sold	1,677	1,168	2,587	2,162	2,173	2,334	1,949
Selling, general and administrative expenses	152	114	244	236	223	229	207
Interest expense	12	7	15	19	28	27	20
Loss on reacquisition of debt	3						
Litigation accrual					8		
Earnings before income taxes and minority interest	54	8	30	63	38	71	75
Minority interest	1						
Income taxes	19	3	11	22	14	26	28
Net earnings	$ 34	$ 5	$ 19	$ 41	$ 24	$ 45	$ 47
Basic earnings per share	$ 1.19	$ 0.18	$ 0.67	$ 1.48	$ 0.91	$ 1.59	$ 1.62
Diluted earnings per share	$ 1.15	$ 0.18	$ 0.66	$ 1.43	$ 0.90	$ 1.56	$ 1.61
Cash dividends per common share	$ 0.16	$ 0.16	$ 0.32	$0.275	$ 0.26	$ 0.26	$ 0.26

Year Ended

	Six Months Ended		August 31,				
	February 29, 2004	February 28, 2003	2003	2002	2001	2000	1999
			(in millions, except ratios)				
Other Financial Data:							
EBITDA (1)	$99.0	$ 45.5	$106.9	$143.4	$133.3	$164.6	$146.5
Ratio of earnings to fixed charges (2)	4.79	1.94	2.57	3.77	2.19	3.25	3.60
Ratio of EBITDA to interest expense	8.3	6.4	7.0	7.7	4.8	6.0	7.5
Ratio of total debt to EBITDA(3)	2.1	2.8	2.5	1.8	2.0	2.2	2.0

	February 29,	August 31,				
	2004	2003	2002	2001	2000	1999
		(in millions)				
Balance Sheet Data (at end of period):						
Cash and cash equivalents	$ 59.1	$ 75.1	$ 124.4	$ 56.0	$ 20.1	$ 44.7
Total assets	$1,673.2	$1,275.4	$1,230.1	$1,081.9	$1,170.1	$1,079.1
Long-term debt	$ 362.9	$ 255.0	$ 256.0	$ 251.6	$ 261.9	$ 265.6
Total debt	$ 419.4	$ 270.6	$ 256.6	$ 265.7	$ 363.2	$ 289.8
Stockholders equity	$ 558.3	$ 506.9	$ 501.3	$ 433.1	$ 418.8	$ 418.3

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(1) We have included a financial statement measure in the table above that was not derived in accordance with generally accepted accounting principles (GAAP). We use earnings before interest expense, income taxes, depreciation and amortization (EBITDA) as a non-GAAP performance measure. In calculating EBITDA, we exclude our largest recurring non-cash charge, depreciation and amortization. EBITDA provides a core operational performance measurement that compares results without the need to adjust for federal, state and local taxes which have considerable variation between domestic jurisdictions. Tax regulations in international operations add additional complexity. Also, we exclude interest cost in our calculation of EBITDA. The results are therefore without consideration of financing alternatives of capital employed. We use EBITDA as one guideline to assess our unlevered performance return on our investments. EBITDA is also the target benchmark for our long-term performance plan for management. Reconciliations to net earnings are provided below (in millions):

	Six Months Ended		Year Ended August 31,				
	February 29, 2004	February 28, 2003	2003	2002	2001	2000	1999
	(in millions)						
Net earnings	$33.8	$ 5.1	$ 18.9	$ 40.5	$ 23.8	$ 44.6	$ 47.0
Interest expense	12.0	7.1	15.3	18.7	27.6	27.3	19.6
Income taxes	19.3	3.0	11.5	22.6	14.6	26.1	27.8
Depreciation and amortization	33.9	30.3	61.2	61.6	67.3	66.6	52.1
EBITDA	$99.0	$45.5	$106.9	$143.4	$133.3	$164.6	$146.5

(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 six months ended February 29, 2004 and February 28, 2003 has been annualized for purposes of calculating the ratio. These results are not necessarily indicative of results to be expected for the entire year.

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. 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 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, lowering our volume, pricing, and profitability. 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 reduce 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 decrease 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 will suffer.

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

Excess capacity in our industry lowers 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.

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

Existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations, may have a material negative effect on our results of operations and weaken our 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 may not be able to pass these costs 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.

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 decrease 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

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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 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.

Risks Related to Our Company

Fluctuations in the value of the United States dollar and weakness in foreign economies may cause trade flows to change, lowering our volume of business and decreasing profitability.

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.

Scrap and other supplies for our businesses are subject to significant price fluctuations, which may restrict our margin and lower profitability.

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 profitability will be lowered 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 as feedstock for our mini-mills. Although we believe that the supply of scrap is adequate to meet future needs, the price of scrap has historically been subject to significant fluctuation. Also, 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 lower our margins. Finally, 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 and demand for used rail from domestic and foreign rail rerolling mills. Price increases for used rail could squeeze our margin and lower our profitability.

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 may not be able to compete successfully with these companies.

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.

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.

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***Our mini-mills consume large amounts of electricity and natural gas, and shortages or increases in the price of electricity and natural gas could interrupt our production, increase our cost of production and lower our profitability*.**

The successful operation of our mini-mills depends on an uninterrupted supply of electricity. Accordingly, we are at risk in the event of an energy disruption. The electricity industry recently has been affected by shortages and price volatility in regions outside of the locations of our mini-mills. Prolonged black-outs or brown-outs would substantially disrupt our production. Any such disruptions would lower our operating results. Electricity prices can be volatile and increases would negatively impact the costs and margin of our mini-mills.

Supply of natural gas depends primarily upon the worldwide number of natural gas wells being drilled, completed and re-worked and the depth and drilling conditions of these wells. The level of these activities is primarily dependent on current and anticipated natural gas prices. Many factors, such as the supply and demand for natural gas, general economic conditions, political instability or armed conflict in worldwide natural gas producing regions and global weather patterns affect these prices.

We purchase most of our electricity and natural gas requirements in local markets for relatively short periods of time. As a result, fluctuations in energy prices can be a significant benefit or detriment on the costs of operating our mini-mills.

Unexpected equipment failures may lead to production curtailments or shutdowns.

Interruptions in our production capabilities will increase our production costs, lower steel available for sales and decrease 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, and this equipment may, on occasion, be out of service as a result of unanticipated failures. We may in the future experience material plant shutdowns or periods of reduced production as a result of such equipment failures.

The availability of insurance coverage and increased cost may lower profitability and increase business risk.

After the events of September 11, 2001, several high profile corporate bankruptcies and the downturn in the investment markets, insurance companies tightened coverages and dramatically increased premium costs. Many insurers no longer offer certain coverages and the remaining carriers have in many instances reduced the liability they are willing to insure while raising the cost. Our profitability could be decreased when we renew our insurance policies due to the additional insurance expense as well as the greater exposure to risk caused by reduced coverage.

Hedging transactions may limit our potential gains or expose us to loss.

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 limit our potential gains or expose us to loss.

We enter into foreign currency exchange forwards as economic hedges of trade commitments or anticipated commitments denominated in currencies other than the functional currency, to mitigate the effects of changes in currency rates. Although we do not enter into these instruments for trading purposes or speculation, and although our management believes all of these instruments are economically effective as hedges of underlying physical transactions, these foreign exchange commitments are dependent on timely performance by our counterparties. Their failure to perform could result in our having to close these hedges without the anticipated underlying transaction and could result in losses if foreign currency exchange rates have changed.

Rising interest rates may increase our borrowing costs and dampen economic activity resulting in lower sales, margins and profitability.

Our short-term financing sources include primarily the commercial paper market, the sale of certain of our accounts receivable and borrowings from banks. If interest rates rise, our cost of short-term borrowing will increase and lower our profitability. Higher interest rates may also dampen some of the markets for our products, such as housing and commercial construction, resulting in a lower level of sales, margins and profitability.

We are involved and may in the future become involved in various environmental matters that may result in fines, penalties or judgments being assessed against us or liability imposed upon us which we cannot presently estimate or reasonably foresee and which may have a material impact on our earnings and cash flows.

Under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, called CERCLA, or similar state statutes, we may have obligations to conduct investigation and remediation activities associated with alleged releases of hazardous substances or to reimburse the EPA (or state agencies as applicable) for such activities and to pay for natural resource damages associated with alleged releases. We have been named a potentially responsible party at fourteen federal and state Superfund sites because the EPA or an equivalent state agency contends that we and other potentially responsible scrap metal suppliers are liable for the cleanup of those sites as a result of having sold scrap metal to unrelated manufacturers for recycling as a raw material in the manufacture of new products. We are involved in litigation or administrative proceedings with regard to several of these sites in which we are contesting, or at the appropriate time may contest, our liability at the sites. In addition, we have received information requests with regard to other sites which may be under consideration by the EPA as potential CERCLA sites.

Although we are unable to estimate precisely the ultimate dollar amount of exposure to loss in connection with various environmental matters or the effect on our consolidated financial position, we make accruals as warranted. Due to inherent uncertainties, including evolving remediation technology, changing regulations, possible third-party contributions, the inherent shortcomings of the estimation process, the uncertainties involved in litigation and other factors, the amounts we accrue could vary significantly from the amounts we ultimately are required to pay.

An inability to fully and effectively integrate acquisitions, including the Huta Zawiercie S.A. and Lofland Company acquisitions, could result in increased costs while diverting management s attention from our core operations, and we may not realize their full benefits or successfully manage our combined company, and future acquisitions may result in dilutive equity issuances or increases in debt.

On December 3, 2003, our subsidiary Commercial Metals (International) AG purchased 71.1% of the shares of Huta Zawiercie S.A. (CMCZ), the third largest producer of steel in Poland, from Impexmetal S.A. of Warsaw, Poland. We used approximately $48.1 million of the net proceeds (net of cash received)

from the offering of the old notes to fund this acquisition. We also assumed approximately $45.7 million in debt in connection with the acquisition. On December 23, 2003, we acquired 100% of the stock of Lofland Acquisition, Inc. (Lofland), the sole stockholder of the Lofland Company and subsidiaries, which operate steel reinforcing bar fabrication and construction-related products sales facilities from 11 locations in Texas, Arkansas, Louisiana, Oklahoma, New Mexico and Mississippi. We used approximately $48.8 million of the net proceeds of the old notes to fund this acquisition. Also, as part of our ongoing business strategy we regularly evaluate and may pursue acquisitions of and investments in complementary companies. We may not be able to fully or successfully integrate any pending or future acquisitions in a timely manner or at all. If we are unable to successfully integrate acquisitions, we may incur costs and delays or other operational, technical or financial problems. In addition, management s attention may be diverted from core operations which could harm our ability to timely meet the needs of our customers and damage our relationships with those customers. To finance future acquisitions, we may need to raise funds either by issuing equity securities or incurring or assuming debt. If we incur additional debt, the related interest expense may significantly reduce our profitability.

We are subject to litigation which could lower our profitability and weaken our financial condition.

We are involved in various litigation matters, including regulatory proceedings, administrative proceedings, governmental investigations, environmental matters and construction contract disputes. The nature of our operations also expose us to possible litigation claims in the future. Although we make every effort to avoid litigation, these matters are not totally within our control. We will contest these matters vigorously and have made insurance claims where appropriate. However, these matters could have a material adverse effect on our financial condition and profitability. Litigation is very costly, and the costs associated with prosecuting and defending litigation matters could have a material adverse effect on our financial condition and profitability. Although we are unable to estimate precisely the ultimate dollar amount of exposure to loss in connection with litigation matters, we make accruals as warranted. However, the amounts that we accrue could vary significantly from the amounts we actually pay, due to inherent uncertainties and the inherent shortcomings of the estimation process, the uncertainties involved in litigation and other factors.

We depend on our senior management team and the loss of any member could disrupt our operations.

Our success is dependent on the management and leadership skills of our senior management team, including Stanley A. Rabin, our chairman of the board. If we lose any of these individuals or fail to attract and retain equally qualified personnel, then we may not be able to implement our business strategy. We have not entered into employment agreements with any of our senior management personnel other than Murray R. McClean, president of our marketing and distribution division.

Some of our customers may default on the debts they owe to us.

Economic conditions are not consistent in all the markets we serve. Some segments are still weak, and our customers may struggle to meet their obligations, especially if a significant customer of theirs defaults. We recorded a $5.2 million provision in fiscal 2003 for losses on receivables due to weakness in the domestic and global economies, which increased our allowance for collection losses to $9.3 million. Other factors such as management and accounting irregularities have forced some companies into bankruptcy. A weak economic recovery and corporate failures could result in higher bad debt costs.

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Risks Related to Our Indebtedness

We have substantial debt and have the ability to incur additional debt. The principal and interest payment obligations of our debt may restrict our future operations and impair our ability to meet our obligations under the new notes.

As of February 29, 2004, we had approximately $419 million of outstanding indebtedness. See Liquidity and Capital Resources and Contractual Obligations set forth under Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information regarding our debt obligations. The indenture governing the new notes will permit us to incur additional debt. See Description of Notes.

The amount of our debt may have important consequences to you. For instance, it could:

- make it more difficult for us to satisfy our financial obligations, including those relating to the new notes;
- require us to dedicate a substantial portion of our cash flow from operations to the payment of interest and principal due under our debt, including the new notes, which will reduce funds available for other business purposes;
- increase the risk of a ratings downgrade, increasing our cost of financing and limiting our access to capital markets;
- increase the risk of a default of certain loan covenants, restricting our use of cash and financing alternatives;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- place us at a competitive disadvantage compared with some of our competitors that have less debt; and
- limit our ability to obtain additional financing required to fund working capital and capital expenditures, mergers and acquisitions and for other general corporate purposes.

Our ability to satisfy our obligations and to reduce our total debt depends on our future operating performance and on economic, financial, competitive and other factors, many of which are beyond our control. Our business may not generate sufficient cash flow, and future financings may not be available to provide sufficient net proceeds, to meet these obligations or to successfully execute our business strategy.

Credit ratings affect our ability to obtain financing and the cost of such financing.

Credit ratings affect our ability to obtain financing and the cost of such financing. Our commercial paper program is ranked in the second highest category by Moody s Investors Service (P-2) and Standard & Poor s Corporation (A-2). Our senior unsecured debt is investment grade rated by Standard & Poor s Corporation (BBB) and Moody s Investors Service (Baa2). On November 5, 2003, Moody s Investors

Service downgraded our debt from Baa1 to Baa2 but changed its outlook from negative to stable. 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, 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.

The agreements governing the new notes and our other debt contain financial covenants and impose restrictions on our business.

The indenture governing our 7.20% notes due 2005, 6.80% notes due 2007, 6.75% notes due 2009 and the old notes contains restrictions on our ability to create liens, sell assets, enter into sale and leaseback transactions and consolidate or merge. The new notes will be issued under the same indenture and will also be subject to these covenants. 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 us to 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 new 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, 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 new notes.

Risks Related to the New Notes

The new notes will be effectively subordinated to our secured debt.

Our obligations under the new notes are unsecured. As a result, the new notes will be effectively subordinated to any secured debt to the extent of the collateral securing that debt. As of February 29,

2004, we had approximately $50 million of secured debt outstanding and our short term credit facilities were unsecured. We may in the future issue additional secured debt. If we are not able to repay amounts due under the terms of the secured debt, the holders of the secured debt could proceed against the collateral securing that indebtedness. In that event, any proceeds received upon a realization of the collateral securing that indebtedness would be applied first to amounts due under the terms of the secured debt before any proceeds would be available to make payments on the new notes. If we default under any secured debt, the value of the collateral on the secured debt may not be sufficient to repay both the holders of the secured debt and the holders of the new notes.

We depend in part on our subsidiaries to generate sufficient cash flow to meet our debt service obligations, including payments on the new notes.

Although Commercial Metals Company is an operating company, a substantial part of its assets consists of the capital stock or other equity interests of its subsidiaries. As a result, we depend in part on the earnings of our subsidiaries and the availability of their cash flows to us, or upon loans, advances or other payments made by these entities to us to service our debt obligations, including the new notes. The ability of these entities to pay dividends or make other payments or advances to us will depend upon their operating results and will be subject to restrictions under agreements to which we are a party and applicable laws.

Our ability and the ability of our subsidiaries to generate sufficient cash flow from operations to allow us to make scheduled payments on our debt, including the new notes, will depend on our and their future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside of our control. If we and our subsidiaries do not generate sufficient cash flow from operations to satisfy our debt obligations, including payments on the new notes, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. However, we may not be able to refinance our debt on favorable terms, if at all, or on terms that would be permitted under our various debt instruments then in effect, and we may not be able to sell assets, or, even if we are able to sell assets, the terms of the sales may not be favorable to us and may not sufficiently reduce the amount of our debt obligations. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms, would have an adverse effect on our business, financial condition and results of operations, as well as on our ability to satisfy our obligations on the new notes. The cash flows of our operating subsidiaries and the amount that is available to us, together with our cash flows, may not be adequate for us to service our debt obligations, including the new notes.

The new notes will be structurally subordinated to the debt and liabilities of our subsidiaries.

The new notes will not be guaranteed by our subsidiaries. Payments on the new notes are required to be made only by Commercial Metals Company. We may not have direct access to the assets of our subsidiaries unless those assets are transferred by dividend or otherwise to us. The ability of our subsidiaries to pay dividends or otherwise transfer assets to us is subject to various restrictions, including restrictions under other agreements and under applicable law. As a result, the new notes will be structurally subordinated to all existing and future debt and liabilities, including trade payables, of our subsidiaries. As of February 29, 2004, the total amount of our outstanding indebtedness was $419 million, of which approximately $60 million was owed by our subsidiaries.

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There is no public market for the new notes, and we cannot be sure that a market for the new notes will develop.

The new notes are a new issue of securities for which there is no active trading market. If any of the new notes are traded, they may trade at a discount from the initial offering price of the old notes if the liquidity of the trading market in the new notes is limited. In addition, the liquidity of the trading market in the new notes and the market prices quoted for the new notes may be affected by changes in the overall market for debt securities.

Volatile trading prices may require you to hold the new notes for an indefinite period of time.

If a market develops for the new notes, they might trade at prices higher or lower than the initial offering price of the old notes. The trading price would depend on many factors, including prevailing interest rates, the market for similar securities, general economic conditions and our financial condition, performance and prospects. Historically, the market for debt has been subject to disruptions that have caused substantial fluctuations in the prices of these securities. The market for the new notes may be subject to such fluctuations, which could have a downward effect on the price of the new notes. You should be aware that you may be required to bear the financial risk of an investment in the new notes for an indefinite period of time.

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THE EXCHANGE OFFER

Purpose of the Exchange Offer

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, pursuant to a purchase agreement. The initial purchasers subsequently sold the old notes to qualified institutional buyers, as defined in Rule 144A under the Securities Act, in reliance on Rule 144A. As a condition to the sale of the old notes, we entered into a registration rights agreement with the initial purchasers on November 12, 2003. Pursuant to the registration rights agreement, we agreed that we would:

(1) file an exchange offer registration statement with the SEC on or prior to February 10, 2004;

(2) use our reasonable best efforts to have the exchange offer registration statement declared effective by the SEC on or prior to June 9, 2004;

(3) keep the exchange offer open for a period of not less than 30 days; and

(4) consummate the exchange offer within 45 days after the exchange offer registration statement is declared effective.

This summary of the terms of the registration rights agreement does not contain all the information that you should consider, and we refer you to the provisions of the registration rights agreement, which has been filed as an exhibit to our Form 10-K for our fiscal year ended August 31, 2003, which is incorporated herein by reference.

Resale of the New Notes

Based upon an interpretation by the staff of the SEC contained in no-action letters issued to third parties, we believe that you may exchange your old notes for new notes in the ordinary course of business. For further information on the SEC s position, see *Exxon Capital Holdings Corporation*, available May 13, 1988, *Morgan Stanley & Co. Incorporated*, available June 5, 1991 and *Shearman & Sterling*, available July 2, 1993, and other interpretive letters to similar effect. You will be allowed to resell new notes to the public without further registration under the Securities Act and without delivering to purchasers of the new notes a prospectus that satisfies the requirements of Section 10 of the Securities Act so long as you do not participate, do not intend to participate, and have no arrangement with any person to participate, in a distribution of the new notes. However, the foregoing does not apply to you if you are a broker-dealer who purchased the new notes directly from us to resell pursuant to Rule 144A or any other available exemption under the Securities Act, or you are an affiliate of ours within the meaning of Rule 405 under the Securities Act.

In addition, if you are a broker-dealer, or you acquire new notes in the exchange offer for the purpose of distributing or participating in the distribution of the new notes, you cannot rely on the position of the staff of the SEC contained in the no-action letters mentioned above and must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction, unless an exemption from registration is otherwise available.

Each broker-dealer that receives new notes for its own account in exchange for old notes, which the broker-dealer acquired as a result of market-making activities or other trading activities, must

acknowledge that it will deliver a prospectus in connection with any resale of the new notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. A broker-dealer may use this prospectus, as it may be amended or supplemented from time to time, in connection with resales of new notes received in exchange for old notes which the broker-dealer acquired as a result of market-making or other trading activities.

Terms of the Exchange Offer

Upon the terms and subject to the conditions described in this prospectus and in the letter of transmittal, we will accept any and all old notes validly tendered and not withdrawn before the expiration date. We, through the exchange agent, will issue $1,000 principal amount of new notes in exchange for each $1,000 principal amount of outstanding old notes surrendered pursuant to the exchange offer. You may tender old notes only in integral multiples of $1,000.

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 will not bear legends restricting their transfer; and
- holders of the new notes will not be entitled to any of the rights of holders of old notes under the registration rights agreement, which rights will terminate upon the completion of the exchange offer.

The new notes will evidence the same debt as the old notes and will be issued under the same indenture, so the new notes and the old notes will be treated as a single class of debt securities under the indenture.

As of the date of this prospectus, $200,000,000 in aggregate principal amount of the old notes is outstanding and registered in the name of Cede & Co., as nominee for The Depository Trust Company. Only registered holders of the old notes, or their legal representatives or attorneys-in-fact, as reflected on the records of the trustee under the indenture, may participate in the exchange offer. We will not set a fixed record date for determining registered holders of the old notes entitled to participate in the exchange offer.

You do not have any appraisal or dissenters rights under the indenture in connection with the exchange offer. We intend to conduct the exchange offer in accordance with the provisions of the registration rights agreement and the applicable requirements of the Securities Act, the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC.

We will be deemed to have accepted validly tendered old notes when, as and if we have given oral or written notice of acceptance to the exchange agent. The exchange agent will act as your agent for the purposes of receiving the new notes from us.

If you tender old notes in the exchange offer, you will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange of old notes pursuant to the exchange offer. We will pay all charges and expenses, other than the applicable taxes described below, in connection with the exchange offer.

Expiration Date; Extensions; Amendments

The term expiration date will mean 5:00 p.m., Eastern Standard time, on , 2004, unless we, in our sole discretion, extend the exchange offer, in which case the term 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. To extend the exchange offer, we will:

- notify the exchange agent of any extension orally or in writing; and
- mail to each registered holder an announcement that will include disclosure of the approximate number of old notes deposited to date,

each before 9:00 a.m., Eastern Standard time, on the next business day after the previously scheduled expiration date. We reserve the right, in our reasonable discretion:

- to extend the exchange offer, and thereby delay acceptance of any old notes; or
- if any conditions listed below under Conditions are not satisfied, to terminate the exchange offer by giving oral or written notice of the delay, extension or termination to the exchange agent.

We will follow any extension or termination promptly by oral or written notice to the registered holders or by public announcement thereof. If we amend the exchange offer in a manner we determine constitutes a material change, we will promptly disclose the amendment in a prospectus supplement that we will distribute to the registered holders. Depending upon the significance of the amendment and the manner of disclosure, we will extend the exchange offer if the exchange offer would otherwise expire while we are disclosing the amendment to the registered holders. Generally, if we make a material change to the terms of the exchange offer, we will extend the exchange offer so that the offer remains open for at least five business days after we disseminate notice of the change.

Interest on the New Notes

The new notes will bear interest at the same rate and on the same terms as the old notes. Consequently, the new notes will bear interest at a rate equal to 5.625% per annum (based on a 360-day year). Interest will be payable semi-annually on each November 15 and May 15, commencing on May 15, 2004.

You will receive interest on May 15, 2004 from the date of initial issuance of the new notes, plus an amount equal to the accrued interest on the old notes from November 12, 2003 to the date of exchange. We will deem the right to receive any interest accrued on the old notes waived by you if we accept your old notes for exchange.

Procedures for Tendering

You may tender old notes in the exchange offer only if you are a registered holder of old notes. To tender in the exchange offer, a registered holder must either comply with the procedures for a manual tender or comply with the automated tender offer procedures of DTC described below under Tendering Through DTC s Automated Tender Offer Program. To complete a manual tender, you must:

- complete, sign and date the letter of transmittal or a facsimile of the letter of transmittal;

- have the signatures guaranteed if required by the letter of transmittal; and
- mail or otherwise deliver the letter of transmittal or the facsimile to the exchange agent at the address listed below under Exchange Agent for receipt before the expiration date.

In addition, either:

- the exchange agent must receive certificates for the old notes along with the letter of transmittal; or
- the exchange agent must receive a timely confirmation of a book-entry transfer of the old notes into its account at DTC pursuant to the procedure for book-entry transfer described below before the expiration date.

If you wish to tender your old notes and cannot comply with the requirement to deliver the letter of transmittal and your old notes (including by book-entry transfer) or use the automated tender offer program of DTC before the expiration date, you must tender your old notes according to the guaranteed delivery procedures described below.

Your tender, if not withdrawn before the expiration date, will constitute an agreement between you and us in accordance with the terms and subject to the conditions described in this prospectus and in the letter of transmittal.

The method of delivery of old notes and the letter of transmittal and all other required documents to the exchange agent is at your election and risk. We recommend that instead of delivery by mail, you use an overnight or hand delivery service, properly insured. In all cases, you should allow sufficient time to assure delivery to the exchange agent before the expiration date. You should not send letters of transmittal or old notes to us. You may request your respective brokers, dealers, commercial banks, trust companies or nominees to effect the transactions described above for you.

If you are a beneficial owner of old notes 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, 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, before completing and executing the letter of transmittal and delivering the old notes you must either:

- make appropriate arrangements to register ownership of the old notes in your name; or
- obtain a properly completed bond power from the registered holder.

The transfer of registered ownership may take considerable time. Unless the old notes are tendered:

(1) by a registered holder who has not completed the box entitled Special Issuance Instructions or the box entitled Special Delivery Instructions on the letter of transmittal; or

(2) for the account of: a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc.; a commercial bank or trust company having an office or correspondent in the United States; or an eligible guarantor institution within the meaning of Rule 17Ad-15 under the Exchange Act that is a member of one of the recognized signature guarantee programs identified in the letter of transmittal, an eligible guarantor institution must guarantee the signatures on a letter of transmittal or a notice of withdrawal described below under Withdrawal of Tenders.

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If the letter of transmittal is signed by a person other than the registered holder, the old notes must be endorsed or accompanied by a properly completed bond power, signed by the registered holder as the registered holder s name appears on the old notes. If the letter of transmittal or any old notes or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, they should so indicate when signing, and unless waived by us, they must submit evidence satisfactory to us of their authority to so act with the letter of transmittal.

The exchange agent and DTC have confirmed that any financial institution that is a participant in the depositary s system may utilize DTC s automated tender offer program to tender notes. See Tendering Through DTC s Automated Tender Offer Program below.

We will determine in our sole discretion all questions as to the validity, form, eligibility, including time of receipt, acceptance and withdrawal of tendered old notes, which determination will be final and binding. We reserve the absolute right to reject any and all old notes not properly tendered or any old notes our acceptance of which would, in the opinion of our counsel, be unlawful. We also reserve the right to waive any defects, irregularities or conditions of tender as to particular old notes. However, we will not waive any condition of the exchange offer relating to the requirements set forth in the *Exxon Capital Holdings Corporation* (May 13, 1988), *Morgan Stanley & Co. Incorporated* (June 5, 1991) and *Shearman & Sterling* (July 2, 1993) no-action letters. Our interpretation of the terms and conditions of the exchange offer, including the instructions in the letter of transmittal, will be final and binding on all parties. Unless waived, you must cure any defects or irregularities in connection with tenders of old notes before the expiration of the exchange offer. Although we intend to notify you of defects or irregularities with respect to tenders of old notes, neither we, the exchange agent nor any other person will incur any liability for failure to give you that notification. Unless waived, we will not deem tenders of old notes to have been made until you cure the defects or irregularities.

While we have no present plan to acquire any old notes that are not tendered in the exchange offer or to file a registration statement to permit resales of any old notes that are not tendered in the exchange offer, we reserve the right in our sole discretion to purchase or make offers for any old notes that remain outstanding after the expiration date. We also reserve the right to terminate the exchange offer, as described below under Conditions, and, to the extent permitted by applicable law, purchase old notes in the open market, in privately negotiated transactions or otherwise. The terms of any of those purchases or offers could differ from the terms of the exchange offer.

If you wish to tender old notes in exchange for new notes in the exchange offer, we will require you to represent that:

- you are not an affiliate of ours;
- you will acquire any new notes in the ordinary course of your business; and
- at the time of completion of the exchange offer, you have no arrangement with any person to participate in the distribution of the new notes.

Return of Old Notes

If we do not accept any tendered old notes for any reason described in the terms and conditions of the exchange offer or if you withdraw or submit old notes for a greater principal amount than you desire to exchange, we will return the unaccepted, withdrawn or non-exchanged old notes without expense to you promptly. In the case of old notes tendered by book-entry transfer into the exchange agent s account at DTC pursuant to the book-entry transfer procedures described below, we will credit the old notes to an

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account maintained with DTC promptly. We will issue new notes in exchange for validly tendered old notes promptly after the expiration of the exchange offer.

Book-Entry Transfer

The exchange agent will make a request to establish an account with respect to the old notes at DTC for purposes of the exchange offer within two business days after the date of this prospectus, and any financial institution that is a participant in DTC s systems may make book-entry delivery of old notes by causing DTC to transfer the old notes into the exchange agent s account at the DTC in accordance with DTC s procedures for transfer. **However, although delivery of old notes may be effected through book-entry transfer at the DTC, you must transmit and the exchange agent must receive, the letter of transmittal or a facsimile of the letter of transmittal, with any required signature guarantees and any other required documents, at the address below under Exchange Agent on or before the expiration date or pursuant to the guaranteed delivery procedures described below.**

Tendering Through DTC s Automated Tender Offer Program

The exchange agent and DTC have confirmed that any financial institution that is a participant in DTC s system may use DTC s automated tender offer program to tender its old notes. Participants in the program may transmit their acceptance of the exchange offer electronically instead of physically completing and signing the letter of transmittal and delivering it to the exchange agent. Tendering through the automated tender offer program causes DTC to transfer the old notes to the exchange agent according to its procedures for transfer. DTC will then send an agent s message to the exchange agent.

The term agent s message means a message transmitted by DTC to and received by the exchange agent and forming part of the book-entry confirmation, stating that:

DTC has received an express acknowledgment from a participant in DTC s automated tender offer program that is tendering old notes that are the subject of such book-entry confirmation;

the participant has received and agrees to be bound by the terms of the letter of transmittal or in the case of an agent s message relating to guaranteed delivery, that the participant has received and agrees to be bound by the applicable notice of guaranteed delivery; and

we may enforce the letter of transmittal or notice of guaranteed delivery, as applicable, against the participant.

Guaranteed Delivery Procedures

If you wish to tender your old notes and (1) your old notes are not immediately available or (2) you cannot deliver the old notes, the letter of transmittal or any other required documents to the exchange agent before the expiration date, you may effect a tender if:

(1) the tender is made through an eligible guarantor institution;

(2) before the expiration date, the exchange agent receives from the eligible guarantor institution a properly completed and duly executed notice of guaranteed delivery, substantially in the form provided by us, that states your name and address, the certificate number(s) of the old notes and the principal amount of old notes tendered, states that the tender is being made by that notice of guaranteed delivery, and guarantees that, within three New York Stock Exchange trading days after the expiration date, the eligible guarantor institution will deposit with the exchange agent the letter of transmittal, together with

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the certificate(s) representing the old notes in proper form for transfer or a confirmation of a book-entry transfer, as the case may be, and any other documents required by the letter of transmittal; and

(3) within five New York Stock Exchange trading days after the expiration date, the exchange agent receives a properly executed letter of transmittal, as well as the certificate(s) representing all tendered old notes in proper form for transfer and all other documents required by the letter of transmittal.

Upon request, the exchange agent will send to you a notice of guaranteed delivery if you wish to tender your old notes according to the guaranteed delivery procedures described above.

Withdrawal of Tenders

Except as otherwise provided in this prospectus, you may withdraw tenders of old notes at any time before 5:00 p.m., Eastern Standard time, on the expiration date. To withdraw a tender of old notes in the exchange offer, the exchange agent must receive a written or facsimile transmission notice of withdrawal at its address listed in this prospectus before the expiration date or you must comply with the appropriate procedures of DTC s automated tender offer program system. Any notice of withdrawal must:

specify the name of the person who deposited the old notes to be withdrawn;

identify the old notes to be withdrawn, including the certificate number(s) and principal amount of the old notes; and

be signed in the same manner as the original signature on the letter of transmittal by which the old notes were tendered, including any required signature guarantees.

If the old notes have been tendered pursuant to the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn old notes and otherwise comply with the procedures of DTC.

We will determine in our sole discretion all questions as to the validity, form and eligibility of the notices, and our determination will be final and binding on all parties. We will not deem any properly withdrawn old notes to have been validly tendered for purposes of the exchange offer, and we will not issue new notes with respect to those old notes, unless you validly re-tender the withdrawn old notes. You may re-tender properly withdrawn old notes by following one of the procedures described above under Procedures for Tendering at any time before the expiration date.

Conditions

Notwithstanding any other term of the exchange offer, we will not be required to accept for exchange, or exchange the new notes for, any old notes, and may terminate the exchange offer as provided in this prospectus before the expiration of the exchange offer, if, in our reasonable judgment, the exchange offer violates applicable law, rules or regulations or an applicable interpretation of the staff of the SEC.

If we determine in our reasonable discretion that any of these conditions are not satisfied before the expiration of the exchange offer, we may:

refuse to accept any old notes and return all tendered old notes to you;

extend the exchange offer before its expiration and retain all old notes tendered before the exchange offer expires, subject, however, to your rights to withdraw the old notes; or

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- waive the unsatisfied conditions with respect to the exchange offer before the expiration of the exchange offer and accept all properly tendered old notes that have not been withdrawn.

If the waiver constitutes a material change to the exchange offer, we will promptly disclose the waiver by means of a prospectus supplement that we will distribute to the registered holders of the old notes. Depending on the significance and the timing of the waiver, we may also decide to extend the exchange offer.

These conditions are for our sole benefit, and we may assert them or waive them in our sole discretion before the expiration of the exchange offer. If we fail at any time to exercise any of these rights, this failure will not mean that we have waived our rights. Each right will be deemed an ongoing right that we may assert at any time or at various times, in each case, prior to the expiration of the exchange offer. In addition, we will not accept for exchange any old notes tendered and will not issue new notes in exchange for any old note, if at that time any stop order has been threatened or is in effect with respect to the registration statement of which this prospectus constitutes a part or the qualification of the indenture under the Trust Indenture Act of 1939.

Termination of Registration Rights

All of your rights under the registration rights agreement will terminate upon consummation of the exchange offer except with respect to our continuing obligations:

- to indemnify you and parties related to you against liabilities, including liabilities under the Securities Act; and

- to provide, upon your request, the information required by Rule 144A(d)(4) under the Securities Act to permit resales of the old notes pursuant to Rule 144A.

Shelf Registration

If:

(1) the new notes received by holders other than certain restricted holders are not freely transferable under the Securities Act due to changes in existing SEC interpretations;

(2) the exchange offer has not been completed by July 24, 2004; or

(3) any holder of old notes is not eligible under interpretations of the SEC to participate in the exchange offer and the holder provides notice to us,

we will file, at our cost, with the SEC a shelf registration statement to cover resales of the old notes or the new notes, as the case may be, within the later of 90 days after the issuance of the old notes or 30 days after the time the obligation to file arises. We will use our reasonable best efforts to cause the shelf registration statement to be declared effective under the Securities Act within 120 days after the shelf registration statement is filed and use our reasonable best efforts to keep the shelf registration statement effective until two years after its effective date or such shorter period ending when all resales of old notes or new notes covered by the shelf registration statement have been made. A holder selling old notes or new notes pursuant to the shelf registration statement generally would be required to be named as a selling security holder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and will

be bound by the provisions of the exchange and registration rights agreement which are applicable to such holder, including certain indemnification obligations.

Liquidated Damages

If:

(1) we fail to file any of the registration statements required by the registration rights agreement on or before the date specified for such filing; or

(2) any of such registration statements is not declared effective by the SEC on or prior to the date specified for such effectiveness; or

(3) we fail to consummate the exchange offer within 45 days after the exchange offer registration statement is declared effective; or

(4) the shelf registration statement or the exchange offer registration statement is declared effective but thereafter is withdrawn by us or becomes subject to an effective stop order suspending its effectiveness in connection with resales or exchanges of transfer restricted securities during the periods specified in the registration rights agreement (each such event referred to in clauses (1) through (4) above, a registration default);

then we will pay to each holder of the outstanding old notes, as liquidated damages, additional penalty interest for the period from the occurrence of the registration default until such time as no registration default is in effect. The amount of penalty interest would be equal to 0.25% per annum during the first 90-day period following the occurrence of such registration default, and would increase by an additional 0.25% per annum during each subsequent 90-day period while the registration default remains in effect, up to a maximum of 1.00% per annum.

Exchange Agent

We have appointed JPMorgan Chase Bank as exchange agent for the exchange offer. You should direct questions and requests for assistance, requests for additional copies of this prospectus or the letter of transmittal and requests for a notice of guaranteed delivery to the exchange agent addressed as follows:

By Registered or Certified Mail:	By Hand Delivery:
JPMorgan Chase Bank ITS Bond Events 2001 Bryan Street, 9th Floor Dallas, TX 75201 Attention: Frank Ivins	JPMorgan Chase Bank ITS Bond Events 2001 Bryan Street, 9th Floor Dallas, TX 75201 Attention: Frank Ivins
By Overnight Delivery:	By Facsimile (*for eligible institutions only)*:
JPMorgan Chase Bank ITS Bond Events 2001 Bryan Street, 9th Floor Dallas, TX 75201	(214) 468-6494 Attention: Frank Ivins To Confirm Facsimile:

Attention: Frank Ivins (214) 468-6464

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Delivery to an address other than the one stated above or transmission via a facsimile number other than the one stated above will not constitute a valid delivery.

Fees and Expenses

We will bear the expenses of soliciting tenders. We are making the principal solicitation by mail; however, our officers and regular employees may make additional solicitations by facsimile, telephone or in person.

We have not retained any dealer manager in connection with the exchange offer and will not make any payments to brokers, dealers or others soliciting acceptances of the exchange offer. We will, however, pay the exchange agent reasonable and customary fees for its services and will reimburse it for its reasonable out-of-pocket expenses.

We will pay the cash expenses incurred in connection with the exchange offer which we estimate to be approximately $300,000. These expenses include registration fees, fees and expenses of the exchange agent and the trustee, accounting and legal fees and printing costs, among others.

We will pay all transfer taxes, if any, applicable to the exchange of notes pursuant to the exchange offer. If, however, a transfer tax is imposed for any reason other than the exchange of the old notes pursuant to the exchange offer, then you must pay the amount of the transfer taxes. If you do not submit satisfactory evidence of payment of the taxes or exemption from payment with the letter of transmittal, we will bill the amount of the transfer taxes directly to you.

Consequence of Failure to Exchange

Participation in the exchange offer is voluntary. We urge you to consult your financial and tax advisors in making your decisions on what action to take. Old notes that are not exchanged for new notes pursuant to the exchange offer will remain restricted securities. Accordingly, those old notes may be resold only:

- to a person whom the seller reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A;
- in a transaction meeting the requirements of Rule 144 under the Securities Act;
- outside the United States to a foreign person in a transaction meeting the requirements of Rule 903 or 904 of Regulation S under the Securities Act;
- in accordance with another exemption from the registration requirements of the Securities Act and based upon an opinion of counsel if we so request;
- to us; or
- pursuant to an effective registration statement.

In each case, the old notes may be resold only in accordance with any applicable securities laws of any state of the United States or any other applicable jurisdiction.

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USE OF PROCEEDS

The exchange offer satisfies an obligation under the registration rights agreement. We will not receive any proceeds from the exchange offer. In consideration for issuing the new notes as contemplated by this prospectus, we will receive the old notes in like principal amount. The old notes surrendered in exchange for the new notes will be retired and cancelled and cannot be reissued. Accordingly, the issuance of the new notes will not result in any increase in our indebtedness or capital stock.

We used substantially all of the net proceeds from the offering of the old notes for (a) the purchase of our 7.20% notes due 2005 validly tendered and not withdrawn pursuant to the tender offer and (b) the acquisition of a 71.1% interest in Huta Zawiercie SA and the acquisition of the Lofland Company.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents, short-term debt and our consolidated capitalization at February 29, 2004. You should read this table in conjunction with the condensed consolidated financial statements and related notes incorporated by reference in this prospectus.

	February 29, 2004
	(dollars in thousands)
Cash and cash equivalents	$ 59,128
Short-term debt:	
Trade financing arrangement	$ 9,000
Notes payable-CMCZ	46,715
Current maturities of long-term debt	804
Total short-term debt	56,519
Long-term debt, net of current maturities:[1]	
7.20% notes due 2005	10,455
6.80% notes due 2007	50,000
6.75% notes due 2009	100,000
5.625% notes due 2013	200,000
Other	2,447
Total long-term debt	362,902
Stockholders equity:	
Preferred stock	
Common stock, $5.00 par value, 100,000,000 shares authorized; 28,825,642 shares outstanding at February 29, 2004[2]	161,326
Additional paid-in capital	4,083
Accumulated other comprehensive income	10,089
Retained earnings	431,132
Less treasury stock, 3,439,524 shares	(48,332)
Total stockholders equity	558,298
Total capitalization	$977,719

(1) See the notes to our condensed consolidated financial statements for additional information concerning long-term debt. The 7.20% notes due 2005 include the effect of an interest rate swap valued at $455,000.

(2) Does not include approximately 3,230,000 shares issuable upon the exercise of options outstanding at February 29, 2004.

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SELECTED FINANCIAL INFORMATION AND OTHER DATA

The selected income statement data and balance sheet data presented below are for the six months ended February 29, 2004 and February 28, 2003 and for the years ended August 31, 2003, 2002, 2001, 2000 and 1999 and as of February 29, 2004 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.

	Six Months Ended		Year Ended August 31,				
	February 29, 2004	February 28, 2003	2003	2002	2001	2000	1999
	(in millions, except per share data)						
Income Statement Data:							
Net sales	$1,898	$1,297	$2,876	$2,480	$2,470	$2,661	$2,251
Cost of goods sold	1,677	1,168	2,587	2,162	2,173	2,334	1,949
Selling, general and administrative expenses	152	114	244	236	223	229	207
Interest expense	12	7	15	19	28	27	20
Loss on reacquisition of debt	3						
Litigation accrual					8		
Earnings before income taxes and minority interest	54	8	30	63	38	71	75
Minority interest	1						
Income taxes	19	3	11	22	14	26	28
Net earnings	$ 34	$ 5	$ 19	$ 41	$ 24	$ 45	$ 47
Basic earnings per share	$ 1.19	$ 0.18	$ 0.67	$ 1.48	$ 0.91	$ 1.59	$ 1.62
Diluted earnings per share	$ 1.15	$ 0.18	$ 0.66	$ 1.43	$ 0.90	$ 1.56	$ 1.61
Cash dividends per common share	$ 0.16	$ 0.16	$ 0.32	$0.275	$ 0.26	$ 0.26	$ 0.26

Year Ended

	Six Months Ended		August 31,				
	February 29, 2004	February 28, 2003	2003	2002	2001	2000	1999
			(in millions, except ratios)				
Other Financial Data:							
EBITDA (1)	$99.0	$ 45.5	$106.9	$143.4	$133.3	$164.6	$146.5
Ratio of earnings to fixed charges (2)	4.79	1.94	2.57	3.77	2.19	3.25	3.60
Ratio of EBITDA to interest expense	8.3	6.4	7.0	7.7	4.8	6.0	7.5
Ratio of total debt to EBITDA(3)	2.1	2.8	2.5	1.8	2.0	2.2	2.0

	February 29,	August 31,				
	2004	2003	2002	2001	2000	1999
			(in millions)			
Balance Sheet Data (at end of period):						
Cash and cash equivalents	$ 59.1	$ 75.1	$ 124.4	$ 56.0	$ 20.1	$ 44.7
Total assets	$1,673.2	$1,275.4	$1,230.1	$1,081.9	$1,170.1	$1,079.1
Long-term debt	$ 362.9	$ 255.0	$ 256.0	$ 251.6	$ 261.9	$ 265.6
Total debt	$ 419.4	$ 270.6	$ 256.6	$ 265.7	$ 363.2	$ 289.8
Stockholders equity	$ 558.3	$ 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). We use earnings before interest expense, income taxes, depreciation and amortization (EBITDA) as a non-GAAP performance measure. In calculating EBITDA, we exclude our largest recurring non-cash charge, depreciation and amortization. EBITDA provides a core operational performance measurement that compares results without the need to adjust for federal, state and local taxes which have considerable variation between domestic jurisdictions. Tax regulations in international operations add additional complexity. Also, we exclude interest cost in our calculation of EBITDA. The results are therefore without consideration of financing alternatives of capital employed. We use EBITDA as one guideline to assess our unlevered performance return on our investments. EBITDA is also the target benchmark for our long-term performance plan for management. Reconciliations to net earnings are provided below (in millions):

	Six Months Ended		Year Ended August 31,				
	February 29, 2004	February 28, 2003	2003	2002	2001	2000	1999
				(in millions)			
Net earnings	$33.8	$ 5.1	$ 18.9	$ 40.5	$ 23.8	$ 44.6	$ 47.0
Interest expense	12.0	7.1	15.3	18.7	27.6	27.3	19.6
Income taxes	19.3	3.0	11.5	22.6	14.6	26.1	27.8
Depreciation and amortization	33.9	30.3	61.2	61.6	67.3	66.6	52.1
EBITDA	$99.0	$45.5	$106.9	$143.4	$133.3	$164.6	$146.5

(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 six months ended February 29, 2004 and February 28, 2003 has been annualized for purposes of calculating the ratio. These results are not necessarily indicative of results to be expected for the entire year.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management s Discussion and Analysis of Financial Condition and Results of Operations is intended to assist in the understanding and assessment of the trends and significant changes in our results of operations and financial condition. Historical results may not indicate future performance. Our forward-looking statements are subject to a variety of factors that could cause actual results to differ materially from those contemplated by these statements. Factors that may cause such a difference include, but are not limited to, those discussed in Disclosure Regarding Forward-Looking Statements and Risk Factors. Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our consolidated financial statements and the accompanying notes incorporated by reference in this prospectus.

We manufacture, recycle, market and distribute steel and metal products through a network of over 140 locations in the United States and internationally.

Following our acquisitions of CMCZ and Lofland in December 2003, we have revised our segment reporting to include five reportable segments. We have maintained our recycling and marketing and distribution segments, but presented our new Polish minimill, CMCZ, separately because its economic characteristics are different from our domestic minimills. Our former manufacturing segment has been split into two segments: 1) domestic mills, including our four steel minimills and copper tube minimill and 2) fabrication, including our new rebar acquisition (Lofland). Following our acquisition of the rebar fabricator, we made internal management reporting changes, which necessitated this change in segment reporting. We have revised prior period results to be consistent with our current segment presentation.

Domestic Mills Operations

We conduct our domestic mills operations through a network of:

- steel mills, commonly referred to as minimills, that produce reinforcing bar, angles, flats, small beams, rounds, fence post sections and other shapes;
- scrap processing facilities that directly support these minimills; and
- a copper tube minimill.

CMCZ Operations

We conduct our CMCZ minimill operation through:

- a rolling mill that produces primarily reinforcing bar;
- a rolling mill that produces wire rod; and
- our majority-owned scrap processing facilities that directly support CMCZ.

Fabrication Operations

We conduct our fabrication operations through a network of:

- steel fabrication and processing plants that bend, cut and fabricate steel, primarily reinforcing bar and angles;
- warehouses that sell or rent supplies for the installation of concrete;
- plants that produce special sections for floors and ceiling support;
- plants that produce steel fence posts;
- a plant that treats steel with heat to strengthen and provide flexibility;
- a plant that rebuilds railcars; and
- a railroad salvage company.

Recycling Operations

We conduct our recycling operations through 44 metal processing plants located in the states of Texas, South Carolina, Florida, North Carolina, Oklahoma, Kansas, Missouri, Tennessee, Louisiana and Georgia.

Marketing and Distribution Operations

We market and distribute steel, copper and aluminum coil, sheet and tubing, ores, metal concentrates, industrial minerals, ferroalloys and chemicals through our network of 15 marketing and distribution offices, 4 processing facilities and joint ventures around the world. Our customers use these products in a variety of industries.

You should read this management s discussion and analysis in connection with your review of our consolidated audited financial statements and the accompanying footnotes incorporated by reference in this prospectus.

Critical Accounting Policies and Estimates

The following are important accounting policies, estimates and assumptions that you should understand as you review our financial statements. We apply these accounting policies and make these estimates and assumptions to prepare financial statements under generally accepted accounting principles. Our use of these accounting policies, estimates and assumptions affects our results of operations and our reported amounts of assets and liabilities. Where we have used estimates or assumptions, actual results could differ significantly from our estimates.

Revenue Recognition. We recognize sales when title passes to the customer either when goods are shipped or when they are received based upon the terms of the sale. For certain of our steel fabrication operations, we recognize net sales and profits from certain long-term fixed price contracts by the percentage of completion method. For the years ended August 31, 2003, 2002 and 2001, respectively, approximately 3%, 6% and 8% of our total net sales were recognized on a percentage of completion basis. In determining the amount of net sales to recognize, we estimate the total costs and profits expected to be recorded for the contract term and the recoverability of costs related to change orders. When we estimate that a contract will result in a loss, the entire loss is accrued as soon as it is probable and estimable.

Through the passage of time due to the variances between actual costs and those that we previously anticipated, these estimates could change, resulting in changes in our earnings.

Contingencies. We make accruals as needed for litigation, administrative proceedings, government investigations (including environmental matters), and contract disputes. We base our environmental liabilities on estimates regarding the number of sites for which we will be responsible, the scope and cost of work to be performed at each site, the portion of costs that we expect we will share with other parties and the timing of the remediation. Where timing of expenditures can be reliably estimated, we discount amounts to reflect our cost of capital over time. We record these and other contingent liabilities when they are probable and when we can reasonably estimate the amount of loss. Where timing and amounts cannot be precisely estimated, we estimate a range, and we recognize the low end of the range without discounting. Also, see Note 9, Commitments and Contingencies, to our consolidated financial statements for the year ended August 31, 2003 incorporated by reference in this prospectus.

Inventory Cost. We determine inventory cost for most domestic inventories by the last-in, first-out method, or LIFO. At the end of each quarter, we estimate both inventory quantities and costs that we expect at the end of the fiscal year for these LIFO calculations, and we record an amount on a pro-rata basis. These estimates could vary substantially from the actual year-end results, causing an adjustment to cost of goods sold. See Note 14, Quarterly Financial Data, to our consolidated financial statements for the year ended August 31, 2003 incorporated by reference in this prospectus. We record all inventories at the lower of their cost or market value.

Property, Plant and Equipment. Our manufacturing and recycling businesses are capital intensive. We evaluate the value of these assets and other long-lived assets whenever a change in circumstances indicates that their carrying value may not be recoverable. Some of the estimated values for assets that we currently use in our operations utilize judgments and assumptions of future undiscounted cash flows that the assets will produce. If these assets were for sale, our estimates of their values could be significantly different because of market conditions, specific transaction terms and a buyer s different viewpoint of future cash flows. Also, we depreciate property, plant and equipment on a straight-line basis over the estimated useful lives of the assets. Depreciable lives are based on our estimate of the assets economically useful lives. To the extent that an asset s actual life differs from our estimate, there could be an impact on depreciation expense or a gain/loss on the disposal of the asset in a later period. We expense major maintenance costs as incurred.

Other Accounting Policies and New Accounting Pronouncements. See Note 1, Summary of Significant Accounting Policies, to our consolidated financial statements for the year ended August 31, 2003 incorporated by reference in this prospectus.

Consolidated Results of Operations

	Year Ended August 31		
	2003	**2002**	**2001**
	(in millions, except share data)		
Net sales	$2,876	$2,480	$2,470
Net earnings	18.9	40.5	23.8
LIFO effect on net earnings expense (income)	6.1	1.0	(1.1)
Per diluted share	0.21	0.04	(0.04)

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	Three Months Ended		Six Months Ended	
	February 29, 2004	**February 28, 2003**	**February 29, 2004**	**February 28, 2003**
	(in millions except share data)			
Net sales	$1,068.1	$ 660.8	$1,898.1	$1,297.0
Net earnings	21.2	2.9	33.8	5.1
LIFO effect on net earnings expense (income)	6.2	1.9	7.0	1.8
Per diluted share	0.21	0.07	0.24	0.06

EBITDA increased by 158% to $58.8 million and by 118% to $99.0 million for the three and six months February 29, 2004, respectively, as compared to the same periods in 2003. The following financial events were significant during the second quarter ended February 29, 2004:

- We reported our highest net sales and net earnings ever.

- In December 2003, we acquired a minimill in Poland and a rebar fabricator with operations in Texas and surrounding states, which significantly expanded our international manufacturing capabilities and enhanced our domestic market share in rebar fabrication.

- The unprecedented rise in the price of steel scrap and a surge in non-ferrous scrap prices resulted in record profits for our recycling segment.

- Selling price increases for our domestic mill products, along with high demand resulted in much higher profits in our domestic mill segment as compared to the same period in 2003.

- Our new minimill in Poland experienced strong demand for its products and was profitable.

- Margins in our fabrication segment were compressed because of the rapid increase in input costs, but results were better than last year.

- Marketing and distribution s adjusted operating profit was higher than last year s second quarter, in spite of higher freight costs, due to continued demand in Asia (especially China), the improved U.S. economy, the weak U.S. dollar and low-end user inventories.

We have included a financial statement measure in the discussion above that was not derived in accordance with generally accepted accounting principles (GAAP). We use earnings before interest expense, income taxes, depreciation and amortization (EBITDA) as a non-GAAP performance measure. In calculating EBITDA, we exclude our largest recurring non-cash charge, depreciation and amortization. EBITDA provides a core operational performance measurement that compares results without the need to adjust for federal, state and local taxes which have considerable variation between domestic jurisdictions. Tax regulations in international operations add additional complexity. Also, we exclude interest cost in our calculation of EBITDA. The results are therefore without consideration of financing alternatives of capital employed. We use EBITDA as one guideline to assess our unlevered performance return on our investments. EBITDA is also the target benchmark for our long-term performance plan for management. Reconciliations to net earnings are provided below (in millions):

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	Three Months Ended		Six Months Ended	
	February 29, 2004	**February 28, 2003**	**February 29, 2004**	**February 28, 2003**
Net earnings	$21.2	$ 2.9	$33.8	$ 5.1
Income taxes	11.9	1.7	19.3	3.0
Interest expense	6.9	3.1	12.0	7.1
Depreciation and amortization	18.8	15.1	33.9	30.3
EBITDA	$58.8	$22.8	$99.0	$45.5

Segments

Unless otherwise indicated, all dollars below are before income taxes. Financial results for our reportable segments are consistent with the basis and manner in which we internally disaggregate financial information for making operating decisions. For the year ended August 31, 2003, we had three reportable segments: manufacturing, recycling, and marketing and distribution.

Following our acquisitions in December 2003, we have revised our segment reporting to include five reportable segments. We have maintained our recycling and marketing and distribution segments, but presented CMCZ separately because its economic characteristics are different from our domestic minimills. Our former manufacturing segment has been split into two segments: 1) domestic mills, including our four steel minimills and copper tube minimill and 2) fabrication, including our new rebar acquisition. Following our acquisition of the rebar fabricator, we made internal management reporting changes, which necessitated this change in segment reporting. We have revised prior period results to be consistent with our current segment presentation.

Our management uses adjusted operating profit (loss) to compare and evaluate the financial performance of our segments. Adjusted operating profit is the sum of our earnings before income taxes, and financing costs. See Note 13, Business Segments, to our consolidated financial statements for the year ended August 31, 2003 and Note J, Business Segments, to our condensed consolidated financial statements for the three months ended February 29, 2004 incorporated by reference in this prospectus.

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The following tables show net sales and adjusted operating profit (loss) by business segment:

	Three Months Ended		Six Months Ended	
	February 29, 2004	February 28, 2003	February 29, 2004	February 28, 2003
	(in millions)			
Net sales:				
Domestic Mills	$ 251	$174	$ 463	$ 334
CMCZ	114		114	
Fabrication	220	172	434	344
Recycling	190	100	322	197
Marketing and Distribution	403	265	743	521
Corporate and Eliminations	(110)	(50)	(179)	(99)
Adjusted operating profit (loss):				
Domestic Mills	$ 16	$ 5	$ 31	$ 8
CMCZ	6		6	
Fabrication	(1)	(3)	4	(3)
Recycling	18	4	23	5
Marketing and Distribution	9	5	15	9
Corporate and Eliminations	(6)	(2)	(13)	(4)

	Year Ended August 31,		
	2003	2002	2001
	(in millions)		
Net sales:			
Domestic mills	$ 746	$ 682	$ 639
Fabrication	767	844	853
Recycling	441	378	394
Marketing and distribution	1,150	777	771
Corporate and eliminations	(228)	(201)	(187)
Adjusted operating profit (loss):			
Domestic mills	$ 19.7	$41.0	$42.6
Fabrication	0.7	30.4	14.1
Recycling	15.2	5.1	(2.3)
Marketing and distribution	21.8	14.2	7.8
Corporate and elimination	(11.1)	(8.1)	(4.8)

Three and Six Months Ended February 29, 2004 Compared to 2003

Domestic Mills. We include our domestic steel minimills and our copper tube minimill in our domestic mills segment.

The table below reflects steel and scrap prices per ton:

	Three Months Ended		Six Months Ended	
	February 29, 2004	**February 28, 2003**	**February 29, 2004**	**February 28, 2003**
Average mill selling price (total sales)	$ 339	$ 271	$ 324	$ 271
Average mill selling price (finished goods)	345	277	330	279
Average ferrous scrap purchase price	147	89	132	89

Our domestic mills segment s adjusted operating profit for the three months ended February 29, 2004 increased by $11.4 million (247%) as compared to the same period in 2003 on $76.6 million (44%) more net sales. Net sales and adjusted operating profit were higher due to improved selling prices and increased shipments. Selling prices and shipments increased due to increased demand, which was partially due to the recovering U.S. economy. Also, the competition from foreign steel imports was less as a result of the weaker U.S. dollar. The mills production levels (tons melted and rolled) for the second quarter in 2004 were at or near all time records. These factors were partially offset by significant rapid increases in steel scrap purchase costs and increases in other input costs. Adjusted operating profits at all four mills were significantly higher in the second quarter of 2004 as compared to the same period in 2003. The largest increases in profitability were at SMI Alabama and SMI South Carolina. Adjusted operating profit at SMI Alabama increased $2.6 million (436%) for the three months ended February 29, 2004 as compared to the same period in 2003. SMI South Carolina reported $918 thousand in adjusted operating profit for the three months ended February 29, 2004 as compared to a $2.4 million adjusted operating loss in the same period in 2003. Adjusted operating profits at SMI Texas and SMI Arkansas increased 33% and 133%, respectively. The mills shipped 609,000 tons in the second quarter of 2004 as compared to 537,000 in the corresponding period in 2003, an increase of 13%. Mill production increased as well, with tons rolled up 26% to 540,000. Tons melted increased 19% to 567,000. The average total mill selling price at $339 per ton was $68 (25%) above the same quarter last year. Our average mill selling price for finished goods also increased $68 per ton (25%). However, average scrap purchase costs were $58 per ton (65%) higher than the same quarter last year due primarily to increased demand resulting from higher production at U.S. minimills, coupled with the high level of scrap exports to the Far East, especially China. In spite of the increased scrap costs, our metal spread (the difference between our average total mill selling price and our average scrap purchase price) was $192 per ton, $10 per ton higher during the three months ended February 29, 2004 as compared to the same period in 2003. This increased metal spread more than offset cost increases for utilities and other inputs. Utility expenses increased by $2.9 million in 2004 as compared to 2003. Natural gas increased due to a combination of higher usage and rates, and electricity costs were higher due to usage from increased production. Costs for ferroalloys and graphite electrodes increased as well due largely to more demand from U.S. mills and the impact of the weaker U.S. dollar and higher ocean freight costs on these imported items.

Our copper tube mill s adjusted operating profit increased $1.4 million (386%) to $1.7 million during the three months ended February 29, 2004 as compared to the corresponding period in 2003. Copper tube shipments increased 16% to 15.9 million pounds due primarily to better weather in the second quarter of 2004 as compared to the same quarter in 2003. Production increased 11% to 16.4 million pounds. The average selling price increased 40 cents per pound (33%) to $1.59 for the three months ended February 29, 2004 as compared to $1.19 for the three months ended February 28, 2003. Strong demand in our housing and commercial markets outpaced supply of finished copper tube. The average copper scrap purchase cost increased 28 cents per pound (40%) during the three months ended February 29, 2004 as compared to the same quarter in 2003. The unusually strong copper market resulted in historically high costs for copper scrap. Our metal spreads improved by 12 cents per pound to 59 cents because the average copper scrap purchase cost increased less than the average copper tube sales price.

Adjusted operating profit for our four domestic steel minimills increased 313% for the six months ended February 29, 2004 as compared to the same period in 2003. The average total mill selling price at $324 per ton increased $53 (20%) in the six months ended February 29, 2004 as compared to the same period in 2003. As a result, metal margins increased $10 per ton for the six months ended February 29, 2004 as compared to the same period in 2003. These higher margins more than offset increases in utilities and other input costs. Average scrap purchase costs were $43 per ton (48%) higher than during the same period last year. Utility expenses increased by $4.6 million for the six months ended February 29, 2004 as compared to the same period in 2003, due to higher natural gas and electricity costs. Electricity usage

increased, but prices remained relatively stable. Natural gas costs increased due to both higher usage and prices. The mills shipped 1,175,000 tons in the first two quarters of 2004 compared to 1,042,000 tons in the corresponding period of 2003, an increase of 13%.

Our copper tube mill reported an adjusted operating profit of $3.9 million for the six months ended February 29, 2004 as compared to an adjusted operating profit of $631 thousand in the same period in 2003. Copper tube shipments increased 3.2 million pounds (11%) to 32.5 million pounds. Average selling prices increased by 33 cents per pound (29%) to $1.47 in the six months ended February 29, 2004 as compared to $1.14 in the corresponding period in 2003. The average copper scrap purchase cost increased by 22 cents per pound (32%) during the six months ended February 29, 2004 as compared to the same period in 2003.

CMCZ. On December 3, 2003, our Swiss subsidiary acquired 71.1% of the outstanding shares of Huta Zawiercie, S.A. (CMCZ), of Zawiercie, Poland for 200 million Polish Zlotys (PLN), $51.9 million on the acquisition date. In connection with the acquisition, we also assumed debt of 176 million PLN ($45.7 million). CMCZ operates a steel minimill similar to our domestic steel minimills with total annual capacity of over 1 million metric tons of rebar and wire rod products as well as merchant bar. With this acquisition, we have become a significant manufacturer of rebar and wire rod in a key Central European market. See Note C Acquisitions, to the condensed consolidated financial statements for the three months ended February 29, 2004 incorporated by reference in this prospectus. We have presented CMCZ and its subsidiaries as a separate segment because the economic characteristics of their markets and the regulatory environment in which they operate are not similar to that of our domestic minimills. CMCZ recorded net sales of $114 million and an adjusted operating profit of $6.2 million for the three months ended February 29, 2004. Historically, the period from December through February has been weak in terms of profits and shipments because of winter weather conditions. However, subsequent to our acquisition, the mill, in coordination with our international marketing and distribution operation, found new outlets for its products. CMCZ melted 375,000 tons, rolled 271,000 tons and shipped 390,000 tons, including billets, during the three months ended February 29, 2004. The average total mill selling price was $286 per ton (including 22% billets). The average scrap purchase cost was $147 per ton.

Fabrication. On December 23, 2003, we acquired 100% of the stock of Lofland Acquisition, Inc. (Lofland) for $48.8 million cash. Lofland is the sole stockholder of The Lofland Company and subsidiaries which operate steel reinforcing bar fabrication and construction-related product sales facilities from 11 locations in Texas, Arkansas, Louisiana, Oklahoma, New Mexico and Mississippi. This acquisition complements our existing Texas rebar fabrication and construction-related product sales operations and expands our service areas in each of the neighboring states. See Note C Acquisitions, to the condensed consolidated financial statements for the three months ended February 29, 2004 incorporated by reference in this prospectus. Following our acquisition of Lofland, we changed our internal management reporting structure, which necessitated our reporting fabrication (including Lofland) as a separate segment. See Note J Business Segments, to our condensed consolidated financial statements for the three months ended February 29, 2004 incorporated by reference in this prospectus.

Our fabrication businesses reported an adjusted operating loss of $1.2 million for the three months ended February 29, 2004 as compared to an adjusted operating loss of $3.4 million in the same period of 2003. However, net sales were $220 million in the second quarter of 2004, an increase of $48 million (28%) as compared to the second quarter of 2003. Lofland accounted for $18 million of this increase. Although shipments and selling prices increased, we recorded a loss in the three months ended February 29, 2004 primarily because the overall purchase costs from our steel suppliers increased more than our selling prices. Our sales prices did not increase as fast as our steel purchase costs because much of our fabrication work is sold months in advance at a fixed price. We recorded contract loss provisions in excess of $1 million during the three months ended February 29, 2004 on firm sales commitments at

various fabrication operations, the largest of which was at Lofland. Construction activity varied by region. Some private nonresidential construction markets were more active, while others remained flat. Public construction continued at a solid level. Fabrication plant shipments totaled 286,000 tons, 24% more than last year s second quarter shipments of 231,000 tons. Our acquisition of Lofland resulted in 23,000 additional tons. The remainder of the increase was due to the acquisitions of several small rebar fabrication operations during the last half of fiscal 2003 and higher shipments at Fontana Steel. The average fabrication selling price for the three months ended February 29, 2004 increased $49 per ton (9%) to $584 as compared to $535 the same period in 2003. However, rebar fabrication, construction related products, steel post plants, steel joist manufacturing and structural steel fabrication were all adversely affected by higher input costs during the three months ended February 29, 2004 as compared to the same period in 2003. We are continuing to evaluate certain facilities which are performing under expectations or for which we are considering alternative uses. Our current estimates of cash flows do not indicate that the assets are impaired. However, these estimates and expected uses could change resulting in asset impairments. During the three months ended February 28, 2003, we recorded a $1 million loss provision for payments from a customer within 90 days of its bankruptcy filing, which were potentially voidable. This dispute was settled during the three months ended August 31, 2003 for $118 thousand.

Our fabrication businesses reported an adjusted operating profit of $4.5 million for the six months ended February 29, 2004 as compared to an adjusted operating loss of $3.4 million in the same period of 2003. Fabrication plant shipments for the six months ended February 29, 2004 were 566,000 tons, an increase of 26% as compared to the same period of 2003. The average fabrication selling price increased $24 per ton (4%) to $570 in 2003 as compared to $546 in 2002. However, our steel purchase costs increased significantly especially during the second quarter of 2004. Also, professional services (primarily legal) expenses, decreased by $1.7 million in the six months ended February 29, 2004 as compared to the corresponding period in 2003 due to the settlement of contingencies at SMI Owen Steel Company (SMI-Owen) during the second half of 2003.

Recycling. Our recycling segment reported an adjusted operating profit of $17.7 million for the three months ended February 29, 2004 as compared with an adjusted operating profit of $4.1 million in the same quarter of 2003. Net sales for the three months ended February 29, 2004 were 89% higher at $190 million. Gross margins in the second quarter of 2004 doubled as compared to the corresponding period of 2003. Ferrous and nonferrous selling prices significantly increased because demand from Far Eastern buyers, especially China, and the weaker U.S. dollar, resulted in more scrap exports by our competitors. In addition, domestic demand for scrap increased due to the recovering U.S. economy. The segment processed and shipped 493,000 tons of ferrous scrap during the three months ended February 29, 2004, 32% more than the second quarter of 2003. Ferrous sales prices increased $77 (82%) to $171 per ton as compared to the same period in 2003. Nonferrous shipments were 15% higher at 63,000 tons. The average nonferrous scrap sales price of $1,371 per ton for the three months ended February 29, 2004 was 34% higher than in the same period in 2003. The total volume of scrap processed, including all of our domestic processing plants, was 838,000 tons, an increase of 31% from the 642,000 tons processed in the corresponding period of 2003. Volumes were up due to increased demand caused by the recovery in the global economy.

Our recycling segment reported an adjusted operating profit of $23.4 million for the six months ended February 29, 2004 as compared to an adjusted operating profit of $5.5 million in the corresponding period of 2003. Gross margins for the six months ended February 29, 2004 were 72% higher than the same period in 2003, due to increased selling prices and shipments for both ferrous and nonferrous scrap. For the six months ended February 29, 2004, ferrous and nonferrous scrap selling prices increased by 64% and 28% respectively. The total volume of scrap processed and shipped during the six months ended February 29, 2004, including all of our domestic processing plants, was 1,572,000 tons, an increase of 20% from the 1,311,000 tons processed in the corresponding period in 2003. Volumes increased due to

increased demand caused by the recovering global economies and the weak U.S. dollar.

Marketing and Distribution. Net sales increased $138 million (52%) for the three months ended February 29, 2004 as compared to the same quarter in 2003, $25 million of which resulted from foreign currency fluctuations. Adjusted operating profit for the three months ended February 29, 2004 was $8.8 million, as compared to $4.9 million in the same quarter in 2003, an increase of 79%. The net effect of foreign currency fluctuations on our adjusted operating profit was $553 thousand. Markets were favorable in several geographic regions and product lines. Sales to and within Asia, especially China, were up significantly. Also, the economy in Australia was still strong. Adjusted operating profits increased in Europe. Imports into the United States were mixed with a significant decline in our steel imports, but sales of industrial raw materials increased. Most product prices (as expressed in U.S. dollars) improved during the three months ended February 29, 2004 as compared to the same period in 2003. Gross margins were better for steel products and industrial raw materials, but were lower for nonferrous metal products. The increased profitability in marketing and distribution was largely due to our strategy in recent years to build up our regional business around the world and to increase our downstream presence.

Net sales for the six months ended February 29, 2004 increased by $222 million (43%), $46 million of which was due to foreign currency fluctuations. Adjusted operating profit for the six months ended February 29, 2004 for our marketing and distribution segment increased to $15.1 million as compared to $9.4 million in the same period in 2003 due mostly to better results from our international operations and increased sales and margins for our imports of industrial raw materials in the U.S. Foreign currency fluctuations accounted for $1.1 million of the increase. Adjusted operating profits increased for Europe and Australia. Sales into Asia, including China were strong during the six months ended February 29, 2004 as compared to the corresponding period of 2003. During the six months ended February 29, 2004, we recognized a $1.5 million gain on our forward purchases of Polish Zlotys related to our acquisition of CMCZ.

Corporate and Eliminations. During the six months ended February 29, 2004, we incurred a $3.1 million charge from the repurchase of $90 million of our notes otherwise due in 2005. Discretionary items, such as bonuses and profit sharing increased commensurate with increased profitability for the three and six months ended February 29, 2004 as compared to the corresponding period of 2003. Also, professional services expenses increased $1.5 million and $1.9 million, respectively for the three and six months ended February 29, 2004 as compared to the same periods of 2003 due primarily to costs associated with compliance with Section 404 of Sarbanes Oxley.

Consolidated Data. The LIFO method of inventory valuation decreased net earnings by $6.2 million and $1.9 million (21 cents and 7 cents per diluted share) for the three months ended February 29, 2004 and February 28, 2003, respectively. For the six months ended February 29, 2004 and February 28, 2003, after-tax LIFO expense was $7.0 million (24 cents per diluted share) and $1.8 million (6 cents per diluted share), respectively.

Overall selling, general and administrative expenses were $27 million (45%) higher during the three months ended February 29, 2004 as compared to the corresponding period of 2003. Our acquisitions of CMCZ and Lofland accounted for $8.2 million of the increase. Also, bad debt expense increased $2.5 million in the three months ended February 29, 2004 as compared to the same period in 2003 due to higher sales and increased accounts receivable. During the three and six months ended February 29, 2004, interest expense increased by $3.8 million and $4.9 million, respectively, primarily due to additional long-term debt used to finance the Lofland and CMCZ acquisitions.

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2003 Compared to 2002

Domestic mills. We include our domestic steel minimills and our copper tube minimill in our domestic mill segment.

Our domestic mills adjusted operating profit for the year ended August 31, 2003 decreased $21.3 million as compared to 2002. A litigation settlement at the steel mills in 2002 accounted for $2.5 million of the decrease. Excluding this item, adjusted operating profit decreased 49% in 2003 as compared to 2002. Net sales for the year ended August 31, 2003 increased $64 million (9%) as compared to 2002. Our steel minimills implemented higher selling prices that became partially effective during the second half of 2003, although steel mill selling prices were at very low levels for much of 2003. However, scrap purchase prices were driven sharply higher by offshore demand and the weakening value of the U.S. dollar. The selling price increases and increased shipments did not fully offset higher scrap and utility costs. Gross margins were significantly lower as a result of these conditions. Our copper tube mill s gross margins were also lower due to increased copper scrap purchase prices and lower selling prices for its products.

The table below reflects steel and scrap prices per ton:

	Year Ended August 31,	
(dollars per ton)	**2003**	**2002**
Average mill selling price-total sales	$278	$269
Average mill selling price-finished goods only	287	275
Average ferrous scrap purchase price	97	80

Adjusted operating profit for our four domestic steel minimills decreased $18.2 million (52%) for the year ended August 31, 2003 as compared to 2002. The effect of valuing inventories under the LIFO method accounted for $3.5 million (19%) of the decrease in adjusted operating profit for the year ended August 31, 2003 as compared to 2002. Also, during the year ended August 31, 2002, our domestic steel minimills received $2.5 million from a nonrecurring graphite electrode litigation settlement. Even excluding these items, adjusted operating profit in 2003 decreased as compared to 2002 because higher shipments and average selling prices were not enough to offset higher input costs, including scrap and utilities. Our adjusted operating profit at SMI Texas decreased 25% to $19.3 million for the year ended August 31, 2003 as compared to an adjusted operating profit of $25.8 million in 2002. SMI South Carolina lost $7.1 million for the year ended August 31, 2003 as compared to a $2.8 million adjusted operating profit in 2002. Higher scrap costs, higher energy costs and a weak demand for our products were the most significant reasons for SMI South Carolina s loss in 2003 although these factors were partially offset by price increases in the fourth quarter. SMI Arkansas reported a $160 thousand adjusted operating profit in 2003 as compared to a $3.5 million adjusted operating profit in 2002. Most of the decrease in adjusted operating profit at SMI Arkansas was attributable to LIFO expense caused by higher year end inventories of rerolling rail. However, adjusted operating profit at our SMI Alabama mill for the year ended August 31, 2003 increased 63% to $4.2 million as compared to $2.5 million in 2002. Cost reduction efforts, improved operating efficiencies, and better market conditions were the key factors in SMI Alabama s improved profitability. Our mills shipped 2,284,000 tons in 2003, an increase of 5% as compared to 2,171,000 tons shipped in 2002, due largely to higher billet sales. Our mills rolled 1,972,000 tons, a 3% decrease as compared to 2002. Our minimills melted 2,081,000 tons during the year ended August 31, 2003, which was a decrease of 1% as compared to 2002. Our average total mill selling price at $278 per ton increased $9 (3%) as compared to 2002. Our mill selling price for finished goods increased $12 per ton (4%) in 2003 as compared to 2002.

Our average scrap purchase costs in 2003 increased $17 per ton (21%) as compared to 2002. Utility expenses increased by $9.4 million for the year ended August

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31, 2003 as compared to 2002. The increase in utility costs was mostly due to higher natural gas costs, although electricity expenses also increased.

Our copper tube minimill reported an adjusted operating profit of $620 thousand for the year ended August 31, 2003 as compared to an adjusted operating profit of $5.1 million in 2002. Net sales were 2% lower in 2003 as compared to 2002. Our copper tube shipments increased 4% to 61.9 million pounds during 2003 as compared to 2002. However, our average net selling price for plumbing and refrigeration tube decreased by 7 cents per pound (6%) to $1.17 per pound as compared to $1.24 per pound in 2002. We increased our production to 60.7 million pounds for the year ended August 31, 2003, which was 8% more than the 56.2 million pounds that we produced in 2002. Our average copper scrap price increased 4 cents per pound (6%) during the year ended August 31, 2003 as compared to 2002. The difference between the sales price ($1.17 and $1.24 in 2003 and 2002, respectively) and copper scrap purchase cost ($0.72 and $0.68 in 2003 and 2002, respectively) are commonly referred to as the metal spread. The metal spread declined 21% in 2003 as compared to 2002. Although single family residential construction held up relatively well, other market sectors were weaker which put pressure on selling prices.

Fabrication. Our fabrication operations were less profitable in 2003 as compared to 2002 primarily due to lower selling prices which more than offset the impact of higher shipments. Our fabrication operations reported an adjusted operating profit of $700 thousand for the year ended August 31, 2003 as compared to a profit of $30.4 million in 2002. We recorded a $5.2 million gain from the sale of SMI-Owen in March 2002. Also, prior to its sale, SMI-Owen had an adjusted operating profit of $2.9 million for the year ended August 31, 2002. Excluding these items, fabrication adjusted operating profits decreased by $21.6 million for the year ended August 31, 2003 as compared to 2002. Our fabrication plants shipped 1,028,000 tons in 2003, 4% more than the 984,000 tons shipped during 2002. Our fabricated rebar shipments increased 104,000 tons (19%) as compared to 2002. Lower structural, joist and post plant shipments partially offset this increase. The average fabrication selling price for the year ended August 31, 2003 decreased $72 per ton (12%) to $536 per ton as compared to $608 per ton in 2002. Our rebar fabrication, construction-related products, post and heat treating plants were profitable during the year ended August 31, 2003. Our joist and structural steel fabrication operations recorded losses during 2003 due to lower selling prices and shipments. During the year ended August 31, 2003, the joist plants reduced certain inventory stock values by $1.8 million to their estimated current market value. Also, during the year ended August 31, 2003, we wrote-down $711 thousand of inventory at two of our other fabrication facilities, we recognized a $998 thousand gain on the trade-in of rental forms in construction-related products, and we reduced our deferred insurance proceeds accrual by $937 thousand (see Note 9, Commitments and Contingencies, to our consolidated financial statements for the year ended August 31, 2003 incorporated by reference in this prospectus). During 2003, we acquired substantially all of the operating assets of the Denver, Colorado location of Symons Corporation, E.L. Wills in Fresno, California and Dunn Del Re Steel in Chandler, Arizona. The Symons location is a concrete formwork supplier, and E.L. Wills and Dunn Del Re Steel are rebar fabrication operations. The purchase prices for these businesses totaled $14.0 million. No single one of these acquisitions was significant to our operations.

Recycling. Our recycling segment reported an adjusted operating profit of $15.2 million for the year ended August 31, 2003 as compared to an adjusted operating profit of $5.1 million in 2002. All four of the geographic regions where the segment operates were substantially more profitable. Net sales for the year ended August 31, 2003 were $441.4 million, an increase of 17% as compared to our net sales of $378.1 million in 2002. Our gross margins were 24% higher in 2003 as compared to 2002, partially due to controls over costs. The segment processed and shipped 1,639,000 tons of ferrous scrap during the year ended August 31, 2003, an increase of 10% as compared to 2002. Ferrous sales prices were on average $100 per ton, 23% higher than in 2002. Greater demand from overseas markets contributed to this increase, as well as the weaker U.S. dollar.

Nonferrous markets improved moderately during the year ended August 31, 2003. Our average nonferrous scrap sales price of $1,021 per ton was 8% higher than in 2002, although shipments were 3% lower at 231,000 tons. The total volume of scrap processed, including the steel group s processing plants, was 2,811,000 tons, an increase of 9% from the 2,568,000 tons processed in 2002.

Marketing and Distribution. Net sales for the year ended August 31, 2003 for our marketing and distribution segment increased $372.7 million (48%) to $1.15 billion, as compared to 2002 net sales of $777.0 million. Most of the increase related to sales outside of the United States. Adjusted operating profit for the year ended August 31, 2003 was $21.8 million, an increase of 53% as compared to 2002, due mostly to better results from our international operations. International steel prices for flat-rolled products rose and then weakened, because of decreased demand from China, during the first three quarters of 2003. However, the prices for flat-rolled steel products rose again during the fourth quarter. Prices for long products slowly increased during 2003. Our steel shipments increased, except for imports into the U.S. Our business in the U.S. was reduced because of the weak economy and the weaker U.S. dollar. Due to these factors, volumes, prices and margins for nonferrous semi-finished products were lower in 2003 as compared to 2002. However, sales and margins for ores, minerals, ferroalloys and special metals were generally higher. Also, freight costs increased in 2003 as compared to 2002. Our marketing and distribution and service center operations in Australia were more profitable in 2003 as compared to 2002. Our joint venture Europickling facility in Belgium became profitable during 2003. Also, the joint venture arrangements with our 11% investee, Trinecke Zelezarny, a Czech mill, contributed to our sales in Central Europe. Sales into Asia, including China, were strong, especially during the first and second quarters of our fiscal 2003. In July 2003, our international subsidiary entered into a definitive agreement to purchase a controlling interest in CMCZ. This acquisition closed on December 3, 2003.

Other. Our employees retirement plan expenses were 16% lower for the year ended August 31, 2003 as compared to 2002. Discretionary items such as contributions were lower for the year ended August 31, 2003 as compared to 2002. We committed less to these items because 2003 was less profitable. Interest expense for the year ended August 31, 2003 was lower as compared to 2002 due primarily to lower overall interest rates on short-term borrowings and two interest rate swaps on parts of our long-term debt which resulted in lower effective interest rates.

During 2002, we favorably resolved all issues for our federal income tax returns through 1999. Due to the lack of any material adjustments, we reevaluated the tax accruals and, consequently, reduced the net tax expense by $1.0 million during 2002.

On August 8, 2003, we increased our commercial paper program to permit maximum borrowings of up to $275 million, up from the prior year $174.5 million level. Commercial paper capacity is reduced by any outstanding standby letters of credit under the 2003 program which totaled $20.6 million at August 31, 2003.

2002 Compared To 2001

Domestic mills. We include our domestic steel minimills and our copper tube minimill in our domestic mills segment.

Our domestic mills adjusted operating profit in 2002 decreased $1.6 million (4%) as compared to 2001 on $43 million (7%) more net sales. Increased production and shipments at our steel minimills partially offset lower selling prices, increased scrap purchase costs and lower copper tube earnings. Also, we spent less in 2002 on utilities, and we recorded lower depreciation and amortization expense.

The table below reflects steel and scrap prices per ton:

(dollars per ton)	Year Ended August 31, 2002	Year Ended August 31, 2001
Average mill selling price-total sales	$269	$284
Average mill selling price-finished goods only	275	290
Average ferrous scrap purchase price	80	74

During 2002, adjusted operating profit for our four steel minimills rose 27% compared with 2001, despite lower selling prices. SMI South Carolina had a $2.8 million adjusted operating profit in 2002 compared to a $1.6 million loss in 2001. SMI Alabama turned around as well with a $2.5 million adjusted operating profit in 2002 compared to a $2.2 million loss in 2001. Adjusted operating profits at SMI Arkansas were up 4% in the current year period. These improvements more than offset a 7% decline in adjusted operating profits at SMI Texas as compared to 2001. A major reason for the minimills improved profitability was a 14% increase in shipments because of continued public projects infrastructure construction. Shipments were 2,171,000 tons in 2002 compared to 1,903,000 in 2001. Mill production also increased over last year. Tons rolled were up 19% to 2,026,000 in 2002. Tons melted were up 17% to 2,100,000 in 2002. Even though demand was strong, the average total mill selling price at $269 per ton was $15 (5%) below last year. Also, in 2002, we sold more semi-finished billets, a product with a lower selling price than our average. Average scrap purchase costs were $6 per ton (8%) higher than in 2001, resulting in smaller margins. Utility expenses declined by $2.4 million as compared to 2001. Decreases in natural gas costs more than offset higher electricity costs. Also, depreciation and amortization expenses decreased by $5.2 million in 2002, primarily because SMI-South Carolina fully depreciated its mill rolls and guides as well as certain melt shop equipment. The mills also received $2.5 million from a nonrecurring graphite electrode litigation settlement in 2002.

Our copper tube minimill s adjusted operating profit decreased 59% with 7% less net sales as compared to 2001. Copper tube shipments increased 3% from 2001 to a record 59.3 million pounds, and production increased 5% from 2001 to a record 56.2 million pounds. However, average sales prices dropped 10% in 2002 to $1.24 per pound as compared to the average sales price in 2001 of $1.38. The biggest factor was lower apartment and hotel/motel construction. Consequently, demand for plumbing and refrigeration tube was not as strong. The 2002 product mix included increased quantities of HVAC products and line sets. In the marketplace, we continued to adapt to the consolidation among our buyers. The difference between sales price and copper scrap purchase cost (commonly referred to as the metal spread), declined 8% in 2002 compared to 2001. Lower raw material purchase costs did not fully compensate for the decline in selling prices.

Fabrication. Adjusted operating profit in our fabrication businesses increased by $16.3 million (116%) in 2002 as compared to 2001. We achieved this increase in adjusted operating profit in 2002 for three primary reasons: (i) the nonrecurrence of the prior year litigation accrual in the amount of $8.3 million, (ii) the current year gain on the sale of our heavy structural fabrication operation, SMI-Owen, in the amount of $5.2 million and (iii) the nonrecurrence of the prior year joist start-up costs of $8.9 million. Excluding the 2002 gain on the sale of SMI-Owen ($5.2 million), the 2001 litigation accrual ($8.3 million) and the 2001 joist startup costs ($8.9 million), adjusted operating profits in 2002 decreased by $6.1 million (19%) as compared to 2001.

Near the end of fiscal 2002, we discovered two significant, but unrelated events, requiring retroactive writedowns at two rebar fabrication operations. The total amount of the adjustments required to correct the August 31, 2002

balance sheets of these two facilities was $4.6 million. These adjustments affected

fiscal years from 1999 to 2002. In August 2002, we uncovered a theft and an accounting fraud which occurred over four years at a rebar fabrication plant in South Carolina. The total adjustment required to revert the accounting records to their proper balances was $2.7 million. In September 2002, we discovered accounting errors related to losses on rebar fabrication and placement jobs at one facility in California, some of which date back to its acquisition in fiscal 2000. The resulting charge was $1.9 million. The South Carolina incident resulted in a $900 thousand expense in fiscal 2002. The remaining $3.7 million for both instances was attributed $885 thousand to fiscal 2001, $2.6 million to fiscal 2000, and $227 thousand to 1999, resulting in prior period adjustments to these previously reported financial statements. We took immediate action to strengthen compliance with our internal control policies in the areas of segregation of duties, personnel and management review and oversight. Controllers at both locations were replaced as well as the general manager of the rebar fabrication plant in South Carolina. The steel group has increased the level of detail, the frequency of submission and the amount of review of its operating locations reporting. We have renewed emphasis on periodic and timely internal balance sheet audits at all operating locations and completed audits of all its operating locations in fiscal 2003. No major areas of noncompliance were noted. Senior management and area managers of all our locations attended internal meetings led by the CEO and CFO regarding management s responsibility for internal control, dealing with noncompliance issues and our commitment to only the highest of ethical standards of conduct.

Fabrication plant shipments totaled 984,000 tons, down fractionally from 986,000 tons shipped in 2001. The average fabrication selling price in 2002 decreased $38 per ton (6%) to $608 per ton as compared to $646 per ton in 2001. Rebar fabrication markets were softer in 2002 as a result of intense competition, and several plants reported losses. During 2002, we acquired the real estate, equipment, inventory and work in process of Varmicon, Inc. in Harlingen, Texas. We now operate this rebar fabrication facility under the name of SMI-Valley Steel. The steel joist operations, which includes cellular and castellated beams, were break even in 2002, an improvement over the loss in 2001. Both prices and shipments decreased, but lower operating costs and shop efficiencies helped significantly. Also, in 2001 these joist operations incurred $8.9 million in start-up costs. Structural steel fabrication profits, excluding SMI-Owen and the prior year litigation accrual, were down in 2002 compared to 2001. However, our concrete-related products operations were more profitable in 2002. We continued to expand this business through the acquisition of Dowel Assembly Manufacturing Company, or DAMCO, in Jackson, Mississippi. DAMCO manufactures dowel baskets and has an epoxy coating business. In 2002, we started Spray Forming International, a stainless steel cladding operation located in South Carolina.

Recycling. Our recycling segment reported an adjusted operating profit of $5.1 million in 2002 compared with an adjusted operating loss of $2.3 million in 2001. Net sales in 2002 were 4% lower at $378 million as compared to 2001. However, gross margins were 11% above last year, primarily because we shipped 8% more total tons. Demand for ferrous scrap improved both in the U.S. and internationally. The segment processed and shipped 1,494,000 tons of ferrous scrap in 2002, 10% more than in 2001. Ferrous sales prices were on average $81 per ton, an increase of $6 from 2001. Nonferrous shipments were flat at 238,000 tons. The average 2002 nonferrous scrap sales price of $947 per ton was 9% lower than in 2001. Increased productivity, higher asset turnover and reduced costs contributed to the improved 2002 results. The total volume of scrap processed, including the steel group s processing plants, was 2,568,000 tons, an increase of 11% from the 2,308,000 tons processed in 2001.

In 2002, we acquired most of the transportation assets of Sampson Steel Corporation in Beaumont, Texas. These assets were combined with our existing scrap processing facility in Beaumont. Also, we closed our Midland, Texas facility, resulting in a writedown of $455,000 on certain equipment.

Marketing and Distribution. Net sales in 2002 for our marketing and distribution segment increased 1% to $777 million as compared to 2001. Adjusted operating profit in 2002 increased 82% to $14.2

million as compared to 2001, mostly due to better results from our Australian operations. International steel prices and volumes for steel and nonferrous semifinished products improved during the second half of 2002, primarily in the distribution and processing businesses. However, depressed economies, oversupply in most markets and intense competition from domestic suppliers in the respective markets caused compressed margins for numerous steel products, nonferrous metal products and industrial raw materials and products. The U.S. dollar weakened against major currencies, a beneficial development.

In September 2001, we completed our acquisition of Coil Steels Group, an Australian service center in which we already owned a 22% share. This acquisition provided $2.2 million of additional profits and $69.0 million in net sales during 2002. Sales and profits for the Company s pre-existing business in Australia also improved significantly. However, this increase in net sales was more than offset by decreased sales in our U.S. operations due to fewer imports into the United States.

Operating profits for the U.S. divisions improved significantly due to Cometals which returned to more historical levels, and Dallas Trading which benefited from U.S. tariff legislation. Lower margins at Commonwealth on semi-finished products almost offset these improvements. Our European operations net sales decreased slightly in 2002 as compared to 2001, but profits improved significantly. The segment s recent strategy of growing its downstream marketing and distribution business offset the continuing very difficult trading conditions.

Other. Selling, general and administrative, as well as employees retirement plans expenses, were higher in 2002 as compared to 2001, mostly due to our acquisition of Coil Steels Group, or CSG, in 2001 and discretionary items such as bonuses and profit sharing. This increase was consistent with the improvement in our operating profitability. Interest expense decreased by $8.9 million (32%) from 2001 largely due to lower interest rates and much lower average short-term borrowings. Also, during 2002 we entered into two interest rate swaps which resulted in interest expense savings. During 2002, we favorably resolved all issues for our federal income tax returns through 1999. Due to the lack of any material adjustments, we reevaluated the tax accruals and, consequently, reduced the net tax expense by $1.0 million during 2002.

Near-Term Outlook

We expect our fiscal year ending August 31, 2004 to be significantly more profitable than 2003, primarily due to market improvements, the weakened U.S. dollar, our recent acquisition of CMCZ and productivity improvements. Earnings each month will be significantly influenced by the realized selling prices in our recycling, domestic mill and fabrication segments. We anticipate that the price of steel scrap will stop increasing and could decrease during our third quarter. Therefore, we expect that mill margins and fabrication margins will increase as the year progresses. Assuming that steel scrap prices gradually decrease, and our other selling prices remain substantially flat, we estimate that our net earnings per diluted share (including the impact of adjusting our inventory valuation to the LIFO method) will be between $0.55 and $0.75 for the three months ending May 31, 2004. Interest rates remain historically low, and economic and industry sector trends are generally strong. We expect some slowing of activity in China, because we believe that the government is trying to moderate the country s growth rate. Supply and demand factors for ferrous and nonferrous scrap are all positive. We anticipate that our overall results will be better in the second half of 2004 as compared to the first half.

We anticipate our profits will be higher in 2004 in our domestic mills segment as compared to 2003 because of higher metal spreads and increased production, shipments and selling prices. We have implemented several price increases on most of our steel minimill products. Manufacturing margins should improve in the short run as scrap purchase costs moderate, although the benefits of higher volumes and improved pricing will continue to be partially offset by higher energy and other input costs. We are

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expecting our selling price increases to become fully effective during the second half of fiscal 2004. As a result, gross margins at our steel minimills should increase.

As weather improves, we anticipate that our adjusted operating profit at CMCZ will increase during the second half of 2004 as compared to its results since our acquisition.

We expect the gross margins in our fabrication businesses to improve during the second half of fiscal 2004, as our new backlog was obtained at higher selling prices. However, job losses could increase if steel purchase prices continue to rise. This may particularly affect Lofland resulting in short-term losses for this operation. We believe that these losses will turn around as the backlog which we acquired (which included sales contracts at fixed prices) is depleted. However, Lofland may breakeven or report a slight adjusted operating loss for fiscal 2004. Also, we anticipate that fabrication bad debts may rise due to the negative impact of generally higher prices on some of our weaker customers.

We anticipate that our recycling segment will report significant profits during the second half of 2004, due to strong demand for steel scrap and nonferrous metal scrap and the effect of reduced competition due to continuing exports resulting from the relatively weak U.S. dollar and continued global demand. Ferrous scrap prices should peak and may decrease. Demand for nonferrous scrap should remain strong.

Our marketing and distribution segment should remain consistently profitable during our fiscal 2004. We expect that our U.S. operations should be more profitable in 2004 as compared to 2003. Our international operations should continue to be profitable in 2004. Overall prices and volumes should remain constant or increase. Increases in freight costs and bad debt expense could partially offset these positive factors.

We anticipate that our capital spending for 2004 will be $61 million, excluding acquisition costs for CMCZ and Lofland. Most of these expenditures will be at our steel minimills including a major improvement project at our SMI Texas melt shop and capital expenditures of $6.2 million for CMCZ in Poland.

Long-Term Outlook

We believe we are well-positioned to exploit long-term opportunities. We expect stronger demand for our products due to the increased possibility of a recovery in demand throughout the major global economies as well as continued growth in developing countries. Emerging countries often have a higher growth rate for steel and nonferrous metals consumption. We believe that the demand will increase in Asia, particularly in China, as well as in Central and Eastern Europe.

We believe that there will be further consolidation in the industries in which we participate, and we plan to continue to participate in a prudent way. The reasons for further consolidation include an inadequate return on capital for most companies, numerous bankruptcies, a high degree of fragmentation, the need to eliminate non-competitive capacity and more effective marketing.

Liquidity and Capital Resources

We discuss liquidity and capital resources on a consolidated basis. Our discussion includes the sources and uses of our five operating segments and centralized corporate functions. We have a centralized treasury function and use inter-company loans to efficiently manage the short-term cash needs of our operating divisions. We invest any excess funds centrally.

We rely upon cash flows from operating activities, and to the extent necessary, external short-term financing sources for liquidity. Our short-term financing sources include the issuance of commercial paper, sales of certain accounts receivable, short-term trade financing arrangements and borrowing under our bank credit facilities. From time to time, we have issued long-term public debt and private debt placements. Our investment grade credit ratings and general business conditions affect our access to external financing on a cost-effective basis. Depending on the price of our common stock, we may realize significant cash flows from the exercise of stock options.

Moody s Investors Service (P-2) and Standard & Poor s Corporation (A-2) rate our $275 million commercial paper program in the second highest category. To support our commercial paper program, we have an unsecured, contractually committed revolving credit agreement with a group of sixteen banks. Our $275 million facility expires in August 2006. This agreement provides for borrowing in U.S. dollars with the interest rate indexed to LIBOR. The spread over LIBOR may vary between 33 basis points and 105 basis points based upon the rating of our non-credit enhanced senior unsecured long-term debt by Moody s Investors Service and Standard & Poor s Corporation. Actual borrowings are subject to a facility fee which may vary between 17 and 45 basis points based on the same debt ratings. In addition, if we borrow more than 33% of the authorized borrowings under the credit agreement, we will incur an additional 12.5 basis point fee on actual borrowings. No compensating balances are required. The credit agreement serves as a backup to our commercial paper program. We plan to conti