STEEL DYNAMICS INC
Form DEF 14A
April 03, 2008

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

Steel Dynamics, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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(3) Filing Party:

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To be Held on May 22, 2008

To our Stockholders:

You are cordially invited to attend the Annual Meeting of Steel Dynamics, Inc. The information for the meeting is as follows:

TIME	9:00 a.m. EDT Thursday, May 22, 2008	
PLACE	Grand Wayne Center Calhoun Ballroom 120 West Jefferson Boulevard Fort Wayne, Indiana 46802	
ITEMS OF BUSINESS	(1)	To elect eleven (11) Directors for a one-year term.
	(2)	To ratify the Audit Committee's appointment of Ernst & Young LLP as our independent registered accounting firm for the fiscal year ending December 31, 2008.
	(3)	To approve Steel Dynamics, Inc.'s 2008 Executive Incentive Compensation Plan.
	(4)	To approve an amendment of our Amended and Restated Articles of Incorporation to increase our authorized common stock from 400 million shares to one billion shares.
	(5)	To conduct any other business properly raised at the meeting and any adjournment or postponement of the meeting.
RECORD DATE	You may vote if you were a stockholder of record on March 26, 2008.	
2007 ANNUAL REPORT	Our 2007 Annual Report to Stockholders, which is not a part of this proxy soliciting material, is enclosed.	
PROXY VOTING	You will be able to vote in one of four ways:	
	(1)	Mark, sign, date and return your proxy card in the enclosed envelope.
	(2)	Call the toll-free telephone number on your proxy card and follow the instructions for telephone voting.
	(3)	Visit the web site shown on your proxy card and follow the instructions for voting on the Internet.
	(4)	Vote in person at the meeting.
	You may always revoke your proxy before it is voted at the meeting by following the instructions in the accompanying proxy statement.	

KEITH E. BUSSE
Chairman and Chief Executive Officer

April 4, 2008

This proxy statement and the accompanying proxy are being first sent to stockholders on or about April 4, 2008.

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STEEL DYNAMICS, INC.

6714 Pointe Inverness Way, Suite 200
Fort Wayne, IN 46804
Telephone: (260) 459-3553

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS
To be Held on May 22, 2008

Voting Information

Purpose. We are providing you with these proxy materials in connection with the solicitation of proxies by our Board of Directors, to be voted at our 2008 Annual Meeting of Stockholders and at any postponement or adjournment thereof. We will hold the meeting on May 22, 2008, beginning at 9:00 a.m. EDT, in the Calhoun Ballroom of the Grand Wayne Center, 120 West Jefferson Boulevard, Fort Wayne, Indiana 46802. Our fiscal year begins on January 1 and ends on December 31. References in this proxy statement to the year 2007, therefore, refer to the twelve-month period ended December 31, 2007.

We started mailing this proxy statement and the accompanying form of proxy and voting instructions beginning on or about April 4, 2008. We are soliciting proxies from all of our stockholders in order to give all stockholders an opportunity to vote on matters to be presented at the meeting, even if they do not attend in person. In the following pages of this proxy statement, you will find information on matters to be voted on at the meeting or at any adjournment or postponement of the meeting. This Notice of Annual Meeting and Proxy Statement, the proxy and our 2007 Annual Report to Stockholders are also available on our Internet site at *www.steeldynamics.com* under the heading "Investors."

Who Can Vote. You are entitled to notice of and to vote at the Annual Meeting if you were a stockholder of record at the close of business on March 26, 2008. Each common share is entitled to one vote on each matter properly brought before the meeting.

If your shares of common stock are registered in your name with our transfer agent, Computershare Trust Company, N.A., you are the stockholder of record. But if your shares are held in the name of a broker, custodian, bank, or other nominee, that person is the stockholder of record and you are considered the "beneficial" owner. If you are not present in person at the Annual Meeting, your shares can be voted only if represented by a valid proxy, as described below under "Voting of Shares."

Shares Outstanding. On March 26, 2008, there were 188,955,976 shares of common stock outstanding. A list of stockholders entitled to vote at the meeting is available at our corporate headquarters office and will also be available at the meeting. Each share is entitled to one vote on each matter properly brought before the meeting.

Annual Meeting Webcast. We will be webcasting this year's Annual Meeting. You may access the webcast at *www.steeldynamics.com* by selecting "webcast." However, other than our proxy statement and form of proxy, no other information on our website, including the audio webcast, is to be considered a part of our proxy soliciting materials.

Voting of Shares. We realize that most of you, our stockholders, will probably not be able to attend the meeting in person. Therefore, it is very important that your shares be represented by proxy. This is because we can only take action at the Annual Meeting, with respect to a particular matter, if a quorum, or majority, of the total number of shares of common stock outstanding and entitled to vote on that matter is present at the Annual Meeting, in person or by proxy. Therefore, we are asking for your proxy to authorize the persons named in the proxy to be present at the Annual Meeting, to represent you, and to vote your shares at the Annual Meeting in accordance with your instructions.

The effect of you not voting depends on how ownership of your shares is registered and the proposal to be voted upon.

Voting Shares Held by Brokers, Banks and Other Nominees. Brokers, banks or other nominees typically hold shares of common stock for many stockholders. In this situation the "registered holder" on our stock register is the broker, bank or nominee in their own or under a different name. This is referred to as holding shares in "street name." In such cases, you, as the actual "beneficial owner" do not appear in our stockholder register. Therefore, for shares held in street name, distributing the proxy materials and tabulating votes are both two-step processes. The broker, bank or other nominee first informs us how many of their clients are beneficial owners and we provide them with that number of sets of proxy materials. Each broker, bank or other nominee then forwards the proxy materials to its clients who are the beneficial owners to obtain their voting instructions. When you receive proxy materials from your broker, bank or other nominee, the accompanying return envelope is addressed to return your executed proxy card to your broker, bank or other nominee. Shortly before the meeting, each broker, bank or other nominee totals the votes and submits a proxy card reflecting the aggregate votes of the beneficial owners for whom it holds shares.

So if your shares are held by your broker, bank or other nominee, you will need to obtain a proxy voting instruction form from the institution that holds your shares and follow the instructions included on that form regarding how to instruct your broker, bank or other nominee to vote your shares. This should be routinely included in the proxy materials you receive from your broker, bank or other nominee. If you do not, you should contact that person.

If you do not give your voting instructions to your broker, bank or other nominee, your broker may represent your shares at the meeting for purposes of obtaining a quorum. However, as more fully described below, in the absence of your voting instruction, your broker may or may not be able to vote your shares. They will be able to vote your shares with respect to "discretionary" items, but not with respect to "non-discretionary" items. Discretionary items are proposals considered routine under the rules of the New York Stock Exchange under which your broker, bank or other nominee may vote shares held in street name in the absence of your voting instructions. These include the election of directors (Proposal No. 1) and the ratification of the selection of our independent auditors (Proposal No. 2). On non-discretionary items for which you do not give instructions to your broker, bank or other nominee, which includes the approval of the Steel Dynamics, Inc. 2008 Executive Incentive Compensation Plan (Proposal No. 3) and the approval of an amendment of our Amended and Restated Articles of Incorporation to increase our authorized shares of common stock from 400 million to one billion shares (Proposal No. 4), those shares will be treated as "broker non-votes."

In other words, a "broker non-vote" occurs when a nominee such as a broker, bank or other agent, which holds your shares, does not vote on a particular proposal because you, as the beneficial owner, have not granted your nominee either the discretionary voting power with respect to that particular proposal or specific instructions with respect to that proposal, even though the nominee may vote on another proposal for which it does have discretionary authority or for which it has received instructions. Abstentions will be counted towards the vote total for the total number of votes present and voting on each proposal, and will have the same effect as an "Against" vote. Broker non-votes have no effect and will not be counted towards the vote total for any proposal.

Voting Shares Held in Your Name. If you are the record owner and if you properly fill in and sign your proxy card and mail it in the enclosed, prepaid and addressed envelope, or if you submit your proxy instructions by telephone or over the Internet, your "proxy" that is, the persons named in your proxy card will vote your shares as you have directed.

With respect to shares you hold in your own name, if you send in your proxy but do not provide voting instructions regarding one or more of the following proposals, your shares will be voted FOR Proposal No. 1 (the election as directors of all nominees listed under "Election of Directors"); FOR Proposal No. 2 (the "Ratification of the Appointment of Independent Registered Accounting Firm as Auditors"); FOR Proposal No. 3 (Approval of the Steel Dynamics, Inc. 2008 Executive Incentive Compensation Plan); FOR Proposal No. 4 (Approval of an Amendment of our Amended and Restated Articles of Incorporation to Increase our Authorized Common Stock from 400 million to 1 billion shares); and FOR discretionary authority to vote on any other matter that may properly come before the meeting.

In the election of directors (Proposal No. 1), you may vote "FOR" all the director nominees or your vote may be "WITHHELD" from one or more nominees. For all other proposals, you may vote "FOR," "AGAINST" or "ABSTAIN."

Your Choices on How to Vote by Proxy. We are offering you four choices of how to vote by proxy:

- You may vote by mail in the traditional manner by marking, signing, dating and returning your enclosed proxy card (if your shares are registered directly in your name) or voting card (if your shares are registered in the name of your broker, custodian, bank or other nominee) in the enclosed envelope.

- You may vote by telephone using the toll-free telephone number and instructions shown on your proxy or voting card.

- You may vote via the Internet by using the web site information and instructions listed on your proxy or voting card.

- You may vote in person at the meeting.

We anticipate that telephone and Internet voting will be available 24 hours a day, 7 days a week. Both the Internet and telephone voting instructions are designed to prompt you on how to proceed and you will be able to confirm that your instructions have been properly received and recorded. For both of these methods, you will also need a control number, which is noted on your proxy or voting card. The telephone and Internet voting facilities will close at 8:00 p.m. EDT on May 21, 2008.

The method by which you vote will not limit your right to vote in person at the meeting if you decide to attend the meeting.

We do not know of any business to be transacted at the Annual Meeting other than those matters described in this Proxy Statement, and the period for submitting additional proposals to be considered at the meeting has passed. However, should any other matters properly come before the Annual Meeting, including consideration of a motion to adjourn the meeting to another time or place in order to solicit additional proxies in favor of the recommendations of the Board of Directors, the persons named as proxies and acting thereunder will have the discretion to vote on those matters according to their best judgment to the same extent as the person granting the proxy.

Revocation of a Proxy. You may revoke your proxy at any time before it is voted at the meeting in one of four ways:

- Notify our Chief Financial Officer, Theresa Wagler, in writing before the meeting that you wish to revoke your proxy.
- Submit another proxy with a later date.
- Vote by telephone or Internet on a later date.
- Vote in person at the meeting.

Required Vote. The presence, in person or by proxy, of the holders of a majority of the shares entitled to vote at the Annual Meeting is necessary to constitute a quorum for all purposes and all proposals. Abstentions and broker non-votes are counted as "present and entitled to vote" for purposes of determining whether a quorum exists. So long as a quorum is present, the affirmative vote of a majority of the shares present, in person or by proxy, and entitled to vote at the meeting is needed to elect directors, to ratify the Audit Committee's appointment of Ernst & Young LLP, to approve the Steel Dynamics, Inc. 2008 Executive Incentive Compensation Plan, to approve an amendment of our Amended and Restated Articles of Incorporation to increase our authorized common stock from 400 million to one billion shares, and on any other matters that may properly come before the Annual Meeting.

Multiple Stockholders Sharing the Same Address. Under rules adopted by the Securities and Exchange Commission ("SEC"), we are permitted to deliver a single copy of our proxy statement and annual report to stockholders sharing the same address. This process, called householding, allows us to reduce the number of copies of these materials that we must print and mail.

We have implemented householding for all stockholders who share the same last name and address and, for shares held in "street name," where the shares are held through the same nominee (e.g., all accounts are at the same brokerage firm), so that they are receiving only one copy of the proxy statement and annual report per address.

However, if you share the same last name and address with other Steel Dynamics stockholders and would like to start or stop householding for your account, you may contact our Investor Relations Department in the manner described below under the heading "Investor Relations Department," including your name, address, account number and, if applicable, the name of your broker or other holder of record. If you are currently receiving multiple copies of our annual report and proxy statement, you may also request householding by contacting us in the same manner. If you hold your shares through a broker, custodian, bank, or other holder of record, you can request householding by contacting that broker, custodian, bank, or other holder of record. If you consent to householding, your election will remain in effect until you revoke it.

IMPORTANT NOTICE REGARDING AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL STOCKHOLDERS MEETING TO BE HELD ON MAY 22, 2008. This Proxy Statement and our Annual Report to Stockholders are available on the Internet by accessing our website at *www.steeldynamics.com* under the heading "Investors."

Cost of Preparing, Mailing and Soliciting Proxies. We will pay all of the costs of preparing, printing and mailing this proxy statement and of soliciting these proxies. We will ask brokers, custodians, banks, or other holders of record, to forward the proxy materials and our 2007 Annual Report to the persons who were our beneficial owners on the record date. We will also reimburse such brokers, custodians, banks and other holders of record for their expenses incurred in sending proxies and proxy materials to our beneficial owners.

In addition, proxies may be solicited on our behalf in person or by telephone, e-mail, facsimile or other electronic means, by our officers, directors and employees who will receive no additional compensation for soliciting. We have also engaged the firm of Georgeson & Co. to assist us in the distribution and solicitation of proxies. We have agreed to pay Georgeson & Co. a fee of approximately $6,500 plus expenses for these services.

Annual Report. We are including in this mailing a copy of our 2007 Annual Report to Stockholders, including our financial statements for the required periods ended December 31, 2007. The 2007 Annual Report is not, however, a part of this proxy statement.

Voting Results. We will publish the voting results on our website at *www.steeldynamics.com*, at "Investors" following the Annual Meeting, as well as in our Form 10-Q for the second quarter of 2008, which we will file with the SEC.

Investor Relations Department. You may contact our Investor Relations Department in one of four ways:

- writing to Steel Dynamics, Inc., Investor Relations Department, 6714 Pointe Inverness Way, Suite 200, Fort Wayne, Indiana 46804;
- fax at 260-969-3590 to the attention of the Investor Relations Department;
- e-mail to investor@steeldynamics.com; or
- phone the Investor Relations Department at 260-459-3553.

Stockholder Communications with Directors. If you wish to communicate with the Board of Directors, with any particular Board committee, or with an individual director, you may do so by sending a communication, marked "Stockholder Communication," in care of our Chief Financial Officer at our corporate offices, 6714 Pointe Inverness Way, Suite 200, Fort Wayne, Indiana 46804. Your letter should indicate that you are a Steel Dynamics stockholder. Our Chief Financial Officer will review each such communication and, depending upon the subject matter, will either forward the communication to the director or committee chair to whom it is addressed, forward it to the Chair of the Corporate Governance and Nominating Committee or to the Company's legal counsel, attempt to deal with the subject matter directly where it is a request for general information about the Company, or not forward or act on the matter where it consists of spam, involves junk mail, contains resumes, is primarily commercial in nature, involves personal grievances or is otherwise irrelevant to the Board governance process.

Governance of the Company

Corporate Governance Policy. Our business affairs are managed under the direction of our Board of Directors in accordance with the Indiana Business Corporation Law and our Amended and Restated Articles of Incorporation and Bylaws. The role of our Board of Directors is to effectively govern the affairs of our Company for the benefit of our stockholders and other constituencies. The Board strives to ensure the success and continuity of our Company and its mission through the election and appointment of qualified management, which regularly keeps Board members informed regarding our business and regarding our industry. The Board is also responsible for ensuring that Steel Dynamics, Inc.'s activities are conducted in a responsible and ethical manner. We are committed to the maintenance of sound corporate governance principles.

We operate under corporate governance principles and practices that are reflected in a set of written Corporate Governance Policies which is available on our website at *www.steeldynamics.com* at "Investors." These include the following principles:

A majority of our directors and all of the members of our Audit, Compensation and Corporate Governance and Nominating Committees are required at the minimum to meet the "independence" requirements of the Nasdaq National Market's Marketplace Rules.

The Board and each Board committee have the authority to engage independent legal, financial or other advisors as they deem necessary, at our expense.

Our Board, at least annually, engages in a strategic planning meeting and periodically reviews and assesses our strategic plan.

Independent and non-employee directors meet in executive session at least quarterly.

Our Board and Board committees conduct an annual self-evaluation.

Our Board reviews succession planning at least annually.

Directors have total access to our officers and employees.

Our independent directors utilize input from the Corporate Governance and Nominating Committee and from the Compensation Committee to conduct an annual review of our CEO's performance.

Committees and Meetings of the Board of Directors. During 2007, the Board of Directors had three standing committees: an Audit Committee, a Compensation Committee and a Corporate Governance and Nominating Committee. Our Audit Committee consists of four persons and our Compensation Committee and Corporate Governance and Nominating Committee each consists of three persons.

Each of our Board committees has adopted a charter that governs its authority, responsibilities and operation. We periodically review, both internally and with the Board, the provisions of the Sarbanes-Oxley Act of 2002, and the rules of the SEC and the Nasdaq Stock Market regarding corporate governance policies, processes and listing standards. In conformity with the requirement of such rules and listing standards, we have adopted a statement of our Corporate Governance Policies, described earlier, and we have adopted a written Audit Committee Charter, a Compensation Committee Charter, and a Corporate Governance and Nominating Committee Charter. The Audit Committee Charter, as well as the charters of the Compensation Committee, and the Corporate Governance and Nominating Committee may all be found on our company website, at *www.steeldynamics.com* under "Investors Corporate Governance" or by writing to Steel Dynamics, Inc., Attention: "Investor Relations," 6714 Pointe Inverness Way, Suite 200, Fort Wayne, Indiana 46804 and requesting copies.

Director Independence. Each of our three committee charters also require that each member of each committee meet: (1) all applicable criteria defining "independence" that may be prescribed from time to time under Nasdaq Marketplace Rule 4200(a)(15), Rule 10A(m)(3) under the Securities Exchange Act of 1934, and other related rules and listing standards, (2) the criteria for a "non-employee director" within the meaning of Rule 16b-3 promulgated by the SEC under the Securities Exchange Act of 1934, and (3) the criteria for an "outside director" within the meaning of Section 162(m)(4)(C) of the Internal Revenue Code.

Our Board of Directors also annually makes an affirmative determination that all such "independence" standards have been and continue to be met by the independent directors and members of each of our three committees, that each director qualifying as independent is neither an officer or an employee of Steel Dynamics, Inc. or any of its subsidiaries nor an individual that has any relationship with Steel Dynamics, Inc. or any of its subsidiaries, or with management (either directly or as a partner, stockholder or officer of an entity that has such a relationship) which, in the Board's opinion, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In addition, a director is presumptively considered not independent if:

- the director, at any time within the past three years, was employed by Steel Dynamics or any of its subsidiaries;

- the director or a family member received payments from Steel Dynamics or any of its subsidiaries in excess of $60,000 during any period of twelve consecutive months within the preceding three years (other than for Board or Committee service, from investments in the Company's securities or from any Company retirement plan);

- the director is, or has a family member who is a partner in, an executive officer or controlling stockholder of any entity to which Steel Dynamics made, or from which Steel Dynamics received payments for property or services in the current or in any of the prior three years that exceed 5% of the recipient's consolidated gross revenues for that year, or $200,000, whichever is more (other than, with other minor exceptions, payments arising solely from investments in the company's securities);

- the director is a family member of a person who is, or at any time during the three prior years was employed as an executive officer by Steel Dynamics or any of its subsidiaries;

- the director is, or has a family member who is employed as an executive officer of another entity where at any time within the prior three years any of Steel Dynamics' executive officers served on the compensation committee of the other entity; or

- the director is, or has a family member who is a current partner of Steel Dynamics, Inc.'s independent auditing firm, or was a partner or employee of that firm who worked on the Company's audit at any time during the prior three years.

The Board made its independence determination with respect to each director for the year 2007 and for each director nominee for election to the Board of Directors at the 2008 Annual Meeting. The Board has similarly made an additional affirmative determination of independence with respect to each member of the Audit Committee, under the special Audit Committee independence criteria set forth in Rule 4350(d) of Nasdaq's Marketplace Rules.

The Board determined that during 2007 six of the ten members of our Board of Directors (eleven members from and after October 26, 2007), Frank D. Byrne, M.D., Paul B. Edgerley, Richard J. Freeland, Dr. Jürgen Kolb, James C. Marcuccilli and Joseph D. Ruffolo met all independence requirements, thus at all times constituting a majority of the ten member or eleven member Board. The Board has determined that, for 2008, and if elected at the 2008 Annual Meeting, the same six persons will continue to meet all independence criteria. The Board also determined that four of our ten directors through October 26, 2007, Keith E. Busse, Richard P. Teets, Jr., Mark D. Millett and John Bates, and, after October 26, 2007, Daniel M. Rifkin, were not independent. Messrs. Busse, Teets, Millett and Rifkin are considered inside directors because of their employment and, therefore, not independent. Mr. Bates is considered a non-independent outside director as a result of ownership and control of Heidtman Steel, a substantial purchaser of steel from our Company and, therefore, precluded from being considered independent.

The Board of Directors held eleven regularly scheduled and special meetings during 2007 and all directors attended at least 75% of the meetings of the Board of Directors and of the various committees on which they served during 2007. Steel Dynamics, Inc.'s independent directors and at times the independent directors and the Company's other non-employee director, meet at regularly scheduled quarterly and occasional special executive sessions without management.

The Company urges all members of the Board to attend the Annual Meeting. At the 2007 Annual Meeting all ten Board members were in attendance.

The members of each committee, and the chair of each committee, are appointed annually by the Board.

The Corporate Governance and Nominating Committee.

The Corporate Governance and Nominating Committee met three times during 2007.

The members of this Committee during 2007 were Dr. Jürgen Kolb, Richard J. Freeland, Frank D. Byrne, M.D. and James C. Marcuccilli. Dr. Kolb acted as Chair of the Committee.

The Corporate Governance and Nominating Committee is responsible for:

- Reviewing and evaluating developments in corporate governance practices, and reporting and recommending to the Board effective corporate governance policies and procedures applicable to the Company, including Board organization, size and composition.

- Establishing criteria for and identifying, evaluating and recommending to the Board both incumbent and prospective nominees for election as directors by Steel Dynamics' stockholders at each Annual Meeting, as well as for appointments by the Board to fill any director vacancies.

- Identifying Board members for assignment to various Board committees.

- Drafting and overseeing a Code of Conduct applicable to our Chief Executive Officer, our Chief Financial Officer and all financial officers and managers, as well as directors and a Company-wide Code of Ethics.

- Reviewing the performance of Board and Board committee members and making recommendations to the Board concerning the number, function and composition of the Board's committees.

- Establishing and overseeing management succession planning and implementation.

When considering a candidate for nomination as a director at an Annual Meeting, or when a vacancy occurs on the Board of Directors, including a vacancy created by an increase in the number of directors, the Corporate Governance and Nominating Committee identifies potential candidates to fill the vacancy. Candidates may be referred or recommended to the Committee from many different sources, including by members of the Committee, referrals by other directors or by community people, by Company officers, by outside persons or advisors, or by a stockholder in accordance with the procedures described below.

The Committee reviews background information on each candidate, as well as the candidate's accomplishments, experience, skills, business acumen, financial literacy, integrity, independence from management, informed judgment and practical wisdom, collegiality, a commitment to represent the long term interests of our company, its stockholders without a conflict of interest, a willingness to devote the necessary time and attention to our company's business and the needs of the Board, and the nominee's ability to work in and help maintain a productive environment. Generally, the members of the Corporate Governance and Nominating Committee first consider current Board members for re-nomination to the extent they have determined that these persons, through their prior performance, have demonstrated that they meet the applicable criteria and have developed a valuable in-depth knowledge of the Company, its history, its strengths and weaknesses, and its goals and objectives. In the case of a candidate recommended by a stockholder, the Corporate Governance and Nominating Committee may take into account the number of shares held by the recommending stockholder and the length of time that such shares have been held.

The Corporate Governance and Nominating Committee considers nominees recommended by stockholders. In order to provide the Committee sufficient time to evaluate candidates, stockholders desiring to recommend a director candidate for consideration by the Committee should send such recommendation to Steel Dynamics, Inc., Attention: Chief Financial Officer, 6714 Pointe Inverness Way, Suite 200, Fort Wayne, Indiana 46804, no later than December 15, 2008, who will then forward it to the Committee. Any such recommendation should include a description of the candidate's qualifications for Board service, the candidate's written consent to be considered for nomination and to serve if nominated and elected, stock ownership information, the candidate's resume, information regarding any relationship or understanding between the proposing stockholder, the candidate and any other person or organization and the addresses and telephone numbers for contacting the stockholder and/or the candidate for more information. A stockholder who wishes to nominate an individual as a director candidate at the Annual Meeting of stockholders, rather than recommend the individual to the Corporate Governance and Nominating Committee as a nominee, must comply with the advance notice requirements set forth in this proxy statement under "Stockholders' Proposals for 2009 Annual Meeting." The Committee did not receive any stockholder nominee recommendations for the 2008 Annual Meeting.

The Compensation Committee.

The members of the Compensation Committee during 2007 were Richard J. Freeland, Joseph R. Ruffolo and Frank D. Byrne, M.D., all of whom were and continue to be independent within the meaning of Nasdaq Marketplace Rule 4200(a)(15), Rule 10A(m)(3) under the Securities Exchange Act of 1934, the definition of a "non-employee director" within the scope of Rule 16b-3 under the Securities Exchange Act of 1934, and the definition of an "outside director" within the meaning of Section 162(m)(4)(C) of the Internal Revenue Code.

Richard J. Freeland acted as chair of the Compensation Committee during 2007.

The Compensation Committee is responsible for:

- Reviewing the performance of our executive officers, including our Chief Executive Officer.

- Establishing compensation goals, objectives and elements, including performance-based criteria and the relative weight to be accorded to short-term and long-term components.

- Approving and recommending to the Board, the compensation programs and annual compensation of the Chief Executive Officer and all other executive officers.

- Approving, recommending to the Board, overseeing and acting as the "Administrator" or the "Committee" in connection with our equity and cash-based incentive compensation programs, including but not limited to our 1994 and 1996 Employee Stock Option Plans, our 2003 (and, if approved by stockholders at this Annual Meeting in connection with Proposal No. 3, our 2008) Executive Incentive Compensation Plan and our 2006 Equity Incentive Plan, with the authority to approve and authorize both equity and cash-based awards, options and grants thereunder.

- Approving and recommending to the Board the elements and amounts of compensation for non-employee directors, including the annual cash retainer fees, and any equity-based compensation.

Our Board of Directors has adopted a written Charter for the Compensation Committee, which it revises from time to time. A copy of our Compensation Committee Charter, as revised, is available on our website at *www.steeldynamics.com* under "Investors." In addition, the Compensation Committee reviews our Compensation Discussion and Analysis, set forth in this Proxy Statement commencing at page 29, and determines whether it should be included either in our Annual Report on Form 10-K or, alternatively, included in this Proxy Statement and incorporated by reference from this Proxy Statement into our Annual Report on Form 10-K. The Compensation Committee's report is set forth beginning on page 29 of this Proxy Statement.

During 2007, the Compensation Committee held six committee meetings, and all members of the Compensation Committee attended 75% or more of these meetings.

Compensation Committee Interlocks and Insider Participation. None of our current or former officers or employees or any current or former officers or employees of our subsidiaries served as a member of the Compensation Committee during 2007. Moreover, during 2007 (a) none of our executive officers served on the compensation committee of another entity, any of whose executive officers served on our Compensation Committee, and (b) none of our executive officers served as a director of another entity, any of whose executive officers served on our Compensation Committee.

The Audit Committee.

The Audit Committee met seven times during 2007.

The members of the Audit Committee during 2007 were Joseph D. Ruffolo, Paul B. Edgerley, Dr. Jürgen Kolb and James C. Marcuccilli, all of whom are independent and all of whom attended at least 75% of the Audit Committee meetings. Messrs. Ruffolo and Edgerley served as Co-Chairs of the Audit Committee.

Our Board has also determined that all members of our Audit Committee, by virtue of their extensive financial and business experience and training, met and continue to meet the criteria of an "audit committee financial expert," as that term is defined in Item 401(h) of Regulation S-K under the Securities Exchange Act. None of the members of the Audit Committee serve on the audit committee of more than two other public companies.

The Audit Committee is responsible, among other things, for:

- The review, oversight and monitoring of our financial reporting process and the integrity of our financial statements.
- Reviewing with management the adequacy and effectiveness of our internal, financial and disclosure controls and the development of our internal audit function.
- The qualifications, performance and independence of our independent auditors.
- Risk management and our compliance with legal and regulatory requirements.

In addition, the Audit Committee is directly responsible for the appointment, retention, compensation and oversight of our independent auditors and both the appropriateness of and the approval of the fees for audit and permissible non-audit services to be provided by the independent auditors. The Audit Committee is also responsible for the establishment of procedures for the receipt, evaluation, disposition, retention and treatment of complaints, if any, regarding accounting, internal accounting controls, auditing matters and matters involving allegations, if any, of fraud, financial mismanagement or irregularities.

The Audit Committee meets periodically with management and with our independent auditors in the discharge of its responsibilities. The Committee reviews our financial statements and discusses them with management and our independent auditors before those financial statements or the results thereof are publicly released and before they are filed with the Securities and Exchange Commission. The Audit Committee also regularly meets privately with the independent auditors.

The report of the Audit Committee is set forth in this Proxy Statement beginning at page 27.

Section 16(a) Beneficial Ownership Reporting Compliance. Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers to file with the SEC initial reports

of beneficial ownership of our common stock and other equity securities or derivatives, as well as reports of changes in beneficial ownership. These individuals are required to provide us with a copy of their required Section 16(a) reports as and when they are filed. Based on our records and information furnished to us by our executive officers and directors, we believe that all Securities and Exchange Commission filing requirements applicable to our directors and executive officers with respect to 2007 were met, with the exception of one report on Form 4 for each of our six independent directors, reflecting their automatic receipt of restricted shares of our common stock on June 1, 2007 pursuant to our 2006 Equity Incentive Plan, which was due June 5, 2007 but, due to our administrative oversight, was not filed (as a Form 5 filing for each) until February 13, 2008.

Stockholder Proposals for 2009. Any stockholder satisfying the requirements of the Securities and Exchange Commission's Rule 14a-8 and wishing to submit a proposal to be included in our Proxy Statement for our 2009 Annual Meeting of Stockholders must submit the proposal in writing to our Chief Financial Officer, Theresa Wagler, at 6714 Pointe Inverness Way, Suite 200, Fort Wayne, Indiana 46804, on or before December 15, 2008.

In addition, any stockholder who has not submitted a timely proposal for inclusion in next year's proxy statement but still wishes to make a proposal at next year's Annual Meeting must deliver written notice to our Chief Financial Officer no later than 60 days nor more than 90 days prior to the first anniversary of the record date for this year's Annual Meeting. Therefore, for our 2009 Annual Meeting, if such a proposal is not delivered prior to January 21, 2009, it may not be presented at the meeting at all. If a proposal is made after December 22, 2008 and prior to January 21, 2009, we will retain the discretion to vote proxies we receive with respect to any such proposals, so long as we include in our next year's proxy statement advice on the nature of any such proposal and how we intend to exercise our voting discretion, and so long as the proponent does not provide us with a written statement within the time frame determined under Securities and Exchange Commission Rule 14a-4(c)(1) that the proponent intends to deliver its own proxy statement and form of proxy with respect to that proposal.

Proposal No. 1
Election of Directors

Our stockholders will elect eleven directors at the 2008 Annual Meeting. The persons listed below are all incumbent members of our Board, ten of whom were elected at last year's Annual Meeting and the eleventh, Daniel Rifkin, was appointed a director on October 26, 2007, in connection with our acquisition of OmniSource Corporation. All incumbent Board members' service and performance as directors during 2007 were found by the Committee to have been exemplary. Therefore, they have been recommended for nomination and re-election by the Corporate Governance and Nominating Committee and, as such, have been nominated by the Board of Directors. Each director, if elected, will serve until our 2009 Annual Meeting of Stockholders, until a qualified successor director has been elected, or until he resigns or is removed by the Board.

We will vote your shares as you specify on the enclosed proxy card, or by telephone or Internet. If you do not specify how you want your shares voted, we will vote them FOR the election of all of the nominees listed below.

If you wish your shares voted for some but not all of the nominees, or if you wish to withhold your vote from some but not all of the nominees, you may so indicate on the proxy card or by telephone or the Internet when you vote your proxy.

Upon recommendation of the Corporate Governance and Nominating Committee, the Board of Directors has nominated Keith E. Busse, Mark D. Millett, Richard P. Teets, Jr., Daniel M. Rifkin, John C. Bates, Frank D. Byrne, M.D., Paul B. Edgerley, Richard J. Freeland, Dr. Jürgen Kolb, James C. Marcuccilli and Joseph D. Ruffolo.

Six of the eleven directors of the Company (indicated by asterisk in the following Table of "Information About Directors, Nominees and Executive Officers") are "independent directors" as defined by Section 4200(a)(15) of the Marketplace Rules of the Nasdaq Stock Market.

Our Board of Directors has also reviewed all transactions during 2007 with companies or entities in which such directors might have owned any interest, for the purpose of ensuring that such transactions, if any, were approved in accordance with our Statement of Policy For the Review, Approval or Ratification of Transactions With Related Parties, described at page 49, and, further, for the purpose of determining whether any of such transactions impacted the independence of such directors. There were no such transactions. For additional discussion of this issue, we refer you to the section on "Certain Relationships and Related Party Transactions" beginning on page 50. The Board has affirmatively determined that none of such independent directors is an officer or employee of the Company or any of our subsidiaries and none of such persons have any relationships which, in the opinion of our Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Ownership of a significant amount of our stock, by itself, does not constitute a material relationship.

It is the intention of the persons named in the enclosed proxy to vote the proxy for the election of all eleven of the nominees, unless you withhold authority to vote for the election of any or all of these nominees. Each of the nominees for election as director has indicated his willingness to serve, if elected, but in the event that any nominee at the time of the election is unable to serve or is otherwise unavailable for election, the Board, upon recommendation of the Corporate Governance and Nominating Committee, may select a substitute nominee, and in that event the persons named in the enclosed proxy intend to vote the proxy for the person so selected. We do not anticipate that any nominee will be unable to serve. If a substitute nominee is not so selected, such proxy will be voted for the election of the remaining nominees.

The following table provides information, as of the date of this proxy statement, about each incumbent member of the Board of Directors, all of whom are nominees for election as directors. The information presented includes information each director has given us about his age, all positions he holds, his principal occupation and business experience for the past five years, and the names of other publicly-held companies for which he serves as a director. None of the director nominees serves as a director of an investment company under the Investment Company Act of 1940, as amended.

Information about the number of shares of common stock beneficially owned by each director appears later in this proxy statement under the heading "Beneficial Stock Ownership of Directors, Executive Officers and Persons Owning More than Five Percent of the Company's Common Stock."

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR* EACH OF THE FOLLOWING NOMINEES:

Keith E. Busse	Paul B. Edgerley
Mark D. Millett	Richard J. Freeland
Richard P. Teets, Jr.	Dr. Jürgen Kolb
Daniel M. Rifkin	James C. Marcuccilli
John C. Bates	Joseph D. Ruffolo
Frank D. Byrne, M.D.	

INFORMATION ABOUT DIRECTORS, NOMINEES AND EXECUTIVE OFFICERS

The following information, including the name, age, five-year business experience and year each person became a director or executive officer, is furnished with respect to each director, including the eleven nominees for election as a director (indicated by an "X" in the "Director Nominee" column), the Chief Executive Officer and the four next highest paid executive officers (the "Named Executive Officers") of the Company.

Name	Age	Position(s)	Director Nominee	Has Served as Director Since	Year When Term as a Director Expires
Keith E. Busse	65	Chief Executive Officer and Director	**X**	1993	2008
Mark D. Millett	48	Executive Vice President, President and Chief Operating Officer for Flat Rolled Steels and Ferrous Resources, and Director	**X**	1993	2008
Richard P. Teets, Jr.	53	Executive Vice President, President and Chief Operating Officer for Steel Shapes and Building Products, and Director	**X**	1993	2008
Daniel M. Rifkin	53	Executive Vice President, President and Chief Operating Officer for Metals Recycling, and Director	**X**	2007	2008
John C. Bates	64	Director	**X**	1994	2008
Frank D. Byrne, M.D.	55	Director*	**X**	2005	2008
Paul B. Edgerley	52	Director*	**X**	2002	2008
Richard J. Freeland	71	Director*	**X**	2000	2008
Dr. Jürgen Kolb	65	Director*	**X**	1996	2008
James C. Marcuccilli	57	Director*	**X**	2005	2008
Joseph D. Ruffolo	66	Director*	**X**	1999	2008
Theresa E. Wagler	37	Chief Financial Officer			
Gary E. Heasley	43	Executive Vice President for Strategic Planning and Business Development			

* Indicates an "independent director"

The business experience of each of the directors for at least the past five years is summarized below:

Keith E. Busse has been our Chief Executive Officer and a director since 1993. From 1993 until May 2007, Mr. Busse was also our President. Prior to 1993, for a period of twenty-one years, Mr. Busse worked for Nucor Corporation, where he last held the office of Vice President. Mr. Busse is a co-founder of our Company. Mr. Busse is also a director of Tower Financial Corporation, a publicly held bank holding company.

Mark D. Millett has been our Executive Vice President, President and Chief Operating Officer for Flat Rolled Steels and Ferrous Resources since May 2007. From 1993 to May 2007, Mr. Millett was Vice President and General Manager of our Flat Roll Division. Prior to 1993, Mr. Millett worked for

Nucor Corporation, which he joined in 1982. Mr. Millett is a co-founder of our Company and has been a director since 1993.

Richard P. Teets, Jr. has been our Executive Vice President, President and Chief Operating Officer for Steel Shapes and Building Products since May 2007. From 1993 to May 2007, Mr. Teets was Vice President and General Manager of our Structural and Rail Division. Prior to 1993, Mr. Teets worked for Nucor Corporation, which he joined in 1987. Mr. Teets is a co-founder of our Company and has been a director since 1993.

Daniel M. Rifkin has been our Executive Vice President, President and Chief Operating Officer for Metals Recycling since October 2007. Prior to that, and since June 2007, Mr. Rifkin was President and Chief Executive Officer of OmniSource Corporation, a scrap metal recycling company, which we acquired in October 2007. Prior to June 2007, Mr. Rifkin was OmniSource's Vice President and Chief Operating Officer. Mr. Rifkin was appointed as a director is October 2007, incident to the OmniSource acquisition.

John C. Bates is the President and Chief Executive Officer and a director of Heidtman Steel Products, Inc., which he joined in 1963, and for which he has served as its President and Chief Executive Officer and a director since 1969. Mr. Bates is a co-founder of our Company and has been a director since 1993. Heidtman Steel is our largest customer for our steel products.

Frank D. Byrne, M.D. is currently President of St. Marys Hospital Medical Center in Madison, Wisconsin. Previously, he served eight years as President and Medical Director of Parkview Hospital in Fort Wayne, Indiana. Prior to that, Dr. Byrne practiced pulmonary and critical care medicine in Fort Wayne. He is currently a member of the board of directors of Lincare Holdings, Inc., a publicly traded medical equipment company, and serves on its audit committee. Dr. Byrne has been a director since 2005 and is a member of both our Compensation Committee and of our Corporate Governance and Nominating Committee.

Paul B. Edgerley has been Managing Director of Bain Capital, Inc., a venture capital firm, since May 1993 and, from 1990 to 1993, was a general partner of Bain Venture Capital. He is also a director of Keystone Automotive Operations, Inc. and Sensata Technologies, both of them publicly held corporations. Mr. Edgerley has been a director since 2002 and is a member of and Co-chair of our Audit Committee.

Richard J. Freeland has been the President and Chief Executive Officer for more than twenty-nine years of Pizza Hut of Fort Wayne, Inc. and six affiliated companies that own and operate more than 40 Pizza Hut franchised restaurants in Indiana and Ohio. Mr. Freeland has been a director since 2000 and is a member of our Compensation Committee and our Corporate Governance and Nominating Committee.

Dr. Jürgen Kolb, retired, was a member of the executive board of Salzgitter, AG, a German steelmaker, until 2001, and from 1986 to 2001, served as its Director of Sales. Dr. Kolb has been a director since 1996 and is a member of our Audit Committee and our Corporate Governance and Nominating Committee.

James C. Marcuccilli has served as President and Chief Executive Officer of STAR Financial Bank, a regional bank based in Fort Wayne, Indiana, since 1997. Mr. Marcuccilli serves as a director of STAR Financial Group, Inc., the holding company parent of STAR Financial Bank, as well as a director of STAR Financial Bank. Mr. Marcuccilli has been a director since 2005 and is a member of our Audit Committee and of our Corporate Governance and Nominating Committee.

Joseph D. Ruffolo has been a principal in Ruffolo Benson LLC, a business and financial consulting firm, since 1994. Prior to that, Mr. Ruffolo was the President and Chief Executive Officer of North American Van Lines, Inc. Mr. Ruffolo is a director of Tower Financial Corporation, a publicly held bank holding company. Mr. Ruffolo has been a director since 1999 and a member and Co-Chair of our Audit Committee and a member of our Compensation Committee.

Security Ownership of Directors and Executive Officers

The following table shows how much Steel Dynamics, Inc common stock the directors, director nominees, the Named Executive Officers, and all directors, nominees and executive officers as a group beneficially owned as of March 26, 2008. The Named Executive Officers include the Chief Executive Officer and the four next most highly compensated executive officers, based upon compensation earned during 2007. For purposes of the following table, beneficial ownership is determined in accordance with the rules of the SEC.

	Beneficial Ownership as of March 26, 2008			
Name	**Current Beneficial Holdings**	**Shares Subject to Options**	**Total**	**Percent Owned***
Named Executive Officers				
Keith E. Busse(1)	2,009,884	19,004	2,028,888	1.06%
Mark D. Millett(2)	2,779,236	77,928	2,857,164	1.49%
Richard P. Teets, Jr.(3)	4,869,764	77,928	4,947,692	2.58%
Gary E. Heasley(4)	58,622	30,928	89,550	0.05%
Theresa E. Wagler(5)	33,706	54,432	88,138	0.05%
Other Directors or Nominees				
John C. Bates(6)	5,755,166	22,914	5,778,080	3.01%
Paul B. Edgerley(7)	27,466	10,610	38,076	0.02%
Richard J. Freeland(8)	57,082	7,094	64,176	0.03%
Dr. Jürgen Kolb(9)	15,126	7,094	22,220	0.01%
Daniel M. Rifkin(10)	5,635,534		5,635,534	2.94%
Joseph D. Ruffolo(11)	24,474	22,914	47,388	0.02%
Dr. Frank D. Byrne(12)	7,094	11,162	18,256	0.01%
James C. Marcuccilli(13)	7,094	11,162	18,256	0.01%
Directors and Executive Officers as a Group (13 persons)	21,280,248	353,170	21,633,418	11.28%

Represents currently exercisable options and options exercisable within 60 days.

*

Assumes exercise of all stock options (for 3,055,754 shares) currently exercisable or exercisable within 60 days, with a corresponding increase in the number of outstanding shares from 188,955,976 on the record date to 192,011,730.

(1)

Chief Executive Officer and a director. Includes 31,266 shares that are not yet vested, awarded for 2007 and 2006, pursuant to our 2003 Executive Incentive Compensation Plan.

(2)

Executive Vice President, President and Chief Operating Officer for Flat Rolled Steels and Ferrous Resources and a director. Includes 18,090 shares that are not yet vested, awarded for 2007 and 2006, pursuant to our 2003 Executive Incentive Compensation Plan.

(3)

Executive Vice President, President and Chief Operating Officer for Steel Shapes and Building Products and a director. Includes 32,000 shares of common stock owned by Mr. Teets' spouse and 2,200 shares held in trust for Mr. Teets' minor children, with respect to which Mr. Teets disclaims beneficial ownership of all these shares. Includes 18,098 shares that are not yet vested, awarded for 2007 and 2006, pursuant to our 2003 Executive Incentive Compensation Plan.

(4)

Executive Vice President for Strategic Planning and Business Development. Includes 12,768 shares that are not yet vested, that were awarded for 2007 and 2006, pursuant to our 2003 Executive Incentive Compensation Plan.

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(5) Chief Financial Officer. Includes 7,290 shares that are not yet vested, that were awarded for 2007 and 2006, pursuant to our 2003 Executive Incentive Compensation Plan.

(6) Director. Consists of all shares of common stock held of record by Heidtman Steel Products, Inc., of which Mr. Bates is the President and Chief Executive Officer. Shares in option column represent stock options, currently exercisable or exercisable within 60 days, previously issued to Mr. Bates pursuant to our stockholder approved Non-Employee Director Stock Option Plan.

(7) Director. Shares in option column represent stock options, currently exercisable or exercisable within 60 days, previously issued to Mr. Edgerley pursuant to our stockholder approved Non-Employee Director Stock Option Plan.

(8) Director. Shares in option column represent stock options, currently exercisable or exercisable within 60 days, previously issued to Mr. Freeland pursuant to our stockholder approved Non-Employee Director Stock Option Plan.

(9) Director. Shares in option column represent stock options, currently exercisable or exercisable within 60 days, previously issued to Dr. Kolb pursuant to our stockholder approved Non-Employee Director Stock Option Plan.

(10) Executive Vice President, President and Chief Operating Officer for Metals Recycling and a director, since October 26, 2007. Mr. Rifkin's compensation from October 26, 2007 did not render him a Named Executive Officer for 2007. Includes 104,504 shares held by Mr. Rifkin as trustee for the benefit of Mr. Rifkin's children, with respect to which Mr. Rifkin disclaims beneficial ownership.

(11) Director. Includes 4,000 shares held in Mr. Ruffolo's retirement plan. Also includes 2,600 shares held by Mr. Ruffolo's spouse, with respect to which he disclaims beneficial ownership. Shares in option column represent stock options, currently exercisable or exercisable within 60 days, previously issued to Mr. Ruffolo pursuant to our stockholder approved Non-Employee Director Stock Option Plan.

(12) Director. Shares in option column represent stock options, currently exercisable or exercisable within 60 days, previously issued to Dr. Byrne pursuant to our stockholder approved Non-Employee Director Stock Option Plan.

(13) Director. Shares in option column represent stock options, currently exercisable or exercisable within 60 days, previously issued to Mr. Marcuccilli pursuant to our stockholder approved Non-Employee Director Stock Option Plan.

Security Ownership of Certain Beneficial Owners

Five Percent Holders. The following table shows each person who, based upon their most recent filings with the Securities and Exchange Commission, and based upon a total of 190,324,402 shares outstanding at December 31, 2007, beneficially owns more than 5% of our common stock. Number of shares shown reflect two-for-one stock split effective March 19, 2008:

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Common Stock Outstanding
TPG-Axon Capital Management, LP 888 Seventh Avenue 38th Floor New York, NY 10019	14,000,000	7.4%
Wellington Management Company, LLP 75 State Street Boston, MA 02109	10,765,558	5.7%

(1) Based on February 14, 2008 filing of Schedule 13G/A with the SEC. Represents 14,000,000 shares over which it exercises both shared voting power and shared dispositive power.

(2) Based on February 14, 2008 filing of Schedule 13G with the SEC. Represents 8,553,258 shares over which it exercises shared voting power, and 10,765,558 shares over which it exercises shared dispositive power.

Proposal No. 2
Ratification of the Appointment of Independent
Registered Accounting Firm as Auditors

In accordance with the provisions of the Sarbanes-Oxley Act of 2002, the Audit Committee has appointed Ernst & Young LLP as our independent registered accounting firm, to conduct our annual audit for the year 2008. Although not legally required but in accordance with established policy, we are submitting this appointment to stockholders for ratification. In the event the appointment is not ratified by a majority of votes cast, in person or by proxy, we anticipate that no change in auditors would be made for the current year, because of the difficulty and expense of making any change mid-year. However, any such vote would be considered in connection with the independent registered public accounting firm's appointment for 2009.

Ernst & Young LLP conducted our annual audit for 2007, and we believe that representatives of Ernst & Young LLP will be present at the meeting, will make themselves available at the meeting to respond to appropriate questions from stockholders, and, if the representatives desire, will have an opportunity to make a statement.

The Board of Directors recommends a vote FOR the approval of the appointment of Ernst & Young LLP as our independent registered accounting firm for 2008.

Audit and Non-Audit Fees. The following table presents fees paid for professional audit services rendered by Ernst & Young LLP, an independent registered accounting firm, for the audit of our annual financial statements for the years ended December 31, 2007 and 2006.

	2007	2006
Audit Fees	$ 1,205,000	$ 709,000
Audit-Related Fees	7,300	18,000
Tax Fees	192,000	244,000
All Other Fees	1,700	102,000
	$ 1,406,000	$ 1,073,000

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor. Consistent with SEC policies regarding auditor independence, the Audit Committee must pre-approve all audit and permissible non-audit services provided by our independent auditors. Our Non-Audit Services Pre-Approval Policy covers all services to be performed by our independent auditors. The policy contemplates a general pre-approval for all audit, audit-related, tax and all other services that are permissible, with a general pre-approval period of twelve months from the date of each pre-approval. Any other proposed services that are to be performed by our independent auditors, not covered by or exceeding the pre-approved levels or amounts, must be specifically approved in advance.

Prior to engagement, the Audit Committee will pre-approve the following categories of services. These fees are budgeted, and the Audit Committee requires the independent auditors and management to report actual fees versus the budget periodically throughout the year, by category of service.

1. **Audit fees** include fees for services rendered in connection with the audit of the Company's consolidated financial statements included in the Company's Form 10-K and reviews of financial statements included in the quarterly Form 10-Qs; fees for the audit of Steel Dynamics' internal control over financial reporting with the objective of obtaining reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects; subsidiary audits, work performed and other work required to be performed by the independent

auditors to be able to form an opinion on our consolidated financial statements. Such work includes, but is not limited to, fees for the review of the Company's valuation of business combinations, services rendered in connection with comfort letters, statutory audits of subsidiaries, and services associated with statutory or regulatory filings or engagements, including SEC registration statements, periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings.

2. **Audit-related fees** include fees for services reasonably related to the performance of the audit or review of our financial statements and internal controls over financial reporting or that are traditionally performed by the independent auditors. Such services during 2007 included services in connection with accounting consultations related to accounting, financial reporting or disclosure matters not classified as "audit services."

3. **Tax fees** include fees related to services performed by the independent auditors' tax personnel, except those services specifically related to the financial statements, and during 2007 included tax consulting fees (assistance with tax audits and appeals, tax advice relating to mergers and acquisitions, due diligence assistance regarding tax matters and transfer pricing studies).

4. **All other fees** include fees related to online research software.

Applicable SEC rules and the Audit Committee's pre-approval policy permits the delegation of pre-approval authority for services not covered by the Audit Committee's general pre-approval to either of the Co-Chairs of the Audit Committee.

Proposal No. 3
Approval of Steel Dynamics, Inc.
2008 Executive Incentive Compensation Plan

Background of Need for a New Plan. Our Board of Directors has approved the Steel Dynamics, Inc. 2008 Executive Incentive Compensation Plan (the "New Plan"), subject to stockholder approval, which is designed to replace our 2003 Executive Incentive Compensation Plan (the "Expiring Plan"). Both the Expiring Plan and the New Plan are performance-based incentive plans, predicated on objectively defined and uniformly applied profitability criteria.

The basic design and operation of our New Plan, with minor exceptions, is that of the Expiring Plan, which was itself modeled after our original 1996 Plan, the year we commenced business. The minor exceptions where the New Plan differs from the Expiring Plan principally involve

- the formation of an additional category of bonus plan participant to reflect the 2007 management restructuring plan's creation of multi-unit or multi-divisional groups under the direction of currently three Executive Vice Presidents;

- the labels used to describe the bonus pool classifications (with their corresponding potential bonus payouts) into which executives are placed by the Compensation Committee utilizing numerical categories (e.g., "Category 1 Executive Officer") rather than an actual company title;

- the delegation of additional flexibility to the Compensation Committee to assign executive employees to bonus plan categories, based upon a more objective assessment of the person's contribution to the creation of stockholder value and not necessarily tied to job title;

- the delegation of greater flexibility in the Compensation Committee to annually adjust the formula percentages that go into the calculation of both the potential corporate level bonus pool and the potential operating level bonus amount; and

- investing the Compensation Committee with the authority to create additional future categories of bonus plan participants and to assign participants to those new categories.

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The Expiring Plan has worked well, and the very heart of the "pay for performance" measure, specifically "Adjusted Pre-Tax Net Income," has appropriately resulted in incentive compensation awards that have been both objectively determinable and that have, historically, borne a direct relationship to our operating results. In other words, under the New Plan, as with the Expiring Plan, incentive compensation is entirely both performance-based and objective and directly links a participant's bonus with the nature of that participant's contribution, either at the corporate level alone, at the divisional or operating unit level alone, or at both the corporate and the divisional levels.

Why We are Seeking Stockholder Approval. Under Section 162(m) of the Internal Revenue Code, a company may not deduct for tax purposes compensation over $1,000,000 paid to its chief executive officer or its four other most highly compensated executive officers, unless the compensation is "performance-based." Compensation is considered "performance-based" if it will be paid only if the executive officer meets one or more objective performance goals, which may be goals articulated for the company as a whole or for a particular business unit. The performance goals must also be in writing and be set by a compensation committee consisting of two or more members, all of whom must be "outside directors" as defined by the Code. The performance goals must be set before it can be known whether or not the executive officer will meet the goals. The material terms of the performance goals or the means of determining them must also be disclosed to and approved by stockholders before the compensation is paid.

We believe that the criteria described in the New Plan as the basis for awarding incentive compensation meet all of the necessary requirements and, if approved by stockholders, will render compensation paid under the New Plan fully deductible. In the event that stockholders do not approve, compensation paid to the named executive officers in excess of $1,000,000 each may not be deductible under Section 162(m) of the Code.

Summary of How the New Plan Works.

The following summary description of the Steel Dynamics, Inc. 2008 Executive Incentive Compensation Plan is qualified in its entirety by reference to the full text of the New Plan, which is attached to this Proxy Statement as Exhibit A.

Effective Date and Term of the New Plan.

The New Plan is effective January 1, 2008 and will terminate, unless extended or earlier terminated by the Board, on February 28, 2013.

The Expiring Plan will be terminated, subject only to the remaining rights of holders of restricted shares of Company common stock issued under the Expiring Plan that have not yet vested.

Who is Covered Under the New Plan?

The New Plan, just as the Expiring Plan, identifies the same two broad classes of covered executive employees who are eligible for incentive compensation: (i) "corporate level" executive employees (some of whom have primarily corporate level responsibilities and some of whom have both major corporate level responsibilities but perform multi-divisional or other significant operating level supervisory responsibilities) and (ii) "operating level" or divisional executive employees, whose primary responsibilities are operational. Each of these two classes of executives in turn comprises several "categories" for Plan purposes.

There are currently two categories of corporate level executive employees, who have primary corporate level responsibilities are "Category 1 Executive Officers," currently consisting of our Chief Executive Officer, our Chief Financial Officer and our Executive Vice President for Strategic Planning and Business Development, and "Category 2 Executive Officers," currently consisting of such persons as our Vice President for Tax and Benefits and our Treasurer.

A third category of corporate level executive employees, "Category 3 Executive Officers," are ones who have both major corporate level responsibilities and substantial multi-divisional or other significant operating level supervisory responsibilities involving the direction and supervision of business groups. Our Category 3 Executive Officers for 2007 consisted of our Executive Vice President for Flat Rolled Steels and Ferrous Resources and our Executive Vice President for Steel Shapes and Building Products.

There are currently two categories of operating level or divisional level executive employees who have primary operating unit or divisional responsibilities but who also perform some corporate level functions. These consist of Category 4 Executive Officers," currently the Vice President and General Manager of our Structural and Rail Division, the Vice President and General Manager of our Flat Roll Division, and the Vice President and General Manager of our Engineered Bar Products Division, and "Category 5 Executive Officers," currently consisting of the Vice Presidents and General Managers of our Roanoke Bar Division, our Steel of West Virginia Division and the President of our New Millennium Building Systems Division.

The Compensation Committee may also make changes, within prescribed time limits, to any of the foregoing categories of covered executive employees, including the addition of executive employees, the movement of employees into other categories, or the modification of the categories themselves.

How is Incentive Compensation Determined Under the New Plan?

There are two components of incentive compensation under the New Plan, both of them performance-based, that are applicable to either one or both of the two classes of covered executive employees. This is unchanged in any material respect from the Expiring Plan.

The first component, the "Bonus Pool" component, is calculated at the corporate level and is based upon company-wide "Adjusted Pre-Tax Net Income," defined as consolidated net income, before taxes, extraordinary items and bonuses payable to participants under the New Plan, with adjustments for certain start-up expenses associated with significant capital expenditures. For any year under the New Plan, a "Bonus Pool" is first calculated by multiplying consolidated Adjusted Pre-Tax Net Income, minus a measure of return to stockholders, currently 10% of "Average Stockholders Equity," by a percentage amount determined annually by the Compensation Committee. That amount is currently set at $5^1/_2$%, but the Committee has the authority to raise or lower that percentage within the first ninety days of the year. The resulting Bonus Pool is then allocated among the eligible executive employees who are Bonus Pool Participants in accordance with each "Participant's Bonus Pool Percentage," derived for any participant by a fraction, the numerator of which is equal to the "Participant's Adjusted Base Salary," as defined in the New Plan, and the denominator of which is equal to the sum of all of the Participants' Adjusted Base Salaries.

Category 1 Executive Officers and Category 2 Executive Officers, as identified in the New Plan, participate solely in this Bonus Pool, with 100% of their incentive compensation, if at all, derived through their participation in this company-wide Bonus Pool.

Category 3, Category 4 and Category 5 Executive Officers, as identified in the New Plan, derive only part of their incentive compensation through this company-wide Bonus Pool, the other part coming, if at all, from operating level or divisional performance.

Currently, Category 3 Executive Officers derive half of their incentive compensation through participation in the company-wide Bonus Pool and half of their incentive compensation through a bonus formula based upon the aggregate performance of the various divisions or business units that report to them. Category 4 and Category 5 Executive Officers currently derive only 25% of their incentive compensation through participation in the company-wide Bonus Pool and 75% of their incentive compensation through a bonus formula based upon the division or business unit for which they are responsible.

The operating level bonus formula is based upon divisional, multi-divisional or business unit performance specifically a formula based on a "Return on Assets" calculation. Accordingly, unlike Category 1 and Category 2 Executive Officers, who participate only in the company-wide Bonus Pool, Category 3, Category 4 and Category 5 Executive Officers participate partly in the Bonus Pool and partly in a divisional Return on Assets performance bonus outside of the Bonus Pool.

With respect to the Return on Assets bonus calculation, each year, the Compensation Committee sets a minimum return on assets target percentage, by division (the "Minimum ROA Target"), currently set at 5% but able to be varied, up or down, by the Committee, without further stockholder approval. If the Minimum ROA Target is not achieved, no divisional, multi-divisional or business unit cash or stock bonus will be paid. The Committee also sets a maximum return on assets target (the "Maximum ROA Target"), currently set at 30% or 35%, depending on the particular division, but which the Committee may also adjust, up or down. At this level, a Category 3 Executive Officer will be entitled to receive the "Maximum Divisional Group Cash Bonus on the "Maximum Divisional Group Stock Bonus" for Category 3 Executive Officers and the Category 4 or Category 5 Executive Officers will be entitled to receive the "Maximum Divisional Cash Bonus" or the "Maximum Divisional Stock Bonus" for Category 4 or Category 5 Executive Officers.

Once these preliminary calculations have been made, the division's, Divisional Group's or business unit's performance is measured by calculating that division's, Divisional Group's or business unit's Divisional Group or business unit Return on Assets, as the case may be, using a percentage derived by dividing the sum of (a) the division's, Divisional Group's or business unit's net income for the year, (b) the amount of certain corporate expenses allocated to that Division, Divisional Group or that business unit, and (c) the amount of incentive bonus compensation expenses associated with the New Plan, by the Division's, Divisional Group's or business unit's "Average Divisional ROA Assets," "Average Divisional Group ROA Assets" or "Average Business Unit ROA Assets" (further defined as the sum of the total Divisional, Divisional Group or business unit assets employed by that Divisional, Divisional Group or business unit at the end of each month during the Year and during the last month of the prior year, with certain adjustments, and dividing the resulting amount by the number of months of the year, plus one.

The calculation of a Divisional Group (Category 3) Executive Officer's entitlement to incentive compensation based on his Divisional Group performance would be calculated based 50% on the company-wide Bonus Pool and 50% on his Divisional Group performance, as follows: the participant would receive a Divisional Group bonus, if any, in an amount equal to that percentage of his or her Maximum 50% Divisional Group Cash Bonus for the year, derived by (a) dividing the number of whole number increments between the applicable Minimum ROA Target for the Year for all the divisions or business groups comprising the Divisional Group and the applicable Maximum ROA Target for that Year for all the divisions or business groups comprising the Divisional Group into one hundred (100), and (b) multiplying the result by the number of whole number increments, expressed as a percentage, between the applicable Minimum ROA Target and the actual Divisional Group Return on Assets for that Year. In this example, if the Category 3 Executive Officer's Maximum Divisional Group Cash Bonus for the Year were assumed to be $400,000 and the actual Divisional Group Return on Assets for the year were assumed to be 22%, the Category 3 Executive Officer would be entitled to receive 68% of his or her Maximum Divisional Group Cash Bonus of $400,000 for the year (the 22% Divisional Group Return on Assets being 17 increments above the Minimum ROA Target of 5%, divided by the 25 whole number increments between the Minimum ROA Target and the Maximum ROA Target).

What is the Maximum that an Executive Can Earn in Incentive Compensation Under the New Plan?

Category 1 Executive Officers. A Category 1 Executive Officer, such as the Company's Chief Executive Officer or Chief Financial Officer, may earn a cash bonus in an amount equal to the product of (a) his or her Bonus Pool Percentage and (b) the applicable Bonus Pool for the year, but not in excess of two and one-half ($2^1/_2$) times his or her Base Salary (which is established annually by the Compensation Committee at the beginning of the year and approved by the Board).

The Category 1 Executive Officer may also be entitled to receive a stock bonus, if there are unallocated amounts still remaining in the Bonus Pool after payment of all applicable cash bonuses. Any such stock bonus would be distributed in the form of restricted stock, which fully vests over a two-year period, having, at the time of issuance, a fair market value equal to the product of (a) the Category 1 Executive Officer's Bonus Pool Percentage and (b) the Bonus Pool (after payment of the cash bonuses). The amount of the stock bonus, if any, however, may not exceed the Category 1 Executive Officer's Base Salary.

Category 2 Executive Officers. A Category 2 Executive Officer's cash and stock bonus is calculated in the same manner as that of the Category 1 Executive Officers, except that the maximum cash bonus for a Category 2 Executive Officer may not exceed one and one-half ($1^1/_2$) times that person's Base Salary, and the maximum stock bonus for the Category 2 Executive Officer may not exceed 75% of that person's Base Salary.

Category 3 Executive Officers. A Category 3 Executive Officer, such as the Executive Vice President for Flat Rolled Steels and Ferrous Resources, can derive only half of his cash and stock bonus from our company-wide Bonus Pool, in the manner previously described. This portion is calculated in the same manner as for the Category 2 Executive Officer, except that the Category 3 Executive Officer's maximum cash bonus may not exceed an amount equal to half of his Base Salary multiplied by two and one-half ($2^1/_2$), and that person's maximum stock bonus based on the company-wide Bonus Pool may not exceed 50% of his Base Salary. The other half of the Category 3 Executive Officer's cash and stock bonus, if any, is derived at the Divisional Group level under the Return on Assets calculation.

The remaining half of a Category 3 Executive Officer's maximum incentive compensation is based on aggregate divisional performance of all the business units or divisions that report to that person, under the "Divisional Group Return on Assets" formula, but may not exceed half of his Base Salary multiplied by two and one-half ($2^1/_2$) in cash, and half of his Base Salary in shares of our restricted stock.

Category 4 Executive Officers. As currently constituted, a Category 4 Executive Officer can derive twenty-five percent (25%) of his or her cash and stock bonus from the company-wide Bonus Pool, in the manner previously described. These amounts are calculated in the same manner as those of Category 2 Executive Officers, except that the Category 4 Executive Officer's maximum cash bonus may not exceed an amount equal to twenty-five percent (25%) of his or her Base Salary multiplied by two (2). Similarly, his or her stock bonus based on the company-wide Bonus Pool is also limited to a maximum of 25% of his or her Base Salary.

The remaining 75% of a Category 4 Executive Officer's maximum incentive compensation is based on his or her particular division's performance but may not exceed 75% of his or her Base Salary multiplied by one and one-half ($1^1/_2$), in cash and 75% of his or her Base Salary, multiplied by 75% in shares of the Company's restricted stock.

Category 5 Executive Officers. A Category 5 Executive Officer's incentive compensation is calculated in the same manner and is subject to the same limitations as the maximum incentive compensation payable to Category 4 Executive Officers, except that the Category 5 Executive Officer's maximum cash bonus may not exceed an amount equal to twenty-five percent (25%) of his or her Base Salary multiplied by one and one-half ($1^1/_2$), and except that the maximum stock bonus based on the company-wide Bonus Pool is also limited to a maximum of 25% of his or her Base Salary multiplied by 75%.

The remaining 75% of a Category 5 Executive Officer's maximum incentive compensation is based on his or her particular division's performance but may not exceed 75% of his or her Base Salary multiplied by one and one-half ($1^1/_2$), in cash and 75% of his or her Base Salary, multiplied by 75% in shares of the Company's restricted stock.

The following table illustrates the minimum and maximum amounts that are payable to Corporate Executive Officers, Corporate Officers, Divisional Executive Officers and Divisional Officers, in both cash and in shares of Company restricted stock, under the New Plan.

ILLUSTRATIVE CHART

(Minimum/Maximum Bonus Possibilities Expressed as a Percentage of Base Pay)

	Cash Bonus		Stock Bonus	
	Company-wide Bonus Pool*	Divisional ROA Performance*	Company-wide Bonus Pool*	Divisional ROA Performance*
(1)Category 1 Executive Officer	0% to 250%	N/A	0% to 100%	N/A
(2)Category 2 Executive Officer	0% to 150%	N/A	0% to 75%	N/A
(3)Category 3 Executive Officer	0% to 125%	0% to 125%	0% to 50%	0% to 50%
(4)Category 4 Executive Officer	0% to 50%	0% to 150%	0% to 18.75%	0% to 56.25%
(5)Category 5 Executive Officer	0% to 37.5%	0% to 112.5%	0% to 18.75%	0% to 56.25%

* Bonus percentages expressed as a percentage of annual Base Salary.

(1) Category 1 Executive Officers' bonus compensation is based 100% on consolidated financial results.

(2) Category 2 Executive Officers' bonus compensation is 100% based on consolidated financial results.

(3) Category 3 Executive Officers' bonus compensation is 50% based on consolidated financial results and 50% based on aggregate Divisional Group financial results.

(4) Category 4 Executive Officers' bonus compensation is 25% based on consolidated financial results and 75% based on divisional financial results.

(5) Category 5 Executive Officers' bonus compensation is 25% based on consolidated financial results and 75% based on divisional financial results.

If the calculated corporate level Bonus Pool is greater than the sum of all of the applicable Participants' Adjusted Base Salaries that come of the Bonus Pool, or if the actual Return on Assets of a division, Divisional Group or business unit exceeds the Maximum ROA Target for the particular division, Divisional Group or business unit, the excess or unallocated amounts are ignored for incentive compensation purposes, nor do they carry over from one Year to the next.

How Many Shares of Company Stock May Be Issued Under the New Plan?

On March 4, 2008, we announced a two-for-one stock split of our common shares effective for stockholders of record on March 19, 2008. This means that as of the close of business on March 19, each outstanding share of Steel Dynamics common stock became two shares, and all existing references to the number of shares still authorized for issuance under our Expiring Plan was automatically doubled.

Under our Expiring Plan, as adjusted for the stock split, we had authorized a total of 3,000,000 shares, for issuance, if earned, pursuant to the stock bonus portion of that Plan. However, to date, after the five year life span of the Expiring Plan, including stock bonus shares issued February 1, 2008 in respect of 2007's incentive bonus awards, we actually only issued a total of 591,942 shares, thereby leaving a total of 2,408,258 shares as unissued. Therefore, these remaining shares will be de-authorized and none of such shares will be issued under the Expired Plan.

We have allocated a maximum of 2,500,000 shares for issuance, if, as and when earned, over the next five years, through 2013, as stock bonuses under the New Plan. This amounts to approximately 1.5% of the total number of shares issued and outstanding as of the record date (assuming that all such bonus shares were to be issued). So, in essence, taking into account the 2,408,258 shares that were never issued as part of the allocated shares under the Expiring Plan and which are to be de-authorized under the Expiring Plan, the *net increase* in shares authorized for issuance under the New Plan amounts to only 91,742 *additional shares* over the following five years. In essence, the number of shares authorized under the New Plan for the next five years is almost the same as the unused shares left over under the Expiring Plan from the previous five years.

A Participant under the New Plan may not elect to take Steel Dynamics shares in lieu of a cash bonus and may only receive shares if the aggregate bonus payments earned for a particular year exceed the maximum allowable cash bonus.

Upon termination of a Participant's employment for any reason other than retirement, all shares of restricted stock of that Participant which were not vested at the time of termination are required to be forfeited and returned to the Company, although the Committee may exercise its discretion and waive the forfeiture. Stock that is restricted and forfeitable under the New Plan, because it has not yet vested, is not permitted to be transferred, assigned, sold, pledged or otherwise disposed of in any manner, nor subject to levy, attachment or other legal process. Subject to these limitations, however, and as long as forfeiture has not occurred, a Participant is treated as the owner of restricted stock, with full dividend and voting rights.

The total number of shares authorized for issuance under the New Plan is also subject to adjustment in the event of any future stock dividends, stock splits, combinations or exchanges of shares, recapitalizations or other changes in our capital structure, as well as any other corporate transactions or events having an effect similar to any of the foregoing. If any such event were to occur, the aggregate number of shares reserved for issuance under the New Plan would be automatically adjusted to equitably reflect the effect of such changes.

What are the Federal Income Tax Consequences Under the New Plan?

Under present federal income tax laws, participants will realize ordinary income equal to the amount received in the year of receipt. If the award is paid as a cash payment, the Company will receive a deduction for the amount constituting ordinary income to the participant, in the manner required by law, providing that the New Plan meets the performance-based compensation standards of Code Section 162(m) and provided that stockholders have approved the New Plan. If the New Plan does not meet the requirements of Section 162(m) of the Internal Revenue Code, the Company would be denied any deduction beyond $1,000,000 per participant.

If the value of the award is delivered in shares of the Company's restricted stock, Participants will realize ordinary income equal to the fair market value of the restricted stock, either at the time of receipt with respect to all shares or, if a timely election is made by the Participant, and only with respect to unvested shares, at the time the restrictions lapse and the shares become nonforfeitable. The

Company would likewise expect to receive a corresponding tax deduction, at the time, and in the manner required by law.

The affirmative vote of the holders of a majority of our shares of common stock represented at the meeting and entitled to vote on this matter will be necessary for approval of the Steel Dynamics, Inc. 2008 Executive Incentive Compensation Plan.

The Board recommends a vote FOR approval of the Steel Dynamics, Inc. 2008 Executive Incentive Compensation Plan.

Proposal No. 4
Approval of an Amendment of our Amended and Restated Articles of Incorporation to Increase our Authorized Common Stock from 400 Million Shares to One Billion Shares

Our Board of Directors has unanimously approved and has voted to recommend that our stockholders approve a proposed amendment to Article IV of our Amended and Restated Articles of Incorporation (the "Articles of Incorporation") to increase the number of authorized shares of our capital stock from 400 million common shares (post-split) to one billion common shares.

Pursuant to Section 23-1-38-2(4) of the Indiana Business Corporation Law, our announcement on March 4, 2008 that we were effecting a two-for-one stock split on our common shares, effective for stockholders of record on March 19, 2008, automatically, by operation of law and without requiring stockholder approval, increased our authorized common shares from 200 million, which is what it was on March 18, 2008, to 400 million shares, post-split, on March 19, 2008.

The current proposal, however, to increase our total authorized common shares from 400 million to one billion does require stockholder approval.

At its meeting of February 22, 2008, our Board of Directors adopted a resolution proposing an amendment to Article IV of our Amended and Restated Articles of Incorporation, authorizing its submission to you, our stockholders, for approval and adoption, and recommended its approval and adoption, to amend Article IV to increase the authorized number of common shares to one billion.

A copy of the proposed Amendment is attached as Exhibit B to this Proxy Statement.

Accordingly, in connection therewith, the following resolution will be introduced at the Annual Meeting:

> RESOLVED, that Article IV of the Amended and Restated Articles of Incorporation of Steel Dynamics, Inc., is further amended to increase the number of authorized shares of Steel Dynamics, Inc. common capital stock from 400 million to one billion shares, with a corresponding decrease by one-half, the par value per share from $0.005 to $0.0025 per share. All other provisions of Article IV shall remain unchanged.

As of March 26, 2008, adjusted for the March 19, 2008 two-for-one stock split, 188,955,976 shares of our common stock, par value $0.0025 per share, were issued and outstanding, and an aggregate of 11,849,308 shares of common stock were reserved for issuance in connection with outstanding stock options and convertible debt securities.

Our Board of Directors believes that it is in our best interest and the best interest of our stockholders to adopt the proposed amendment to Article IV. If the proposed amendment of Article IV of our Amended and Restated Articles of Incorporation is approved by our stockholders, it will become effective upon filing with the Indiana Secretary of State, which filing would occur promptly after the Annual Meeting.

The proposed amendment does not change the terms of our common stock. The additional shares of common stock, if authorized and approved by our stockholders, and when issued, would have all the same rights and privileges, including the same voting rights and additional rights to dividends and distributions, as the existing authorized common shares.

Purpose of the Proposed Amendment. The Board of Directors believes that it is prudent to increase the authorized number of shares of common stock from 400 million to one billion common shares.

The Board of Directors believes that at the current 400 million share level of authorized common stock, less than 200 million shares would remain available for future issuance (after taking into account shares issuable on exercise of outstanding options and shares issuable on conversion of certain convertible notes). Accordingly, looking forward, we could be constrained in our ability to pursue strategies, such as acquisitions or future equity offerings, to support our planned growth and to enhance stockholder value. The Board of Directors also considers the proposed increase in the number of authorized shares of common stock desirable because it would give us the necessary flexibility to issue common stock in connection with future stock dividends or splits.

We currently have no plans, arrangements or understandings for the issuance of any of the additional shares of common stock to be authorized pursuant to this proposal.

Future issuances of common stock would be at the discretion of the Board of Directors, without the expense and delay incidental to obtaining stockholder approval, except as may be required by applicable law or by the rules of any stock exchange or market on which our securities may then be listed or authorized for quotation. For example, NASDAQ rules currently require stockholder approval as a prerequisite to listing shares in several instances, including in connection with acquisitions where the present or potential issuance of shares could result in an increase in the number of shares of common stock outstanding by 20% or more.

Holders of common stock have no preemptive rights to subscribe to any additional securities of any class that we may issue.

This amendment to Article IV of our Amended and Restated Articles of Incorporation is not being proposed in response to any effort known by management to effect a change of control of our Company.

The amendment to Articles IV of our Amended and Restated Articles of Incorporation requires the affirmative vote of the holders of a majority of the outstanding shares of common stock entitled to be cast at the meeting.

The Board of Directors recommends a vote FOR the adoption of Proposal No. 4 to amend our Amended and Restated Articles of Incorporation to increase the number of authorized shares of our common stock from 400 million to one billion.

Report of the Audit Committee

The Audit Committee of the Board of Directors is responsible for providing independent, objective oversight regarding the integrity of accounting functions and systems of internal controls. Management has the primary responsibility for our accounting and financial reporting processes, the establishment and effectiveness of internal controls and the preparation and integrity of our consolidated financial statements.

Ernst & Young LLP, our independent auditing firm, is responsible for performing an independent audit of our consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board, Ernst & Young LLP has issued an opinion on whether our financial statements are presented fairly in conformity with accounting principles generally accepted in the United States, on management's assessment of the effectiveness of internal control over financial reporting, and on the effectiveness of our internal control over financial reporting. The Audit Committee oversees our financial reporting process on behalf of the Board, reviews our financial disclosures, and meets privately, outside the presence of management, with our independent auditors to discuss our internal accounting control policies and procedures.

In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with management and with Ernst & Young LLP, and recommended to the Board of Directors (and the Board of Directors approved) the inclusion of the audited consolidated financial statements in our 2007 Annual Report on Form 10-K, for filing with the Securities and Exchange Commission, as well as the quarterly financial statements included in our Forms 10-Q during 2007, including the specific disclosures in the section entitled "Management Discussion and Analysis of Financial Condition and Results of Operations." These discussions also addressed the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

The Audit Committee has discussed with the Company's independent auditors, Ernst & Young LLP, the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants. The Audit Committee has also received and reviewed the written disclosures and the letter from Ernst & Young LLP required by Independence Standard No.1, Independence Discussions with Audit Committees, as amended, by the Independence Standards Board, and has discussed with the auditors the their independence.

The Audit Committee has also considered whether the provision of services by Ernst & Young LLP not related to the audit of the financial statements referred to above is compatible with maintaining Ernst & Young LLP's independence.

The Audit Committee also selects and appoints our independent auditors, reviews the performance of the independent auditors in the annual audit and in assignments unrelated to the audit, and reviews and approves the independent auditors' fees. In that regard, the Audit Committee approved the selection and engaged the services of Ernst & Young LLP as our independent auditing firm for the Company's fiscal year ending December 31, 2007.

The Audit Committee:

Joseph D. Ruffolo, Co-Chair
Paul B. Edgerley, Co-Chair
Dr. Jürgen Kolb, Member
James C. Marcuccilli, Member

March 15, 2008

The foregoing Audit Committee Report shall not be deemed to be incorporated by reference in any previous or future documents filed by the Company with the Securities and Exchange Commission under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates the report by reference in any such document.

Report of the Compensation Committee

Steel Dynamics, Inc.'s Compensation Committee has reviewed and discussed with management the following Compensation Discussion and Analysis required by item 402(b) of Regulation S-K and, based on such review and discussion, has recommended to the Board that the following Compensation Discussion and Analysis be included in the Proxy Statement and, as incorporated by reference, in our Annual Report on Form 10-K.

The Compensation Committee:

Richard J. Freeland, Chair
Joseph D. Ruffolo, Member
Frank D. Byrne, M.D.

March 15, 2008

EXECUTIVE COMPENSATION AND RELATED INFORMATION

Compensation Discussion and Analysis

The following Compensation Discussion and Analysis may contain statements regarding future individual and company performance targets or goals. We have disclosed these targets or goals in the limited context of Steel Dynamics, Inc. compensation programs; and, therefore, you should not take these statements to be statements of management's expectations or estimates of results or other guidance. We specifically caution shareholders not to apply any such statements to other contexts.

This is a report by the Company and our senior officers, primarily our Chief Executive and Chief Financial Officer. It is not a report of the Compensation Committee. Accordingly, the term "we," "our" and "us" refer to the Company, or, where the context requires, to our senior officers.

Preliminary Statement

This Compensation Discussion and Analysis, or CD&A, addresses the philosophy behind and the objectives of our compensation policies for executive officers named in the Summary Compensation Table and for certain other executives. In addition, this CD&A provides a principles-based context to the data presented in the tables that follow.

This CD&A addresses:

- the objectives of our compensation program (found in the section entitled "Compensation Philosophy and Objectives" beginning on page 30);
- what our compensation program is designed to reward (also described in the section entitled "Compensation Philosophy and Objectives" beginning on page 30);
- each element of compensation (set forth in the section entitled "Primary Elements of Our Compensation Program" beginning on page 34);
- how we determine amounts and formulas for pay (also described with each element of compensation, including base salaries, short-term incentives and longer-term incentives); and
- how each compensation element and our decisions regarding each such element fit into our overall compensation objectives and how they affect decisions regarding other elements (described with each element of compensation, as well as in the section entitled "Use of Outside Consultants: Benchmarking" beginning on page 32).

Administration of our Compensation Program

The Compensation Committee, or Committee, of our Board of Directors has responsibility for the development, implementation, monitoring, administration and oversight of all elements of our executive compensation programs, as well as responsibility for ensuring that our compensation plans and programs remain true to our compensation philosophy. The Committee annually evaluates and establishes the compensation of (i) the Chief Executive Officer, (ii) with input from the Chief Executive Officer or other senior executives, the compensation of the Chief Financial Officer and the Named Executive Officers included in the Summary Compensation Table, as well as certain other executive officers, and (iii) our directors.

The Committee also suggests, reviews and approves all specific grants and awards under our compensation plans, as well as all of our incentive compensation plans, including all equity-based plans, and recommends such plans to our Board of Directors for ultimate approval.

The Compensation Committee meets as often as necessary to perform its duties and responsibilities. During 2007, the Committee met eight times. The Committee from time to time invites the Chief Executive Officer and may invite other senior officers, to attend and to participate in portions of its meetings, but no member of management is present during any Committee deliberations or decision-making.

The Committee operates under a written charter adopted by the Board, which is available online at *www.steeldynamics.com* under the link to "Investors." The Committee may not delegate its authority to other persons, except that it may delegate the performance of certain functions to its Chair or to a subcommittee of its members. The Committee's calendar is set by the Chair of the Committee and the meeting agendas are prepared by the Chair with input from management and legal counsel. Depending on the agenda for a particular meeting, the Committee may:

- review Company financial reports;
- review information regarding compensation programs and compensation levels, based on reports the Committee assembles with or without the assistance of outside consultants;
- review tally sheets setting forth compensation information relating to the Chief Executive Officer, the Named Executive Officers or other officers, including base salary, cash incentives, equity awards, perquisites and other compensation, and any potential amounts paid or payable to the executive pursuant to employment agreements or any other agreements;
- review wealth accumulation summaries; and
- conduct interviews or receive information incident to the performance of its obligations.

Compensation Philosophy and Objectives

While we believe that we must be able to attract and retain qualified executive officers within our global steelmaking industry by the establishment and maintenance of a compensation system that is both competitive in the general and peer company marketplace for companies of similar size and character, we also firmly believe that we must ground our compensation philosophy in the unique entrepreneurial culture upon which our Company was founded and that has so clearly contributed to the success we have enjoyed to date. And basic to that unique culture is the recognition of the central role that teamwork plays in the achievement of consistent superlative company performance, both plant level and executive level. This philosophy is in fact reflected at every level, from the steelworker on the plant floor to the executive management team. So whether it be a small crew of operating level employees working as a team in one of our steel mills to achieve a weekly "production bonus" based on quality steel produced on their shifts or a monthly "conversion bonus" based on minimizing long-term conversion costs (*i.e.*, the costs incurred to convert raw material entering a particular production area into product that leaves that area), or whether it be our plant or corporate level executive management team, the "we" in our Company trumps any "I" when it comes to the way we measure, recognize and reward achievement.

We believe that our stockholders are best served by a company that achieves earnings success year after year, for that kind of consistent performance will ultimately produce superior long term results. Consistent with this approach, therefore, we have established a compensation philosophy that forges a direct link, in part, between "bottom line" overall company earnings performance and, in part, plant level earnings performance and executive pay. Therefore, just as all members of a production crew receive a production bonus based upon the team's achievement of quality tons of steel successfully produced, so will our executive management earn incentive pay, as a team, and depending on the executive's role, based in whole or in part upon overall Company earnings or a combination of Company and plant level performance.

The objectives of our executive compensation program are to:

- attract, motivate and retain experienced talented and motivated executive officers;
- through incentives, enhance the concept of teamwork and of the importance of either of the Company's overall performance or of the combination of overall Company performance and plant level performance to an individual's overall executive compensation;
- align an executive's incentives with the business unit and company functions most directly impacted by that executive's efforts;
- recognize the appropriateness of higher compensation for persons with greater responsibility and with greater abilities to influence the Company's results; and
- increase stockholder value by focusing on consistent profitability and growth.

Accordingly, our senior executive compensation policies and programs are much simpler much more and straightforward than most, primarily consisting of just three components:

- base salary,
- a short-term incentive compensation system consisting primarily of cash but with a potential for some longer-term restricted stock as well, and
- a twice yearly grant of incentive stock options, with a six-month vesting feature, the same vesting applicable to all of our employees but differing only the in number of options, depending upon the executive's level of responsibility, aimed at providing an incentive opportunity that is directly linked to stock performance and thus also fostering a longer-term perspective.

Our senior executive compensation policies and programs are driven by the following principles:

- base compensation should be fixed, payable in cash, should generally be established at the lower end of the competitive spectrum, yet when in combination with the potential for above market variable incentive pay, is still sufficiently competitive to attract and retain the kind of top quality executives we seek, willing to place at risk a disproportionately large portion of total annual compensation, based on achievement;
- reward for exemplary individual effort and performance should be expressed through annual increases in the level of base compensation;

no incentive pay should be awarded unless Company profits and/or divisional earnings exceed certain minimum threshold levels;

incentive compensation should be both variable and immediate, tied directly to Company profits or, depending upon the executive's position, tied to both Company and divisional profits and payable both in the form of cash (immediate) and in restricted stock (longer-term);

incentive compensation should be capped at varying multiples of base compensation, depending upon the executive's position, even if greater profits might otherwise justify more;

subjective, discretionary bonuses should not be utilized as a regular part of incentive compensation; and

total annual compensation opportunity should be at least at or above marketplace norms when Company performance so merits.

Use of Outside Consultants: Benchmarking

We believe that our current compensation programs are competitive with the level of compensation paid to executives at peer companies, and we believe that we must remain competitive, not only to attract quality executive talent but also to reduce the likelihood that we lose top executive talent to competitors or to other companies. More in the way of cross-checking to ensure competitiveness than in any sense as a means of establishing either base level or incentive compensation, the Committee compares salary and total compensation against a similarly situated peer group.

The Committee has authority to engage the services of outside consultants and advisors, as it deems necessary or appropriate in the discharge of its duties and responsibilities. The use of outside compensation consultants allows the Committee to simply become aware of and to evaluate compensation data and plan design information from national surveys and other public companies, including companies we consider to be our peers.

During 2007 and during the first quarter of 2008, the Compensation Committee utilized the services of Towers Perrin, a national consulting company, to assist the Committee in assessing and evaluating both our executive and our director compensation programs. Towers Perrin has been engaged directly by the Compensation Committee and they report their findings directly to the Committee.

Towers Perrin assisted the Committee with its review of industry and market data to determine where the Company stands in relation to similar size public companies and with certain peer companies. The surveyed group for 2007's review included, among others:

Company	**Ticker**	**Company**	**Ticker**
AK Steel Holding Corp.	AKS	Steel Technologies, Inc.	STTX
Nucor Corp.	NUE	Timken Co.	TKR
Phelps Dodge Corp.	PD	United States Steel Corp.	X
Quanex Corp.	NX	Vulcan Material	VMC
Reliance Steel and Aluminum Co.	RS	Worthington Industries, Inc.	WOR
Ryerson, Inc.	RYI		

The Committee also utilized proxy compensation data for Commercial Metals Company (CMC), Schnitzer Steel Industries (SCHN) and Gerdau Ameristeel (GNA).

The Committee utilized the Towers Perrin survey data and its own data to assess how each of our executive compensation components compares with the survey data and how our total annual compensation compares as well. We examined these comparisons for all of our senior executive positions during 2007, as well as, looking forward, for 2008, including: Chief Executive Officer, Keith E. Busse; Executive Vice President, President and Chief Operating Officer for Flat Rolled Steels and Ferrous Resources, Mark D. Millett; Executive Vice President, President and Chief Operating Officer for Steel Shapes and Building Products, Richard P. Teets, Jr.; Executive Vice President, President and Chief Operating Officer for Metals Recycling, Daniel M. Rifkin; Executive Vice President for Strategic Planning and Business Development, Gary E. Heasley; Chief Financial Officer, Theresa E. Wagler (each of the foregoing a Named Executive Officer); as well as Vice President and General Manager of our Flat Rolled Division, Glenn Pushis; the Vice President and General Manager of our Structural and Rail Division, John W. Nolan; the Vice President and General Manager of our Engineered Bar Products Division, Barry Schneider; the Vice President and General Manager of our Roanoke Bar Division, T. Joe Crawford; Vice President and President of Steel of West Virginia, Inc., Timothy R. Duke; Vice President and President of New Millennium Building Systems, Inc., Bert D. Hollman; Vice President of Ferrous Materials, Richard J. Brady, and several other Vice President and General Manager positions for other of our operating divisions.

During and as part of Towers Perrin's 2007-8 engagement by the Committee, the Towers Perrin consultants conducted one-on-one interviews with our Chief Executive Officer, our Chief Financial Officer, our three Executive Vice Presidents in charge of three of our principal business groups, and several other executives, for the purpose of determining how management relates to and their assessments of the efficacy of the Company's overall compensation program and each element thereof.

The Committee does not, however, believe that it is appropriate to base any compensation decisions, whether regarding base salaries or incentive pay, upon benchmarking to a peer or other representative group of companies. The Committee does believe that information regarding pay practices at other companies is useful in at least two respects. First, the Committee recognizes that compensation practices must be competitive in the marketplace. Second, this marketplace information is one of the many factors that management and the Committee consider in assessing the reasonableness and appropriateness of our compensation programs that we consider based on the factors we have described in this report.

Overall, the survey data indicates that we provide our Chief Executive Officer and our Named Executive Officers, as well as our other senior executives with a competitive compensation program, taking into account total direct compensation (total annual cash, including base salary and annual cash incentives) plus the annualized expected value of longer-term incentives (stock options and restricted stock awards)). However, consistent with our compensation philosophy, our pay mix is different than our peers, with more weight placed on annual incentives and less emphasis on long-term incentives. For purposes of this Compensation Discussion and Analysis, the term "total direct compensation" or "total annual compensation" differs from the "Total Compensation" column in the Summary Compensation Table on page 42, which includes long-term incentive and other forms of compensation valued on a basis consistent with financial statement reporting requirements.

Role of the Chief Executive Officer in Establishing Compensation

The Chief Executive Officer of our Company takes part in some meetings of the Compensation Committee, to provide necessary background information and updates on the operations of the Company and the performance of each of the executive officers.

Our Chief Executive Officer plays a significant role in recommending base salary compensation for the Named Executive Officers who report directly to him, as well as the other executive officers. Our Chief Executive Officer, Keith E. Busse, prepares an annual performance evaluation of each officer for the Compensation Committee. Mr. Busse also prepares a summary that includes a suggested range of base salaries for each particular executive, and this summary is then used by the Compensation

Committee as one of the many factors they consider in making a decision as to compensation for the executive officers. Annual and longer-term incentive levels, as earlier described, are tied directly to base compensation, as a multiple thereof.

The Compensation Committee also received a recommendation from the Chief Executive Officer as to his own base salary level, as well as his self assessment of his performance for the year under review. The Committee, however, evaluates the Chief Executive Officer and the Committee alone establishes his base salary. While the conclusions and recommendations resulting from the Chief Executive Officer's or other senior executive's reviews, including proposed base salary adjustments, are presented to the Committee for its consideration and approval, the Committee can modify any of these recommendations.

Use of Company-Specific Tally Sheets

We prepare a comprehensive tally sheet, as well as a wealth accumulation table for the Chief Executive Officer and for all of the other Named Executive Officers whose compensation is subject to review and approval by the Compensation Committee. The tally sheets list and quantify each and every element of annual compensation, aggregate stock option and restricted stock awards and values and other aggregated wealth accumulation data for each of the executives. This data is confidential to the Committee, has not been used to date in making specific compensation decisions, but may be utilized from time to time in arriving at future compensation decisions or decisions regarding matters such as severance or change in control payments.

Primary Elements of Our Compensation Program

The principal components of our compensation program are as follows:

- Base Salary.
- Performance-Based Cash and Restricted Stock Incentive Compensation.
- Twice yearly, automatic grant of stock options.

We maintain 401(k) retirement savings and profit-sharing plans, for which all employees are eligible, and these, along with our policies and practices regarding perquisites, are described later in this CD&A. However, both individually and in the aggregate, these are not material.

Base Salary

Base salary is designed generally to provide competitive rates of base salary, and we believe that these are competitive relative to similarly sized and situated companies, especially given the opportunity we provide for upside potential. Base salaries for our senior executives vary, depending upon experience, duties and scope of responsibility. We view base salaries as providing an essential level of compensation that is necessary to recruit and retain qualified executives and because it enables the Committee to employ annual base salary adjustments to reflect an individual's performance or changed responsibilities. Our base salary levels, however, are intended to provide only the foundation of a fair and competitive compensation opportunity for each person and are competitive only because of the existence and operation of our performance-based cash and restricted stock incentive compensation program described in more detail in the following section on "Performance-Based Incentive Compensation." Without that incentive program, which in a year with reasonable profits enables the executives to earn total compensation that better approximates their true market value and in a year with excellent profits enables the executives to hit the higher ends of the range of fair value for persons of their skill and experience, we would not be able to attract and retain persons with the kinds of skills, leadership qualities, temperament and culture that we demand and that have been the keys to our success as a company.

Generally, we annually consider the individual's position, responsibilities and duties, as well as experience, qualifications, unique value, past performance and future potential to enhance stockholder value, as part of our performance review process. Adjustments to salary levels are based on the Committee's assessment of these criteria through review of the following data:

- market studies provided by our compensation consultant or compiled by us or by the Committee;
- summaries of each executive's total compensation; and
- individual performance reviews prepared annually by management and further reviewed by the Committee.

Performance-Based Incentive Compensation

Our performance-based incentive compensation program constitutes the variable component of annual compensation. For 2007, this incentive compensation component was plan-based and administered pursuant to our Steel Dynamics, Inc. 2003 Executive Incentive Compensation Plan (our "Incentive Plan"). This Incentive Plan was last approved by shareholders in 2003 as a five-year plan, and the final year of this Incentive Plan was 2007.

Separately, and under Proposal No. 3 of the Proxy Statement of which this Compensation Discussion and Analysis is a part, the Company is requesting stockholder approval of a new plan the Steel Dynamics, Inc. 2008 Executive Incentive Compensation Plan (the "New Plan"), previously approved by the Committee and by our Board of Directors. The basic design and operation of the New Plan, with minor exceptions, is similar to our 2003 Incentive Plan. For purposes of this report, however, we will discuss the operation of the plan that was in effect during 2007 namely the 2003 Incentive Plan.

Our 2003 Incentive Plan, as is the case with our proposed 2008 Plan, had a short-term focus, consistent with our compensation philosophy of providing substantial annualized incentive pay keyed to Company profits or divisional profits over and above an excluded amount equal, at the corporate level, to 10% of "Average Stockholders Equity," and, at the divisional level, to a stated "Return on Assets" percentage. The focus of the cash portion of this incentive pay is short-term and follows from management's and the Committee's philosophical commitment to the notion that the best way for management to build sustainable long-term stockholder value is to produce excellent and consistent annual earnings. If overall Company profits are down, even if primarily due to poor markets or unforeseen and extraordinary circumstances beyond management's control, the amount of incentive pay will be down or possibly even eliminated, regardless of how hard an executive might have worked or how well management performed. Conversely, if excellent management with excellent markets results in extraordinary Company profits, incentive pay under the Incentive Plan will be proportionately higher, subject to various caps described in greater detail later in this section.

Aggregate incentive pay is determined under the Incentive Plan on February 1 of the year following the year for which the incentive compensation is payable, based upon the audited results of operations. Depending upon the size of a defined "Bonus Pool," as described below, and the applicable cap that sets a maximum multiple of an executive's base salary, incentive compensation for the applicable year will first be payable in cash, up to the amount of the cash cap multiple, and if the Bonus Pool has not been depleted by the aggregate amount of the cash incentive pay, additional incentive pay will be payable in restricted Company stock, up to the applicable restricted stock cap multiple. The number of shares of restricted stock issuable to the executive, if any, is determined by dividing the dollar amount of the restricted stock component of the award by the closing market price of the Company's stock on the last business day immediately preceding February 1. Shares of stock issued as incentive compensation under the Incentive Plan vest one-third at the time of issuance and one-third each on the first and second anniversaries of the award.

The Incentive Plan identifies two types of executive officers for eligibility under the Plan, which covers a greater number of executives and Company managers than just the Chief Executive Officer and the Named Executive Officers. Insofar as it pertains to the Chief Executive Officer and the Named Executive Officers, the Plan includes within the designation "Corporate Executive Officer" those persons whose primary responsibilities are Company-wide, and this included, for 2007, our Chief Executive Officer, Keith E. Busse, our Chief Financial Officer, Theresa E. Wagler, and our Executive Vice President for Strategic Planning and Business Development, Gary E. Heasley. The remaining Named Executive Officers, Executive Vice Presidents, Mark D. Millett and Richard P. Teets, Jr., were covered as "Divisional Executive Officers" under the Incentive Plan. T. Joe Crawford, Vice President and General Manager of our Roanoke Bar Division is covered under the Incentive Plan as a "Divisional Officer."

For "Corporate Executive Officers," which includes Messrs. Busse and Heasley, as well as Ms. Wagler, their incentive compensation was determined entirely at the corporate level and was based upon company-wide "Adjusted Pre-Tax Net Income," as defined in the Plan.

For 2007, a "Bonus Pool" was determined, by multiplying consolidated 2007 Adjusted Pre-Tax Net Income, less an amount equal to 10% of "Average Stockholders Equity," by a percentage amount ($5^1/_2$% for 2007), resulting in a gross Bonus Pool of $27.6 million. A portion of the Bonus Pool was then allocated among the participating executive employees in accordance with each "Participant's Bonus Pool Percentage" (derived, for any participant, from a fraction, the numerator of which was equal to the "Participant's Adjusted Base Salary," as defined in the Plan, and the denominator of which was equal to the sum of all of the Participants' Adjusted Base Salaries). There were other executive officer and manager participants under the Incentive Plan, in addition to the foregoing executive officers, and their respective incentive compensation amounts, each calculated under the Plan in accordance with that person's status, comes out of the same Bonus Pool.

For 2007, the total corporate level incentive compensation for the three Corporate Executive Officers that was derived from the Bonus Pool was $4.5 million, the total of the incentive compensation for the two other Named Executive Officers derived from the Bonus Pool was $1.5 million for 2007, and the total for all of the other executive officer participants in the Bonus Pool, covering nine other persons, was approximately $850,000 for 2007. The balance of $20.8 million in the Bonus Pool, for 2007, therefore, was unused and did not carry over.

Because the Bonus Pool was large enough for 2007, our "Corporate Executive Officers" were entitled to earn up to the maximum of two and one-half times their Base Salary, in cash, and, because there were also sufficient unallocated amounts remaining in the Bonus Pool after payment of all applicable cash bonuses, they were also entitled to receive a restricted stock bonus of 100% of Base Salary, vesting over a two year period. Each share of restricted stock was issued at the closing market price of our stock on the last business day prior to the February 1 award date. Assuming a sufficiently large Bonus Pool, therefore, which we had for 2007, each of the Corporate Executive Officers was able to earn up to the maximum of 350% of his or her base salary under the Incentive Plan for that person's employment period under the Plan.

For "Divisional Executive Officers," including Mark D. Millett and Richard P. Teets, Jr., for 2007, they earned 2007 incentive compensation based in part (50%) on Company-wide performance (derived from the Bonus Pool) and, in part (50%), based upon who the various divisions or business units did. So for 2007, these executive officers derived half of their incentive compensation through participation in the Company-wide Bonus Pool and half of their incentive compensation through a bonus formula based upon their divisional group's operating performance, described below.

Other executive officers derived 25% of their 2007 incentive compensation through participation in the Company wide Bonus Pool and 75% of their incentive compensation through their divisional bonus formula.

This divisional bonus formula is based upon a return on assets ("ROA") analysis. Each year, the Compensation Committee sets a "Minimum ROA Target," 5% for 2007, below which no divisional cash or stock bonus may be paid. The Compensation Committee also sets a "Maximum ROA Target," at which level a Divisional Executive Officer will be entitled to receive his maximum divisional cash and/or stock bonus. Once these preliminary calculations have been made, the division's performance is measured by calculating that division's "Divisional Return on Assets," using the formula described in the Incentive Plan.

A "Divisional Executive Officer" can derive half of his cash and stock bonus, if earned, from the Company-wide Bonus Pool, as previously described earlier in this report. The remaining half of a Divisional Executive Officer's maximum incentive compensation, based on divisional performance, may not exceed, in cash, two and one-half times his Base Salary, multiplied by 50%, and, in shares of restricted stock, may not exceed one-half of his Base Salary. For "Divisional Officers," because their incentive compensation based on the Bonus Pool is only 25%, the maximum incentive compensation from both Company-wide and divisional sources could not exceed 150% or 200% of his Base Salary, in cash, for 2007 based on his level of responsibilities, and 75% of his base salary in restricted stock.

Equity Incentive Compensation

Since October 1996, and as amended and re-approved at our 2001 Annual Meeting of Shareholders, the Compensation Committee approved and our Board adopted, with shareholder approval, our 1996 Incentive Stock Option Plan. Through our year-end 2005, this 1996 Stock Option Plan covered all of our full-time employees (approximately 1,795 employees at December 31, 2005), including officers, managers, supervisors, professional staff and hourly employees. Under the 1996 Plan, all eligible employees, including the Named Executive Officers, were awarded automatic semi-annual stock options, on May 21 and November 21 of each year, in differing dollar equivalent amounts, by position category. The option grants were based upon the fair market value of our common stock on each semi-annual grant date, measured by the closing price of our stock on the last business day immediately preceding each grant date, with a resulting exercise price equal to the same fair market value. All options issued under the 1996 Plan were subject to six month vesting from and after the date of grant and must be exercised no later than five years thereafter. Under that unique 1996 Plan, which reflects our emphasis on creating a sense of ownership and entrepreneurism for all of our employees, approximately 95% of the total options over the five year period prior to approval of our 2006 Equity Incentive Plan in May 2006, were granted to our entire employee workforce other than our Named Executive Officers. All stock options granted under the 1996 Plan, insofar as they are still extant, are reflected in the tables immediately following this CD&A, and no further options will be granted under the 1996 Plan.

In May 2006, however, after approval by our Board upon the recommendation of our Compensation Committee, our shareholders approved the Steel Dynamics, Inc. 2006 Equity Incentive Plan (the "2006 Plan") which, pursuant to Section 6.4 of the 2006 Plan, carries through into the 2006 Plan the same semi-annual automatic stock option awards for all employees, including the Named Executive Officers, as under the 1996 Plan.

While the 2006 Plan gives the Committee the general authority from time to time to grant both Incentive Stock Options and Nonstatutory Stock Options, within the limits described in the 2006 Plan, the 2006 Plan, in Section 6.4 thereof, and until such time as the Committee or the Board acts to alter or terminate the program, requires the issuance of regular, automatic semi-annual option grants to all Eligible Employees (except, generally, for employees whose terms and conditions of employment are covered by a collective bargaining agreement). Pursuant to the 2006 Plan, all Eligible Employees, including the Chief Executive Officer and the Named Executive Officers, receive regular automatic semi-annual option grants, as before, on May 21 for the full six month employment period November 21 through May 20 of each year, and on November 21 for the full six month employment period May 21 through November 20 (each a "Grant Date"). Options on each Grant Date are issued according to position category and subject to adjustment by the Committee in the following amounts for 2007:

Position	**Grants Per Year**	**Semi-Annual Grant Value**
Chief Executive Officer	2	$ 100,000
Executive Vice President	2	80,000
Chief Financial Officer	2	80,000
Vice President	2	60,000
General Managers	2	45,000
Manager	2	30,000
Supervisors/Professionals		
Level 4	2	22,500
Level 3	2	15,000
Level 2	2	12,500
Level 1	2	10,000
Other team members	2	2,500

In the case of the Chief Executive Officer, Keith E. Busse, he received for 2007, two semi-annual grants, each based upon a grant value of $100,000. The other Named Executive Officers for 2007, Mark D. Millett, Richard P. Teets, Jr., Gary E. Heasley, and Theresa E. Wagler, Chief Financial Officer, received semi-annual grants based upon a grant value of $80,000. Thus, in the case of Mr. Busse, assuming, for illustration purposes only, a closing price of our common stock on the day prior to a Grant Date of $40, he would receive a 2,500 share option grant ($100,000 ÷ $40) with an exercise price of $40, and Messrs. Millett, Teets, Heasley and Ms. Wagler would each be entitled to a 2,000 share option grant with the same exercise price of $40 per share.

The Committee has not issued and will not authorize or issue any stock options or make any equity-based award that is tied to a specific exercise price or is dependent upon the price of the Company's common shares that incorporates an effective date that is any earlier than the actual date upon which the Committee makes the grant or award. The 2006 Plan also prohibits the Committee from repricing or otherwise reducing the exercise price of outstanding options granted under the 2006 Plan, or canceling previously granted options and issuing new options to the same optionholder at a lower exercise price, without obtaining shareholder approval.

Terms and Conditions of Awards Other Than Options under the 2006 Plan

Except for the automatic grant, pursuant to Section 7.1(a) of the 2006 Plan, of $75,000 worth of our restricted stock to each of our non-employee directors on June 1, 2007 (and thereafter unless changed or terminated), which restrictions are time-based, for a period of one year from and after the date of each annual award, at which time the restricted shares will vest, neither the Committee nor the Board has acted to issue any other equity awards, whether as restricted stock, unrestricted stock, performance awards or stock appreciation rights under the 2006 Plan.

Notwithstanding the foregoing, the following types of equity-based awards, in addition to stock options, may be made in the future:

Restricted Stock Awards. Pursuant to Section 7.1(b) of the 2006 Plan, the Board or the Committee may award (or sell at a purchase price determined by the Board or the Committee) shares of the Company's common stock that have either time-based or performance-based restrictions. Such restricted stock may not be sold, assigned, transferred or otherwise disposed of until the restrictions have been removed and until the restricted shares vest.

The Board or the Committee, for each grant, will determine the conditions for vesting of an award of restricted stock. In the event a recipient's continuous service to the Company terminates, the Company may reacquire unvested shares acquired in consideration of past services and all unvested shares of restricted stock as of the date of termination will be forfeited. If restricted stock is acquired for consideration other than prior services, the forfeiture may be accomplished by repurchasing the shares at the lesser of the original purchase price or the current fair market value.

Unrestricted Stock Awards. The Board or the Committee may from time to time award (or sell at a purchase price determined by the Board or the Committee) unrestricted shares of the Company's common stock, which shares may be entirely free of any vesting restriction. Awards of unrestricted stock may be granted or sold in respect of past services or other valid consideration, or in lieu of cash compensation. No such awards have been made under the 2006 Plan.

Performance Awards. Performance Awards, if granted, will be subject to the attainment of performance goals within the meaning of Section 162(m) of the Internal Revenue Code and the regulations thereunder. The Board or the Committee may make Performance Awards independent of or in connection with the granting of any other award under the Plan. The Board or the Committee is required to determine whether and to whom Performance Awards shall be made, the performance goals applicable under each award, the periods during which performance is to be measured, and all other limitations and conditions applicable to the awarded shares. Performance goals must be based on a pre-established objective formula or standard that specifies the manner of determining the number of Performance Award shares that will be granted or will vest if the performance goal is attained. The Board or Committee must determine performance goals prior to the time 25% of the service period has elapsed and may be based on one or more business criteria that apply to an individual, a business unit or the Company.

The Board or the Committee must also establish the time periods in which the performance goals are to be met. Following the completion of each performance period, the Board or the Committee must certify in writing whether the performance objectives and other material terms of a performance award have been achieved. Participants have no rights as stockholders until such shares are actually received under the 2006 Plan. Except as may be otherwise provided by the Board or the Committee, an employee's rights in all Performance Awards automatically terminate upon the employee's termination of continuous service with the Company or its subsidiaries for any reason.

No Performance Awards have been made under the 2006 Plan.

Stock Appreciation Rights. A stock appreciation right, if granted, entitles the holder to receive the appreciation in the value of common stock underlying the stock appreciation right. The Board or the Committee may grant a stock appreciation right either as a stand alone right or, if such right does not provide for the deferral of compensation within the meaning of Section 409A of the Code, in tandem with all or any part of the shares of common stock that may be purchased by the exercise of a stock option. Upon the exercise of a stock appreciation right, the Company would pay the amount, if any, by which the fair market value of a share of common stock on the date of exercise exceeds the stock appreciation right exercise price. A stock appreciation right is not exercisable if the fair market value of a share of common stock on the grant date exceeds the fair market value of such share of common stock on the date of exercise. In the discretion of the Committee, payment with respect to the exercise of a stock appreciation right may be made either in cash or in shares of common stock, valued at fair market value on the date of exercise. Stock appreciation rights granted in relation to a stock option may be exercisable only to the extent the stock option is exercisable and the exercise or lapse of a stock option causes an equivalent reduction in the number of tandem stock appreciation rights.

In the event that a stock appreciation right is granted under the Plan with a stock appreciation right exercise price less than the fair market value of the common stock underlying the award on the date the stock appreciation right is granted, or is otherwise determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code, then the stock appreciation right may provide that it is exercisable at any time permitted under the governing written instrument, subject to certain limitations.

No stock appreciation rights have been granted under the 2006 Plan.

Term of 2006 Plan. Unless sooner terminated by the Board in its sole discretion, the 2006 Plan will expire on December 31, 2015.

Other Compensation

Profit Sharing and Retirement Savings Plan. We have established a Profit Sharing and Retirement Savings Plan for eligible employees, including the Chief Executive Officer and the Named Executive Officers, which is a "qualified plan" for federal income tax purposes. For 2007, under the plan, we allocated to employee plan participants (the "profit sharing pool") an amount equal to 8% of our pre-tax income. The profit sharing pool is used to fund the plan, as well as a separate cash profit sharing bonus that is paid to employees in March of the following year. The amount allocated to our Chief Executive Officer for 2007, based on the profit sharing pool and the cash profit sharing bonus, was $53,978.

We also allow employees to contribute on a pre-tax basis up to 70% of their eligible compensation to the plan, but "highly compensated employees," as defined for tax purposes, were limited to a 10% contribution during 2007. We match employee contributions in an amount based upon our return on assets, with a minimum match of 5% and a maximum match of 50%, subject to certain applicable tax law limitations. The amount we contributed in respect to our Chief Executive Officer, Keith E. Busse for 2007, based upon the Company's match of his contributions, was $4,365.

Payments on Termination of Employment. We have no written employment agreements with respect to our Chief Executive Officer or our Named Executive Officers. However, under a policy in effect since 1998, each Named Executive Officer is deemed to have an "evergreen" two year term of employment.

Under that policy, unless no less than ninety days prior to year-end, either party gives written notice to the other of an intention not to renew for an additional year, the employment term is extended for an additional year.

For example, if, without cause, any of these Named Executive Officer's employment were to have been terminated on December 31, 2007, that officer would have been entitled to receive a lump sum severance payment, in lieu of any and all claims under the remaining term of his employment agreement, in cash, equal to two years of his then existing Base Salary, together with any unpaid pro rata annual cash incentive pay under our Incentive Plan, when calculated, to the date of termination or non-extension (for that year). If the termination or non-extension is for cause, then such officer would not be entitled to receive any severance or bonus payment. If the officer voluntarily terminates his employment, then, absent a waiver, he would not be entitled to any severance payment but would be entitled to receive a pro rata annual bonus payment to the date of termination or non-extension, but if he terminates for good reason, he would be treated as if the Company had terminated without cause.

If employment is terminated due to disability or death, we will continue paying that officer or his estate, as the case may be, the pro rata portion of cash incentive pay, as described above, plus the prescribed Base Salary during the remainder of the two year term, except that in the case of disability such payments will be reduced to the extent of any benefits paid by workers' compensation or under any state disability benefit program or under any other disability policy maintained by us.

All Named Executive Officers receive major medical and long-term disability benefits. Messrs. Busse, Millett, Teets and Heasley also receive term life insurance equal to twice their Base Salaries.

Tax Considerations

The Committee's intent is that the forms of compensation we pay to our executives will be tax deductible, unless maintaining such deductibility would undermine our ability to meet our primary compensation objectives or as otherwise not in our best interest. At this time we believe that all of the compensation we have paid to our Named Executive Officers is deductible under Section 162(m) of the Internal Revenue Code, which limits the deductibility of compensation paid by a publicly-traded corporation to its Chief Executive Officer and four other highest paid executives for amounts in excess of $1 million, unless certain conditions are met. We believe that all of our Named Executive Officers who have received compensation in excess of $1 million have received incentive compensation that is "performance-based," as required under applicable tax laws, and should be deductible. We reserve the right, however, to provide compensation which is not tax deductible, however, if we believe that the benefits of doing so outweigh the loss of the tax deduction.

Accounting Considerations

We account for all compensation paid in accordance with GAAP. The required accounting treatment has not affected the form of compensation paid to any of our Named Executive Officers. Beginning on January 1, 2006, we began accounting for stock-based payments under all of our equity incentive plans in accordance with the requirements of FASB Statement 123(R).

Summary Compensation Table

The table below summarizes the compensation awarded to, earned by or paid to each of the Named Executive Officers for our fiscal years ended December 31, 2007 and 2006.

Name and Principal Position (a)	Year (b)	Salary ($)(c)	Bonus(1) ($)(d)	Stock Awards(2) ($)(e)	Option Awards ($)(3)(f)	Non-Equity Incentive Plan Compensation(4) ($)(g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(h)	All Other Compensation(5) ($)(i)	Totals ($)(j)
Keith E. Busse Chief Executive Officer	2007	$ 767,500	$ 1,000	$ 1,029,397	$ 57,633	$ 1,948,587		$ 98,008	$ 3,902,125
	2006	685,000	3,000	837,612	56,659	1,746,160		36,129	3,364,560
Theresa E. Wagler Vice President and Chief Financial Officer	2007	225,000	1,000	168,423	43,233	535,477		29,500	1,002,633
	2006	150,000	3,000	67,157	40,555	259,064		27,676	547,452
Mark D. Millett Executive Vice President, President and Chief Operating Officer for Flat Rolled Steels and Ferrous Resources	2007	441,667	1,000	606,594	43,233	1,134,045		30,832	2,257,371
	2006	400,000	3,000	462,952	40,555	1,034,064		29,007	1,969,578
Richard P. Teets, Jr. Executive Vice President, President and Chief Operating Officer for Steel Shapes and Building Products	2007	441,667	1,000	463,608	43,233	1,135,365		46,745	2,131,618
	2006	400,000	3,000	323,523	40,555	1,034,760		29,476	1,831,314
Gary E. Heasley Executive Vice President for Strategic Planning and Business Development	2007	306,667	1,000	429,579	43,233	796,551		29,500	1,606,530
	2006	290,000	3,000	217,483	40,555	759,064		58,588	1,368,690

(1) The amounts in this column reflect special cash bonuses paid in 2007 and 2006 to all Company employees, including the Chief Executive Officer and the Named Executive Officers.

(2) The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes for 2007 and 2006 in accordance with FAS 123R and include amounts from awards in 2007 and 2006 and prior to 2006. Under the Company's 2003 Incentive Plan (the final year of this Plan), one-third of the restricted common stock issued as incentive compensation in respect of any year for which equity compensation is payable under the Plan vests and becomes non-forfeitable immediately upon issuance, another third vests and becomes non-forfeitable in one year, and the other third vests and becomes non-forfeitable in two years. The amount for 2007 includes the amount recognized for 2007 as well as the amount earned in 2007 in respect of 2005's and 2006's awards. Likewise, the amount reflected for 2006 includes the amount recognized for 2006 as well as the amount recognized for 2004's and 2005's awards but earned in 2006. For a discussion of the restricted stock awards reported in this column, see Note 1 to our Consolidated Financial Statements, under *Equity-Based Compensation*.

(3) The amounts in this column reflect the dollar amount for financial statement reporting purposes for 2007 and 2006 in accordance with FAS 123R. The FAS 123R value as of the grant date for options is spread over the number of months of service (six) required for each semi-annual grant to become non-forfeitable. For a discussion of the assumptions made in the valuation of the semi-annual stock option grants pursuant to Section 6.4 of our 2006 Equity Incentive Plan, see Note 1 to our Consolidated Financial Statements, under *Equity-Based Compensation*.

(4) Includes amounts paid on February 1, 2008 and amounts paid on February 1, 2007 under the Company's 2003 Incentive Plan for services performed in 2007 and 2006. Our methodology and rationale for this short-term cash incentive compensation to the Named Executive Officers is described in the *Performance-Based Incentive Compensation* section of the foregoing Compensation Discussion and Analysis. Amounts also include the cash portion of the profit sharing allocation made pursuant to the Company's Profit Sharing and Retirement Savings Plan paid in March 2008 and March 2007 for services performed in 2007 and 2006, respectively.

(5) See All Other Compensation Table below for amounts, which include perquisites, tax reimbursements, insurance premiums, and Company match and profit sharing contributions to our Profit Sharing and Retirement Savings Plan.

All Other Compensation (Detail of Summary Compensation Table, Column (i))

Name (a)	Year (b)	Perquisites and Other Personal Benefits(1) ($) (c)	Tax Reimbursements(2) ($) (d)	Insurance Premiums ($) (e)	Company Contributions to Retirement and 401(k) Plans(3) ($) (f)	Total ($) (g)
Keith E. Busse	2007	$ 59,754	$ 300	$ 8,454	$ 29,500	$ 98,008
	2006			8,454	27,675	36,129
Theresa E. Wagler	2007				29,500	29,500
	2006				27,676	27,676
Mark D. Millett	2007			1,332	29,500	30,832
	2006			1,332	27,675	29,007
Richard P. Teets, Jr.	2007	15,377	68	1,800	29,500	46,745
	2006			1,800	27,676	29,476
Gary E. Heasley	2007				29,500	29,500
	2006	21,500	9,413		27,675	58,588

(1) Perquisites during 2007 for Messrs. Busse and Teets reflect the aggregate incremental cost to the Company of personal use of the Company's aircraft. The value of the personal use of the aircraft was determined by computing the direct flight costs and adding to this the allocable share of the foregone federal income tax deduction related to the personal use of Company aircraft. Direct flight costs include hourly charter rates and pilot rates applied to the number of hours of personal use, and actual fuel costs, landing and parking fees incurred. The calculation of the foregone federal income tax deduction involves allocating the expenses of operating the aircraft, including pilot costs, between business seat hours and personal seat hours. The operating costs associated with the personal seat hours are nondeductible by the Company and these expenses are tax-effected using a rate of 38.5%, then allocated to those employees who have utilized the aircraft for personal use during the year based on their personal use hours relative to total personal use hours. Perquisites during 2006 for Mr. Heasley reflect amounts paid to him by agreement during 2006 in connection with his relocation to our headquarters in Fort Wayne, Indiana in 2005.

(2) The tax reimbursements during 2007 for Messrs. Busse and Teets reflect the actual medicare tax gross-up related to the taxable income imputed as a result of their personal use of the Company's aircraft. The tax reimbursement for Mr. Heasley for 2006 represents the tax gross-up related to the relocation expenses referred to in footnote (1) above.

(3) Amounts represent Company matching contributions paid on the Chief Executive Officer's and Named Executive Officers' 401(k) deferrals during 2007 and 2006, and amounts accrued as profit sharing contributions for 2007 and 2006 and paid in 2008 and 2007, respectively, and profit sharing forfeitures attributed to the Chief Executive Officer and to each Named Executive Officer for 2007 and 2006 and allocated in 2008 and 2007, respectively.

Grants of Plan-Based Awards for Fiscal 2007*

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards						
Name (a)	Grant Date (b)	Threshold ($) (c)	Target(1) ($) (d)	Maximum ($) (e)	Threshold (#) (f)	Target(2) (#) (g)	Maximum (#) (h)	All Other Stock Awards: Number of Shares of Stock or Units(3) (#) (i)	All Other Option Awards: Number of Securities Underlying Options(4) (#) (j)	Exercise or Base Price Of Option Awards ($/Sh) (k)	Grant Date Fair Value of Stock and Option Awards(5) (l)
Keith E. Busse	02/01/07		$ 1,948,249			23,294		11,646	4,136	$ 24.18	$ 685,000
	05/21/07								4,040	24.76	31,915
	11/21/07										24,232
Theresa E. Wagler	02/01/07		533,749			3,826		1,912	3,310	24.18	112,500
	05/21/07								3,232	24.76	23,663
	11/21/07										19,388
Mark D. Millett	02/01/07		1,133,707			13,602		6,800	3,310	24.18	400,000
	05/21/07								3,232	24.76	23,663
	11/21/07										19,388
Richard P. Teets, Jr.	02/01/07		1,140,027			13,602		6,800	3,310	24.18	400,000
	05/21/07								3,232	24.76	23,663
	11/21/07										19,388
Gary E. Heasley	02/01/07		796,213			9,862		4,930	3,310	24.18	290,000
	05/21/07								3,232	24.76	23,663
	11/21/07										19,388

* Number of shares shown reflects two-for-one stock split effective March 19, 2008.

(1) Amounts in column (d) reflect cash incentive compensation payable for 2007 pursuant to the cash incentive portion of the Company's 2003 Incentive Plan but not awarded and paid until February 1, 2008. These amounts reflect the same cash incentive compensation reflected in column (g) of the Summary Compensation Table.

(2) Shares in column (g) reflect the number of shares of restricted stock awarded on February 1, 2007 pursuant to the equity incentive portion of the Company's 2003 Incentive Plan for 2006 but not awarded until the described date. Under the Incentive Plan, two-thirds of the shares awarded are restricted, with one-half thereof becoming unrestricted one year later and the balance becoming unrestricted in two years. The initial one-third of the shares awarded for 2006 on February 1, 2007 under the 2003 Incentive Plan were issued as unrestricted shares and are reflected in column (i) of this Table.

(3) Shares in column (i) reflect the number of shares of unrestricted stock awarded for 2006 on February 1, 2007. The other two-thirds, awarded with restrictions, are reflected in column (g) of this Table.

(4) Shares in column (j) reflect the number of shares underlying the May 21 and November 21, 2007 automatic semi-annual stock option grants pursuant to Section 6.4 of the Company's 2006 Equity Incentive Plan. All of these options, which are subject to a six month vesting feature, are currently exercisable or exercisable within 60 days.

(5) Amounts shown on the first line of column (l) for each of the Named Executive Officer reflect the Grant Date Fair Value of both the restricted (column (g)) and unrestricted (column (i)) shares of stock issued for 2006 on February 1, 2007 pursuant to the Incentive Plan, computed on the basis of their full value on the Grant Date without regard to vesting. Amounts shown on the second and third lines of column (l) for each such person reflect the Grant Date Fair Value of semi-annual stock options granted pursuant to the 2006 Equity Incentive Plan, using the Black Scholes Method as more fully described in Note 1 to the Company's Consolidated Financial Statements.

2007 Outstanding Equity Awards at Fiscal Year-End

The following table sets forth the Named Executive Officers' outstanding equity awards as of the end of 2007. Shares shown adjusted to reflect two-for-one stock split, effective March 19, 2008.

	Option Awards					Stock Awards			
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested(6) (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units Or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
	(b)	(#) Unexercisable (c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Keith E. Busse(1)	5,652			$ 14.16	05/21/2011				
	5,176			15.46	11/21/2011				
	4,136			24.18	05/21/2012				
				24.76	11/21/2012				
		4,040							
						41,962	$ 1,249,838		
Theresa E. Wagler(2)	9,408			3.19	05/21/2008				
	6,168			4.87	11/21/2008				
	4,744			6.33	05/21/2009				
	3,184			9.43	11/21/2009				
	8,576			7.00	05/21/2010				
	7,688			7.81	11/21/2010				
	4,240			14.16	05/21/2011				
	3,882	-- -- 86,077 Series C preferred stock issuance...................... -- -- -- 362 Preferred stock dividends........ (2,546) -- -- (2,546) Conversion of preferred stock into common stock............. -- -- -- 98,614 Conversion of senior subordinated notes into common stock........ (984) -- -- 13,078 Conversion of non-voting common stock to voting common stock... -- -- -- -- Deferred stock-based compensation.................. -- (3,598) -- -- Stock-based compensation......... -- 1,634 -- 1,634 -------- ------- ------- -------- Balance at December 31, 2001..... $(82,147) $(4,798) $(3,238) $117,300 ======== ======= ======= ======== The accompanying notes are an integral part of these consolidated financial statements. F-9 Wright Medical Group, Inc. Notes to Consolidated Financial Statements 1. Organization and Description of Business: Wright Medical Group, Inc. (the							

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"Company") is a global medical device company specializing in the design, manufacture and marketing of orthopaedic implants and bio-orthopaedic materials used in joint reconstruction and bone regeneration. The Company is focused on the reconstructive joint device and bio-orthopaedic materials sectors of the orthopaedic industry. The Company markets its products through independent representatives in the United States and through a combination of employee representatives, independent representatives and stocking distributors in its international markets. The Company is headquartered in suburban Memphis, Tennessee. The Company was incorporated on November 23, 1999 as a Delaware corporation (previously named Wright Acquisition Holdings, Inc.) and had no operations until an investment group led by Warburg, Pincus Equity Partners, L.P. ("Warburg") acquired majority ownership of the predecessor company, Wright Medical Technology, Inc. ("Wright" or the "Predecessor Company"). As more fully described in Note 3, this transaction, which represents a recapitalization of Wright and the inception of the Company in its present form, was accounted for using the purchase method of accounting. The financial statements and accompanying notes present the historical cost basis results of the Predecessor Company for the period from January 1, 1999 through its acquisition on December 7, 1999, and the results of the Company, as successor to Wright, for periods thereafter. As more fully described in Note 3, on December 22, 1999 the Company acquired all of the outstanding common stock of Cremascoli Ortho Holding S.A. ("Cremascoli"), an orthopaedic medical device company headquartered in Toulon, France. The acquisition was accounted for using the purchase method of accounting and, accordingly, the results of operations of Cremascoli have been included in the Company's consolidated financial statements from the date of acquisition. On July 18, 2001, the Company completed its initial public offering (the "IPO"), issuing 7,500,000 shares of voting common stock at $12.50 per share, the net proceeds of which were $84.8 million after deducting underwriting discounts and offering expenses. The Company used the net proceeds from the IPO to repay debt (see Note 10). The Company's future success is dependent upon a number of factors which include, among others, the success of its principal product lines, its ability to compete with other orthopaedic medical product companies, continued development of new products and technologies, continued recommendation and endorsement of its products by key surgeons, compliance with government regulations, maintaining adequate levels of reimbursement for its products, operating successfully in international markets, maintaining adequate access to materials supply, enforcing and defending its claims to intellectual property, the performance of its independent distributor network, reliance on

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key personnel, and the ability to obtain adequate financing to support its future growth. 2. Summary of Significant Accounting Policies: PRINCIPLES OF CONSOLIDATION. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned domestic and international subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. USE OF ESTIMATES. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The most significant areas requiring the use of management estimates relate to the determination of allowances for doubtful accounts and sales returns, excess and obsolete inventories, product liability claims and the need for a valuation allowance on deferred tax assets. CASH AND CASH EQUIVALENTS. Cash and cash equivalents include all cash balances and short-term investments with original maturities of three months or less. ALLOWANCE FOR SALES RETURNS. The Company maintains an allowance for anticipated future returns of products by customers, which is established at the time of sale. An allowance for sales returns of $885,000 and $643,000 is included as a reduction of trade receivables at December 31, 2000 and 2001, respectively. INVENTORIES. The Company's inventories are valued at the lower of cost or market on a first-in, first-out ("FIFO") basis. Inventory costs include material, labor costs and manufacturing overhead. Inventory reserves are established to reduce the carrying amount of F-10 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 2. Summary of Significant Accounting Policies: (Continued) obsolete and excess inventory to its net realizable value. The Company principally follows an inventory reserve formula that reserves inventory balances based on historic and forecasted sales. PROPERTY, PLANT AND EQUIPMENT. The Company's property, plant and equipment is stated at cost. Depreciation, which includes amortization of assets held under capital leases, is provided on a straight-line basis over estimated useful lives of 15 to 20 years for land improvements, 10 to 45 years for buildings, 3 to 11 years for machinery and equipment and 4 to 14 years for furniture, fixtures and office equipment, or term of related lease, whichever is shorter. Expenditures for major renewals and betterments that extend the useful life of the assets are capitalized. Maintenance and repair costs are charged to expense as incurred. Upon sale or retirement, the asset cost and related accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is included in income. Instruments used by surgeons during implant procedures of the

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Company's products that are permanently held by the Company are included in property, plant and equipment and are depreciated on a straight-line basis over periods not to exceed six years. CHANGE IN ACCOUNTING POLICY. On December 8, 1999, the Company changed its accounting policy for surgical instruments. Prior to this change in accounting policy, the Predecessor Company principally classified surgical instruments as inventory as these instruments were held for sale to independent distributors and surgeons. However, beginning on December 8, 1999, the Company has classified these surgical instruments as a component of property, plant and equipment as the Company will principally loan these instruments to surgeons or in some cases rent these instruments to distributors who subsequently loan them to surgeons for the implantation of the Company's products. The surgical instruments reclassified to property, plant and equipment will be amortized over a period of one to five years based upon an assessment of the instrument's remaining useful life. At December 8, 1999, the effect of this change in accounting policy resulted in a reclassification of $11.9 million in surgical instruments from inventories to property, plant and equipment. There was not a material cumulative impact on the Company's statement of operations related to this change. INTANGIBLE ASSETS. Intangible assets consist of goodwill and purchased intangibles amortized on a straight-line basis over 10 to 13 years for completed technology, 5 years for workforce, 10 years for distribution channels, 15 years for trademarks and 20 years for goodwill. The Company continually evaluates the periods of amortization to determine whether events and circumstances, such as effects of competition, obsolescence and other economic factors, warrant revision of useful lives. See related discussion in "RECENT PRONOUNCEMENTS" section of this footnote. VALUATION OF LONG-LIVED ASSETS. Management periodically evaluates carrying values of long-lived assets, including property, plant and equipment, and intangible assets, when events and circumstances indicate that these assets may have been impaired. An asset is considered impaired when undiscounted cash flows to be realized from the use of such assets are less than its carrying value. In that event, a loss is determined based on the amount the carrying value exceeds the fair market value of such asset. CONCENTRATIONS OF CREDIT RISK. Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers and their dispersion across a number of geographic areas. However, essentially all trade receivables are concentrated in the hospital and health care sectors in the United States and several other countries or with stocking distributors that operate in international markets and, accordingly, are exposed to their respective business, economic and country-specific variables. Although the Company does not

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currently foresee a concentrated credit risk associated with these receivables, repayment is dependent upon the financial stability of these industry sectors and the respective countries' national economies and health care systems. At December 31, 2000 and 2001, the Company's allowance for doubtful accounts totaled $2.3 million and $1.9 million, respectively. INCOME TAXES. Income taxes are accounted for pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) 109, "ACCOUNTING FOR INCOME TAXES." This statement requires the use of the liability method of accounting for deferred income taxes. The provision for income taxes includes federal, foreign, and state income taxes currently payable and those deferred F-11 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 2. Summary of Significant Accounting Policies: (Continued) because of temporary differences between the financial statement and tax bases of assets and liabilities. Provisions for federal income taxes are not made on the undistributed earnings of foreign subsidiaries where the subsidiaries do not have the capability to remit earnings in the foreseeable future and when earnings are considered permanently invested. Deferred taxes on these undistributed earnings of foreign subsidiaries at December 31, 2000 and 2001 are not material to the Company's financial position. REVENUE RECOGNITION. The Company recognizes revenue upon shipment of product to customers. For inventory held on consignment, revenue is recognized when evidence of customer acceptance is obtained. In limited instances, the Company has agreed to repurchase inventory from certain international stocking distributors if such inventory is not acquired by a third party customer. In these instances, revenue is deferred until evidence is obtained that such inventory has been sold to a third party customer. At December 31, 2000 and 2001, deferred revenue related to those arrangements totaled $2.2 million and $1.2 million, respectively. SHIPPING AND HANDLING COSTS. The Company incurs shipping and handling costs associated with the shipment of goods to customers, independent distributors and its subsidiaries. All shipping and handling amounts billed to customers are included in net sales. All shipping and handling costs are recorded in selling, general, and administrative expenses. RESEARCH AND DEVELOPMENT COSTS. Research and development costs are charged to expense as incurred. In-process research and development activities of $11.7 million acquired in connection with the Wright acquisition were expensed immediately upon consummation of the acquisition (see Note 3). FOREIGN CURRENCY TRANSLATION. The financial statements of the Company's international subsidiaries are translated into U.S. dollars using the end of period exchange rate at the balance sheet date for assets and liabilities and the weighted average exchange rate for the

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applicable period for revenues, expenses, gains and losses. Translation adjustments are recorded as a separate component of comprehensive income (loss). Gains and losses resulting from transactions denominated in a currency other than the local functional currency are included in other income (expense). STOCK-BASED COMPENSATION. The Company accounts for employee stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion (APB) 25, "ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES." Nonemployee stock-based compensation is accounted for in accordance with SFAS 123 "ACCOUNTING FOR STOCK-BASED COMPENSATION." COMPREHENSIVE INCOME (LOSS). Comprehensive income (loss) is defined as the change in equity during a period related to transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The difference between the Company's net income (loss) and comprehensive income (loss) is principally attributable to foreign currency translation. STOCK SPLIT. In August 2000, the Company's certificate of incorporation was amended increasing its authorized shares for each class of stock and the Board of Directors authorized that all classes of the Company's common stock be split two for one. Also at the Board's direction, in July 2001 upon successful completion of the Company's IPO, the Company's common shares were reverse-split 1 for 2.75. All share and per share information in the consolidated financial statements for the Company have been restated to give effect to these adjustments. FAIR VALUE OF FINANCIAL INSTRUMENTS. The carrying value of cash and cash equivalents, accounts receivable, accounts payable and notes payable approximates fair value of these financial instruments at December 31, 2000 and 2001 due to their short maturities or variable rates. The carrying value of the Company's subordinated notes approximates fair value, evidenced by the issuance of additional subordinated notes in December 2000 with terms substantially similar to the previously issued subordinated notes. The Company's Series A, Series B and Series C Preferred Stock described in Note 11 are specialized instruments with various terms and preferential treatment which render it impractical to determine the fair value. F-12 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 2. Summary of Significant Accounting Policies: (Continued) SUPPLEMENTAL NON-CASH DISCLOSURES. In July 2001, simultaneous with the closing of the Company's IPO, the Company converted all of its outstanding mandatorily redeemable, convertible preferred stock, including accrued dividends, totaling approximately $98.6 million, into common stock. Also in connection with the IPO, senior

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subordinated notes totaling approximately $13.1 million were converted into 1,125,000 shares of non-voting common stock, resulting in an equity distribution of approximately $1.0 million. Additionally, the resolution of the Company's escrow liabilities (see Note 3) resulted in an increase in goodwill of approximately $1.1 million. During 2000, the Company issued Warburg 753,736 shares of Series C voting preferred stock in exchange for 376,868 shares of Series B non-voting preferred stock. At the time of the exchange, both the Series C shares received and the Series B shares exchanged were convertible into 274,086 shares of common stock. During the period from December 8 to December 31, 1999, the Company issued Series A preferred stock, common stock, warrants and senior subordinated debt totaling $9.8 million as a portion of the total consideration paid to the Wright and Cremascoli shareholders in exchange for all of the outstanding common and preferred stock of Wright and Cremascoli (see Note 3). RECLASSIFICATIONS. Certain prior year amounts have been reclassified to conform to the 2001 presentation. RECENT PRONOUNCEMENTS. On June 30, 2001, the FASB issued two new pronouncements: SFAS 141, "BUSINESS COMBINATIONS", and SFAS 142, "GOODWILL AND OTHER INTANGIBLE ASSETS". The two statements modify the method of accounting for business combinations initiated after June 30, 2001 and address the accounting for intangible assets. In accordance with the provisions of the standards, the Company adopted SFAS 141 upon issuance, and SFAS 142 on January 1, 2002. Thus, effective January 1, 2002 the Company no longer amortizes goodwill, but will evaluate it for impairment at least annually. See Note 7 for further details. During January 2002 the Company engaged an independent third party to determine the fair value of its reporting units as defined by SFAS 142. Because this third party appraisal is not yet final, we are unable to determine the impact of adopting SFAS 142, if any. However, we do not believe that we will incur a goodwill impairment charge associated with the adoption of this accounting principle. In July and August 2001, the FASB issued SFAS 143, "ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS", and SFAS 144, "ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS." SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. The Company implemented SFAS 144 on January 1, 2002, with no material impact on its financial position, results of operations, or cash flows. The Company is required to implement SFAS 143 as of January 1, 2003. The Company believes the adoption of SFAS 143 will not

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have a material impact on its financial position, results of operations, or cash flows. On January 1, 2001, the Company adopted SFAS 133, "ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES" as amended by SFAS 138, which establishes accounting and reporting standards that require all derivative instruments to be recorded on the balance sheet as either an asset or liability and measured at fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Company has implemented a risk management policy to assist in managing its exposure to foreign currency fluctuations. During 2001 and 2000, its principal derivative instruments represented certain foreign currency contracts denominated in British pounds sterling to manage currency fluctuations on intercompany sales between certain Cremascoli subsidiaries. As these contracts are not specifically designated as hedges, the change in value is recognized in the accompanying consolidated statement of operations. For the year ended December 31, 2001 and 2000, the Company recorded $146,000 and $154,000, respectively, in gains on these foreign currency contracts. These contracts did not exist prior to 2000 and, thus, had no impact on the Company's or Predecessor Company's operations. At December 31, 2001, foreign currency futures contracts with an aggregate notional amount of L900,000 ($1.3 million) had a nominal fair market value. At December 31, 2000, foreign currency futures contracts with an aggregate notional amount of L5.0 million ($7.4 million) had a fair market value of $267,000 at the adoption date. F-13 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 2. Summary of Significant Accounting Policies: (Continued) In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, "REVENUE RECOGNITION IN FINANCIAL STATEMENTS." SAB 101 outlines the basic criteria that must be met before registrants can record revenue under existing rules and addresses revenue recognition for transactions not addressed by existing rules. The Company's accounting policies are in compliance with the provisions of SAB 101. 3. Acquisitions: On December 7, 1999, the investment group led by Warburg received from the Company Series A preferred stock, common stock and senior subordinated debt in exchange for $70.0 million in cash. Concurrently, the Company acquired all of the outstanding shares of common and preferred stock of Wright for $9.2 million in cash, of which $3.5 million was placed in escrow (see Note 15), and the issuance of 1,840,000 shares of the Company's Series A preferred stock valued at $5.8 million, 121 shares of common stock valued at $529, 334,545 warrants valued at $193,000 and senior subordinated debt valued at $3.4 million. In addition, the Company borrowed approximately

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$60.0 million under a term loan as further described in Note 10. This recapitalization and related acquisition was accounted for using the purchase method of accounting and represents the inception of the Company in its present form. Former Wright shareholders retained a 17% voting interest in the Company after the acquisition. The equity interest of former Wright shareholders that became shareholders of the Company was recorded at its carryover basis. Accordingly, the assets acquired and liabilities assumed in connection with the acquisition were recorded at 17% of their historical carrying value and 83% of their fair value at the date of acquisition. Total consideration paid for the outstanding preferred and common stock of Wright was $21.5 million, including acquisition costs of $2.9 million, and has been allocated as follows (in thousands): Current assets, excluding inventory......................... $ 23,509 Inventories.. 57,969 Acquired in-process research and development................ 11,731 Identifiable intangible assets: Completed technology...................................... 11,008 Workforce.. 4,825 Distribution channels.................................... 5,442 Trademarks... 2,372 Other.. 915 ------ Total identifiable intangible assets........................ 24,562 Other assets.. 34,601 Goodwill.. 9,988 Accounts payable and accrued expenses....................... (30,466) Debt.. (100,376) Other liabilities... (10,044) -------- $ 21,474 ======== On December 22, 1999, the Company acquired all of the equity ownership of Cremascoli. The Company paid the Cremascoli stockholders $4.2 million in cash and issued 84,027 shares of its Series A preferred stock valued at $266,000 and senior subordinated debt valued at $166,000. Additionally, the Company placed $14.1 million in escrow consisting of 230,306 shares of Series A preferred stock ($700,000) and senior subordinated debt of $422,000 and the remainder in the form of cash related to this acquisition. Concurrent with the acquisition of Cremascoli, the investment group led by Warburg contributed cash of $32.0 million to the Company in exchange for the Company's Series A and B preferred stock and senior subordinated debt. In F-14 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 3. Acquisitions: (Continued) addition, the Company borrowed approximately $17.7 million (17.5 million Euros) under a term loan as further described in Note 10. The Cremascoli acquisition was accounted for using the purchase method of accounting. Total consideration paid for the outstanding preferred and common stock of Cremascoli was $16.2 million, including acquisition costs of $0.6 million, and has been

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allocated as follows (in thousands): Current assets, excluding inventory......................... $ 15,065 Inventories.. 15,914 Identifiable intangible assets: Completed technology..................................... 608 Workforce.. 818 Distribution channels.................................... 15,298 ------ Total identifiable intangible assets........................ 16,724 Other assets.. 13,027 Goodwill.. 8,218 Accounts payable and accrued expenses...................... (18,491) Debt.. (27,693) Other liabilities... (6,590) -------- $ 16,174 ======== Upon completion of a final evaluation of Cremascoli's net assets and the resolution of potential income tax liabilities and environmental matters, these escrowed funds were released during the fourth quarter of 2001 as follows: $12.2 million to the Cremascoli stockholders and other third parties, and $1.9 million to the Company. Of the amounts released to the Cremascoli stockholders and other third parties during 2001, only $1.1 million resulted in additional goodwill being recorded in 2001 (in addition to the $8.2 million recorded above) as the remainder had previously been considered part of the acquisition consideration at the original date of purchase. In connection with the acquisitions of Wright and Cremascoli, the Company conducted a valuation of the intangible assets acquired. The value assigned to purchased in-process research and development ("IPRD") was $11.7 million of the purchase price for Wright. There was no IPRD identified for Cremascoli. IPRD represented IPRD that had not yet reached technological feasibility and had no alternative future use. Accordingly, these amounts were expensed in the period from December 8, 1999 to December 31, 1999 following consummation of the acquisition of Wright. The value assigned to IPRD was determined by identifying research projects in areas for which technological feasibility had not been achieved. The value was determined by estimating the costs to develop the IPRD into commercially viable products, estimating the resulting cash flows from such projects, and discounting the net cash flows back to their present value. The discount rate utilized in discounting the net cash flows from IPRD was 22% for Wright products. This discount rate reflects uncertainties surrounding the successful development of the IPRD. The Company estimated costs required to obtain regulatory approvals and has assumed the approvals will be received. Costs related to manufacturing, distribution, and marketing of the products are included in the projections. The resulting cash flows from such projects were based on management's estimates of revenues, cost of sales, research and development costs, sales and marketing, general and administrative,

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and the anticipated income tax effect. The forecast data employed in the analyses was based upon internal product level forecast information. The forecast data and assumptions were inherently uncertain and unpredictable. However, based upon the information available at that time, management believed the forecast data and assumptions to be reasonable. These assumptions may be incomplete or inaccurate, and no assurance can be given that unanticipated events and circumstances will not occur. F-15 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 3. Acquisitions: (Continued) As both the Wright and Cremascoli acquisitions were accounted for using the purchase method of accounting, the results of operations of the acquired businesses are included in the consolidated financial statements of the Company from their respective acquisition dates. The following unaudited pro forma financial information for the year ended December 31, 1999 represents the consolidated results of operations of the Company as if the acquisition of Wright and Cremascoli had occurred on January 1, 1999. The pro forma financial information excludes the $31.1 million charge to cost of sales related to the step-up of inventory in connection with the Wright and Cremascoli acquisitions (see Note 5) and the charge to operations of $11.7 million related to the purchased IPRD in connection with the Wright acquisition. The pro forma financial information does not purport to be indicative of what would have occurred had the acquisitions been made as of January 1, 1999 or the results that may occur in the future (in thousands). 1999 -------- Net sales.. $141,523 Cost of sales.. 55,476 -------- Gross margin... 86,047 Selling, general and administrative......................... 73,077 Research and development................................... 7,539 Other.. 15,545 -------- Operating loss... $(10,114) ======== Net loss... $(18,091) ======== Net loss per share has not been shown as it is not meaningful for comparative purposes to the Company. 4. Transaction and Reorganization Expenses: The Predecessor Company recorded approximately $6.5 million of transaction and reorganization expenses during the period from January 1, 1999 to December 7, 1999. These costs consisted primarily of $4.8 million of investment banking, consulting and advisory fees incurred by the Predecessor Company to identify and pursue financing alternatives leading up to its December 1999 recapitalization, and $1.3 million of management compensation costs where no ongoing service obligations existed. The Company recorded approximately $3.4 million of transaction and reorganization expenses during the period from December 8,

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1999 to December 31, 1999. These amounts were largely attributable to $1.9 million of distributor close out costs incurred to eliminate duplicate distributors upon integrating the Wright and Cremascoli distribution channels and $1.1 million incurred by the Company for recruitment and employee termination expenses based on an assessment of senior management personnel needs following the recapitalization and Cremascoli acquisition. Costs incurred by the Company that were directly associated with consummating the December 1999 recapitalization and subsequent acquisition of Cremascoli have been included in those respective purchase prices and, accordingly, are not included in transaction and reorganization expenses. As described in Note 3, the Wright and Cremascoli purchase prices include direct acquisition costs of $2.9 million and $600,000, respectively. F-16 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 5. Inventories: Inventories, net of reserves, consist of the following (in thousands): DECEMBER 31, ------------------- 2000 2001 -------- -------- Raw materials.. $ 1,486 $ 1,721 Work-in-process.. 6,384 6,814 Finished goods... 30,024 33,343 ------- ------- $37,894 $41,878 ======= ======= At December 31, 2001, the Company had pledged approximately $2.6 million of inventory held at Wright Medical Japan (WMJ), a wholly-owned subsidiary of the Company, as collateral in a transition agreement with its prior Japanese distributor. Once the terms of the transition agreement have been satisfied, all security interests in the WMJ inventory will be removed. At the dates the Company acquired Wright and Cremascoli (see Note 3), inventories were recorded at stepped-up values pursuant to APB 16 requiring an aggregate $31.1 million step-up. This step-up was charged to the statements of operations over a one-year period, representing an estimate of the period over which such inventories were sold. Cost of sales was charged $2.0 million for the period from December 8, 1999 to December 31, 1999 and $29.1 million for the year ended December 31, 2000. 6. Property, Plant and Equipment: Property, plant and equipment consist of the following (in thousands): DECEMBER 31, ------------------- 2000 2001 -------- -------- Land and land improvements.................................. $ 1,463 $ 1,453 Buildings.. 5,207 5,645 Machinery and equipment.................................... 14,702 18,162 Furniture, fixtures and office equipment.................... 4,278 5,997 Construction in progress.................................... 2,419 6,309 Loaner instruments.. 27,006 30,244 ------- ------- 55,075 67,810 Less: Accumulated depreciation............................. (9,992) (16,845) ------- ------- $45,083 $50,965 ======= ======= Depreciation expense

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approximated $6.2 million for the period from January 1, 1999 through December 7, 1999, $489,000 for the period from December 8, 1999 through December 31, 1999, and $11.0 million and $10.1 million for the years ended December 31, 2000 and 2001, respectively. F-17 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 7. Intangible Assets: Intangible assets, which principally result from the recapitalization and the acquisition of Cremascoli, consist of the following (in thousands): DECEMBER 31, ------------------ 2000 2001 -------- -------- Completed technology....................................... $11,570 $11,542 Workforce.. 5,580 5,543 Distribution channels...................................... 19,563 18,868 Trademarks... 2,372 2,372 Goodwill... 17,649 18,620 Other.. 4,434 3,009 ------- ------- 61,168 59,954 Less: Accumulated amortization............................. (6,487) (11,195) ------- ------- $54,681 $48,759 ======= ======= Included in accumulated amortization above was $932,000 and $1.8 million related to goodwill at December 31, 2000 and 2001, respectively. In accordance with the transition provisions of SFAS 142, the Company reviewed all of its intangible assets to determine if they meet the criteria for recognition as separately identifiable intangible assets as defined by SFAS 141 (see Note 2). The Company determined that its workforce intangible does not meet the criteria for recognition as a separate identifiable intangible asset and thus, effective January 1, 2002, the Company reclassified the net book value of its workforce intangible asset net of associated deferred tax liabilities, of approximately $2.0 million into goodwill. Based on the results of the Company's review, no other recharacterization of intangible assets was required. As goodwill will no longer be amortized in 2002, the Company anticipates the amortization of intangible assets will be approximately $2.0 million less in 2002 than it would have been had SFAS 142 not been issued. 8. Accrued Expenses and Other Current Liabilities: Accrued expenses and other current liabilities consist of the following (in thousands): DECEMBER 31, ------------------ 2000 2001 -------- -------- Interest... $ 4,519 $ 426 Employee benefits.. 9,069 7,708 Settlement and release accrual (see Note 15)............... 7,500 -- Commissions.. 1,860 1,758 Taxes other than income.................................... 2,964 3,838 Royalties.. 3,110 3,988 Professional fees.. 1,503 710 Transaction and reorganization costs....................... 1,401 812 Deferred

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revenue... 2,177 1,186 Legal.. 2,855 2,888 Distributor transition agreement........................... -- 1,429 Other.. 7,882 8,349 ------- ------- $44,840 $33,092 ======= ======= F-18 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 9. Earnings Per Share: SFAS 128, "EARNINGS PER SHARE" requires the presentation of basic and diluted earnings per share. Basic earnings per share is calculated based on the weighted-average shares of common stock outstanding during the period. Diluted earnings per share is calculated to include any dilutive effect of the Company's common stock equivalents, which consists of stock options, warrants, and convertible preferred stock. The dilutive effect of such instruments is calculated using the treasury-stock method. During the period from December 8, 1999 to December 31, 1999, and for the years ended December 31, 2000 and 2001, the Company's computation of diluted earnings per share does not differ from basic earnings per share, as the effect of the Company's common stock equivalents is anti-dilutive. For the same reason, the Company's pro forma computation of diluted earnings per share for the years ended December 31, 2000 and 2001 does not differ from pro forma basic earnings per share. Common stock equivalents excluded from the calculation of diluted earnings per share totaled approximately 18,920,000 and 12,604,000 for the years ended December 31, 2000 and 2001, respectively. Net loss applicable to common stockholders for basic and diluted earnings per share purposes is as follows (in thousands): FOR THE PERIOD FROM DECEMBER 8 YEAR ENDED YEAR ENDED TO DECEMBER 31, DECEMBER 31, DECEMBER 31, 1999 2000 2001 --------------- ------------ ------------ Net income (loss).. $(19,899) $(39,493) $(1,507) Accrued preferred stock dividends.......................... (230) (4,401) (2,546) Deemed preferred stock dividend on beneficial conversion feature (Note 11).. -- (13,087) -- -------- -------- ------- Net loss applicable to common stockholders................ $(20,129) $(56,981) $(4,053) ======== ======== ======= No earnings per share data is presented for the Predecessor Company as it is not considered meaningful for comparative purposes. A reconciliation of shares and net income (loss) applicable to common stockholders for unaudited pro forma basic earnings per share is as follows (in thousands): YEAR ENDED YEAR ENDED DECEMBER 31, DECEMBER 31, 2000 2001 ----------- ----------- Weighted-average number of common shares outstanding........ 17 13,195 Weighted-average effect of assumed conversion of redeemable convertible preferred stock and related dividends......... 17,243 10,349 -------- ------- Pro forma weighted-average number of

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common shares outstanding... 17,260 23,544 ======== ======= Net loss applicable to common stockholders shown above...... $(56,981) $(4,053) Reversal of accrued preferred stock dividends.............. 4,401 2,546 Reversal of deemed preferred stock dividend on beneficial conversion feature (Note 11)............................. 13,087 -- -------- ------- Pro forma net income (loss) applicable to common stockholders... $(39,493) $(1,507) ======== ======= The weighted-average effect of the conversion of redeemable convertible preferred stock and related dividends into common shares was computed as if such stock was converted at the beginning of the respective period (see Note 11). F-19 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 10. Debt: Long-term obligations consist of the following (in thousands): DECEMBER 31, ------------------ 2000 2001 -------- -------- Notes payable.. $ 72,876 $20,000 Senior subordinated notes.................................. 45,451 -- Capitalized lease obligations.............................. 2,352 3,634 -------- ------- 120,679 23,634 Less: current portion...................................... (8,396) (3,830) -------- ------- $112,283 $19,804 ======== ======= Prior to the Company's completion of its IPO on July 18, 2001, the Company's bank financing consisted of two senior credit facilities. The first senior credit facility consisted of a $60.0 million term loan arrangement and permitted borrowings up to $5.0 million under a revolving line of credit. The term loan bore interest at the Eurodollar rate plus 3.25% (9.69% at December 31, 2000). The second senior credit facility consisted of a 17.5 million Euro term loan that bore interest at the EURIBO rate plus .25% (5.1% at December 31, 2000). The second facility also permitted borrowings up to 5.0 million Euro under a revolving line of credit. Immediately preceding the IPO, there was $54.0 million outstanding under the first senior credit facility and $13.5 million outstanding under the second senior credit facility. Additionally, in connection with the acquisitions of Wright and Cremascoli discussed in Note 3, the Company had issued $41.2 million in Senior Subordinated Notes (the "Notes"). The Notes bore interest at 10%. At the option of the Company, the amount of interest due and payable on the Notes was added to the unpaid principal of the Notes. The Notes were subordinated in right of payment to amounts due under the aforementioned two senior credit facilities. During 2000, the Company had issued an additional $4.3 million of Notes to certain stockholders and members of management. Immediately preceding the IPO, the Company had accrued, but not paid, interest of approximately $7.0 million, related to these Notes. On July 18, 2001, the Company completed its IPO, issuing 7.5 million shares of voting common stock at $12.50 per share, the net proceeds of which were $84.8 million after

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deducting underwriting discounts and offering expenses. The Company used the net proceeds of this offering to retire $39.4 million of the Notes including accrued interest, all of the Euro-denominated senior credit facility plus interest, totaling approximately $14.0 million, and approximately $31.4 million of the dollar-denominated senior credit facility. Simultaneous with the closing of the offering, the Company converted all of its outstanding mandatorily redeemable, convertible preferred stock, including accrued dividends, totaling approximately $98.6 million, into common stock. Also in connection with the offering, the remaining senior subordinated notes totaling approximately $13.1 million, converted into 1,125,000 shares of non-voting common stock. On August 1, 2001, the Company entered into a new 5-year senior credit facility with a syndicate of commercial banks. The new senior credit facility consists of $20 million in term loans and an unused revolving loan facility of up to $60 million. Upon entering into the new senior credit facility, the Company used $20 million in term loan proceeds from the new facility and existing cash balances to repay all remaining amounts outstanding plus accrued interest, totaling approximately $22.9 million, under the previous dollar-denominated senior credit facility. Thus, following the IPO, the use of proceeds and related transactions as described above, the Company has $20 million of debt outstanding, excluding capitalized lease obligations. In connection with the replacement of the Company's debt as described, the Company incurred an extraordinary non-cash charge of approximately $1.6 million principally related to unamortized loan costs relating to that debt. Borrowings under the new senior credit facility are guaranteed by the Company's subsidiaries and collateralized by all of the assets of Wright Medical Technology, Inc. and the other domestic subsidiaries. The new credit facility contains customary covenants including, among other things, restrictions on the Company's ability to pay cash dividends, prepay debt, incur additional debt and F-20 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 10. Debt: (Continued) sell assets. The new credit facility also requires the Company to meet certain financial tests, including a consolidated leverage (or debt-to-equity) ratio test and a consolidated fixed charge coverage ratio test. At the Company's option, borrowings under the new credit facility bear interest either at a rate equal to a fixed base rate plus a spread of .75% to 1.25% or at a rate equal to an adjusted LIBOR plus a spread of 1.75% to 2.25%, depending on the Company's consolidated leverage ratio, with a rate of 4.03% at December 31, 2001. Aggregate annual maturities of the Company's long-term obligations at December 31, 2001, excluding capitalized lease obligations, are as follows (in thousands):
2002.. $ 2,750
2003.. 4,000

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2004.. 4,500
2005.. 5,000
2006.. 3,750
------- $20,000 ======= The Company has acquired certain property and equipment pursuant to capital leases. These leases have various maturity dates ranging from one to seven years with interest rates ranging from 4.02% to 10.68%. At December 31, 2001, future minimum lease payments under capital lease obligations, together with the present value of the net minimum lease payments, is as follows (in thousands): AMOUNT --------
2002.. $ 1,354
2003.. 1,336
2004.. 951
2005.. 264
2006.. 161
Thereafter.. 146
------- Total minimum payments...................................... 4,212 Less amount representing interest........................... (578) ------- Present value of minimum lease payments..................... 3,634 Current portion... (1,080) ------- Long-term portion... $ 2,554 ======= F-21 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 11. Capital Stock: COMMON STOCK. The Company is authorized to issue up to 70,000,000 shares of voting common stock and 30,000,000 shares of non-voting common stock. The Company has 46,742,468 shares of voting common stock and 24,711,405 shares of non-voting common stock available for future issuance at December 31, 2001. MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK. Convertible preferred stock outstanding consisted of the following at December 31, 2000 (in thousands except par value): Series A convertible, mandatorily redeemable preferred stock, $.01 par value (shares authorized--50,000, issued and outstanding--14,434 in 2000)......................... $45,885 Series B convertible, mandatorily redeemable preferred stock, $.01 par value (shares authorized--30,000, issued and outstanding--7,513 in 2000).......................... 23,789 Series C convertible, mandatorily redeemable preferred stock, $.01 par value (shares authorized--20,000, issued and outstanding--5,364 in 2000).......................... 21,580 ------- $91,254 ======= Prior to the completion of the Company's IPO in July 2001, the Company was authorized to issue up to 50,000,000 shares of Series A Convertible Preferred Stock (the Series A Preferred Stock). The holders of Series A Preferred Stock were entitled to the number of votes equal to the number of shares of common stock into which each such share of Series A Preferred Stock was convertible. Each share of Series A Preferred Stock was convertible at any time at the option of the holder into shares of common stock at the Series A Conversion Rate, as defined, in the Company's Certificate of Incorporation. The

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Series A Preferred Stock was mandatorily convertible into shares of common stock at the Series A Conversion Price at any time upon the closing of an underwritten public offering. Series A Preferred stockholders were entitled to receive dividends at 6% per year. The dividends were cumulative and compounded quarterly. At December 31, 2000, the aggregate preferential distribution for the Series A Preferred Stock approximated $48.8 million, including accrued and unpaid dividends of approximately $2.9 million. Simultaneous with the completion of the Company's IPO, the Company converted all of its outstanding Series A Preferred Stock plus accrued but unpaid dividends of $4.4 million into shares of the Company's common stock. Prior to the completion of the Company's IPO, the Company was authorized to issue up to 30,000,000 shares of Series B Non-Voting Convertible Preferred Stock (the Series B Preferred Stock). Each share of Series B Preferred Stock was convertible at any time at the option of the holder into shares of common stock at the Series B Conversion Rate, as defined, in the Company's Certificate of Incorporation. Series B Preferred stockholders were entitled to receive dividends at 6% per year. The dividends were cumulative and compounded quarterly. At December 31, 2000, the aggregate preferential distribution for the Series B Preferred Stock approximated $25.3 million, including accrued and unpaid dividends of approximately $1.5 million. Simultaneous with the completion of the Company's IPO, the Company converted all of its outstanding Series B Preferred Stock plus accrued but unpaid dividends of $2.3 million into shares of the Company's common stock. Prior to the completion of the Company's IPO, the Company was authorized to issue up to 20,000,000 shares of Series C Convertible Preferred Stock (the Series C Preferred Stock). Each share of Series C Preferred Stock was convertible at any time at the option of the holder into shares of common stock at the Series C Conversion Rate, as defined, in the Company's Certificate of Incorporation. Series C Preferred stockholders were entitled to receive dividends at 6% per year. The dividends were cumulative and compounded quarterly. At December 31, 2000, the aggregate preferential distribution for the Series C Preferred Stock approximated $8.7 million, including accrued and unpaid dividends of approximately $178,000. Simultaneous with the completion of the Company's IPO, the Company converted all of its outstanding Series C Preferred Stock plus accrued but unpaid dividends of $460,000 into shares of the Company's common stock. During 2000, the Company issued Series C Preferred Stock to both management and existing investors. The issuance of this stock to management resulted in a stock based compensation expense of $3.8 million for the difference between the deemed fair value of F-22 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 11. Capital Stock: (Continued) the stock for

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accounting purposes and the issuance price of the Series C Preferred Stock. Additionally, a deemed preferred stock dividend of $13.1 million was incurred by the Company for the issuance of this stock to the existing investors. WARRANTS. In connection with the December 1999 recapitalization, the Company issued warrants to stockholders to purchase an aggregate of 727,276 shares of the Company's common stock at an exercise price of $4.35 per share. The fair value of these warrants at the time of the issuance of $420,000 was recorded as additional paid-in-capital. The exercise price and the number of shares that can be acquired through the warrants are subject to adjustment in certain situations to prevent dilution of the warrants. The warrants are exercisable at any time after issuance and, unless exercised, expire ten years from the date of issuance. The warrants do not entitle the holders to any voting rights. The holders of warrants are entitled to share in the assets of the Company in the event of reorganization, consolidation, merger, or sale of the Company's assets on the same basis as holders of common stock. In the case of certain consolidations or mergers of the Company, or the sale of all or substantially all of the assets of the Company, each warrant shall be exercisable for the right to receive the same consideration to which such holder would have been entitled as a result of such consolidation, merger or sale had the warrants been exercised immediately prior thereto. No warrants were exercised during the period from December 8, 1999 to December 31, 1999 and the year ended December 31, 2000. During the year ended December 31, 2001, 18,182 warrants were exercised. The Predecessor Company had two classes of common stock and three classes of preferred stock authorized for issuance. The preferred stock accumulated dividends at rates ranging from 11% to 24.97% for the period from January 1, 1999 to December 7, 1999. Dividend amounts accrued for the period from January 1, 1999 to December 7, 1999 were $13.2 million. In connection with the Company's acquisition of the Predecessor Company's common and preferred stock, all accrued and unpaid preferred stock dividends approximating $39.5 million were discharged. 12. Stock Option Plan: During the period from January 1, 1999 to December 7, 1999, the Predecessor Company had two fixed stock option plans for employees, two stock option plans for non-employees, which principally included the distributors of the Predecessor Company's products, and a distributor stock purchase plan. Generally, Wright's stock option plans granted options to purchase common stock and, in certain instances, Wright's Series A Preferred Stock. Under these two fixed stock option plans, options generally became exercisable in installments of 25% annually in each of the first through fourth anniversaries of the grant date and had a maximum term of ten years. Under the fixed stock option plans, the exercise price of each option equaled the market price, as internally determined based on certain

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factors, of Wright's respective stock on the date of grant. During the period from January 1, 1999 to December 7, 1999, the Predecessor Company expensed $523,000 related to the non-employee stock option plans. Effective with the acquisition of Wright by the Company, the stock option plans and distributor purchase plan were terminated. On December 7, 1999, the Company approved and adopted the 1999 Equity Incentive Plan (the "Plan"). The Plan authorizes the granting of options to purchase up to 4,767,051 shares of common stock. Under the Plan, options to purchase common stock generally are exercisable in increments of 25% annually in each of the first through fourth anniversaries of the date of grant. Options to purchase Series A Preferred Stock that were outstanding at the time the Company completed its IPO in July 2001, became options to purchase the Company's common stock. Those options were immediately exercisable upon their issuance. The options expire after ten years. F-23 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 12. Stock Option Plan: (Continued) A summary of the Company's stock option activity is as follows (shares in thousands): COMMON STOCK PREFERRED STOCK ------------------------ ------------------------ WEIGHTED AVG. WEIGHTED AVG. SHARES EXERCISE PRICE SHARES EXERCISE PRICE -------- ------------- -------- ------------- Balance, December 7, 1999.................................. -- -- -- -- Granted.. 291 $4.35 116 $ 0.87 Exercised.. -- -- -- -- Forfeited or expired..................................... -- -- -- -- Outstanding at December 31, 1999........................... 291 $4.35 116 $ 0.87 Granted.. 2,521 $4.35 -- -- Exercised.. -- -- -- -- Forfeited or expired..................................... (299) $4.35 -- -- ----- ----- ---- ------ Outstanding at December 31, 2000........................... 2,513 $4.35 116 $ 0.87 Conversion of preferred stock options into common stock options.. 116 $0.87 (116) $(0.87) Granted.. 659 $8.32 Exercised.. (114) $3.40 Forfeited or expired..................................... (47) $4.86 ----- ----- Outstanding at December 31, 2001........................... 3,127 $5.09 ===== ===== As of December 31, 2001, there were options for 866,879 shares of common stock exercisable at a weighted average price of $4.35 per share. The weighted average remaining contractual life for all options to purchase common stock is 9.05 years. As permitted by SFAS 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, the Company applies APB Opinion 25 and related interpretations in accounting for its employee stock option plan. Accordingly, compensation cost related to stock option grants to employees

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has been recognized only to the extent that the fair market value of the stock exceeds the exercise price of the stock option at the date of the grant. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value of the stock options at the grant dates for awards under those plans consistent with SFAS 123, the Company's net loss for the period December 8, 1999 to December 31, 1999 and the years ended December 31, 2000 and 2001 would have been increased to the following pro forma amounts (in thousands, except per share amounts): PREDECESSOR COMPANY COMPANY ---------------- -- PERIOD FROM PERIOD FROM JANUARY 1 TO DECEMBER 8 TO YEAR ENDED YEAR ENDED DECEMBER 7, 1999 DECEMBER 31, 1999 DECEMBER 31, 2000 DECEMBER 31, 2001 ---------------- ----------------- ----------------- ----------------- Net loss: As reported.......................... $(20,456) $ (19,899) $ (39,493) $(1,507) Pro forma........................... $(20,820) $ (19,930) $ (40,408) $(2,617) Basic and diluted net loss per share: As reported.......................... $(27,918.17) $ (3,405.71) $ (0.31) Pro forma........................... $(27,961.17) $ (3,460.40) $ (0.39) Pro forma basic and diluted net loss per share (unaudited): As reported.......................... $ (2.29) $ (0.06) Pro forma........................... $ (2.34) $ (0.11) F-24 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 12. Stock Option Plan: (Continued) For the year ended December 31, 2001, the fair value of each option is estimated on the date of grant using the Black-Scholes methodology required by SFAS 123 for publicly traded companies. The weighted-average fair value of the Company's options granted in 2001 was $10.25 per share. In applying the Black-Scholes methodology to the 2001 option grants, the Company used risk-free interest rates ranging from 3.5% to 5.75% with an expected option life of 7 years. The Company assumed a volatility factor of 67.3% and a dividend yield of zero percent. For the 1999 and 2000 periods presented above, the fair value of each option is estimated on the date of grant using the minimum value methodology promulgated by SFAS 123. This methodology was used as the Company's shares were not then publicly traded. The weighted average fair value of the Company's options was $1.86 per share for the period from December 8, 1999 to December 31, 1999 and $2.90 per share for the year ended December 31, 2000. In applying the minimum value methodology, the Company used a risk free interest rate of 4.25% for the period from December 8, 1999 to December 31, 1999 and rates between 4.25% and 6.5% in 2000 with an expected option life of 7 years for the 1999 and 2000 periods. Additionally, the Company assumed a dividend yield and volatility of zero percent. The Predecessor Company did not grant options in the period from January 1 to December 7, 1999. DISTRIBUTOR STOCK

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PURCHASE PLAN. In 2000 and 2001, the Company granted a group of independent distributors a total of 21,182 and 12,518 common stock options, respectively, under the Plan. The distributors were given options to purchase common stock, exercisable in 25% increments on the first through fourth anniversaries of the date of grant, at a weighted-average exercise price of $4.35 and $9.58 per share in 2000 and 2001, respectively. The options expire after ten years. In addition, a group of independent distributors were granted a total of 46,846 and 22,842 shares of common stock in 2000 and 2001, respectively under the Plan. In connection with the issuance of certain stock options to employees and distributors and the distributor stock grants discussed above, the Company incurred stock-based compensation of $7.6 million representing the fair value of the stock and stock options granted to distributors and for employee stock options, the extent to which the fair value of the Company's stock exceeded the exercise price of the stock option at the date of the grant. The Company will recognize this stock-based compensation over the respective vesting period, as appropriate. For the years ended December 31, 2000 and 2001, stock-based compensation expense of $1.2 million and $1.6 million, respectively, was recorded in the accompanying statement of operations related to these stock options and stock grants. Based on the stock-based compensation incurred as of December 31, 2001, the Company expects that $1.7 million in 2002, $1.7 million in 2003, $1.5 million in 2004, and $230,000 in 2005 will be recognized as non-cash stock-based expense. The amount of the remaining stock-based compensation expense to be recorded in future periods could decrease if the related options are forfeited. 13. Income Taxes: The components of the Company's income/(loss) before income taxes and extraordinary item are as follows (in thousands): PREDECESSOR COMPANY COMPANY ---------------- --- PERIOD FROM PERIOD FROM JANUARY 1 TO DECEMBER 8 TO YEAR ENDED YEAR ENDED DECEMBER 7, 1999 DECEMBER 31, 1999 DECEMBER 31, 2000 DECEMBER 31, 2001 ---------------- ----------------- ----------------- ----------------- Domestic............................... $ (21,654) $ (17,619) $ (29,608) $ 1,643 Foreign................................ 1,388 (2,305) (8,344) 35 -------------- --------------- --------------- --------------- Income (loss) before income taxes and extraordinary item................... $ (20,266) $ (19,924) $ (37,952) $ 1,678 ============== =============== =============== =============== F-25 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 13. Income Taxes: (Continued) The components of the provision (benefit) for income taxes on income/(loss) before extraordinary item are as follows (in thousands): PREDECESSOR COMPANY

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COMPANY ----------------

PERIOD FROM PERIOD FROM JANUARY 1
TO DECEMBER 8 TO YEAR ENDED YEAR
ENDED DECEMBER 7, 1999 DECEMBER
31, 1999 DECEMBER 31, 2000 DECEMBER
31, 2001 ---------------- -----------------
----------------- ----------------- CONTINUING
OPERATIONS: Current provision (benefit):
Domestic: Federal........................... $ (2,482) $
(173) $ (376) $ 29 State............................. (304)
(22) (46) -- Foreign............................. 190 (723)
392 225 Deferred provision (benefit):
Domestic: Federal........................... (3,544)
(1,738) (9,050) 41 State............................. (434)
(212) (1,109) 5 Foreign............................. --
(122) (3,354) 989 Change in valuation
allowance......... 6,764 2,965 15,084 285
-------------- -------------- ----------------
--------------- Total................................. $ 190 $
(25) $ 1,541 $ 1,574 ==============
=============== ================
=============== A reconciliation of the
statutory federal income tax provision (benefit)
to the Company's actual income tax provision
(benefit) attributable to continuing operations is
as follows (in thousands): PREDECESSOR
COMPANY COMPANY ----------------

PERIOD FROM PERIOD FROM JANUARY 1
TO DECEMBER 8 TO YEAR ENDED YEAR
ENDED DECEMBER 7, 1999 DECEMBER
31, 1999 DECEMBER 31, 2000 DECEMBER
31, 2001 ---------------- -----------------
----------------- ----------------- Income tax
provision/(benefit) at statutory
rate...................... (34.0)% (34.0)% (34.0)%
34.0% State tax provision/(benefit)......... (2.6)
(2.6) (2.6) 3.9 Change in valuation
allowance......... 33.4 14.9 39.7 17.0 Write-off
of acquired in-process research and
development............ -- 20.0 -- -- Goodwill
amortization................. 2.5 .1 .8 20.4 Meals and
entertainment............... .3 .1 .4 13.1 Other,
net........................... 1.3 1.4 (.2) 5.4 --------------
--------------- ---------------- ---------------
Total................................. .9% (.1)% 4.1%
93.8% ==============
=============== ================
=============== F-26 Wright Medical
Group, Inc. Notes to Consolidated Financial
Statements (Continued) 13. Income Taxes:
(Continued) The significant components of the
Company's deferred tax assets and liabilities as
of December 31, 2000 and 2001 are as follows
(in thousands): DECEMBER 31, 2000
DECEMBER 31, 2001 -----------------
----------------- Deferred tax assets: Operating
loss carryforwards................................ $ 28,256
$ 34,355 General business credit
carryforward........................ 1,191 1,191
Reserves and allowances....................................
14,095 12,393
Amortization..
8,841 5,669
Other... 7,523
6,106 Valuation
allowance.. (40,369)

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(41,787) --------------- --------------- Total deferred tax assets.................................. 19,537 17,927 --------------- --------------- Deferred tax liabilities: Depreciation... 2,137 3,322 Acquired intangible assets................................. 13,425 11,546 Other.. 3,655 4,059 --------------- --------------- Total deferred tax liabilities.............................. 19,217 18,927 --------------- --------------- Net deferred tax assets.................................... $ 320 $ (1,000) =============== =============== The Company has provided a valuation allowance against all of its net deferred tax assets for United States federal income tax purposes and a portion of its net deferred tax assets for foreign income tax purposes because, given the Company's history of operating losses, the realizability of these assets is uncertain. Approximately $500,000 of the increase in the valuation allowance for deferred taxes in 2001 is attributable to employee stock options deductions, the benefit of which will be credited to equity when realized. Approximately $600,000 of the increase in the valuation allowance for deferred taxes in 2001 is attributable to the portion of current year net operating losses generated by the Company's 2001 extraordinary loss, for which no benefit has been recognized. The Company's assessment of the need for a valuation allowance could change in the future based on the Company's future operating results. At December 31, 2001, the Company has net operating loss carryforwards for U.S. federal income tax purposes of approximately $74.7 million, which expire in 2009 through 2021. Additionally, the Company has general business credit carryforwards of approximately $1.2 million, which expire in 2007 through 2016. The use of some of these net operating loss carryforwards is subject to annual limitations. At December 31, 2001, the Company has foreign net operating loss carryforwards of approximately $17.6 million, which expire in 2002 through 2010. The use of some of these foreign net operating loss carryforwards is subject to annual limitations. 14. Employee Benefit Plans: The Company sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code, which covers U.S. employees who are 21 years of age and over. Under this plan, the Company matches voluntary employee contributions at a rate of 100% for the first 2% of an employee's annual compensation and at a rate of 50% for the next 2% of an employee's annual compensation. Employees vest in the Company's contributions after three years of service with the Company. The Company's expense related to the plan was $550,000 and $609,000 in 2000 and 2001, respectively. The Company's expense related to the plan was not material for the period from December 8, 1999 to December 31, 1999. Prior to its acquisition by the Company, the Predecessor Company sponsored a defined contribution plan under Section 401(k) of the

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Internal Revenue Code, which covered employees who were 21 years of age and over. The Predecessor Company had the option to contribute annually to the plan shares of the Predecessor Company's stock as determined by the Board of Directors and matched employee's voluntary contributions at rates of 100% of the first 2% of an employee's annual compensation, and 50% of the next 2% of an employee's annual compensation. Employees vested in the Predecessor Company's contributions after five years. The Predecessor Company's expense related to this plan was approximately $500,000 for the period from January 1, 1999 to December 7, 1999. F-27 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 15. Commitments and Contingencies: The Company leases certain equipment under non-cancelable operating leases. Rental expense under operating leases approximated $1.0 million for the period from January 1, 1999 to December 7, 1999, $56,000 for the period from December 8, 1999 to December 31, 1999, and $1.7 million and $2.4 million for the years ended December 31, 2000 and 2001, respectively. Future minimum payments, by year and in the aggregate, under non-cancelable operating leases with initial or remaining lease terms of one year or more, are as follows at December 31, 2001 (in thousands): OPERATING YEAR LEASES ------------- 2002.. $2,684 2003.. 2,047 2004.. 1,252 2005.. 400 2006.. 185 Thereafter.. 158 ------ $6,726 ====== On June 30, 1993, the Predecessor Company acquired substantially all the assets of the large joint orthopaedic implant business from Dow Corning Corporation (DCC). DCC retains liability for matters arising from certain conduct of DCC prior to June 30, 1993. As such, DCC has agreed to indemnify the Predecessor Company against all liability for all products manufactured prior to the acquisition except for products provided under the Predecessor Company's 1993 agreement with DCC pursuant to which the Predecessor Company purchased certain small joint orthopaedic implants for worldwide distribution. The Predecessor Company was notified in May 1995 that DCC, which filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code, would no longer defend the Predecessor Company in such matters until it received further direction from the bankruptcy court. Based on the most recent plan of reorganization submitted to the court, it appears that the Predecessor Company would be considered an unsecured creditor and, under the terms of the plan, would receive 24% of any such claim as a cash payment with the remainder to be paid by a senior note due within ten years. There are several appeals regarding the confirmed plan of reorganization pending before the U.S. District Court in Detroit, Michigan, which have delayed

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implementation of the plan. There can be no assurance that DCC will indemnify the Predecessor Company or the Company on any claims in the future. Although neither the Predecessor Company nor the Company maintains insurance for claims arising on products sold by DCC, the Company does not believe the outcome of any of these matters will have a material adverse effect on the Company's financial position or results of operations. In January 1996, the Predecessor Company entered into an agreement with a licensor of intellectual property (the "Licensor") to acquire an option to purchase rights to patents, ideas and designs related to certain spinal product designs. In January 1997, the Predecessor Company entered into an additional agreement with the same Licensor to purchase rights to patents, ideas and designs related to additional spinal product designs. Both agreements required guaranteed royalties to be paid to the Licensor over a period of years. In January 1999, the Predecessor Company entered into an exclusive license agreement with a third party orthopaedic company whereby the Predecessor Company sold its rights related to these spinal product designs for an up front $3.5 million license fee and royalties based upon future product sales. The Licensor filed a complaint in the United States District Court against the Predecessor Company alleging breach of contract and other charges related to the licensing of these spinal product designs to this third party. As this licensing arrangement was contested by the Licensor, the Predecessor Company deferred revenue on the $3.5 million license fee it had received. F-28 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 15. Commitments and Contingencies: (Continued) As of December 31, 2000, the Company had recorded a liability of $7.5 million for the estimated amount of settlement, which included the reclassification of the $3.5 million deferred license fee, in accrued expenses and other current liabilities in the accompanying balance sheet. In January 2001, the Company and the Licensor executed a settlement and release agreement (the "S & R Agreement"). The Licensor and the Company agreed to irrevocably release and discharge the other party from any previous claims related to these spinal product designs. By February 28, 2001, the Company had fully paid its obligation to the Licensor. A portion of the proceeds ($3.5 million) to settle this liability came from an escrow established in connection with the acquisition of Wright (see Note 3). During March 1998, the Company filed a complaint for injunctive relief in the Chancery Court of Shelby County, Tennessee, against a former employee of the Company. In the complaint, the Company alleged that this former employee violated a "trade secrets" employment contract provision and had developed a calcium sulfate bone void filler product to compete against the Company's similar product. The court initially granted a temporary injunction barring the

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defendant from participating in direct competition against the Company in the calcium sulfate bone void filler market. During 1999, the court set aside the temporary injunction and, in March 2000, conducted a hearing on the defendant's charges from being wrongfully enjoined. In May 2000, the court entered a judgement in favor of the defendant awarding the defendant compensatory damages of $4.8 million and punitive damages of $4.8 million. Additionally, the court awarded the defendant ongoing compensatory damages of $408,000 per month for the next twelve months or until final resolution of this case, whichever comes first, and assessed the Company for related court costs. In December 2001, the Tennessee Court of Appeals reversed, in part, the trial court's ruling. The Court of Appeals reversed the punitive damages award and limited the total damages to the amount of the injunction bond of $500,000 which the Company has accrued. In February 2002, the defendant sought permission to appeal the Court of Appeal's findings. Management believes that if an adverse outcome related to this appeal did occur, a portion of such judgment may be subject to reimbursement from the Company's applicable insurance carrier. Management does not believe that the resolution of this matter will have a material adverse effect on the Company's financial position or results of operations. On April 11, 2001, the FDA sent the Company a "warning letter" stating that the FDA believes ALLOMATRIX-TM- Injectable Putty is a medical device that is subject to the premarket notification requirement. The Company believes that ALLOMATRIX-TM- Injectable Putty and some of their other allograft-based products are human tissue and therefore are not subject to FDA approval as medical devices. The Company asked the FDA to designate ALLOMATRIX-TM- Injectable Putty as a product regulated solely as a tissue. The FDA has orally advised the Company that after reviewing the Company's designation request it has decided to regulate ALLOMATRIX-TM- Injectable Putty as a medical device. Upon official notification of this decision, the Company will submit a 510(k) premarket notification for the product. The Company has continued to market ALLOMATRIX-TM- Injectable Putty after receiving the warning letter, and intends to continue to market and sell ALLOMATRIX-TM- Injectable Putty. The FDA has not raised any objection to the Company's continued marketing and sale of ALLOMATRIX-TM- Injectable Putty pending submission of the premarket notification. There can be no assurance that the 510(k) premarket notification that the Company intends to submit will be cleared by the FDA in a timely manner or at all. Also, the FDA may take enforcement action against the Company, including requiring the Company to modify or cease distributing ALLOMATRIX-TM- Injectable Putty, detaining or seizing the Company's inventory of ALLOMATRIX-TM- Injectable Putty,

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requiring the Company to recall ALLOMATRIX-TM- Injectable Putty, enjoining future violations and seeking criminal and civil penalties against the Company and its officers and directors, any of which could adversely affect the Company's financial condition and results of operations. However, the Company believes that such punitive actions by the FDA against the Company are unlikely. In 2000 and 2001, ALLOMATRIX-TM- products represented approximately 9% and 11% of the Company's total net sales, respectively. The net book value of long-lived assets related to ALLOMATRIX-TM- products totaled approximately $700,000 at December 31, 2001. In March 2000, Howmedica Osteonics Corp. served a lawsuit against the Company alleging patent infringement. The lawsuit seeks an order of infringement, injunctive relief, compensatory damages and various other costs and relief. The Company believes it has F-29 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 15. Commitments and Contingencies: (Continued) strong defenses against this claim and intends to vigorously defend this lawsuit. The Company also believes this claim is, in part, covered pursuant to the Company's patent infringement insurance. Management does not believe that the outcome of this claim will have a material adverse effect on the Company's financial position or results of operations. In 1999, groundwater contamination was detected at our Arlington, Tennessee facility. The Company is presently negotiating the terms of further investigation with state environmental officials; however, based on the Company's current assessment, it does not believe it will have a significant effect on the Company's financial position and results of operations. The Company is subject to various legal proceedings, product liability claims and other matters which arise in the ordinary course of business. In the opinion of management, the amount of liability, if any, with respect to these matters will not materially affect the results of operations or financial position of the Company. The Company has entered into various royalty agreements with third party surgeons and consultants. Minimum guaranteed payments under royalty or other consultant agreements, for which the Company has not recorded a liability, are as follows at December 31, 2001 (in thousands): YEAR AMOUNT ---- -------- 2002.. $1,752 2003.. 1,112 2004.. 794 2005.. 475 2006.. -- ------ $4,133 ====== 16. Related Party Transactions: The Company compensates each of their non-employee and non-stockholder representative directors $12,000 per year. Non-employee directors are directors who are neither the Company's employees nor representatives of one of the Company's stockholders. The Company compensates the

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Chairman of its audit committee an additional $18,000 per year and the Chairman of its board of directors an additional $38,000 per year. In addition, the Company reimburses each member of its board of directors for out-of-pocket expenses incurred in connection with attending the Company's board meetings. The Company does not compensate employee directors for Board meeting attendance or activities. 17. Segment Data: The Company has one reportable segment, orthopaedic products, which includes the design, manufacture and marketing of reconstructive joint devices and bio-orthopaedic products. The Company's geographic business units consist of operations in the United States, Europe and Other (which principally represents Canada and Japan since August 2001). Identifiable assets are those assets used exclusively in the operations of each business unit. Revenues attributed to each geographic unit are based on the location in which the sale originated. F-30 Wright Medical Group, Inc. Notes to Consolidated Financial Statements (Continued) 17. Segment Data: (Continued) Net sales of orthopaedic products by category and information by geographic area are as follows (in thousands): PREDECESSOR COMPANY COMPANY ---------------- -- PERIOD FROM PERIOD FROM JANUARY 1 TO DECEMBER 8 TO YEAR ENDED YEAR ENDED DECEMBER 7, 1999 DECEMBER 31, 1999 DECEMBER 31, 2000 DECEMBER 31, 2001 ---------------- ----------------- ----------------- ----------------- Net Sales by Product Line: Knees................................. $ 52,753 $ 3,448 $ 63,143 $ 68,238 Hips.................................. 23,596 1,912 47,978 48,589 Extremities........................... 13,774 836 17,285 20,989 Biologics............................. 7,367 896 20,992 26,810 Other................................. 3,704 884 8,154 8,295 --------------- --------------- --------------- --------------- Total................................. $ 101,194 $ 7,976 $ 157,552 $ 172,921 =============== =============== =============== =============== Net Sales by Geographic Business Unit: United States......................... $ 90,589 $ 7,144 $ 113,323 $ 123,869 Europe................................ 7,499 714 41,018 42,268 Other................................. 3,106 118 3,211 6,784 --------------- --------------- --------------- --------------- Total................................. $ 101,194 $ 7,976 $ 157,552 $ 172,921 =============== =============== =============== =============== Operating Income (Loss): United States......................... $ (7,878) $ (16,193) $ (19,731) $ 7,436 Europe................................ 1,153 (1,637) (5,149) 2,282 Other................................. 271 (118) 244 454 --------------- --------------- --------------- --------------- Total................................. $ (6,454) $ (17,948) $ (24,636) $ 10,172 =============== =============== =============== =============== DECEMBER 31, DECEMBER 31, 2000 2001

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--------------- --------------- Long-lived Assets: United States... $ 68,488 $ 68,730 Europe.. 30,414 28,739 Other... 862 2,255 --------------- --------------- Total... $ 99,764 $ 99,724 =============== =============== Sales to United States-based customers, aggregated $73.8 million, $5.7 million, $95.0 million, and $108.0 million for the period from January 1 to December 7, 1999, for the period from December 8 to December 31, 1999, and for the years ended December 31, 2000 and 2001, respectively. These sales along with United States export sales are included in United States sales in the above table. No single foreign country accounted for more than 10% of the Company's total net sales during 1999, 2000 or 2001; however, Italy and France together represented approximately 17% of the Company's total net sales in 2000 and 16% in 2001. 18. Secondary Offering: In January 2002, the Company's Board of Directors authorized management to pursue a follow-on registration with the SEC to sell 6,000,000 shares of the Company's common stock to the public at an offering price to be determined. The Company anticipates that 3,000,000 of those shares will be sold to the public by certain of the Company's current shareholders. 19. Subsequent Events: In January 2002, the Company received an interim award of $4.2 million in a commercial arbitration proceeding with a former business services provider of the Company's predecessor. In addition to the $4.2 million, the Company has filed a motion with the arbitration panel seeking reimbursement of legal fees, costs and expenses. The Company is awaiting a ruling on its motion and a final award. The Company has to date not recorded any income with respect to this matter in its statement of operations. F-31 [LOGO]