

STEEL DYNAMICS INC
Form 10-Q
August 04, 2010
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934**

For the quarterly period ended June 30, 2010

OR

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

Commission File Number 0-21719

Steel Dynamics, Inc.

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of incorporation or organization)

35-1929476

(I.R.S. Employer Identification No.)

7575 West Jefferson Blvd, Fort Wayne, IN

(Address of principal executive offices)

46804

(Zip Code)

Registrant's telephone number, including area code: **(260) 969-3500**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of July 28, 2010, Registrant had 216,837,032 outstanding shares of common stock.

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STEEL DYNAMICS, INC.

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CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2010 (unaudited)	December 31, 2009
Assets		
Current assets		
Cash and equivalents	\$ 191,593	\$ 9,008
Accounts receivable, net	577,380	396,036
Accounts receivable-related parties	50,928	30,556
Inventories	1,017,874	852,831
Deferred income taxes	21,678	21,492
Income taxes receivable	35,819	137,024
Other current assets	14,844	9,856
Total current assets	1,910,116	1,456,803
Property, plant and equipment, net	2,237,927	2,254,050
Restricted cash	20,592	12,595
Intangible assets, net	511,002	533,510
Goodwill	753,355	758,259
Other assets	112,813	114,655
Total assets	\$ 5,545,805	\$ 5,129,872
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 354,550	\$ 255,520
Accounts payable-related parties	8,786	6,765
Income taxes payable	2,008	5,664
Accrued expenses	165,842	156,570
Accrued profit sharing	16,771	2,860
Senior secured revolving credit facility, due 2012		167,000
Current maturities of long-term debt	6,341	1,182
Total current liabilities	554,298	595,561
Long-term debt		
7 3/8% senior notes, due 2012	700,000	700,000
5.125% convertible senior notes, due 2014	287,500	287,500
6 3/4% senior notes, due 2015	500,000	500,000
7 3/4% senior notes, due 2016	500,000	500,000
7 5/8% notes, due 2020	350,000	
Other long-term debt	64,179	67,072
	2,401,679	2,054,572
Deferred income taxes	430,635	416,468
Other liabilities	61,594	60,006
Commitments and contingencies		
Stockholders equity		

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Common stock voting, \$.0025 par value; 900,000,000 shares authorized; 253,233,868 and 252,589,627 shares issued; and 216,805,895 and 215,999,801 shares outstanding, as of June 30, 2010 and December 31, 2009, respectively

Treasury stock, at cost; 36,427,973 and 36,589,826 shares, as of June 30, 2010 and December 31, 2009, respectively	631	629
Additional paid-in capital	(727,624)	(730,857)
Retained earnings	983,780	972,985
Total Steel Dynamics, Inc. stockholders' equity	1,827,194	1,745,511
Noncontrolling interests	2,083,981	1,988,268
Total stockholders' equity	13,618	14,997
Total liabilities and stockholders' equity	2,097,599	2,003,265
	\$ 5,545,805	\$ 5,129,872

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net sales				
Unrelated parties	\$ 1,570,093	\$ 773,137	\$ 3,066,175	\$ 1,560,947
Related parties	62,706	19,021	122,414	45,861
Total net sales	1,632,799	792,158	3,188,589	1,606,808
Costs of goods sold	1,440,815	723,321	2,786,123	1,578,598
Gross profit	191,984	68,837	402,466	28,210
Selling, general and administrative expenses	55,957	48,559	113,117	105,879
Profit sharing	7,827		17,271	(42)
Amortization of intangible assets	11,565	13,994	23,146	29,692
Total selling, general and administrative expenses	75,349	62,553	153,534	135,529
Operating income (loss)	116,635	6,284	248,932	(107,319)
Interest expense, net of capitalized interest	43,448	37,043	80,963	73,294
Other expense (income), net	(3,521)	786	(6,602)	38
Income (loss) before income taxes	76,708	(31,545)	174,571	(180,651)
Income taxes (benefit)	29,911	(15,024)	64,385	(74,356)
Net income (loss)	46,797	(16,521)	110,186	(106,295)
Net loss attributable to noncontrolling interests	2,410	530	3,990	2,442
Net income (loss) attributable to Steel Dynamics, Inc.	\$ 49,207	\$ (15,991)	\$ 114,176	\$ (103,853)
Basic earnings (loss) per share attributable to Steel Dynamics, Inc. stockholders	\$.23	\$ (.08)	\$.53	\$ (.56)
Weighted average common shares outstanding	216,635	189,848	216,459	185,924
Diluted earnings (loss) per share attributable to Steel Dynamics, Inc. stockholders, including the effect of assumed conversions when dilutive	\$.22	\$ (.08)	\$.51	\$ (.56)
Weighted average common shares and share equivalents outstanding	234,600	189,848	234,630	185,924
Dividends declared per share	\$.075	\$.075	\$.150	\$.175

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Operating activities:				
Net income (loss)	\$ 46,797	\$ (16,521)	\$ 110,186	\$ (106,295)
Adjustments to reconcile net income (loss) to net cash provided by operating activities				
Depreciation and amortization	55,398	57,765	111,670	114,728
Equity-based compensation	3,329	3,313	6,098	11,892
Deferred income taxes	10,417	5,797	18,885	13,492
(Gain) loss on disposal of property, plant and equipment	550	(475)	1,506	(747)
Changes in certain assets and liabilities:				
Accounts receivable	21,423	(5,297)	(201,717)	135,796
Inventories	(117,013)	95,296	(165,071)	288,393
Other assets	(9,529)	17,856	(8,589)	42,835
Accounts payable	(22,707)	(13,793)	95,510	(47,847)
Income taxes receivable/payable	60,416	(29,735)	97,549	(40,996)
Accrued expenses	(29,730)	(42,540)	26,066	(124,890)
Net cash provided by operating activities	19,351	71,666	92,093	286,361
Investing activities:				
Purchases of property, plant and equipment	(40,960)	(73,166)	(71,644)	(147,504)
Other investing activities	977	(7,290)	1,481	(10,513)
Net cash used in investing activities	(39,983)	(80,456)	(70,163)	(158,017)
Financing activities:				
Issuance of current and long-term debt	2,002	471,685	546,552	708,744
Repayment of current and long-term debt	(4,476)	(841,781)	(355,806)	(1,200,447)
Debt issuance costs	(169)	(13,298)	(6,707)	(13,751)
Issuance of common stock (net of expenses) and proceeds from exercise of stock options, including related tax effect	2,984	412,547	6,438	410,489
Contribution from noncontrolling investors	2,611		2,611	5,000
Dividends paid	(16,233)	(18,213)	(32,433)	(36,395)
Net cash provided by (used in) financing activities	(13,281)	10,940	160,655	(126,360)
Increase (decrease) in cash and equivalents	(33,913)	2,150	182,585	1,984
Cash and equivalents at beginning of period	225,506	16,067	9,008	16,233
Cash and equivalents at end of period	\$ 191,593	\$ 18,217	\$ 191,593	\$ 18,217
Supplemental disclosure information:				
Cash paid for interest	\$ 71,993	\$ 67,450	\$ 75,762	\$ 79,433
Cash paid (received) for federal and state income taxes, net	\$ (41,997)	\$ 1,656	\$ (55,007)	\$ (53,774)

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Description of the Business and Significant Accounting Policies

Description of the Business

Steel Dynamics, Inc. (SDI), together with its subsidiaries (the company), is a domestic manufacturer of steel products and metals recycler. The company has three reporting segments: steel operations, metals recycling and ferrous resources operations, and steel fabrication operations.

Steel Operations. Steel operations include the company's Flat Roll Division, Structural and Rail Division, Engineered Bar Products Division, Roanoke Bar Division, Steel of West Virginia (SWVA) and The Techs operations. These operations consist of mini-mills, producing steel from steel scrap, using electric arc furnaces, continuous casting, automated rolling mills, and downstream finishing facilities. The company's steel operations sell directly to end users and service centers. These products are used in numerous industry sectors, including the automotive, construction, commercial, transportation and industrial machinery markets. Steel operations accounted for approximately 60% and 64% of the company's external net sales during the three-month periods ended June 30, 2010 and 2009, respectively, and 61% and 63% of the company's external net sales during the six-month periods ended June 30, 2010 and 2009, respectively.

Metals Recycling and Ferrous Resources Operations. Metals recycling and ferrous resources operations primarily are composed of the company's steel scrap procurement and processing locations, operated through the company's wholly-owned subsidiary, OmniSource Corporation (OmniSource), as well as Iron Dynamics (IDI), the company's iron-substitute production facility. In addition, the impact related to the construction and ongoing start-up of the Mesabi Nugget iron-making facility and potential future mining operations in Hoyt Lakes, Minnesota is also included in this segment. Mesabi Nugget, which was under construction during 2009 and had its first shipment in February 2010, has and will continue to ramp up production during 2010. Metals recycling and ferrous resources operations accounted for approximately 36% and 30% of the company's external net sales during the three-month periods ended June 30, 2010 and 2009, respectively, and 35% and 30% during the six-month periods ended June 30, 2010 and 2009, respectively.

Steel Fabrication Operations. Steel fabrication operations represent the company's New Millennium Building Systems plants located in the eastern United States. Revenues from these plants are generated from the fabrication of trusses, girders, steel joists and steel decking used within the non-residential construction industry. Steel fabrication operations accounted for approximately 3% and 5% of the company's external net sales during the three-month periods ended June 30, 2010 and 2009, respectively, and 2% and 6% during the six-month periods ended June 30, 2010 and 2009, respectively.

Significant Accounting Policies

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Principles of Consolidation. The consolidated financial statements include the accounts of SDI, together with its wholly and majority-owned or controlled subsidiaries, after elimination of significant intercompany accounts and transactions. Noncontrolling interests represent the noncontrolling owner's proportionate share in the equity, income, or losses of the company's majority-owned or controlled consolidated subsidiaries.

Use of Estimates. These financial statements are prepared in conformity with accounting principles generally accepted in the United States and, accordingly, include amounts that require management to make estimates and assumptions that affect the amounts reported in the financial statements and in the notes thereto. Significant items subject to such estimates and assumptions include the carrying value of property, plant and equipment, intangible assets and goodwill; valuation allowances for trade receivables, inventories and deferred income tax assets; unrecognized tax benefits; potential environmental liabilities; and litigation claims and settlements. Actual results may differ from these estimates and assumptions.

In the opinion of management, these financial statements reflect all normal recurring adjustments necessary for a fair presentation of the interim period results. These financial statements and notes should be read in conjunction with the audited financial statements and notes thereto included in the company's Annual Report on Form 10-K/A for the year ended December 31, 2009.

Comprehensive Income (Loss) Attributable to Steel Dynamics, Inc. The components of comprehensive income (loss) are summarized in the following table (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income (loss) attributable to Steel Dynamics, Inc.	\$ 49,207	\$ (15,991)	\$ 114,176	\$ (103,853)
Unrealized gain on interest rate swap, net of tax		243		581
Reversal of unrealized loss on interest rate swap, net of tax		830		830
Comprehensive income (loss) attributable to Steel Dynamics, Inc.	\$ 49,207	\$ (14,918)	\$ 114,176	\$ (102,442)

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Description of the Business and Significant Accounting Policies (continued)

Goodwill. The company's goodwill is allocated to the following reporting units at June 30, 2010 and December 31, 2009, (in thousands):

	June 30, 2010	December 31, 2009
OmniSource	\$ 579,606	\$ 584,510
The Techs	142,783	142,783
Roanoke Bar Division	29,041	29,041
New Millennium Building Systems	1,925	1,925
	\$ 753,355	\$ 758,259

OmniSource goodwill decreased \$4.9 million from December 31, 2009 to June 30, 2010 in recognition of the 2010 tax benefit related to the amortization of the component of OmniSource tax-deductible goodwill in excess of book goodwill.

Note 2. Earnings (Loss) Per Share

Basic earnings (loss) per share is based on the weighted average shares of common stock outstanding during the period. Diluted earnings per share assumes the weighted average dilutive effect of common share equivalents outstanding during the period applied to the company's basic earnings per share. Common share equivalents represent potentially dilutive stock options and dilutive shares related to the company's 5.125% convertible senior notes and are excluded from the computation in periods in which they have an anti-dilutive effect. Options to purchase 2.3 million and 2.9 million shares were anti-dilutive at June 30, 2010 and 2009, respectively.

The following table presents a reconciliation of the numerators and the denominators of the company's basic and diluted earnings per share computations for net income (loss) attributable to Steel Dynamics, Inc. (in thousands, except per share data):

	Net Income (Numerator)	2010 Shares (Denominator)	Three Months Ended June 30,		2009 Shares (Denominator)	Per Share Amount
			Per Share Amount	Net Loss (Numerator)		
Basic earnings per share	\$ 49,207	216,635	\$.23	\$ (15,991)	189,848	\$ (.08)
Dilutive stock option effect		1,583				

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5.125% convertible senior notes	2,377	16,382					
Diluted earnings per share	\$ 51,584	234,600	\$.22	\$ (15,991)	189,848	\$ (.08)	

	Six Months Ended June 30,					
	Net Income (Numerator)	2010 Shares (Denominator)	Per Share Amount	Net Loss (Numerator)	2009 Shares (Denominator)	Per Share Amount
Basic earnings (loss) per share	\$ 114,176	216,459	\$.53	\$ (103,853)	185,924	\$ (.56)
Dilutive stock option effect		1,789				
5.125% convertible senior notes	4,754	16,382				
Diluted earnings (loss) per share	\$ 118,930	234,630	\$.51	\$ (103,853)	185,924	\$ (.56)

Note 3. Inventories

Inventories are stated at lower of cost or market. Cost is determined principally on a first-in, first-out basis. Inventory consisted of the following (in thousands):

	June 30, 2010	December 31, 2009
Raw materials	\$ 503,979	\$ 405,794
Supplies	224,531	219,320
Work-in-progress	90,846	72,279
Finished goods	198,518	155,438
Total inventories	\$ 1,017,874	\$ 852,831

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 4. Debt*7 5/8% Senior Notes*

In March 2010, the company issued \$350.0 million of 7 5/8% senior notes due 2020. The net proceeds from the notes were used to pay down the then outstanding senior secured revolving credit facility and for general corporate purposes.

Senior Secured Revolving Credit Facility, due 2012

On April 26, 2010, the company entered into an amendment to its senior secured revolving credit facility, due 2012 which provided for the addition of a lender who extended an additional commitment of \$50.0 million, which increased the total revolving credit facility commitment from \$874.0 million to \$924.0 million.

Note 5. Changes in Stockholders' Equity

The following table provides a reconciliation of the beginning and ending carrying amounts of total stockholders' equity, equity attributable to stockholders of Steel Dynamics, Inc. and equity attributable to the noncontrolling interests (in thousands):

	Stockholders of Steel Dynamics, Inc.					
	Total	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Noncontrolling Interests
Balances at January 1, 2010	\$ 2,003,265	\$ 629	\$ 972,985	\$ 1,745,511	\$ (730,857)	\$ 14,997
Proceeds from the exercise of stock options, including related tax effect	6,438	2	6,436			
Dividends declared	(32,493)			(32,493)		
Equity-based compensation and issuance of restricted stock	7,592		4,359		3,233	
Contributions from noncontrolling investors	2,611					2,611

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Comprehensive income (loss)		110,186			114,176			(3,990)				
Balances at June 30, 2010	\$	2,097,599	\$	631	\$	983,780	\$	1,827,194	\$	(727,624)	\$	13,618

Note 6. Derivative Financial Instruments

The company is exposed to certain risks relating to its ongoing business operations. At times the company utilizes derivative instruments to mitigate commodity margin risk, interest rate risk, and foreign currency exchange rate risk. Forward contracts on various commodities are entered into to manage the price risk associated with forecasted purchases and sales of non-ferrous materials (specifically aluminum, copper, nickel and silver) from the company's metals recycling operations. Interest rate swaps are entered into to manage interest rate risk associated with the company's fixed and floating-rate borrowings. Forward exchange contracts on various foreign currencies are entered into to manage the foreign currency exchange rate risk as necessary.

The company designated its interest rate swap, which was terminated in June 2009, as a cash flow hedge of floating-rate borrowings. Forward contracts on various commodities and forward exchange contracts on various foreign currencies are not designated as hedging instruments.

Cash Flow Hedging Strategy. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings (e.g., in interest expense when the hedged transactions are interest cash flows associated with floating-rate borrowings). The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (i.e., the ineffectiveness portion), or hedge components excluded from the assessment of effectiveness, are recognized in the statement of operations during the current period.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 6. Derivative Financial Instruments (continued)

Commodity Futures Contracts. If the company is long on futures contracts, it means the company has more futures contracts purchased than futures contracts sold for the underlying commodity. If the company is short on futures contracts, it means the company has more futures contracts sold than futures contracts purchased for the underlying commodity. The following summarizes the company's commodity futures contract commitments as of June 30, 2010 (MT represents metric tons):

Commodity	Long/Short	Total
Aluminum	Long	5,375MT
Aluminum	Short	5,400MT
Copper	Long	10,682MT
Copper	Short	7,552MT
Nickel	Long	288MT
Nickel	Short	606MT

The following summarizes the location and amounts of the fair values and gains or losses related to derivatives included in the company's financial statements as of June 30, 2010 and December 31, 2009, and for the three and six-month periods ended June 30, 2010 and 2009 (in thousands):

		Fair Value	
		June 30, 2010	December 31, 2009
Balance Sheets			
Commodity futures net asset	Other current assets	\$ 668	\$
Commodity futures net liability	Accrued expenses		3,113

		Gain for Three Months Ended	
		June 30, 2010	June 30, 2009
Statements of Operations			
Commodity futures contracts	Costs of goods sold	\$ 2,477	\$ 1,856
Interest rate swap	Other comprehensive income		1,745
Interest rate swap	Other expense		1,350

		Gain for Six Months Ended	
		June 30, 2010	June 30, 2009
Statements of Operations			
Commodity futures contracts	Costs of goods sold	\$ 4,408	\$ 13,317
Interest rate swap	Other comprehensive income		2,294
Interest rate swap	Other expense		1,350

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 7. Fair Value Measurements

FASB accounting standards provide a comprehensive framework for measuring fair value and sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. Levels within the hierarchy are defined as follows:

- Level 1 Unadjusted quoted prices for identical assets and liabilities in active markets;
- Level 2 Quoted prices for similar assets and liabilities in active markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly; and
- Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The following table sets forth financial assets and liabilities measured at fair value in the consolidated balance sheets and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of June 30, 2010, and December 31, 2009 (in thousands):

				Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			Total			
<u>June 30, 2010</u>						
Commodity futures	financial assets	\$	4,373	\$	\$	4,373
Commodity futures	financial liabilities		3,705			3,705

				Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			Total			
<u>December 31, 2009</u>						
Commodity futures	financial assets	\$	3,819	\$	\$	3,819
Commodity futures	financial liabilities		6,932			6,932

The carrying amounts of financial instruments including cash and equivalents, accounts receivable and accounts payable approximate fair value, because of the relatively short maturity of these instruments. The fair value of long-term debt, including current maturities, was approximately \$2.4 billion (with a corresponding carrying amount in the consolidated balance sheet of \$2.4 billion) and \$2.3 billion (with a corresponding

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carrying amount in the consolidated balance sheet of \$2.2 billion) at June 30, 2010, and December 31, 2009, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 8. Commitments and Contingencies

On February 1, 2008, the company was sued by Prime Eagle Group Limited (Plaintiff), a corporation with its principal place of business in Thailand, alleging damages in excess of \$1.1 billion, arising out of Steel Dynamics' activities in providing consulting services to a Thailand-based steel company, Nakornthai Strip Mill Public Company, Limited (NSM) in its operational start-up in 1998. On April 30, 2008, Steel Dynamics filed a Motion to Dismiss the lawsuit, and on February 23, 2009, the court dismissed the complaint, with prejudice, and denied the plaintiffs leave to amend their complaint. Plaintiff appealed this dismissal. On July 26, 2010, the Federal 7th Circuit Court of Appeals affirmed the dismissal.

On September 17, 2008, the company and eight other steel manufacturing companies were served with a class action antitrust complaint, filed in the United States District Court for the Northern District of Illinois in Chicago by Standard Iron Works of Scranton, Pennsylvania, alleging violations of Section 1 of the Sherman Act. The Complaint alleges that the defendants conspired to fix, raise, maintain and stabilize the price at which steel products were sold in the United States, starting in 2005, by artificially restricting the supply of such steel products. Seven additional lawsuits, each of them materially similar to the original, have also been filed in the same federal court, each of them likewise seeking similar class certification. All but one of the Complaints purport to be brought on behalf of a class consisting of all direct purchasers of steel products between January 1, 2005 and the present. The other Complaint purports to be brought on behalf of a class consisting of all indirect purchasers of steel products within the same time period. All Complaints seek treble damages and costs, including reasonable attorney fees, pre- and post-judgment interest and injunctive relief. On January 2, 2009, Steel Dynamics and the other defendants filed a Joint Motion to Dismiss all of the direct purchaser lawsuits. On June 12, 2009, however, the Court denied the Motion. The parties are currently conducting limited discovery. Although the company believes that the lawsuits are without merit and plans to aggressively defend these actions, the company cannot presently predict the outcome of this litigation or make any judgment with respect to its potential exposure, if any.

On November 23, 2009, OmniSource Corporation was served the Director's Final Findings and Orders from the State of Ohio Environmental Protection Agency alleging violations of air pollution control rules, ordering new operating practices to address the violations, and assessing penalties in the amount of \$325,600. The parties are currently in the process of settlement discussions.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 9. Segment Information

The company has three reportable segments: steel operations, metals recycling and ferrous resources operations, and steel fabrication operations. These operations are described in Note 1 to the financial statements. Revenues included in the category "Other" are from subsidiary operations that are below the quantitative thresholds required for reportable segments and primarily consist of further processing, slitting, and sale of certain steel products and the resale of certain secondary and excess steel products. In addition, "Other" also includes certain unallocated corporate accounts, such as the company's senior secured credit facilities, senior notes and convertible senior notes, certain other investments, and certain profit sharing expenses.

The company's operations are primarily organized and managed by operating segment. Operating segment performance and resource allocations are primarily based on operating results before income taxes. The accounting policies of the reportable segments are consistent with those described in Note 1 to the financial statements. Refer to the company's Annual Report on Form 10-K/A for the year ended December 31, 2009, for more information related to the company's segment reporting. Intra-segment and intra-company sales and any related profits are eliminated in consolidation. The company's segment results for the three month periods ended June 30, 2010 and 2009 are as follows (in thousands):

For the three months ended June 30, 2010	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication Operations	Other	Eliminations	Consolidated
Net Sales						
External	\$ 954,589	\$ 537,519	\$ 42,266	\$ 23,781	\$	\$ 1,558,155
External Non-U.S.	22,048	52,406		190		74,644
Other segments	43,292	258,442	1	2,501	(304,236)	
	1,019,929	848,367	42,267	26,472	(304,236)	1,632,799
Operating income (loss)	131,146	6,939	(4,713)	(16,820)(1)	83(2)	116,635
Income (loss) before income taxes	111,778	(7,238)	(6,021)	(21,816)	5	76,708
Depreciation and amortization	28,138	24,443	1,739	1,136	(58)	55,398
Capital expenditures	17,146	13,682	43	10,089		40,960
As of June 30, 2010						
Assets	2,394,503	2,385,902	181,807	914,436(3)	(330,843)(4)	5,545,805
Liabilities	255,665	517,285	8,639	2,990,606(5)	(323,989)(6)	3,448,206

Footnotes related to the three months ended June 30, 2010 segment results (in millions):

(1)	Corporate SG&A	\$	(7.5)
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	Company-wide stock option expense	(2.9)
	Profit sharing	(6.8)
	Other, net	0.4
		\$ (16.8)
(2)	Margin reduction from intra-company sales	\$ 0.1
(3)	Deferred income taxes	\$ 307.2
	Income taxes receivable	35.8
	Debt issuance costs	27.0
	Property, plant and equipment, net	54.8
	Intra-company debt	224.8
	Cash and equivalents	182.8
	Other	82.0
		\$ 914.4
(4)	Elimination of intra-company receivables	\$ (29.6)
	Deferred income tax elimination	(66.9)
	Elimination of intra-company debt	(224.8)
	Other	(9.5)
		\$ (330.8)
(5)	Debt	\$ 2,341.1
	Deferred income taxes	499.1
	Accounts payable	32.0
	Income taxes payable	2.0
	Accrued interest	33.7
	Other	82.7
		\$ 2,990.6
(6)	Deferred income tax elimination	\$ (68.5)
	Intra-company debt	(224.8)
	Intra-company payables	(30.1)
	Other	(0.6)
		\$ (324.0)

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 9. Segment Information (continued)

For the three months ended June 30, 2009	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication Operations	Other	Eliminations	Consolidated
Net Sales						
External	\$ 494,873	\$ 213,070	\$ 36,470	\$ 8,337	\$	\$ 752,750
External Non-U.S.	12,020	27,328		60		39,408
Other segments	15,811	68,540	556	1,163	(86,070)	
	522,704	308,938	37,026	9,560	(86,070)	792,158
Operating income (loss)	33,470	(6,557)	16	(9,757)(1)	(10,888)(2)	6,284
Income (loss) before income taxes	16,319	(15,683)	(1,295)	(16,324)	(14,562)	(31,545)
Depreciation and amortization	25,996	27,299	1,490	2,980		57,765
Capital expenditures	12,690	60,406	17	53		73,166
As of June 30, 2009						
Assets	2,203,502	2,142,622	158,364	598,232(3)	(220,908)(4)	4,881,812
Liabilities	184,559	211,557	8,930	2,735,762(5)	(183,479)(6)	2,957,329

Footnotes related to the three months ended June 30, 2009 segment results (in millions):

(1)	Corporate SG&A	\$ (9.2)
	Other, net	(0.6)
		\$ (9.8)
(2)	Margin impact from inter-company sales	\$ (10.9)
(3)	Deferred income taxes	\$ 317.0
	Income taxes receivable	125.9
	Debt issuance costs	27.7
	Other	127.6
		\$ 598.2
(4)	Elimination of inter-company receivables	\$ (19.4)
	Deferred income taxes elimination	(111.0)
	Other	(90.5)
		\$ (220.9)
(5)	Debt	\$ 2,101.5
	Deferred income taxes	507.5
	Other	126.8
		\$ 2,735.8

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(6)	Deferred income taxes elimination	\$	(113.5)
	Intercompany debt		(57.6)
	Other		(12.3)
		\$	(183.4)

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 9. Segment Information (continued)

For the six months ended June 30, 2010	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication Operations	Other	Eliminations	Consolidated
Net Sales						
External	\$ 1,897,807	\$ 1,012,936	\$ 66,227	\$ 50,859	\$	\$ 3,027,829
External Non-U.S.	51,397	109,052		311		160,760
Other segments	83,221	482,682	38	4,720	(570,661)	
	2,032,425	1,604,670	66,265	55,890	(570,661)	3,188,589
Operating income (loss)	265,884	31,073	(11,293)	(35,695)(1)	(1,037)(2)	248,932
Income (loss) before income taxes	229,666	6,175	(13,777)	(45,739)	(1,754)	174,572
Depreciation and amortization	56,298	50,127	3,112	2,218	(85)	111,670
Capital expenditures	29,217	31,358	150	11,557	(638)	71,644

Footnotes related to the six months ended June 30, 2010 segment results (in millions):

(1)	Corporate SG&A				\$	(17.0)
	Company-wide stock option expense					(5.2)
	Profit sharing					(15.3)
	Other, net					1.8
					\$	(35.7)
(2)	Margin reduction from intra-company sales				\$	(1.0)

For the six months ended June 30, 2009	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication Operations	Other	Eliminations	Consolidated
Net Sales						
External	\$ 983,013	\$ 435,469	\$ 97,255	\$ 19,444	\$	\$ 1,535,181
External Non-U.S.	28,922	42,635		70		71,627
Other segments	37,883	127,242	578	2,219	(167,922)	
	1,049,818	605,346	97,833	21,733	(167,922)	1,606,808
Operating income (loss)	(34,741)	(30,705)	3,077	(22,808)(1)	(22,142)(2)	(107,319)
Income (loss) before income taxes	(69,581)	(49,872)	59	(35,691)	(25,566)	(180,651)
Depreciation and amortization	50,688	57,107	3,247	3,686		114,728
Capital expenditures	43,778	104,070	(449)	105		147,504

Footnotes related to the six months ended June 30, 2009 segment results (in millions):

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(1)	Corporate SG&A	\$	(20.5)
	Other, net		(2.3)
		\$	(22.8)
(2)	Margin impact from inter-company sales	\$	(22.1)

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 10. Condensed Consolidating Information

Certain 100%-owned subsidiaries of SDI have fully and unconditionally guaranteed all of the indebtedness relating to the issuance of the company's senior notes due 2012, 2015, 2016, and 2020 and convertible senior notes due 2014. Following are the company's condensed consolidating financial statements, including the guarantors, which present the financial position, results of operations and cash flows of (i) SDI (in each case, reflecting investments in its consolidated subsidiaries under the equity method of accounting), (ii) the guarantor subsidiaries of SDI, (iii) the non-guarantor subsidiaries of SDI, and (iv) the eliminations necessary to arrive at the information for the company on a consolidated basis. The following statements should be read in conjunction with the accompanying consolidated financial statements and the company's Annual Report on Form 10-K/A for the year ended December 31, 2009.

Condensed Consolidating Balance Sheets (in thousands)

As of June 30, 2010	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Cash and equivalents	\$ 180,831	\$ 5,389	\$ 5,373	\$	\$ 191,593
Accounts receivable, net	272,484	606,100	10,083	(260,359)	628,308
Inventories	519,962	430,488	70,944	(3,520)	1,017,874
Other current assets	87,738	7,217	3,706	(26,320)	72,341
Total current assets	1,061,015	1,049,194	90,106	(290,199)	1,910,116
Property, plant and equipment, net	1,136,935	706,451	397,674	(3,133)	2,237,927
Intangible assets, net		511,002			511,002
Goodwill		753,355			753,355
Other assets, including investments in subs	2,855,140	325,002	7,678	(3,054,415)	133,405
Total assets	\$ 5,053,090	\$ 3,345,004	\$ 495,458	\$ (3,347,747)	\$ 5,545,805
Accounts payable	\$ 137,586	\$ 220,573	\$ 31,365	\$ (26,188)	\$ 363,336
Accrued expenses	108,692	99,585	7,002	(30,658)	184,621
Current maturities of long-term debt	848	350	51,198	(46,055)	6,341
Total current liabilities	247,126	320,508	89,565	(102,901)	554,298
Long-term debt	2,351,750		256,170	(206,241)	2,401,679
Other liabilities	370,233	2,354,241	40,687	(2,272,932)	492,229
Common stock	631	19,753	6,601	(26,354)	631
Treasury stock	(727,624)				(727,624)
Additional paid-in-capital	983,780	117,753	121,603	(239,356)	983,780
Retained Earnings	1,827,194	532,749	(32,786)	(499,963)	1,827,194
Total Steel Dynamics, Inc. stockholders equity	2,083,981	670,255	95,418	(765,673)	2,083,981
Noncontrolling interests			13,618		13,618
Total stockholders' equity	2,083,981	670,255	109,036	(765,673)	2,097,599
Total liabilities and stockholders' equity	\$ 5,053,090	\$ 3,345,004	\$ 495,458	\$ (3,347,747)	\$ 5,545,805

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 10. Condensed Consolidating Information (continued)*Condensed Consolidating Balance Sheets (in thousands)*

As of December 31, 2009	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Cash and equivalents	\$ 430	\$ 6,363	\$ 2,215	\$	\$ 9,008
Accounts receivable, net	201,749	461,535	9,217	(245,909)	426,592
Inventories	437,375	368,823	50,376	(3,743)	852,831
Other current assets	177,271	5,954	551	(15,404)	168,372
Total current assets	816,825	842,675	62,359	(265,056)	1,456,803
Property, plant and equipment, net	1,159,215	728,601	368,815	(2,581)	2,254,050
Intangible assets, net		533,510			533,510
Goodwill		758,259			758,259
Other assets, including investments in subs	2,726,175(1)	326,293	9,415	(2,934,633)(1)	127,250
Total assets	\$ 4,702,215	\$ 3,189,338	\$ 440,589	\$ (3,202,270)	\$ 5,129,872
Accounts payable	\$ 87,635	\$ 157,711	\$ 43,567	\$ (26,628)	\$ 262,285
Accrued expenses	86,035	107,375	2,774	(31,090)	165,094
Current maturities of long-term debt	167,832	350	14,907	(14,907)	168,182
Total current liabilities	341,502	265,436	61,248	(72,625)	595,561
Long-term debt	2,001,953	25	238,192	(185,598)	2,054,572
Other liabilities	370,492	2,298,846	29,556	(2,222,420)	476,474
Common stock	629	19,753	7,763	(27,516)	629
Treasury stock	(730,857)				(730,857)
Additional paid-in-capital	972,985	117,753	112,437	(230,190)	972,985
Retained earnings	1,745,511(1)	487,525	(23,604)	(463,921)(1)	1,745,511
Total Steel Dynamics, Inc. stockholders' equity	1,988,268	625,031	96,596	(721,627)	1,988,268
Noncontrolling interests			14,997		14,997
Total stockholders' equity	1,988,268	625,031	111,593	(721,627)	2,003,265
Total liabilities and stockholders equity	\$ 4,702,215	\$ 3,189,338	\$ 440,589	\$ (3,202,270)	\$ 5,129,872

(1) The December 31, 2009 Parent Balance Sheet was adjusted to increase Retained Earnings to \$1,745,511 (from \$1,495,771) and Other Assets, including Investments in Subsidiaries, to \$2,726,175 (from \$2,476,435) to reflect undistributed earnings (losses) of certain guarantor and non-guarantor subsidiaries. This adjustment had no impact on previously reported combined non-guarantors or consolidated amounts.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 10. Condensed Consolidating Information (continued)*Condensed Consolidating Statements of Operations (in thousands)*

For the three months ended, June 30, 2010	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net sales	\$ 726,120	\$ 1,831,842	\$ 35,359	\$ (960,522)	\$ 1,632,799
Costs of goods sold	607,268	1,740,778	44,291	(951,522)	1,440,815
Gross profit (loss)	118,852	91,064	(8,932)	(9,000)	191,984
Selling, general and administrative	24,490	50,479	2,247	(1,867)	75,349
Operating income (loss)	94,362	40,585	(11,179)	(7,133)	116,635
Interest expense, net of capitalized interest	25,038	17,677	3,424	(2,691)	43,448
Other (income) expense, net	(4,482)	(2,057)	248	2,770	(3,521)
Income (loss) before income taxes and equity in net income of subsidiaries	73,806	24,965	(14,851)	(7,212)	76,708
Income taxes (benefit)	27,866	9,465	(5,552)	(1,868)	29,911
	45,940	15,500	(9,299)	(5,344)	46,797
Equity in net income of subsidiaries	3,267			(3,267)	
Net loss attributable to noncontrolling interests			2,410		2,410
Net income (loss) attributable to Steel Dynamics, Inc.	\$ 49,207	\$ 15,500	\$ (6,889)	\$ (8,611)	\$ 49,207

For the three months ended, June 30, 2009	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net sales	\$ 346,848	\$ 845,858	\$		