STEEL DYNAMICS INC
Form 10-K/A
March 09, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K/A

|X| Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2003

|_| Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 0-21719

Steel Dynamics, Inc.
(Exact name of registrant as specified in its charter)

Indiana	35-1929476
(State or other jurisdiction of incorporation or organization)	(IRS employer Identification No.)
6714 Pointe Inverness Way, Suite 200, Fort Wayne, IN	46804
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (260) 459-3553

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

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g)of the Act:
Common Stock, $0.01 par value

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2. Yes |X| No|_|

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2003, was approximately, $461,665,000. Registrant had no non-voting shares. For purposes of this calculation, shares of common stock held by directors, officers and 5% stockholders known to the registrant have been deemed to be owned by affiliates, but this should not be construed as an admission that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or

that such person is controlled by or under common control with the registrant.

As of February 20, 2004, Registrant had outstanding 49,007,605 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of registrant's definitive proxy statement referenced in Part III, Items 10, 11 and 12 of this report, to be filed prior to April 29, 2004, which are incorporated by reference herein.

STEEL DYNAMICS, INC.

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EXPLANATORY NOTE

The purpose of this amendment on Form 10-K/A to the Annual Report on Form 10-K of Steel Dynamics, Inc. for the year ended December 31, 2003, is to provide revised forms of certification on Exhibits 31.1 and 31.2, to conform to the format prescribed by Item 601(b)(31) of Regulation S-K, as well as to revise the form of Item 9A, subsection (b) regarding "Changes in Internal Controls" (no changes). These changes constitute only format revisions.

No attempt has been made in this Form 10-K/A to modify or update any financial information or other disclosures presented in the original report on Form 10-K, nor does this Form 10-K/A reflect events occurring after the filing of the original Form 10-K or modify or update those disclosures, including exhibits to the Form 10-K. Information described herein reflects the disclosures made at the time of the original filing of the Form10-K on March 12, 2004. Accordingly, this Form 10-K/A should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the filing of the original Form 10-K, including any amendments to those filings.

PART I

Special Note Regarding Forward-Looking Statements

Throughout this report, or in other reports or registration statements filed from time to time with the Securities and Exchange Commission under the Securities Exchange Act of 1934, or under the Securities Act of 1933, as well as in documents we incorporate by reference or in press releases or oral statements made by our officers or representatives, we may make statements that express our opinions, expectations, or projections regarding future events or future results, in contrast with statements that reflect historical facts. These predictive statements, which we generally precede or accompany by such typical conditional words as "anticipate," "intend," "believe," "estimate," "plan," "seek," "project" or "expect," or by the words "may," "will," or "should," are intended to operate as "forward looking statements" of the kind permitted by the Private Securities Litigation Reform Act of 1995, incorporated in Section 27A of the Securities Act and Section 21E of the Securities Exchange Act. That legislation protects such predictive statements by creating a "safe harbor" from liability in the event that a particular prediction does not turn out as anticipated.

While we always intend to express our best judgment when we make statements about what we believe will occur in the future, and although we base these statements on assumptions that we believe to be reasonable when made, these forward looking statements are not a guarantee of performance, and you should not place undue reliance on such statements. Forward looking statements are subject to many uncertainties and other variable circumstances, many of which are outside of our control, that could cause our actual results and experience to differ materially from those we thought would occur.

The following listing represents some, but not necessarily all, of the factors that may cause actual results to differ from those anticipated or predicted:

- cyclical changes in market supply and demand for steel; general economic conditions; U.S. or foreign trade policy or adverse outcomes of pending and future trade cases alleging unlawful practices in connection with steel imports or exports, including the repeal, lapse or exemptions, from existing U.S. tariffs on imported steel; and governmental monetary or fiscal policy in the U.S. and other major international economies;

- increased competition brought about by excess global steelmaking capacity,

imports of low priced steel and consolidation in the domestic steel industry;

- risks and uncertainties involving new products or new technologies, such as our Iron Dynamics ironmaking process, in which the product or process or certain critical elements thereof may not work at all, may not work as well as expected, or may turn out to be uneconomic even if they do work;

- changes in the availability or cost of steel scrap, steel scrap substitute materials or other raw materials or supplies which we use in our production processes, as well as periodic fluctuations in the availability and cost of electricity, natural gas or other utilities;

- the occurrence of unanticipated equipment failures and plant outages or incurrence of extraordinary operating expenses;

- actions by our domestic and foreign competitors, including the addition of production capacity, the re-start of previously idled production capacity resulting from bankruptcy reorganizations or asset purchases out of bankruptcy;

- loss of business from one or more of our major customers or end-users;

- labor unrest, work stoppages and/or strikes involving our own workforce, those of our important suppliers or customers, or those affecting the steel industry in general;

- the effect of the elements upon our production or upon the production or needs of our important suppliers or customers;

- the impact of, or changes in, environmental laws or in the application of other legal or regulatory requirements upon our production processes or costs of production or upon those of our suppliers or customers, including actions by government agencies, such as the U.S. Environmental Protection Agency or the Indiana Department of Environmental Management, on pending or future environmentally related construction or operating permits;

- private or governmental liability claims or litigation, or the impact of any adverse outcome of any litigation on the adequacy of our reserves, the availability or adequacy of our insurance coverage, our financial well-being or our business and assets;

- changes in interest rates or other borrowing costs, or the effect of existing loan covenants or restrictions upon the cost or availability of credit to fund operations or take advantage of other business opportunities;

- changes in our business strategies or development plans which we may adopt or which may be brought about in response to actions by our suppliers or customers, and any difficulty or inability to successfully consummate or implement as planned any of our projects, acquisitions, joint ventures or strategic alliances; and

- the impact of regulatory or other governmental permits or approvals, litigation, construction delays, cost overruns, technology risk or operational complications upon our ability to complete, start-up or continue to profitably operate a project, an acquisition or a new business, or to operate it as anticipated.

We also believe that you should read the many factors described in "Risk Factors" to better understand the risks and uncertainties inherent in our

business or in owning our securities.

Any forward looking statements which we make in this report or in any of the documents that are incorporated by reference herein speak only as of the date of such statement, and we undertake no ongoing obligation to update such statements. Comparisons of results between current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

ITEM 1. BUSINESS

OUR COMPANY

Overview

We are a steel manufacturing company that owns and operates three steelmaking mini-mills. We produce our steel principally from steel scrap, using electric arc melting furnaces, continuous casting and automated rolling mills.

During 2003, our sales were $987 million and, at year-end, we had approximately 1,400 employees. None of our employees are represented by labor unions.

Flat Roll Division

We own and operate a flat-roll mini-mill located in Butler, Indiana, which produces sheet steel and which we built and have operated since 1996. This mill has an annual production capacity of 2.2 million tons of flat-rolled steel, although we actually produced 2.4 million tons during 2003. We produce a broad range of high quality hot-rolled, cold-rolled and coated steel products, including a large variety of high value-added and high margin specialty products such as thinner gauge rolled products and galvanized products. We sell our flat-rolled products directly to end-users, intermediate steel processors and service centers primarily in the Midwestern United States. Our products are used in numerous industry sectors, including the automotive, construction and commercial industries.

In May 2002, we announced plans to construct a new in-plant painting facility at our Butler mini-mill, and we completed this facility and commenced coating operations in November 2003. This $25 million facility has the capacity to coat approximately 240,000 tons of steel.

In March 2003, we also purchased the assets of a coating facility formerly owned by GalvPro II, LLC in Jeffersonville, Indiana for a purchase price of $17.5 million plus a potential of an additional $1.5 million based on an earn-out formula. We anticipate that this facility will be capable of producing between 300,000 and 350,000 tons per year of light-gauge, hot-dipped cold-rolled galvanized steel. We operate this new facility as a part of our Butler, Indiana Flat Roll Division, which will also supply the Jeffersonville plant with steel coils for coating. Production began at Jeffersonville in July 2003. Our new Jeffersonville facility, together with our new coil-coating facility in Butler, will enable us to further increase the mix of higher-margin value-added downstream steel products. This value-added product mix, during 2002 and 2003, was approximately 60% of our total flat-roll shipments.

Structural Steel and Rail Division

We also own and operate a new structural steel and rail mini-mill in Columbia City, Indiana. We began construction in May 2001, completed plant

construction in April 2002 and commenced commercial structural steel operations during the third quarter of 2002. Our Columbia City mini-mill is designed to have an annual production capacity of up to 1.3 million tons of structural steel beams, pilings and other steel components for the construction, transportation and industrial machinery markets, as well as standard and premium grade rails for the railroad industry. Through regular product introductions and continued production ramp-up of structural steel products, we were able to begin to offer a broad array of wide flange beams and H-piling structural steel products during 2003 and were able to commission most of the rest of our product line, save for 6 inch and 36 inch beams, which we hope to commission during the first quarter of 2004. In addition, we performed casting trials for the production of standard rail products during the first quarter of 2003, and, since that time have successfully run product through the breakdown mill, tandem mill, cooling bed and straightener. We anticipate having finished rail product during the second quarter of 2004, which we will provide to the railroad companies to be tested and monitored for product evaluation. This evaluation process may take between six and nine months.

Bar Products Division

On September 6, 2002, we purchased the special bar quality mini-mill assets in Pittsboro, Indiana formerly owned by Qualitech Steel SBQ LLC. We paid $45 million for these assets, worked during 2003 to upgrade, redesign and retrofit the facility for the production of a variety of merchant bar quality, or MBQ products such as angles, flats, rounds and other merchant bars and shapes, as well as reinforcing bar, or rebar, products and also for the production of some special bar quality, or SBQ products. When fully complete, we expect to have invested between $75 and $80 million of additional capital in this facility. We started melting and casting operations in mid-December and began shipping limited products by year-end 2003. Currently, we are producing bigger bars, both MBQ and SBQ, and expect equipment to arrive during the first quarter of 2004 which will enable us, during the second quarter, to produce the smaller rounds, angles, flats, channels and products of that nature. We expect the Pittsboro facility to have a capacity of approximately 500,000 to 600,000 tons per year.

Iron Dynamics Scrap Substitute Facility

On February 24, 2003, we announced our intention to restart ironmaking operations at our wholly-owned Iron Dynamics facility adjacent to our Butler, Indiana mini-mill. Since 1997, we have tried to develop and commercialize a pioneering process for the production of a virgin form of iron that could serve as a lower cost substitute for a portion of the metallic raw material mix that goes into our electric arc furnaces to be melted into new steel. Since initial start-up in August 1999, we encountered a number of equipment, design and process difficulties, and on several occasions during 1999 and 2000 shut the facility down for redesign, re-engineering and retrofitting. In July 2001, we suspended operations because of higher than expected start-up and process refinement costs, high energy costs prevailing at that time, low production quantities, and historically low steel scrap pricing existing at that time. These factors made the cost of producing and using our Iron Dynamics scrap substitute as a source of metallics for the melt mix at our Flat Roll Division higher than our cost of purchasing and using steel scrap.

We continued to make refinements to our systems and processes, and began experimental production trials in the fourth quarter of 2002. After an evaluation of these production trials, we concluded that improved production technology, coupled with our new ability to recycle waste materials as a raw material input, and the increasingly higher price of scrap, made the restart of this production facility feasible. During 2003, we spent approximately $13 million of additional capital for modifications and refinements to the Iron Dynamics operation. We restarted the rotary hearth furnace or "front end" of the process in November 2003, and, during December 2003, produced 15,100 tonnes of

direct reduced iron, which we then compacted or briquetted to form hot briquetted iron, or HBI. We anticipate ramping HBI production up to approximately 30-35,000 tonnes of HBI per month by the end of the second quarter of 2004, all of which we plan to use at our Butler flat-roll mill. We have not yet restarted the smelting end of the Iron Dynamics process, the conversion of HBI into liquid pig iron, but we anticipate restarting the submerged arc furnace by the end of the first quarter or the beginning of the second quarter of 2004.

Mesabi Nugget Project

In March 2002, we formed a joint venture with certain entities owned by Kobe Steel, Ltd., Cleveland-Cliffs Inc., and Ferrometrics, Inc., to assist in the development of a proprietary process owned by Kobe, known as "ITmK3," for the production of a fully metallized iron nugget product suitable as an alternative iron or scrap substitute feedstock in electric arc furnace steelmaking. We hold an approximate 18% equity interest in a pilot plant in operation in Minnesota that is working to validate and refine the technology, which consists of superheating direct reduced iron pellets, liquefying the material, separating the slag and the iron, and chilling the resulting material to produce a highly pure iron nugget.

New Millennium Building Systems

During the first quarter of 2003, we increased our ownership in our consolidated New Millennium Building Systems subsidiary from 46.6% ownership interest to 100%, through the acquisition of the 46.6% interest in New Millennium previously held by New Process Steel Corporation, a privately held Houston, Texas steel processor and the purchase of the remaining 6.8% stake held by some of New Millennium's managers. We consummated the 46.6% New Process acquisition, at a cost of $3.5 million, plus the purchase of New Process Steel's portion of New Millennium's subordinated notes payable, including accrued interest, for $3.9 million, and we also consummated the purchase of the remaining 6.8% minority interest at a purchase price of $900,000.

The New Millennium facility, which began production in June of 2000, produces steel building components, including joists, girders, trusses and steel roof and floor decking, which we sell primarily in the upper Midwest non-residential building components market. Our Flat Roll Division supplies a majority of the hot-rolled steel utilized in New Millennium's manufacturing operations.

We were incorporated in August 1993, in Indiana, and maintain our principal executive offices at 6714 Pointe Inverness Way, Suite 200, Fort Wayne, Indiana 46804. Our telephone number is (260) 459-3553.

Financing

In March 2002, we consummated a $350.0 million senior secured credit agreement, consisting of a five year $75.0 million revolving credit facility, a $70.0 million term A loan, with a term of five years, and a $205.0 million term B loan, with a term of six years. This senior secured facility is secured by liens and mortgages on substantially all of our personal and real property assets and by liens and mortgages on substantially all of the personal and real property assets of our wholly-owned subsidiaries, excluding New Millennium, which have also guaranteed our obligations under that facility.

Also in March 2002, we issued $200.0 million of 9 1/2% unsecured senior notes due 2009, and in November 2003 we issued an additional $100.0 million of the same 9 1/2% unsecured senior notes due 2009, in offerings exempt from

registration under the Securities Act of 1933. Approximately $50.0 million of the net proceeds from this offering were used to prepay a portion of our senior secured term B loan. Pursuant to a registration rights agreement between us and the initial purchasers of the notes, who resold the notes in offerings exempt from registration under Rule 144A under the Securities Act, we registered an exchange offer on Form S-4 to enable the holders of the initial $200.0 million of unregistered notes, and we are also obligated to register an exchange offer for the $100.0 million add-on as well.

During December 2002 and January 2003, we also issued $115.0 million of our 4% convertible subordinated notes due 2012, in an offering exempt from registration under the Securities Act of 1933. Pursuant to a registration rights agreement between us and the initial purchasers of the notes, who resold the notes in offerings exempt from registration under Rule 144A under the Securities Act, we filed a registration statement on Form S-3 on March 7, 2003, effective June 11, 2003, to permit registered resales by the selling securityholders of the notes, as well as the approximately 6,762,874 shares of common stock initially issuable upon conversion of the notes. Approximately $110.0 million of the net proceeds from this offering were used to prepay in full our $70.0 million senior secured term A loan and $40.0 million of our senior secured term B loan in December 2002 and January 2003, as described herein. Under the terms of the convertible note offering, holders of the notes have the right to convert their notes into shares of our common stock at a conversion rate of 58.8076 shares per $1,000 principal amount of notes (equivalent to an initial conversion price of approximately $17.0046 per share), subject to adjustment, if, among other designated circumstances, during any fiscal quarter commencing after December 31, 2002, the closing sale price of our common stock exceeds $120% of the conversion price ($20.4055) for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of any fiscal quarter.

Competitive Strengths

We believe that we have the following competitive strengths:

One of the Lowest Cost Producers in the United States; State-of-the-Art Facilities

We believe that our facilities are among the lowest-cost steel manufacturing facilities in the United States. Operating profit per ton shipped at our facilities, which we define as consolidated operating income before start-up costs and minority interest adjustments divided by consolidated net ton shipments, was $23, $74 and $37 in 2001, 2002 and 2003, respectively, which we believe compares favorably with our competitors. Our low operating costs are primarily a result of our efficient plant designs and operations, our high productivity rate of between 0.3 to 0.4 man hours per ton at our Flat Roll Division's mini-mill, low ongoing maintenance cost requirements and strategic locations near supplies of our primary raw material, scrap steel.

Experienced Management Team and Unique Corporate Culture

Our senior management team is highly experienced and has a proven track record in the steel industry, including pioneering the development of thin-slab flat-rolled technology. Their objectives are closely aligned with our stockholders through meaningful stock ownership positions and performance-based compensation programs. Our corporate culture is also unique for the steel industry. We emphasize decentralized decision-making and have established incentive compensation programs specifically designed to reward employee teams for their efforts towards enhancing productivity, improving profitability and controlling costs.

Diversified Product Mix

Our current products include hot-rolled and cold-rolled steel products, galvanized sheet products, light gauge steel products, structural steel and rails, and joists and deck materials. We have broadened our offering of painted and coated products with the commencement of production at our recently completed coil coating facility and at our recently acquired galvanizing facility, and we have entered the merchant bar, or MBQ market with an array of angles, flats, rounds, reinforcing bar and other shapes, as well as various special bar quality, or SBQ market, as our Bar Products Division becomes fully operational. This diversified mix of products should enable us to access a broader range of end-user markets, serve a broader customer base and mitigate our exposure to cyclical downturns in commodity grade flat-rolled products or in any one product or end-user market.

Strategic Geographic Locations

The strategic locations of our facilities near sources of scrap materials and our customer base allow us to realize significant pricing advantages due to freight savings for inbound scrap as well as for outbound steel products destined for our customers. Our mini-mills are located in the Upper Midwest, a region which we believe accounts for a majority of the total scrap produced in the United States. Our new Jeffersonville, Indiana galvanizing facility, on the Ohio River, will also provide us with an expanded geographic reach to Southern markets.

Business Strategy

Expand Product Offerings

The completion of our Structural and Rail Division and the commencement of production at that facility, the completion of our Flat Roll Division coating facility and the expansion of production of coated products at that facility, as well as our recent acquisitions of the Pittsboro, Indiana bar mill and the Jeffersonville, Indiana galvanizing facility, are important steps in pursuing our strategy of product line expansion. The Structural and Rail Division is strategically located to serve the Upper Midwest, Northeast and Canadian markets, which we believe are attractive and under-served markets. Our strategy to expand our flat-rolled steel product offerings is to focus on the production of high value-added thinner gauge products, galvanized products and various coated products. The margins on high value-added products typically exceed those of the commodity grade and the number of producers that make them is more limited. Our Pittsboro, Indiana bar mill is likewise strategically located to position ourselves to cost-effectively serve our product markets. We will continue to seek additional opportunities to further expand our range of high value-added products through the expansion of existing facilities, greenfield projects and acquisitions of other steel manufacturers or steelmaking assets that may become available through the continuing consolidation of the domestic steel industry.

Enter New Geographic Markets

We may seek to enter new steel markets in strategic geographic locations such as the Southeastern or Western United States that offer attractive growth opportunities. Due to the ongoing restructuring of the domestic steel industry, we believe there are attractive opportunities to grow our business geographically either through acquisitions of existing assets or through strategic partnerships and alliances. We may also consider growth opportunities through greenfield projects.

Continue to Maintain Low Production Costs

We are focused on continuing to maintain one of the lowest operating cost structures in the North American steel industry based upon operating cost per ton. We will continue to optimize the use of our equipment, enhance our productivity and explore new technologies to further improve our unit cost of production at each of our facilities.

Foster Entrepreneurial Culture

We intend to continue to foster our entrepreneurial corporate culture and emphasize decentralized decision-making, while rewarding teamwork, innovation and operating efficiency. We will also continue to focus on maintaining the effectiveness of our incentive bonus-based plans that are designed to enhance overall productivity and align the interests of our management and employees with our stockholders.

Risk Factors

Our profitability is subject to the risks described under "Risk Factors" described elsewhere in this report. The following is a summary of some of the most significant risks that may adversely affect our future financial performance and our ability to effectively compete within our industry:

- excessive imports of steel into the United States that depress U.S. steel prices;
- intense competition and excess global capacity in the steel industry that depress U.S. steel prices;
- reduction of demand for steel or downturn in the industries we serve, including the automotive industry;
- technology, market, operating and start-up risks associated with our Iron Dynamics scrap substitute project;
- inability to secure a stable supply of steel scrap, and the escalating cost of steel scrap, our primary raw material, to historic highs;
- start-up and operating risks associated with the retrofitting of our Bar Product Division's bar mill; and
- unexpected equipment failures that could lead to production curtailments or shutdowns.

For additional information on these factors and others, we refer you to "Risk Factors."

Industry Segments

Under Statement of Financial Accounting Standards No. 131 "Disclosures About Segments of an Enterprise and Related Information," we have two reportable segments: Steel Operations and Steel Scrap Substitute Operations.

Available Information

Our internet website address is http://www.steeldynamics.com. We make available on our internet website, under "Investor Relations--SEC Filings," free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, press releases,

ownership reports pursuant to Section 16(a) of the Securities Act of 1933, as well as our Code of Ethics for Principal Executive Officers and Senior Financial Officers, and any amendments to or waivers of our Code of Ethics, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act, as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the SEC.

Our Business

Our Operations

Flat Roll Division

Flat-Roll Mini-Mill

Our Butler flat-roll steel mini-mill manufactures hot-rolled, cold-rolled and coated steel products. It currently has an annual capacity of 2.2 million tons, although during 2003 we actually produced approximately 2.4 million tons. We commenced construction of our flat-roll mini-mill in October 1994 and began production of commercial quality steel in January 1996 with an initial annual capacity of 1.4 million tons. At the end of 1997, we completed construction of a cold finishing mill contiguous to the hot mill with an annual capacity of 1.0 million tons. In July 1998, we completed construction, installation and start-up of a second twin-shell melting furnace battery, thin-slab caster, tunnel furnace and coiler, thus increasing our mini-mill's annual production capacity to its current level of 2.2 million tons. This additional production capacity of hot-rolled steel also enables us to take full advantage of the 1.0 million ton rolling and finishing capacity of our cold mill. Our products are characterized by high quality surface characteristics, precise tolerances and light gauge. In addition, our mini-mill was one of the first U.S. flat-roll mini-mills to achieve ISO 9002 and QS 9000 certifications. We believe that these certifications have enabled us to serve a broader range of customers and end-users which historically have been almost exclusively served by integrated steel producers.

The Hot Mill

Our hot mill's electric arc furnace melting process begins with the charging of a furnace vessel with scrap steel, carbon and lime, or with a combination of scrap and a scrap substitute or alternative iron product. The furnace vessel's top is swung into place, electrodes are lowered into the furnace vessel through holes in the top of the furnace, and electricity is applied to melt the scrap. The hot briquetted iron that our Iron Dynamics subsidiary began to produce during 2003 or the liquid pig iron that we hope to begin producing during 2004 are examples of scrap substitutes that would be introduced directly into the melt mix at this stage.

We have two Fuchs twin-shell electric arc melting furnaces, designed to substantially reduce both power-off time and tap-to-tap time (the length of time between successive melting cycles or heats). When melting is being done in one vessel, we can tap the other vessel and refill it with scrap and steel scrap substitute to make it ready for the next melt. This results in more heats and greater productivity per shift. An additional advantage of our twin-shell design is that if there is a maintenance problem requiring work on one vessel, melting can proceed in the other vessel without interruption.

After exiting the furnaces, the liquid steel is transported in a ladle by overhead crane to an area commonly known as the ladle metallurgy station. At each metallurgy station, the steel is kept in a molten state while metallurgical

testing, refining, alloying and desulfurizing takes place. We have three separate ladle metallurgy stations consisting of three furnaces and two desulfurization stations. Having a separate metallurgy station apart from the furnaces allows us to maximize the time that the furnaces can be used for melting scrap.

The liquid steel is then transported to one of our two continuous thin-slab casters where it is emptied into a tundish, or reservoir. This reservoir controls the flow of the liquid steel into a water-cooled copper-lined mold from which it then exits as an externally solid slab. Our casters were built by SMS Schloemann-Siemag AG. We have also designed a special nozzle, which transfers the liquid steel from the reservoir into the mold, that results in increased productivity and product quality. The slab from the continuous caster is less than two inches thick and proceeds directly into one of our two tunnel furnaces. The tunnel furnaces maintain and equalize the slab's temperature. The slab leaves the tunnel furnace and is descaled to remove surface scale prior to its rolling.

In the hot-rolling operation, the slab is progressively reduced in thickness. Our hot-rolling mill consists of a seven-stand rolling mill built by SMS Schloemann-Siemag AG. The mill is equipped with the latest electronic and hydraulic controls to control such things as gauge, shape, profile and exit speeds of the steel strip as it moves along the run-out table to help prevent thinner steel strip from cobbling. The seventh rolling stand which we added allows us to further roll our sheet steel to even thinner gauges, down to 1.0 mm, with excellent surface quality, and enables us to access markets previously available only to more costly cold finished material.

After exiting the hot-rolling mill, the rolled sheet steel is cooled and wound into coils. The coil form allows the strip to be easily handled and transported. We sell a portion of our hot band coil production directly to end-users or to intermediate steel processors or service centers, where they may be pickled, cold-rolled, annealed, tempered or galvanized by those customers. To an ever increasing extent, the rest of our hot band coil production is directed to our cold mill, where we add value to this product through our own pickling, cold-rolling, annealing, tempering or galvanizing processes, including the additional coating capacity provided by our recently completed paint line. We also now supply our new Jeffersonville, Indiana galvanizing facility with cold-rolled material.

Throughout the hot-rolling process, laser optical measuring equipment and multiple x-ray devices measure all strip dimensions, allowing adjustments to occur continuously and providing feedback information to the mill process controls and computers. The entire production process is monitored and controlled by both business and process computers. Production schedules are created based on order input information and transmitted to the mill computers by the plant business system. As the material is processed, operating and quality data are gathered and stored for analysis of operating performance and for documentation of product parameters to the customer. The system then coordinates and monitors the shipping process and prints all relevant paper work for shipping when the coil leaves the plant.

The Cold Mill

Our cold mill is located adjacent to our hot mill and produces products that require gauges, properties or surfaces that cannot be achieved in our hot mill. Cold-rolled sheet is hot-rolled sheet that has been further processed through a continuous pickle line and then successively passed through a rolling mill without reheating until the desired gauge and other physical properties

have been achieved. Cold-rolling reduces gauge, hardens the steel and, when further processed through an annealing furnace and temper mill, improves uniformity, ductility and formability. Cold-rolling can also add a variety of finishes and textures to the surface of the steel.

Our cold-rolled mill process begins with hot-rolled product from our hot-rolling mill entering our continuous pickle line. At the entry end of the continuous pickle line, we have two reels to unwind coils and a welder to join the coils together. We unwind the coils on alternate reels and attach them end to end by the welder, creating a continuous strip through the pickle tanks. The center section of the 700-foot pickle line consists of a scale breaker/tension leveler, pickling tanks where the strip moves through a bath of hydrochloric acid that thoroughly cleans the strip in preparation for galvanizing and rolling operations, and rinse tanks. At the delivery end of the line there is a reel for recoiling the pickled product. After recoiling, each coil is stored in a central coil storage area. The design of the continuous pickle line allows for the production of a wide combination of gauges and widths on the light gauge steel supplied by the hot mill.

From the central coil storage area, we move our coils in one of three directions. We can (1) ship pickled and oiled coils directly to customers from the continuous pickle line as finished product; (2) immediately galvanize some coils on the hot-rolled galvanizing line which is then sold as finished product; or (3) process coils through our cold-reversing mill.

Pickled and oiled coils that are not intended for immediate shipment or hot-rolled galvanizing are processed in our cold reversing mill. Our cold reversing mill was built by SMS Schloemann-Siemag AG and is one of only two semi-tandem two-stand reversing cold-rolling operations in the world. This configuration provides considerably higher throughput than a conventional single-stand reversing mill, yet also takes advantage of considerably lower equipment costs than the conventional four to six-stand tandem cold-rolling mill. The rolling mill is configured with multiple x-ray gauges, hydraulic bending systems, rolling solution controls, gauge controls and strip flatness controls used to produce an extremely high level of product quality parameters. The cold-rolling mill also uses a process control computer using sophisticated mathematical models to optimize both quality and throughput.

Product that exits the cold reversing mill can then be shipped as finished product, transported to our cold-rolled galvanizing line or transported to our batch annealing furnaces. In the cold-rolled galvanizing line, cold-rolled coils are heated in an annealing furnace and coated while still hot in a pot of molten zinc. As the coil leaves the pot, various coating controls ensure that the product matches the customer's requirements. The coils are then shipped as finished product. The cold-rolled galvanizing line and the hot-rolled galvanizing line are very similar, but the cold-rolled galvanizing line has a more elaborate and larger strip heating furnace that is required to anneal cold-rolled product. We designed our continuous pickle line and the two galvanizing lines concurrently and procured the equipment from the same manufacturer. As a result, the equipment of our three lines share a commonality of parts and we have been able to realize a high degree of flexibility and cost savings in the management of our spare parts.

Cold-rolled coils that do not require galvanizing proceed to our batch annealing furnaces. The batch annealing furnaces heat and then cool the coils in a controlled manner to reduce the hardness of the steel that is created in the cold-rolling process. The batch annealing furnaces heat the steel in a hydrogen environment that optimizes the efficiency of the heating process and produces a product that is superior to conventional batch annealing with regard to cleanliness and uniform metallurgical characteristics. Computer models determine and control the heating and cooling the coils based on current knowledge of heat transfers and steel characteristics.

Coils from the annealing furnaces are then temper-rolled and shipped as finished product. The temper mill consists of a single stand four-high rolling mill designed for relatively light reduction of the product. The temper mill introduces a small amount of hardness into the product and further enhances the overall flatness and surface quality of the product. The temper mill also has an x-ray gauge to monitor strip thickness. This mill was purchased concurrently with the two-stand cold-rolling mill from SMS Schloemann-Siemag AG, enabling us to realize a high degree of flexibility and cost savings with regard to management of spare parts.

As with our hot mill, our cold mill is linked by means of business and process computers. We expanded our computer systems to comprehend order entry of the additional cold mill products, and we accomplish all of our line scheduling in the computer systems through schedules transmitted to the appropriate process related computers. We collect operating and quality data for analysis and quality control purposes, and for reporting product data to customers.

New On-Site Coating Facility

Our new $25 million on-site paint line expansion, located immediately adjacent to our existing cold mill building, was completed during 2003 and has an estimated coating capacity of 240,000 tons per year, in gauges from .010 to .070 inches and in widths ranging from 36 to 64 inches. The paint line receives material directly from our other processing lines and is capable of painting hot rolled galvanized coil, cold rolled coil and cold rolled galvanized coil. The line incorporates state-of-the-art coil coating equipment with quick color change capability and on-line color matching, in-line tension leveling, direct heat clean air catenary ovens and a thermal recuperative oxidizer.

We believe that we are the only mill in North America with an on-site paint line, which should not only enable us to realize substantial savings in overhead, maintenance, engineering, sales and marketing, capital cost and infrastructure, but will eliminate the typical cost of transfer freight, approximately $10-15 per ton, that a customer must otherwise pay to transport coils to other remote coating facilities. These advantages will further enable us to continue to be a low cost supplier of coated products. The addition of our new paint line further expands our high margin value added product offerings.

New Galvanizing Facility

Our new Jeffersonville, Indiana cold rolled galvanizing facility, which we purchased in March 2003 from GalvPro II, LLC, for $17.5 million plus up to an additional $1.5 million based on an earn-out formula, is located within the Clark Maritime Center on the Ohio River. The galvanizing line has an estimated capacity of between 300,000 and 350,000 tons per year and is capable of coating cold rolled steel in gauges from .008 to .045 inches and in widths between 24 and 60 inches. This gauge range is lighter than that available from our Butler facility and, therefore, creates a further expansion of our value added product offerings, particularly in the light gauge building products arena.

The galvanizing line was built in 1999, has been well maintained and is almost identical to the cold rolled galvanizing line at our Butler mill. This familiarity helped us to facilitate a rapid start-up in July 2003. This facility enables us to continue to serve existing cold rolled galvanized customers, whose needs we might have otherwise been unable to meet. The Ohio River location of this facility also creates opportunities for market expansion into other geographic regions. Our Butler cold mill provides the new Jeffersonville facility with cold rolled material.

Structural and Rail Division

Structural Steel and Rail Mini-Mill

We began construction of our new structural steel and rail mini-mill in Columbia City, Indiana in May 2001, completed plant construction in April 2002 and commenced commercial structural steel operations during the third quarter of 2002. Our mini-mill is designed to have an annual production capacity of up to 1.3 million tons of structural steel beams, pilings and other steel components for the construction, transportation and industrial machinery markets, as well as standard and premium grade rails for the railroad industry. Through regular product introductions and continued production ramp-up of structural steel products, we were able to begin to offer a broad array of wide flange beams and H-piling structural steel products during 2003, and, during 2003, we were also able to commission most of the rest of our structural steel product line, except for 6 inch and 36 inch beams which we hope to commission during the first quarter of 2004. In addition, we performed casting trials for the production of standard rail products during the first quarter of 2003, and, since that time have successfully run product through the breakdown mill, tandem mill, cooling bed and straightener. We anticipate having finished rail product during the second quarter of 2004, which we will provide to the railroad companies to be tested and monitored for product evaluation. This evaluation process may take between six and nine months.

Mill Operation

Our structural steel and rail mini-mill melts scrap and scrap substitutes in an electric arc furnace much the same way as in our flat-roll mini-mill. We use a single shell furnace but have purchased and installed a second furnace, which provides us with back-up melting capability in case of a furnace breakdown or during one of our periodic maintenance outages. At present, our operating permit only enables us to use one furnace at a time. While we plan to use 100% scrap as the primary raw material, the type of scrap required for the production of structural steel and rail products is generally of a cheaper and less expensive grade than that required for the production of flat-rolled steel. The furnace was built by SMS Demag AG and includes features that permit us to employ more thermally efficient melting practices. The furnace features a removable shell that enables us to do off-line repair and refractory relining, comes equipped with a unique quick-change roof configuration, and also features a fast tap hole tube change configuration that shortens the time required for periodic replacement.

From the furnace the molten metal is transported to a separate ladle metallurgy furnace where, as in the flat-roll mini-mill, we adjust the mix for temperature and chemistry. We then take the liquid steel to a continuous caster, where, unlike our Butler mini-mill that produces a single strand of flat stock, our structural steel caster casts three strands, expandable to four, of blooms and beam blanks. The caster utilizes a curved mold that produces five sizes of material--one bloom, which is rectangular shaped, and four beam blanks, which are dog bone shaped, in varying lengths of 17 to 48 feet. The caster design accommodates a quick-change tundish nozzle system designed to optimize the continuous casting process and to achieve a low operational cost per ton. The tundish bottoms are also designed to change from a bloom opening to any of four beam blank sizes to allow greater flexibility in product choice. The caster was built by SMS Concast.

After exiting the mold, the multiple strands continue through a series of sprays and roller supports to precisely cool and contain the cast shapes.

Straightener rolls then unbend the curved strands onto a horizontal pass-line, where they are cut to length by automatic torches. We then weigh the cast pieces and transport them either directly through a reheat furnace, built by A.C. Leadbetter, to a hot-rolling mill, or into a storage area for rolling at a later time. In the hot-rolling mill, the product passes through a breakdown stand where it is rolled into either a structural steel product or a rail product, depending on the roll-configuration and number of passes. The product is then transferred to a 3-stand tandem mill, which consists of a universal rougher, an edger and a universal finisher. The hot-rolling mill is an advanced four-stand, all reversing mill built by SMS Demag AG. The mini-mill is capable of producing wide flange beams from 6" x 4" to 36" x 12", standard beams, piling sections, M-shape sections, sheet piling, channels, car building shapes, bulb angles and zee's and rail sections.

Downstream of the hot-rolling mill, a hot saw cuts the structural steel to a maximum 246-foot length before it enters a cooling bed. After cooling, the structural steel product is straightened on a roller straightener and cut to length as required by a particular order. The product is then piled and bundled and shipped as finished product.

For the production of rail products, we have fitted our caster with new molds and segments to cast the new 13" x 10" blooms required for rail production. We have also added electro magnetic stirring within the caster to improve surface quality and reduce internal cracking. The reheat furnace, which heats the blooms to the proper rolling temperature, is also fitted with automation changes for the charging and discharging machines. We also operate additional descaling equipment prior to the rolling process, as well as a rail stamper and manipulator. Both vertical and horizontal straighteners are used to produce a rail that is true along all axes. After straightening, the rail product is tested, cut to length and drilled. In our testing center, we provide ultrasonic testing for the detection of internal defects, an eddy current machine to spot surface cracks, a profile gauge for dimensional accuracy, and a straightness/waviness measurement machine. We are also in the process of installing additional cooling and handling equipment to manufacture highly desirable 320-foot rail lengths, which no one else produces in or imports into the U.S. or Canadian rail markets.

Iron Dynamics Steel Scrap Substitute Facility

Since 1997, Iron Dynamics has tried to develop and commercialize a pioneering process of producing a virgin form of iron that might serve as a lower cost substitute for a portion of the metallic raw material mix that goes into our electric arc furnaces to be melted into new steel. Historically, the price of steel scrap, as a commodity, has tended to be volatile, rising and falling with supply and demand and not always in lock step with or in proportion to the market price of new steel. More recently, and increasingly so during the last half of 2003 and thus far during 2004, with no immediate prospects for prices to abate, scrap costs have accelerated to historic highs, threatening one of the principal elements of the mini-mills' traditional lower cost structure--the cost of its metallic raw material. Therefore, having a lower cost alternative source of virgin iron for a portion of a mini-mill's melt mix, if realizable, would partially buffer the effects of high scrap prices and scrap price volatility. With the growing proportion of electric furnace steelmaking, both worldwide and domestically, we believe that the benefits of developing a cost-effective alternate iron source to augment scrap, our primary raw material, makes good economic sense in the long run.

Direct reduced iron is a metallic product made from iron ore or iron ore "fines" that have been treated in a "direct reduction" furnace, such as a rotary hearth furnace, with either natural gas or coal to reduce the iron oxide to metallic iron. The method selected by Iron Dynamics is one that uses coal as the reducing agent. The direct reduced iron, or DRI, is then compacted by

briquetters to form hot briquetted iron, or HBI, which is stable and can be immediately used in our melting furnaces or stockpiled for later use. Liquid pig iron, the ultimate end product intended to be produced by Iron Dynamics, is a pure metal product produced by smelting the direct reduced iron in a submerged arc furnace. Our Iron Dynamics facility was designed and built for the production of direct reduced iron and its conversion into liquid pig iron. We planned to use all of Iron Dynamics' liquid pig iron in our Flat Roll Division's steelmaking operations at Butler.

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The plant commenced initial start-up in August 1999. During this preliminary start-up, however, we encountered a number of equipment and design deficiencies, which required Iron Dynamics to undertake some costly and time-consuming redesign, re-engineering and equipment replacement work and to operate this new facility at greatly reduced output levels. A design and retrofit program began in late 1999 and continued throughout 2000. In July 2000, Iron Dynamics suspended operations to effect certain pre-planned repairs, including the installation of a new submerged arc furnace and a number of additional capital projects, including the installation of two hot briquetters, a new off-gas system for the submerged arc furnace, a sludge reclamation system, and a hot pan conveyance system. In March 2001, Iron Dynamics restarted the facility. However, in July 2001, we suspended operations because of higher than expected start-up and process refinement costs, then high prevailing energy costs, low production quantities and historically low steel scrap pricing that existed at that time. These factors, during that period, made the cost of producing and using Iron Dynamics' scrap substitute product at our flat-roll mini-mill higher than the cost of purchasing and using steel scrap.

We continued to make refinements to our systems and processes, notwithstanding the shut-down, and began experimental production trials again during the fourth quarter of 2002. After an evaluation of these production trials, we concluded that improved production technology, coupled with our ability to recycle waste materials as part of our raw material mix, and the then increasingly higher price of scrap, made the restart and operation of this production facility feasible. During 2003, we spent approximately $13 million to further modify and refine the process, including the installation of three briquetting machines, which enable us to stockpile iron briquettes or hot briquetted iron (HBI), after reduction in the rotary hearth furnace, for use directly as an alternate metallic feed stock in our Flat Roll Division's steelmaking operations. In connection with the liquid pig iron conversion process, the briquettes would first be liquefied and the hot liquid pig iron would then be transferred in ladles to the flat-roll mill's meltshop and combined with scrap steel in the mill's electric arc furnaces. During February 2003, we announced a restart of ironmaking operations at Iron Dynamics and, during December 2003, we produced 15,100 tonnes of HBI. We anticipate ramping up production of HBI to approximately 30-35,000 tons per month, by the end of the second quarter of 2004, all of which we intend to use at our Flat Roll Division. We have not yet restarted the smelting end of the Iron Dynamics process, the conversion of HBI into liquid pig iron, but we anticipate restarting the submerged arc furnace by the end of the first quarter or the beginning of the second quarter of 2004.

As of December 31, 2003, our equity investment in the Iron Dynamics project was $185 million.

Bar Products Division

Pittsboro, Indiana Bar Mill

We purchased our Pittsboro, Indiana bar mini-mill from Qualitech Steel SBQ

LLC in September 2002, and we are in the final phase of a $75 to $80 million program to upgrade and retrofit the mill to produce a broad array of merchant quality, or MBQ, bars and shapes and reinforcing bar products, as well as special bar quality, or SBQ, products. The mill was originally constructed in 1997 as an SBQ mill and consists generally of a 100 ton single shell AC melting furnace by SMS Demag, a three strand SMS Demag continuous caster capable of casting both a 7" x 7" billet and a 14" x 10" bloom, a reheat furnace, and a rolling mill consisting of a Pomini roughing mill and intermediate mill, and Kocks reducing and sizing blocks used in the production of SBQ rounds. The meltshop is also equipped with a separate ladle metallurgy facility, or LMF, where metallurgical testing, refining, alloying and desulfurizing takes place, and a vacuum tank degasser, which is used to degas steel to produce ultra low carbon and ultra high purity products.

We have added an eight stand finishing mill, together with ancillary equipment such as abrasive saws, shears, a straightener and magnetic stacking equipment, which will enable us to produce merchant bars and shapes, as well as reinforcing bar products.

We began melting and casting operations in mid-December and began shipping some limited products by year-end 2003. We are currently producing larger sizes MBQ and SBQ bars and expect the arrival and installation of equipment during the first quarter of 2004 which will enable us, during the second quarter, to begin production of the smaller rounds, angles, flats, channels and similar products. We expect that the Pittsboro facility will have a capacity of approximately 500,000 to 600,000 tons per year.

New Millennium Facility

In the first quarter of 2003, we increased our ownership percentage in our consolidated New Millennium Building Systems subsidiary from our pre-existing 46.6% ownership interest to 100%, through our acquisition of the 46.6% interest in New Millennium previously held by New Process Steel Corporation, a privately held Houston, Texas steel processor and our purchase of the remaining 6.8% stake owned by some of New Millennium's managers. After completion of the final purchases, and including our original investment, we have invested approximately $14 million in our New Millennium subsidiary.

New Millennium produces steel building components for the construction industry, including joists, girders, trusses and steel roof and floor decking. These products are sold primarily in the Upper Midwest non-residential building components market. Our Flat Roll Division supplies a majority of the hot-rolled steel utilized in New Millennium's manufacturing operations.

Products and Customers

Flat Roll Division

Products. Our Butler mini-mill produces hot-rolled products that include a variety of high quality mild and medium carbon and high strength low alloy hot-rolled bands in 40 inch to 62 inch widths and in thicknesses from .500 inch down to .080 inch. We also produce an array of lighter gauge hot-rolled products, ranging in thickness from .080 inch and thinner, including high strength low alloy 80,000 minimum yield and medium carbon steels made possible by the addition of our seventh hot-rolling stand. These products are suitable for automobile, truck, trailer and recreational vehicle parts and components, mechanical and structural steel tubing, gas and fluid transmission piping, metal building systems, rail cars, ships, barges, and other marine equipment, agricultural equipment and farm implements, lawn, garden, and recreation

equipment, industrial machinery and shipping containers.

We believe that our basic production hot band material has shape characteristics that exceed those of the other thin-slab flat-roll mini-mills and compares favorably with those of the integrated mills. In addition, as a result of our lighter gauge hot-rolling capabilities, we are now able to produce hot-rolled hot-dipped galvanized and galvannealed steel products. These products are capable of replacing products that have traditionally only been available as more costly cold-rolled galvanized or cold-rolled galvannealed steel. During 2002 and 2003, we produced 849,000 tons and 1.1 million tons of these lighter gauge hot-rolled products, respectively. Our new galvanizing facility will also further enable us to add to our mix of higher margin value added products through our ability to coat additional material that would otherwise not be coated due to the galvanizing capacity limitations at our Butler mill. During 2003, approximately 60% of our flat-roll shipments consisted of value-added products.

In our cold mill, we also produce hot-rolled pickled and oiled, hot-rolled hot dipped galvanized, hot-rolled galvannealed, cold-rolled hot dipped galvanized, cold-rolled galvannealed and fully processed cold-rolled sheet. Our new paint line will paint hot rolled galvanized coil, cold rolled coil and cold rolled galvanized coil in gauges from .010 to .070 inches and widths ranging from 36 inches to 64 inches. This material will typically be used in transportation products, building products such as raised garage door panels, heating and cooling products, appliances, furniture and lighting equipment.

Customers. The following tables show information about the types of products we produced and the types of customers we sold to in 2002 and 2003:

	2002
Products:	
Hot band	43%
Pickled and oiled	11%
Cold-rolled	13%
Hot-rolled galvanized	17%
Cold-rolled galvanized	12%
Post anneal	4%
Total	100%
Customers:	
Service center (including end-user intermediaries)	88%
Pipe and tube	4%
Original equipment manufacturer	8%
Total	100%

During 2003, we sold our products to approximately 190 customers. In 2003, our largest customers were Heidtman Steel, New Process Steel and Straightline, which in the aggregate accounted for approximately 23% of our total net sales. Heidtman accounted, individually, for approximately 18%, 17% and 13% of our net sales in 2001, 2002 and 2003, respectively.

Steel processors and service centers typically act as intermediaries between primary steel producers, such as us, and the many end-user manufacturers

that require further processing of hot bands. The additional processing performed by the intermediate steel processors and service centers include pickling, galvanizing, cutting to length, slitting to size, leveling, blanking, shape correcting, edge rolling, shearing and stamping. Notwithstanding the completion of our cold mill and our increased utilization in our own cold finishing facility for a considerable portion of our hot band production, we expect that our intermediate steel processor and service center customers will remain an integral part of our customer base. Our sales outside the continental United States accounted for approximately 7% of our total net sales in 2003.

Structural and Rail Division

Products. We produce various structural steel products such as wide flange beams, American Standard beams, miscellaneous beams, "H" Piling material, sheet piling material, American Standard and miscellaneous channels, bulb angles, and "zee's." The following listing shows each of our structural steel products and their intended markets:

Products	Markets
Wide flange, American Standard and miscellaneous beams.....	Framing and structural girders, stringers, ribs or stiffeners, skids, truck parts, and constru parts
"H" Piling.....	Foundational supports
Sheet Piling.....	Temporary or permanent bulkhead cofferdams, shore protection st core walls
Channel sections.....	Diaphragms, stiffeners, ribs an built-up sections
Bulb angles and zee's.....	Steel building components

We have gradually been ramping up production of different structural products, in various sizes and foot weights, since we commenced initial production in July 2002. During February 2004, we rolled approximately 55,000 tons and shipped approximately 67,000 tons of product. We have also initiated certain value added services for the Midwestern fabricator market, including exact length and exact piece count capabilities.

Customers. The principal customers for our structural steel products are steel service centers, steel fabricators and various manufacturers. Service centers, though not the ultimate end-user, provide valuable mill distribution functions to the fabricators and manufacturers, including small quantity sales, repackaging, cutting, preliminary processing and warehousing. A majority of our structural steel products are sold to service centers.

The marketplace for steel rails in the United States and Canada is relatively small, approximately 800,000 tons in 2002, and is also specialized, with only approximately six Class 1 railroad purchasers: Burlington Northern/Santa Fe, Union Pacific, Canadian Pacific Railway, Norfolk Southern,

CSX Transportation and Canadian National Railway. These purchasers account for approximately 600,000 tons of annual production. Rail contractors, transit districts and short-line railroads purchase the rest of the rail products.

We intend to produce rail in standard and premium or head-hardened grades, in a range of weights from 115 lbs. per yard to 141 lbs. per yard, in lengths from the traditional 80 feet up to 240 feet initially and, ultimately, to 320 feet. We also intend to weld these 240/320 foot rails into 1,600 foot strings for delivery to the installation site. Such long strings offer substantial savings both in terms of initial capital cost and through reduced maintenance. In contrast, current production of rail in the United States, and available imported rail, is limited to 80-foot lengths, as a result of existing plant layout restrictions and the physical limitations of ocean freight. The more welded joints there are in a mile of track, the greater the maintenance cost to the railroad due to excessive wear and fatigue cracking at the welds.

Bar Products Division

Products. We expect to be able to produce a broad line of merchant bar products such as angles, flats, channels, T's and rounds, as well as rebar products in sizes from #3 to #18. We also plan to produce various SBQ products.

Merchant bar products are used in a wide variety of applications, including automotive, fasteners, conveyor assemblies, rack systems, transmission towers, gratings, safety walkways, stair railings, farm and lawn and garden equipment, light steel fabrication, machinery, ornamental iron projects and construction equipment. SBQ alloyed steel bars are predominantly used in automotive parts such as crankshafts and drive shafts, aerospace products, and in various types of machinery, construction and transportation equipment.

Rebar is used principally for strengthening concrete. Approximately half of rebar consumption is in construction projects involving the private sector, including commercial and industrial buildings, apartments and hotels, utility construction, agricultural projects, and various repair and maintenance applications. The other half of rebar consumption is accounted for by public works projects, such as highway and street construction, public buildings, bridges, municipal water and sewer treatment facilities and similar projects.

Customers. Merchant bar products are generally sold to fabricators, steel service centers and original equipment manufacturers. Rebar is generally sold to fabricators and manufacturers, who cut, bend, shape and fabricate the steel to meet engineering, architectural and end-product specifications. SBQ products are principally consumed by fabricators, intermediate processors, and steel service centers.

New Millennium Facility

Products. New Millennium fabricates trusses, girders, steel joists and steel decking for the construction industry. Specifically, New Millennium manufactures a complete line of joist products, including bowstring, arched, scissor, double-pitched and single-pitched joists. Decking products include a full range of roof, form, and composite floor decks.

Customers. New Millennium's primary customers are non-residential contractors. Significant portions of New Millennium's sales are to customers from outside Indiana, with a concentration in the Upper Midwest area of the United States. We believe that the Upper Midwest presently enjoys the highest non-residential building spending in the country.

Competition

Flat Roll Division

Our hot-rolled products compete with many North American integrated hot-rolled coil producers, such as U.S. Steel's plants near Detroit, Michigan, Granite City, Illinois, Gary, Indiana, Dravosburg, Pennsylvania and Fairfield, Alabama; Ispat Inland Inc.'s plant in East Chicago, Indiana; and AK Steel Corporation's plant in Middletown, Ohio. We also compete with International Steel Group, or ISG, which has purchased out of bankruptcy LTV Steel Corporation's former steelmaking facilities at Cleveland, Ohio and Indiana Harbor, Indiana, Acme Steel's rolling facility in Chicago and the former Bethlehem Steel plants in Burns Harbor, Indiana and Sparrow's Point, Maryland. We also compete with companies that convert steel slabs into sheet steel, such as Duferco Steel in Farrell, Pennsylvania. As a result of the integrated mills' lesser dependence on steel scrap as a raw material than mini-mills, and as a result of the consolidations that have occurred over the past year in the U.S. steel industry, including the emergence of relaxed union work rules and lower capital structures, many of these integrated mills are beginning to have cost structures closer to those of the mini-mills, rendering them more competitive than traditionally so.

Our hot-rolled products also compete with the products of a number of hot-rolled mini-mills, such as Nucor Corporation's 1.6 million ton capacity plant in Crawfordsville, Indiana, its 1.7 million ton capacity plant in Hickman, Arkansas and its 2.0 million ton capacity plant in Berkeley, South Carolina; Gallatin Steel Company's 1.2 million ton capacity plant in Ghent, Kentucky; and North Star BHP Steel LLC's 1.2 million ton capacity plant in Delta, Ohio.

With the exception of Gallatin Steel, we compete with these same producers for the sale of our cold-rolled and coated products. We also compete with a number of companies, such as Worthington Steel of Columbus, Ohio, Winner Steel of Youngstown, Ohio and Metaltech of Pittsburgh, Pennsylvania, which buy their hot-rolled or cold-rolled bands from other producers and then convert them into products that are competitive with ours.

Structural and Rail Division

Sales of structural steel products are sensitive to the level of construction activity, which is in turn affected by such cyclical factors as general economic conditions, interest rates, inflation, consumer spending and employment.

Our structural steel products compete with a sizable number of electric arc furnace structural steelmakers, some of which have cost structures and flexible management cultures similar to our own. Notable competitors include Nucor Steel in Berkeley, South Carolina; Nucor-Yamato Steel in Blytheville, Arkansas; and TXI-Chaparral Steel in Midlothian, Texas and Petersburg, Virginia. There are also a number of smaller competitors, including Ameristeel in Cartersville, Georgia; and Bayou Steel in Laplace, Louisiana. The Nucor mini-mills and the TXI-Chaparral mini-mills accounted for approximately 89% of the tons produced in North America in 2001. We also believe, however, that both geography and product choice will play significant roles. There are currently no other structural mills located in the Midwest, one of the largest structural steel consuming regions in the United States, and we believe we will be able to provide freight-saving and customer service benefits to end users, service centers and fabricators located in the region. We also believe that most of Canada's structural steel consumption is located in Canada's eastern provinces, closer to us than to either of our two largest competitors. Moreover, we intend to provide a broad product mix, focusing on the mid-range and larger section served only by Nucor-Yamato Steel and TXI-Chaparral from locations more remote than our mini-mill.

At present, the rail market is principally served by two producers: Rocky Mountain Steel, a division of Oregon Steel Mills, Inc. in Pueblo, Colorado, and Pennsylvania Steel Technologies, formerly a subsidiary of Bethlehem Steel Corporation, now ISG, in Steelton, Pennsylvania. Each of these producers has the capability to produce either standard or premium rail, although neither is equipped to produce rail in 240-foot or 320-foot lengths as we will do. Our rail products will also compete with similar products from a number of high quality integrated and electric furnace steel producers in Europe and Asia, including British Steel, Voest-Alpine Schienen, Nippon Steel and NKK.

Bar Products Division

We anticipate that our major competitors for merchant bar, shapes and reinforcing bar product sales, generally within a 500 mile radius of Pittsboro, Indiana, will include Ameristeel plants in Knoxville and Jackson, Tennessee, Marion Steel in Marion, Ohio, North Star Steel plants in St. Paul, Minnesota, Calvert City, Kentucky, and Wilton, Iowa, Nucor Corporation plants in Kankakee, Illinois (formerly Birmingham Steel) and Darlington, South Carolina, and SMI Steel in Cayce, South Carolina.

We expect that our major competitors for SBQ product sales, likewise within a 500 mile radius of Pittsboro, will include Republic Technologies International of Akron, Ohio, The Timken Company of Canton, Ohio, Quanex/Macsteel in Jackson, Michigan, North Star Steel in Monroe, Michigan and Ispat/Inland Steel in East Chicago, Indiana.

New Millennium Facility

New Millennium's main competitors on a national level in the joist business are Vulcraft, a division of Nucor; Canam; and SMI, a division of Commercial Metals. In the steel decking business, New Millennium's main competitors on a national level are Vulcraft; Wheeling Corrugating Co., a division of Wheeling-Pittsburgh Steel Corp.; and United Steel Deck, Inc. New Millennium also has a number of competitors on a regional basis, located in the Upper Midwest, including Canam, Socar and Gooder-Henderson, as well as several local suppliers with facilities located in Pittsburgh, Cleveland, Detroit, Indianapolis, Chicago and Milwaukee.

Sources, Availability and Cost of Scrap and Scrap Substitute

Our principal raw material is scrap metal derived from, among other sources "home scrap," generated internally at steel mills themselves; industrial scrap, generated by excess steel trimmed or produced during manufacturing; and "obsolete" scrap such as railroad cars and railroad track materials, agricultural machinery and demolition scrap from obsolete structures, containers and machines.

Scrap

Scrap is the single most important raw material used in our mini-mill steelmaking process, traditionally comprising approximately 80-85% of the metallic melt mix in electric arc furnace steelmaking, in contrast to integrated mill steelmaking, where the proportion of scrap has traditionally been approximately 20%. Depending upon the carbon content of scrap substitute material that may be available from time to time, and the relative cost of such material, the percentage of scrap used in our steelmaking operations could be reduced to the range of 60% or less.

As it relates to final product quality, electric arc furnace steel producers can normally only tolerate a maximum .2% level of residual materials such as non-ferrous metallic contamination from copper, nickel, tin, chromium, and molybdenum, which, once having been dissolved into steel cannot be refined out. In order for the scrap melt to provide this level of quality under present circumstances, the mill must use approximately 60% of "low residual" scrap or an equivalent material. Such low residual scrap is generally more expensive and takes the form of No. 1 dealer bundles, No. 1 factory bundles, busheling, and clips. Such low residual scrap is generally more expensive. The balance of the melt mix can then consist of various grades of higher residual, and thus less expensive, scrap, which can be blended with low residual scrap to keep within impurity tolerances.

Many variables can impact scrap prices, the most critical of which, until recently, was the level of U.S. steel production. The U.S. has generally been a net scrap exporter. Generally, as domestic steel demand increased, so did scrap demand and resulting scrap prices. The reverse was also normally but not always true, with scrap prices following steel prices downward where supply exceeded demand. During late 2000, the flood of imported steel, much of it unfairly traded, resulted in sharply reduced new steel production with corresponding decreases in the need for, and thus the price of scrap. This corresponding decrease in the price of scrap mitigated somewhat the impact of sharply declining prices for new steel products during 2000 and 2001 and enabled us to maintain some modest profit margins despite the severe market dislocation. The precipitous decline in scrap prices in 1999 and 2000, however, caused dealers to retain their inventories and to withhold them from sale, thus causing some short-term supply shortages even in the face of a supply/demand inversion at the consumer levels. On the other hand, starting during the latter part of 2002 and continuing through 2003 and into 2004, the price of scrap has risen sharply upward, largely as a result of foreign scrap demand, particularly from China, a weak U.S. dollar that makes U.S. scrap exports more attractive, and relatively static if not limited scrap availability in the U.S. due to a weak economy and the shrinking domestic manufacturing base. Scrap exports from the U.S. were approximately 12 million metric tons in 2003, up 35% from 8.9 million tons in 2002. These factors have driven scrap prices to their highest levels in decades. In September 2003, the price of No. 1 factory bundles, a key scrap commodity, was approximately $166 per ton. The same commodity cost $280 per ton in February and $310 in early March 2004.

We believe that the demand for low residual scrap will continue to rise more rapidly than the supply in the coming years, especially with the increased number of electric arc furnace mini-mills, both here and abroad, that have been built or commenced operations in recent years, and especially due to foreign scrap demand. As a result, in order to maintain an available supply of scrap at competitive market prices, we seek to maintain multiple strong and dependable sources through which to competitively purchase scrap of all grades, including low residual scrap, and have also been attempting to develop our own "captive" scrap substitutes supply.

Since our inception, we were able to ensure a stable scrap supply for our Flat Roll and Structural and Rail Divisions through a scrap supply agreement with OmniSource Corporation, one of the largest suppliers of scrap in the nation. However, we have determined that in the current scrap environment we would be better off with multiple available sources of supply, including the development of our own scrap purchasing capability, and with the flexibility to develop new relationships and supply agreements with third parties and certain scrap generators. Accordingly, we and OmniSource have amicably terminated our scrap supply agreement, effective March 31, 2004. We intend, however, to continue purchasing scrap from OmniSource as one of our major suppliers.

Scrap Substitutes

Direct reduced iron, hot briquetted iron and pig iron can substitute for a limited portion of the steel scrap used in electric furnace mini-mill steel production. Historically, we have used a relatively small percentage of scrap substitutes in our melt mix. Historically, we have used approximately 15% by weight of scrap substitutes in our melt mix, mainly solid and generally imported pig iron. During 2003, we consumed approximately 364,000 tons of scrap substitutes, of the 3.4 million tons of metallics that we melted in our electric arc furnaces. We also bought minimal quantities of direct reduced iron and hot briquetted iron. All of these scrap substitute purchases were made on the spot market at prevailing market prices.

We anticipate that we will utilize all of Iron Dynamics' scrap substitute product output, whether HBI or liquid pig iron, which, at full production we estimate to be approximately 360,000 tonnes of liquid pig iron per year.

Our Industry

Overview

The U.S. steel industry has historically been and continues to be highly cyclical in nature, influenced by a combination of factors, including periods of economic growth or recession, strength or weakness of the U.S. dollar, worldwide production capacity, worldwide steel demand, and levels of steel imports. The steel industry has also been affected by various company-specific factors, such as a company's ability or inability to adapt to and deal with technological change, plant inefficiency and high labor costs. The U.S. is a net steel importer, requiring that approximately 17% of its domestic steel consumption be imported.

During the second half of 2000 and throughout 2001, the U.S. steel industry experienced a severe downward cycle, largely as a result of increased imports of steel at depressed prices, the effect of a strong dollar, weak economic conditions and excess global steel production capacity. On the other hand, during the first half of 2002, domestic flat-rolled steel prices increased dramatically from historical cyclical lows in 2001. This increase resulted from a number of factors, including (1) a temporary reduction in domestic steel production capacity as a result of certain bankruptcies and shutdowns of other U.S. steel producers, (2) a reduction in imports, driven in part by certain favorable rulings and executive actions with respect to tariffs and quotas on foreign steel, and (3) a brief strengthening of the overall U.S. economy and the need for end-users of steel products to replenish their depleted inventories. The cycle began to turn downward again toward the end of 2002 and into early 2003, however, largely as a result of softening product demand brought about by a still weak economy and war concerns. The shortness of the previous up cycle, poor cost controls and high fixed costs for many steel producers, an absence of any supply or pricing discipline by individual producers, and the strength of the U.S. dollar that brought exports streaming into the country created the conditions for more than 30 bankruptcies among U.S. steel producers, mainly integrated producers, between 2001 and 2003.

These economic dislocations, rationalization of production capacity and supply due to steel industry consolidation, a weakened U.S. dollar, high ocean freight rates and strong foreign, mainly Chinese and Asian, steel demand and scrap demand, combined during 2003 to substantially reduce steel imports into the U.S., thus constraining the supply of new steel for domestic consumption. Moreover, by rendering exports of steel abroad more attractive, this has also acted to constrain the U.S. supply of scrap for domestic consumption. The result has not only been a dramatic increase in U.S. steel pricing toward the end of 2003 and into 2004, but it has also led to unprecedented increases in the cost

of steel scrap.

The U.S. steel industry experienced many changes during 2003 as a result of consolidation. In 2001, the top three U.S. producers of flat-rolled sheet had a 32% market share. For 2003, the top three (U.S. Steel, ISG and Nucor) had a market share of 55%. International Steel Group added to its acquisition of the bankrupt steel assets of LTV Steel with its acquisition of Acme Steel's assets and its acquisition of the assets of Bethlehem Steel. All three of these acquisitions resulted from the prior bankruptcies of the predecessor steel companies. Similarly, U.S. Steel acquired the bankrupt assets of National Steel. These and similar developments caused formerly idled or inefficient production facilities to come back into the market with substantially lower capital costs, with lower renegotiated labor costs and work rules, and shorn of many previously burdensome health care and retirement legacy costs and other liabilities. The result of this consolidation, which we expect to continue, is a more competitive and more price sensitive U.S. steel market, with a narrowing of production cost differentials between mini-mills and some of these integrated producers. Moreover, with the integrated mills' lesser dependence on ever more expensive scrap as a percentage of their metallics melt ix than the mini-mills, the traditional mini-mill cost advantage of steel scrap over integrated mill ironmaking has also begun to invert.

Anti-Dumping Initiatives

U.S. steel producers compete with many foreign producers. Competition from foreign producers is typically strong, but is also substantially affected by the relative strength of foreign economies and fluctuation in the value of the U.S. dollar against foreign currencies, with steel imports tending to increase when the value of the dollar is strong in relation to foreign currencies. During the 1990s, the situation was exacerbated by a weakening of certain economies, particularly in Eastern Europe, Asia and Latin America. Because of the ownership, control or subsidization of some foreign steel producers by their governments, decisions by such producers with respect to their production, sales and pricing decisions are often influenced to a greater degree by political and economic policy consideration than by prevailing market conditions, realities of the marketplace or consideration of profit or loss. Since 1998, when imports of hot-rolled and cold-rolled products increased 43% compared to the prior year, domestic steel producers, including us, have been adversely affected by illegally "dumped" imported steel. Dumping involves selling a product below cost or for less than in the exporter's home country and is a violation of U.S. trade laws. Most foreign markets are less open than the U.S. market, allowing foreign producers to maintain higher prices in their own markets, while dumping excess production at lower and often subsidized prices into the U.S. market. A number of steel industry anti-dumping initiatives, or trade cases, have been brought in recent years in an attempt to stem the flow of these unlawful imports. Some have been successful and some have not.

Hot-Rolled Sheet

In September 1998, eleven U.S. steel companies, including us, as well as two labor unions, filed anti-dumping complaints with the ITC and the U.S. Department of Commerce against hot-rolled steel imports from Japan, Russia and Brazil, seeking determinations that those three countries were dumping hot-rolled carbon steel in the U.S. market at below fair market prices. The group also filed a subsidy, or countervailing duty, complaint against Brazil.

In April 1999, the Department of Commerce issued a final determination that imports of hot-rolled steel from Japan were dumped at margins ranging from 17% to 65%, and in June 1999, the ITC reached a final determination that imports of

hot-rolled sheet from Japan caused injury to the U.S. steel industry. As a consequence, the Department of Commerce issued an anti-dumping order against imports from Japan.

In July 1999, the Department of Commerce also issued suspension agreements and final anti-dumping duty determinations as to imports of hot-rolled sheet from Brazil and Russia. "Suspension" agreements generally impose price and/or quantity restrictions on imports from the subject country for the purpose of removing the injurious impact of the dumping or subsidies and are often negotiated with the subject country either in lieu of the imposition of anti-dumping or countervailing duties or as an alternate remedy to suspend a previously imposed duty. In February 2002, the Department of Commerce, having found violations of the suspension agreement by Brazilian producers, revoked the agreement and reimposed dumping duties of 48%. In June 2004, the Department of Commerce will conduct a required "sunset review" regarding the countervailing duty orders and/or suspension agreements against Russia, Japan and Brazil to decide whether in June 2005 these orders should be extended for an additional five years or revoked.

While we and the U.S. steel industry benefited from these rulings, with hot-rolled sheet imports from these three countries, which accounted for approximately 70% of 1998's hot-rolled import tonnage, declining by approximately 90%, the benefit was significantly thwarted by the shifting of imports to hot-rolled sheet from countries other than Japan, Russia and Brazil, which increased significantly during 2000. Therefore, in November 2000, we joined three other mini-mills and four integrated producers and filed anti-dumping cases against imports of hot-rolled sheet from 11 countries (Argentina, India, Indonesia, Kazakhstan, The Netherlands, the People's Republic of China, Romania, South Africa, Taiwan, Thailand and Ukraine) and countervailing duty cases against five countries (Argentina, India, Indonesia, South Africa and Thailand). On August 17, 2001, the ITC made final affirmative injury determinations on imports of hot-rolled steel from Argentina and South Africa, and the Department of Commerce imposed anti-dumping duty orders of 40-45% on hot-rolled steel imported from Argentina and 9.3% on hot-rolled steel imported from South Africa. On September 23, 2001, the Department of Commerce issued the following final dumping margins, although these margins are subject to modification from pending litigation: on hot-rolled steel imported from India -- 29-43%, Indonesia -- 48%, Kazakhstan -- 243.5%, The Netherlands -- 3%, China -- 64-91%, Romania -- 17-80%, Taiwan -- 20-29%, Thailand -- 4-20% and Ukraine -- 90%. In addition, the Department of Commerce issued the following final countervailing duties on hot-rolled steel imported from the following countries: India -- 8-32%, Indonesia -- 10%, South Africa -- 6.3% and Thailand -- 2.4%. The ITC made final affirmative injury determinations on these remaining cases in November 2001, and the Department of Commerce imposed anti-dumping duty orders. These orders are supposed to remain in effect for at least five years, although they are subject to annual administrative review and may be shortened. At the end of five years, the ITC will conduct a sunset review, to the extent that any of the foregoing duty orders remain in effect. Of the foregoing final orders by the ITC, only one, involving The Netherlands, was appealed to the Court of International Trade, and the ITC determination was recently upheld.

In June 2002, the U.S. granted "market economy" status to Russia, which may enable Russia to more effectively defend itself against future dumping actions on the basis of Russian production costs rather than on the basis of comparison with surrogate country production costs.

Cold-Rolled Sheet

In June 1999, we, together with other domestic producers and the United Steel Workers of America, also filed a complaint with the ITC and the Department

of Commerce seeking a determination that cold-rolled steel products from Argentina, Brazil, China, Indonesia, Japan, Slovakia, South Africa, Taiwan, Thailand, Turkey, and Venezuela were being dumped in the U.S. market at below fair market prices. On July 19, 1999, the ITC made unanimous affirmative preliminary determinations of a reasonable indication of injury by reason of such imports. The Department of Commerce announced preliminary dumping determinations, which required the posting of dumping duties in November and December of 1999. In January 2000, the Department of Commerce issued a determination that imports of cold-rolled steel from six of the countries were dumped at margins ranging from 17% to 81%. We were ultimately not successful in these cold-rolled cases, however, and on March 3, 2000 and thereafter, the ITC made negative final injury determinations against these eleven countries, ruling that the industry was not being injured by these imports. These negative outcomes resulted in a resurgence of dumped cold-rolled imports in the second half of 2000 and depressed cold-rolled prices caused by these unfair practices. As a consequence of the approximate 50% increase in imports of cold-rolled sheet steel from 20 countries during the first half of 2001, at prices averaging $50 or more below their 1998 prices that the Department of Commerce had determined at that time to have been dumped, we, and other steel manufacturers, brought anti-dumping petitions on September 28, 2001 against imports from these 20 countries and countervailing duty petitions against five countries. These countries, including Argentina, Australia, Belgium, Brazil, China, France, Germany, India, Japan, South Korea, The Netherlands, New Zealand, Russia, South Africa, Spain, Sweden, Taiwan, Thailand, Turkey and Venezuela, represented nearly 80% of the imported cold-rolled sheet. In a preliminary ruling in November 2001, the ITC found in favor of the petitioners, and, between March and May 2002, the U.S. Department of Commerce found that these imports had been sold in the United States at less than fair value and that those from Brazil, France and South Korea had also been subsidized. Accordingly, the U.S. Department of Commerce issued various preliminary anti-dumping duty or countervailing duty margin orders directed at most of these countries.

However, on August 27, 2002, the ITC made a negative injury determination on cold-rolled imports from Australia, India, Japan, Sweden and Thailand, and these determinations were upheld on appeal in February 2004 by the Court of International Trade, thus ending these cases. On October 17, 2002, the ITC determined that no material injury or threatened injury resulted from cold-rolled steel under investigation from Argentina, Belgium, Brazil, France, Germany, South Korea, The Netherlands, New Zealand, Russia, South Africa, Spain, Taiwan, Turkey and Venezuela. These negative injury determinations by the ITC had the effect of reversing the U.S. Department of Commerce's imposition of anti-dumping and countervailing duty margins on products of these countries. The steel industry petitioners have appealed these negative injury determinations by the ITC to the Court of International Trade, which remanded the cases to the ITC for further determination. The ITC's response is due March 29, 2004.

Structural Steel and Rail

In addition to the various hot and cold flat-rolled steel cases, a number of structural steel producers prosecuted anti-dumping cases against imports of structural steel. In July 1999, Nucor-Yamato, TXI-Chaparral, and Northwestern Steel and Wire filed anti-dumping cases on imports of structural steel products from Germany, Japan, Korea and Spain. Germany and Spain were subsequently dropped from these cases. In April 2000, the Department of Commerce found duties of 32-65% on imports from Japan and 15-45% on imports from Korea. In June 2000, in a 6-0 vote, the ITC found injury, or threat of injury, to the U.S. structural steel industry and the Department of Commerce imposed anti-dumping duty orders. These orders can remain in effect for at least five years, subject, however, to annual administrative review. At the end of five years, the ITC will conduct a sunset review. In May 2001, a coalition of U.S. structural steel beam producers filed anti-dumping petitions with the Department of Commerce and the ITC, alleging that imports of structural steel beams from eight other countries,

China, Germany, Italy, Luxembourg, Russia, South Africa, Spain and Taiwan, are being sold at less than fair value and are causing or threatening to cause material injury to the U.S. structural steel beam industry. While the Department of Commerce found that these imports were being sold in the United States at less than fair value, and, therefore, made affirmative dumping findings, the ITC on June 17, 2002, determined that such imports did not materially injure or threaten with material injury an industry in the United States. As a result, the ITC made final negative injury determinations in all such cases, thus ending these investigations without the imposition of duties.

There are anti-dumping duty and countervailing duty orders against imports of rails from Canada. However, there are currently no Canadian steel makers producing rails. There are no anti-dumping duty or countervailing duty orders outstanding against imports of rails from any other country nor are there any current investigations.

Rebar

In July 2000, certain rebar manufacturers filed a petition with the ITC against the dumping of rebar in certain United States markets. In August 2000, the ITC issued a preliminary determination of injury or threatened injury, resulting in an imposition of duties by the U.S. Department of Commerce ranging from 17% to 133% on imports from eight countries. These orders will remain in effect for five years, subject to sunset review as well as the normal annual administrative review that could result in a shortening of the duty orders.

Although there are a number of additional trade cases pending before the ITC, involving various groups of imported steel products, most rulings regarding duties and tariffs, since the March 2002 imposition by President Bush of the Section 201 tariffs described in the following section, have been against the U.S. steel industry.

Section 201 Investigation

On June 5, 2001, President Bush announced a three-part program to address the excessive imports of steel that were depressing markets in the United States. The program involved (1) negotiations with foreign governments seeking near-term elimination of inefficient excess steel production capacity throughout the world, (2) negotiations with foreign governments to establish rules that will govern steel trade in the future and eliminate subsidies, and (3) an investigation by the ITC under Section 201 of the Trade Act of 1974 to determine whether steel is being imported into the United States in such quantities as to be a substantial cause of serious injury to the U.S. steel industry. Therefore, on June 22, 2001, the Bush Administration requested that the ITC initiate an investigation under Section 201 of the Trade Act of 1974. Products included in the request were in the following categories, subject to exclusion of certain products:

(1) carbon and alloy flat products;

(2) carbon and alloy long products;

(3) carbon and alloy pipe and tube; and

(4) stainless steel and alloy tool steel products.

Hot-Rolled, Cold-Rolled and Coated Steel

On October 22, 2001, in the first step of the three-step Section 201 process, the ITC ruled that approximately 80% of the U.S. steel industry

suffered material injury due to imported steel products, including carbon and alloy hot-rolled, cold-rolled, coated and semi-finished slab products, as well as hot rolled bars, reinforcing bars and light shapes. Of the 33 steel products included in the petition brought by the U.S. Trade Representative and President Bush, 12 products, including the products we produce, were affirmed for injury by unanimous 6-0 votes. On December 7, 2001, in the second step of the process, the ITC recommended tariffs of approximately 20%-40% as well as tariff quotas in some cases, and these recommendations were transmitted to President Bush for final action. On March 5, 2002, in the third and final step of the Section 201 process, President Bush imposed a three year tariff of 30% for the first year, 24% for the second year and 18% for the third year on imports of hot-rolled, cold-rolled and coated sheet. He also imposed a tariff of 15% for the first year, 12% for the second year and 9% for the third year on imports of tubular steel products, and a tariff on imported steel slabs of 30%, 24% and 18% in the first, second and third years, respectively, on tons in excess of an annual quota of 5.4 million in 2002, 5.9 million in 2003 and 6.4 million in 2004. North American Free Trade Agreement partners of the United States, principally Canada and Mexico, were excluded from the tariffs, as were "developing countries" which, in the aggregate, account for less than 3% of imported steel. These Section 201 remedies were to be cumulative with any existing tariffs or quotas in the anti-dumping cases. They were also directed at products rather than the countries that produce those products, thereby providing some import relief even if some steel products find their way to exporting countries not covered by anti-dumping margin or countervailing duty orders.

The President's decision to implement a Section 201 remedy was not appealable to U.S. courts. However, foreign governments appealed to the World Trade Organization, or WTO, and the European Union, Japan and other countries prosecuted such appeals. President Bush rescinded the Section 201 tariffs, however, in December 2003, after the WTO ruled that the tariffs violated international law and various other nations threatened to impose retaliatory tariffs on U.S. exports and exerted other political pressure. While the Section 201 tariffs, coupled with certain major steel mill closures related to pending bankruptcies, may have caused steel prices to increase substantially in the first three quarter of 2002, to approximately $400 per ton, from their depressed levels in the low $200's per ton at the end of 2001, prices nonetheless eased back into the $260-$270 per ton range by May 2003 as a result of post-bankruptcy capacity restarts and weak U.S. steel demand. The negative impact of the rescission of the Section 201 tariffs has been mitigated by a number of factors that have independently led to a strengthening of U.S. steel pricing, including a weakened U.S. dollar, substantial increases in ocean freight and an increase in the global demand for steel, primarily in China.

The rescission of the Section 201 tariffs does not affect the anti-dumping duties imposed through the ITC processes. In announcing its December 2003 rescission action, the Bush administration affirmed its commitment to monitor steel imports and to file anti-dumping and countervailing duty petitions if it determines that unfairly traded steel imports adversely impact, or threaten to adversely impact, financial results. During 2004, the ITC will also commence a required five-year review to determine whether to continue or modify anti-dumping findings against hot-rolled steel from Japan, Brazil and Russia. In addition, the existing Comprehensive Steel Trade Agreement with Russia, under which Russia voluntarily limited its exports to the U.S. of steel not otherwise covered by anti-dumping orders, will expire in July 2004.

The U.S. is also conducting discussions at the Organization of Economic Cooperation and Development with the aim of reducing or eliminating the subsidization of global inefficient steel production.

Structural Steel and Rail

By a vote of 4-2, the ITC determined on October 22, 2001, that structural steel and rails were not being imported into the United States in such increased quantities as to be a substantial cause of serious injury or the threat of serious injury to the U.S. industry. The ITC determined that the U.S. structural steel and rail industry was not seriously injured primarily because of its "double-digit operating margins," and positive performance trends including, increased capacity and shipments, higher employment and new investment. With regard to threat of injury, the ITC found that the existing orders and the pending investigations made future increases in imports unlikely.

Rebar, Merchant Bar and SBQ Products

President Bush's March 2002 Section 201 order granting tariff relief to various categories of imported steel products included a 15% tariff on rebar and a 30% tariff on various certain merchant and SBQ products. These have likewise now been rescinded.

Integrated Mills Versus Mini-Mills

There are generally two kinds of primary steel producers, "integrated mills" and "mini-mills." We are a mini-mill producer.

Steel manufacturing by an "integrated" producer involves a series of distinct but related processes, often separated in time and in plant geography. The process involves ironmaking followed by steelmaking, followed by billet or slab making, followed by reheating and further rolling into steel plate or bar, or flat-rolling into sheet steel or coil. These processes may, in turn, be followed by various finishing processes (including cold-rolling) or various coating processes (including galvanizing). In integrated producer steelmaking, coal is converted to coke in a coke oven, then combined in a blast furnace with iron ore (or pellets) and limestone to produce pig iron, and then combined with scrap in a "basic oxygen" or other furnace to produce raw or liquid steel. Once produced, the liquid steel is metallurgically refined and then either poured as ingots for later reheating and processing or transported to a continuous caster for casting into a billet or slab, which is then further shaped or rolled into its final form. Typically, though not always, and whether by design or as a result of downsizing or re-configuration, many of these processes take place in separate and remote facilities.

In contrast, mini-mills, such as our Butler mini-mill, our Columbia City mini-mill and our Pittsboro, Indiana mini-mill use an electric arc furnace to directly melt scrap or scrap substitutes, thus entirely eliminating the energy-intensive blast furnace. A mini-mill unifies the melting, casting and the hot-rolling into a continuous process. The melting process begins with the charging of a furnace vessel with scrap steel, carbon and lime, following which the furnace vessel's top is swung into place, electrodes are lowered into the furnace vessel through holes in top of the furnace, and electricity is applied to melt the scrap. The liquid steel is then checked for chemistry and the necessary metallurgical adjustments are made, typically while the steel is still in the melting furnace or, if the plant has a separate staging area for that process (as do our mini-mills), the liquid steel is transported to an area, commonly known as a ladle metallurgy station. From there, the liquid steel is transported to a continuous caster, which consists of a turret, a tundish (a type of reservoir which controls the flow of liquid steel) and a water-cooled copper-lined mold. The liquid steel passes through the continuous caster and exits as an externally solid slab. The slab is then cut to length and proceeds directly into a tunnel furnace, which maintains and equalizes the slab's temperature. After leaving the tunnel furnace, the slab is descaled and then it proceeds into the first stand of a rolling mill operation. In the rolling process, the steel is progressively reduced in thickness. The final product is

wound into coil and may be sold either directly to end-users or to intermediate steel processors or service centers, where it may be pickled, cold-rolled, annealed, tempered or galvanized.

As a group, mini-mills have historically been characterized by lower costs of production and higher productivity than integrated mills. This was due, in part, to lower capital costs and to lower operating costs resulting from their streamlined melting process and smaller, more efficient plant layouts. Moreover, mini-mills tended to employ a management culture, such as ours, that emphasizes flexible, incentive-oriented non-union labor practices and have tended to be more willing to adapt to newer and more innovative management styles that encourage decentralized decision-making. The smaller plant size of a mini-mill also permits greater flexibility in the choice of location for the mini-mill in order to optimize access to scrap supply, energy costs, infrastructure and markets, as is the case with our Butler mini-mill. Furthermore, a mini-mill's more efficient plant size and layout, which incorporates the melt shop, metallurgical station, casting, and rolling in a unified continuous flow under the same roof, have reduced or eliminated costly re-handling and re-heating of partially finished product. They have also adapted quickly to the use of new and cost-effective equipment, thereby translating technological advances in the industry into efficient production. However, as a result of the movement toward steel industry consolidation, coupled with the emergence from bankruptcy of previously inefficient and high capital cost and high operating cost steelmaking assets, under new ownership, with renegotiated and less burdensome labor contracts, the cost differences between mini-mills and some integrated mill consolidators have begun to narrow. Moreover, during periods of high scrap material costs, such as at the present time, integrated mills that produce their own blast furnace iron and are not as dependent as mini-mills upon scrap for the bulk of their melt mix, actually experience lower raw material metallic costs than mini-mills, thus further compressing the historical cost differentials between integrated and mini-mill steelmaking.

The Flat-Roll Steel Market

The flat-roll steel market represents the largest steel product group. Flat-rolled products consist of hot-rolled, cold-rolled and coated sheet and coil.

The following table shows the U.S. shipments of flat-rolled steel, in net tons, by hot-rolled, cold-rolled and coated production, as reported by the American Iron and Steel Institute or AISA, for the five years from 1998 through 2002.

	Years Ended Decem		
	1998	1999	2000
		(millions of net	
U.S. Shipments:			
Hot-Rolled(1)	25.3	27.7	29.3
Cold-Rolled(2)	15.8	16.8	18.0
Coated(3)	22.8	24.3	23.9
Total	64.0	68.8	71.2

Percentage of Total U.S. Steel Shipments.....	62%	65%	65%

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(1) Includes pipe/tube, sheet, strip and plate in coils.

(2) Includes blackplate, sheet, strip and electrical.

(3) Includes tin coated, hot dipped, galvanized, electrogalvanized and all other metallic coated.

Hot-Rolled Products

All coiled flat-rolled steel is initially hot-rolled, a process that consists of passing a cast slab through a multi-stand rolling mill to reduce its thickness to less than 1/2 inch. Hot-rolled steel is minimally processed steel coil that is used in the manufacture of various non-surface critical applications, such as automobile suspension arms, frames, wheels, and other unexposed parts in auto and truck bodies, agricultural equipment, construction products, machinery, tubing, pipe, tools, lawn care products and guard rails.

Cold-Rolled Products

Cold-rolled steel is hot-rolled steel that has been further processed through a pickler and then successively passed through a rolling mill without reheating until the desired gauge, or thickness, and other physical properties have been achieved. Cold-rolling reduces gauge and hardens the steel and, when further processed through an annealing furnace and a temper mill, improves uniformity, ductility and formability. Cold-rolling can also impart various surface finishes and textures. Cold-rolled steel is used in exposed steel applications that demand higher surface quality or finish, such as exposed automobile and appliance panels. As a result, cold-rolled prices are typically higher than hot-rolled prices. Typically, cold-rolled material is coated or painted.

Coated Products

Coated steel can be either hot-rolled or cold-rolled steel that has been coated with zinc to render it corrosion-resistant and to improve its paintability. Hot-dipped galvanized, galvannealed, electro-galvanized and aluminized products are types of coated steels. These are also the highest value-added sheet products because they require the greatest degree of processing and tend to have the strictest quality requirements. Coated steel is used in high volume applications, such as automobiles, household appliances, roofing and siding, heating and air conditioning equipment, air ducts, switch boxes, chimney flues, awnings, garbage cans and food containers.

The Structural Steel Market

The structural steel market is a relatively small part of total U.S. steel shipments. In 2000, 2001 and 2002, structural steel shipments were 6.7 million tons, 6.9 million tons and 6.7 million tons, respectively, and averaging 7% of the total steel market during these three years. Consumption of structural steel products is influenced both by new construction and manufacturing activity and by the selection of steel over alternative structural or manufacturing materials, which has occurred at a relatively constant rate of 50% over the five years from 1999 through 2002.

The Rail Market

Rail shipments in 2001 and 2002 were approximately 644,000 tons and 791,000 tons, respectively, with standard rail averaging approximately 80% of the market over 2000, 2001 and 2002 and premium or head-hardened rail averaging 20% over 2000, 2001 and 2002. Increased rail hardness results in a longer lasting product and is achieved by quenching hot rail with either air or water or by changing rail chemistry through the addition of alloys. Harder rail is more costly. Rail is produced in or imported into the U.S. and Canadian markets in standard lengths of 39 to 80 feet, mainly due to the limitations of existing North American rail production equipment and plant layouts, as well as the size limitations of ocean freighters with respect to imports. As a result, in order to produce the 1,600-foot rail "strings" desired by railroads, 20 80-foot rail sections are required to be welded together. Each weld is costly to make and adds installation and periodic maintenance costs.

Of the total annual shipments of rail in 2002, approximately 75% was produced by the two remaining U.S. rail producers and 25% was imported, mainly from Japan and from Europe. There are currently no Canadian rail producers.

The Market for Rebar, Merchant Bar and SBQ Products

According to data reported by AISI, apparent rebar supply in the United States was approximately 7 million tons in each of 2001 and 2002, and apparent merchant bar supply, typically defined as ASTM A36 round, square or flat bar with a major dimension less than 3 inches, was approximately 2 million tons nationally for each of 2001 and 2002. According to the AISI, apparent supply of light structural shapes, also characterized by a major dimension of less than 3 inches, averaged approximately 4 million tons annually for each of the foregoing two years.

Accordingly to AISI data, apparent SBQ supply has averaged approximately 7 million tons nationally over the 2001 and 2002 period.

Energy Resources

Electricity

With respect to our Butler mini-mill, our electric service contract with American Electric Power, or AEP, extends through December 31, 2007. The contract designated only 152 hours as "interruptible service" during 2003 and these interruptible hours further decrease annually through expiration of the agreement. The contract also provides that the circumstances necessary to warrant any hours of service interruptions must be of an emergency nature and not related to price and demand. The contract also establishes an agreed fixed rate for the rest of our electrical usage. Interruptible service subjects us to the risk of interruption at any time in the operation of the AEP system, whether as a result of an AEP peak demand, or even if AEP were able to obtain a higher market price from an alternate buyer.

With respect to our Columbia City structural steel and rail mini-mill, the plant site is located within the service territory of Northeast Indiana R.E.M.C., a rural electric cooperative and a member of the Wabash Valley Power Association. We have not yet elected to enter into any long term electricity supply agreement for this mini-mill, and have been able to effectively use spot market pricing by tailoring our usage to lower cost operating hours. Once we enter into a longer term agreement, however, we will be required to arrange power transmission over lines owned by American Electric Power.

With respect to our Pittsboro, Indiana bar mill, the plant is located within the service territory claimed by Cinergy, formerly known as Public Service of Indiana. We have preliminarily agreed to the terms of an energy

supply contract with Cinergy, under the terms of which we will be purchasing electricity at market rates. The contract is pending approval by the Indiana Utility Regulatory Commission.

Gas

We use approximately 9,000 to 11,000 decatherms of natural gas per day in our Butler flat-roll mini-mill. A decatherm is equivalent to 1 million BTUs or 1,000 cubic feet of natural gas. We have a delivery contract with the Panhandle Eastern Pipeline that extends through April 2008 relating to our Butler mini-mill. We also have a delivery contract with NIPSCO/NIFL/Crossroads that extends through October 2005 relating to our Butler mini-mill. We maintain a liquid propane storage facility on site in Butler with sufficient reserves to sustain operations at our flat-roll mini-mill for approximately one week in the event of an interruption in the natural gas supply.

With respect to our structural