

STEEL DYNAMICS INC  
Form 10-Q  
August 05, 2011  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2011**

**OR**

**o 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.)

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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

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 29, 2011, Registrant had 218,672,065 outstanding shares of common stock.

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STEEL DYNAMICS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

|   | June 30,<br>2011<br>(unaudited) | December 31,<br>2010 |
|---|---------------------------------|----------------------|
| <b>Assets</b>                             |                                 |                      |
| <b>Current assets</b>                     |                                 |                      |
| Cash and equivalents                      | \$ 277,691                      | \$ 186,513           |
| Accounts receivable, net                  | 797,577                         | 584,068              |
| Accounts receivable-related parties       | 51,824                          | 38,121               |
| Inventories                               | 1,195,194                       | 1,114,063            |
| Deferred income taxes                     | 21,114                          | 20,684               |
| Income taxes receivable                   | 15,295                          | 37,311               |
| Other current assets                      | 15,164                          | 19,243               |
| Total current assets                      | 2,373,859                       | 2,000,003            |
| <b>Property, plant and equipment, net</b> | <b>2,176,314</b>                | <b>2,213,333</b>     |
| <b>Restricted cash</b>                    | <b>21,717</b>                   | <b>23,132</b>        |
| <b>Intangible assets, net</b>             | <b>469,719</b>                  | <b>489,240</b>       |
| <b>Goodwill</b>                           | <b>748,383</b>                  | <b>751,675</b>       |
| <b>Other assets</b>                       | <b>110,461</b>                  | <b>112,551</b>       |
| <b>Total assets</b>                       | <b>\$ 5,900,453</b>             | <b>\$ 5,589,934</b>  |
| <b>Liabilities and Equity</b>             |                                 |                      |
| <b>Current liabilities</b>                |                                 |                      |
| Accounts payable                          | \$ 443,693                      | \$ 335,031           |
| Accounts payable-related parties          | 12,166                          | 13,570               |
| Income taxes payable                      | 11,531                          | 5,227                |
| Accrued expenses                          | 173,440                         | 175,041              |
| Accrued profit sharing                    | 28,464                          | 23,524               |
| Current maturities of long-term debt      | 1,552                           | 8,924                |
| Total current liabilities                 | 670,846                         | 561,317              |
| <b>Long-term debt</b>                     |                                 |                      |
| 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% senior notes, due 2020             | 350,000                         | 350,000              |
| Other long-term debt                      | 40,293                          | 40,397               |
|   | 2,377,793                       | 2,377,897            |
| <b>Deferred income taxes</b>              | <b>476,532</b>                  | <b>457,432</b>       |
| <b>Other liabilities</b>                  | <b>63,794</b>                   | <b>62,159</b>        |
| <b>Commitments and contingencies</b>      |                                 |                      |
| <b>Redeemable noncontrolling interest</b> | <b>54,294</b>                   | <b>54,294</b>        |
| <b>Equity</b>                             |                                 |                      |

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Common stock voting, \$.0025 par value; 900,000,000 shares authorized; 254,987,769 and 254,002,799 shares issued; and 218,648,678 and 217,574,826 shares outstanding, as of June 30, 2011 and December 31, 2010, respectively

|  |              |              |
|--|--------------|--------------|
| Treasury stock, at cost; 36,339,091 and 36,427,973 shares, as of June 30, 2011 and December 31, 2010, respectively | 636          | 633          |
| Additional paid-in capital   | (725,849)    | (727,624)    |
| Retained earnings  | 1,019,061    | 998,728      |
| Total Steel Dynamics, Inc. equity  | 1,982,051    | 1,821,133    |
| Noncontrolling interests   | 2,275,899    | 2,092,870    |
| <b>Total equity</b>  | (18,705)     | (16,035)     |
| <b>Total liabilities and equity</b>  | 2,257,194    | 2,076,835    |
|  | \$ 5,900,453 | \$ 5,589,934 |

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

|  | Three Months Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                   |
|--|--------------------------------|------------------|------------------------------|-------------------|
|  | 2011                           | 2010             | 2011                         | 2010              |
| Net sales  |                                |                  |                              |                   |
| Unrelated parties  | \$ 2,004,283                   | \$ 1,570,093     | \$ 3,945,947                 | \$ 3,066,175      |
| Related parties  | 75,448                         | 62,706           | 149,753                      | 122,414           |
| <b>Total net sales</b>   | <b>2,079,731</b>               | <b>1,632,799</b> | <b>4,095,700</b>             | <b>3,188,589</b>  |
| Costs of goods sold  | 1,803,345                      | 1,440,815        | 3,523,560                    | 2,786,123         |
| <b>Gross profit</b>  | <b>276,386</b>                 | <b>191,984</b>   | <b>572,140</b>               | <b>402,466</b>    |
| Selling, general and administrative expenses   | 63,631                         | 55,957           | 128,772                      | 113,117           |
| Profit sharing   | 14,454                         | 7,827            | 29,657                       | 17,271            |
| Amortization of intangible assets  | 10,082                         | 11,565           | 20,166                       | 23,146            |
| <b>Total selling, general and administrative expenses</b>  | <b>88,167</b>                  | <b>75,349</b>    | <b>178,595</b>               | <b>153,534</b>    |
| <b>Operating income</b>  | <b>188,219</b>                 | <b>116,635</b>   | <b>393,545</b>               | <b>248,932</b>    |
| Interest expense, net of capitalized interest  | 44,812                         | 43,448           | 88,158                       | 80,963            |
| Other income, net  | (5,745)                        | (3,521)          | (10,312)                     | (6,602)           |
| <b>Income before income taxes</b>  | <b>149,152</b>                 | <b>76,708</b>    | <b>315,699</b>               | <b>174,571</b>    |
| Income taxes   | 53,326                         | 29,911           | 115,643                      | 64,385            |
| <b>Net income</b>  | <b>95,826</b>                  | <b>46,797</b>    | <b>200,056</b>               | <b>110,186</b>    |
| Net loss attributable to noncontrolling interests  | 2,884                          | 2,410            | 4,557                        | 3,990             |
| <b>Net income attributable to Steel Dynamics, Inc.</b>   | <b>\$ 98,710</b>               | <b>\$ 49,207</b> | <b>\$ 204,613</b>            | <b>\$ 114,176</b> |
| <b>Basic earnings per share attributable to Steel Dynamics, Inc. stockholders</b>  | <b>\$ .45</b>                  | <b>\$ .23</b>    | <b>\$ .94</b>                | <b>\$ .53</b>     |
| Weighted average common shares outstanding   | 218,500                        | 216,635          | 218,246                      | 216,459           |
| <b>Diluted earnings per share attributable to Steel Dynamics, Inc. stockholders, including the effect of assumed conversions when dilutive</b> | <b>\$ .43</b>                  | <b>\$ .22</b>    | <b>\$ .89</b>                | <b>\$ .51</b>     |
| Weighted average common shares and share equivalents outstanding   | 236,266                        | 234,600          | 236,245                      | 234,630           |
| <b>Dividends declared per share</b>  | <b>\$ .10</b>                  | <b>\$ .075</b>   | <b>\$ .20</b>                | <b>\$ .15</b>     |

See notes to consolidated financial statements.



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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

|   | Three Months Ended<br>June 30, |                   | Six Months Ended<br>June 30, |                   |
|---|--------------------------------|-------------------|------------------------------|-------------------|
|   | 2011                           | 2010              | 2011                         | 2010              |
| <b>Operating activities:</b>  |                                |                   |                              |                   |
| Net income  | \$ 95,826                      | \$ 46,797         | \$ 200,056                   | \$ 110,186        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                |                   |                              |                   |
| Depreciation and amortization   | 56,257                         | 55,398            | 111,003                      | 111,670           |
| Equity-based compensation   | 3,812                          | 3,329             | 7,522                        | 6,098             |
| Deferred income taxes   | 9,028                          | 10,417            | 21,963                       | 18,885            |
| Loss on disposal of property, plant and equipment                                 | 139                            | 550               | 96                           | 1,506             |
| Changes in certain assets and liabilities:  |                                |                   |                              |                   |
| Accounts receivable   | 34,536                         | 21,423            | (227,212)                    | (201,717)         |
| Inventories   | (9,026)                        | (117,013)         | (81,133)                     | (165,071)         |
| Other assets  | 2,315                          | (9,529)           | 5,697                        | (8,589)           |
| Accounts payable  | 2,750                          | (22,707)          | 96,925                       | 95,510            |
| Income taxes receivable/payable   | (17,119)                       | 60,416            | 28,320                       | 97,549            |
| Accrued expenses  | (12,521)                       | (29,730)          | 6,697                        | 26,066            |
| Net cash provided by operating activities   | 165,997                        | 19,351            | 169,934                      | 92,093            |
| <b>Investing activities:</b>  |                                |                   |                              |                   |
| Purchases of property, plant and equipment  | (34,976)                       | (40,960)          | (53,669)                     | (71,644)          |
| Other investing activities  | 2,142                          | 977               | 999                          | 1,481             |
| Net cash used in investing activities   | (32,834)                       | (39,983)          | (52,670)                     | (70,163)          |
| <b>Financing activities:</b>  |                                |                   |                              |                   |
| Issuance of current and long-term debt  |                                | 2,002             | 5,126                        | 546,552           |
| Repayment of current and long-term debt   | (491)                          | (4,476)           | (7,816)                      | (355,806)         |
| Debt issuance costs   |                                | (169)             |                              | (6,707)           |
| Proceeds from exercise of stock options, including related tax effect             | 4,569                          | 2,984             | 12,865                       | 6,438             |
| Contributions from noncontrolling investors, net                                  | 1,470                          | 2,611             | 1,887                        | 2,611             |
| Dividends paid  | (21,830)                       | (16,233)          | (38,148)                     | (32,433)          |
| Net cash provided by (used in) financing activities                               | (16,282)                       | (13,281)          | (26,086)                     | 160,655           |
| Increase (decrease) in cash and equivalents                                       | 116,881                        | (33,913)          | 91,178                       | 182,585           |
| Cash and equivalents at beginning of period                                       | 160,810                        | 225,506           | 186,513                      | 9,008             |
| <b>Cash and equivalents at end of period</b>                                      | <b>\$ 277,691</b>              | <b>\$ 191,593</b> | <b>\$ 277,691</b>            | <b>\$ 191,593</b> |
| <b>Supplemental disclosure information:</b>                                       |                                |                   |                              |                   |
| Cash paid for interest  | \$ 71,047                      | \$ 71,993         | \$ 86,157                    | \$ 75,762         |
| Cash paid (received) for federal and state income taxes, net                      | \$ 60,455                      | \$ (41,997)       | \$ 61,975                    | \$ (55,007)       |



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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 61% and 60% of the company's external net sales during the three-month periods ended June 30, 2011 and 2010, respectively, and 60% and 61% of the company's external net sales during the six-month periods ended June 30, 2011 and 2010, respectively.

**Metals Recycling and Ferrous Resources Operations.** Metals recycling and ferrous resources operations are primarily 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 liquid pig iron facility. In addition, the impact related to the ongoing start-up of the Mesabi Nugget ironmaking facility and future mining operations, both in Hoyt Lakes, Minnesota is also included in this segment. Metals recycling and ferrous resources operations accounted for approximately 35% and 36% of the company's external net sales during the three-month periods ended June 30, 2011 and 2010, respectively, and 36% and 35% during the six-month periods ended June 30, 2011 and 2010, respectively.

**Steel Fabrication Operations.** Steel fabrication operations represent the company's New Millennium Building Systems plants located throughout the United States and Northern Mexico. 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% of the company's external net sales during each of the three-month periods ended June 30, 2011 and 2010, and 3% and 2% during the six-month periods ended June 30, 2011 and 2010, 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; income taxes; unrecognized income 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 for the year ended December 31, 2010.

**Goodwill.** The company's goodwill is allocated to the following reporting units at June 30, 2011, and December 31, 2010, (in thousands):

|   | June 30,<br>2011 | December 31,<br>2010 |
|---|------------------|----------------------|
| OmniSource Metals Recycling/Ferrous Resources Segment | \$ 574,634       | \$ 577,926           |
| The Techs Steel Segment                               | 142,783          | 142,783              |
| Roanoke Bar Division Steel Segment                    | 29,041           | 29,041               |
| New Millennium Building Systems Fabrication Segment   | 1,925            | 1,925                |
|   | \$ 748,383       | \$ 751,675           |

OmniSource goodwill decreased \$3.3 million from December 31, 2010 to June 30, 2011, in recognition of the 2011 tax benefit related to the amortization of the component of OmniSource tax-deductible goodwill in excess of book goodwill.

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 2. Earnings Per Share**

Basic earnings 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 restricted shares, 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 1.2 million and 2.3 million shares were anti-dilutive at June 30, 2011 and 2010, 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 attributable to Steel Dynamics, Inc. (in thousands, except per share data):

|   | Three Months Ended June 30, |                                 |                     |                           |                                 |                     |
|---|-----------------------------|---------------------------------|---------------------|---------------------------|---------------------------------|---------------------|
|   | Net Income<br>(Numerator)   | 2011<br>Shares<br>(Denominator) | Per Share<br>Amount | Net Income<br>(Numerator) | 2010<br>Shares<br>(Denominator) | Per Share<br>Amount |
| Basic earnings per share                    | \$ 98,710                   | 218,500                         | \$ .45              | \$ 49,207                 | 216,635                         | \$ .23              |
| Dilutive stock option effect                |                             | 1,384                           |                     |                           | 1,583                           |                     |
| 5.125% convertible senior notes, net of tax | 2,358                       | 16,382                          |                     | 2,377                     | 16,382                          |                     |
| Diluted earnings per share                  | \$ 101,068                  | 236,266                         | \$ .43              | \$ 51,584                 | 234,600                         | \$ .22              |

|   | Six Months Ended June 30, |                                 |                     |                           |                                 |                     |
|---|---------------------------|---------------------------------|---------------------|---------------------------|---------------------------------|---------------------|
|   | Net Income<br>(Numerator) | 2011<br>Shares<br>(Denominator) | Per Share<br>Amount | Net Income<br>(Numerator) | 2010<br>Shares<br>(Denominator) | Per Share<br>Amount |
| Basic earnings per share                    | \$ 204,613                | 218,246                         | \$ .94              | \$ 114,176                | 216,459                         | \$ .53              |
| Dilutive stock option effect                |                           | 1,617                           |                     |                           | 1,789                           |                     |
| 5.125% convertible senior notes, net of tax | 4,716                     | 16,382                          |                     | 4,754                     | 16,382                          |                     |
| Diluted earnings per share                  | \$ 209,329                | 236,245                         | \$ .89              | \$ 118,930                | 234,630                         | \$ .51              |

**Note 3. Inventories**

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

|                   | <b>June 30,<br/>2011</b> |    | <b>December 31,<br/>2010</b> |
|-------------------|--------------------------|----|------------------------------|
| Raw materials     | \$ 598,699               | \$ | 589,859                      |
| Supplies          | 239,052                  |    | 231,816                      |
| Work-in-progress  | 140,328                  |    | 94,346                       |
| Finished goods    | 217,115                  |    | 198,042                      |
| Total inventories | \$ 1,195,194             | \$ | 1,114,063                    |

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 4. Changes in Equity**

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

|   | Stockholders of Steel Dynamics, Inc. |                 |                                  |                      |                   |                             |
|---|--------------------------------------|-----------------|----------------------------------|----------------------|-------------------|-----------------------------|
|   | Total<br>Equity                      | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Noncontrolling<br>Interests |
| <b>Balances at January 1, 2011</b>  | \$ 2,076,835                         | \$ 633          | \$ 998,728                       | \$ 1,821,133         | \$ (727,624)      | \$ (16,035)                 |
| Proceeds from the exercise of stock options, including related tax effect | 12,865                               | 3               | 12,862                           |                      |                   |                             |
| Dividends declared  | (43,695)                             |                 |                                  | (43,695)             |                   |                             |
| Equity-based compensation and issuance of restricted stock                | 9,246                                |                 | 7,471                            |                      | 1,775             |                             |
| Contributions from noncontrolling investors                               | 2,393                                |                 |                                  |                      |                   | 2,393                       |
| Distributions to noncontrolling investor                                  | (506)                                |                 |                                  |                      |                   | (506)                       |
| Net and comprehensive income (loss)                                       | 200,056                              |                 |                                  | 204,613              |                   | (4,557)                     |
| <b>Balances at June 30, 2011</b>  | \$ 2,257,194                         | \$ 636          | \$ 1,019,061                     | \$ 1,982,051         | \$ (725,849)      | \$ (18,705)                 |

**Note 5. 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 nonferrous metals (specifically aluminum, copper, nickel and silver) from the company's metals recycling operations. Interest rate swaps are entered into at times 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. No interest rate swaps or significant forward exchange contracts on foreign currency existed for the periods presented.

*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

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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 income during the current period.

*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, 2011 (MT represents metric tons and Lbs represents pounds):

| <b>Commodity</b> | <b>Long/Short</b> | <b>Total</b> |
|------------------|-------------------|--------------|
| Aluminum         | Long              | 3,500MT      |
| Aluminum         | Short             | 3,450MT      |
| Copper           | Long              | 6,951MT      |
| Copper           | Short             | 10,115MT     |
| Silver           | Short             | 343Lbs       |

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 5. Derivative Financial Instruments (continued)**

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, 2011, and December 31, 2010, and for the three and six-month periods ended June 30, 2011 and 2010 (in thousands):

| <b>Balance Sheets</b>           |                  | <b>Fair Value</b>    |                          |
|---------------------------------|------------------|----------------------|--------------------------|
|                                 |                  | <b>June 30, 2011</b> | <b>December 31, 2010</b> |
| Commodity futures net liability | Accrued expenses | \$ 310               | \$ 4,988                 |

| <b>Statements of Income</b> |                     | <b>Gain for Three Months Ended</b> |                      |
|-----------------------------|---------------------|------------------------------------|----------------------|
|                             |                     | <b>June 30, 2011</b>               | <b>June 30, 2010</b> |
| Commodity futures contracts | Costs of goods sold | \$ 1,422                           | \$ 2,477             |

| <b>Statements of Income</b> |                     | <b>Gain for Six Months Ended</b> |                      |
|-----------------------------|---------------------|----------------------------------|----------------------|
|                             |                     | <b>June 30, 2011</b>             | <b>June 30, 2010</b> |
| Commodity futures contracts | Costs of goods sold | \$ 4,345                         | \$ 4,408             |

**Note 6. 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.



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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, 2011, and December 31, 2010 (in thousands):

|                          |                       | Total    | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--------------------------|-----------------------|----------|--|---|--|
| <b>June 30, 2011</b>     |                       |          |  |   |  |
| Commodity futures        | financial assets      | \$ 3,343 | \$   | \$ 3,343  | \$   |
| Commodity futures        | financial liabilities | 3,653    |  | 3,653   |  |
| <b>December 31, 2010</b> |                       |          |  |   |  |
| Commodity futures        | financial assets      | 7,052    |  | 7,052   |  |
| Commodity futures        | financial liabilities | 12,040   |  | 12,040  |  |

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 values of commodity futures contracts are estimated by the use of quoted market prices, estimates obtained from brokers, and other appropriate valuation techniques based on references available. The fair value of long-term debt, including current maturities, was approximately \$2.5 billion (with a corresponding carrying amount in the consolidated balance sheet of \$2.4 billion) at June 30, 2011, and December 31, 2010, and was based on quoted market prices.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 7. Commitments and Contingencies**

On September 17, 2008, we 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. In addition, on December 28, 2010, we and the other co-defendants were served with a substantially similar complaint in the Circuit Court of Cocke County, Tennessee, purporting to be on behalf of indirect purchasers of steel products in Tennessee. The case has been removed to federal court. 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 discovery. We believe that the lawsuits are without merit and we are aggressively defending these actions. Due to the uncertain nature of litigation, we cannot presently determine the ultimate outcome of this litigation, however we have determined, based on the information available at this time, that there is not presently a reasonable possibility (as that term is defined in ASC 450-20-20), that the outcome of these legal proceedings would have a material impact on our financial condition, results of operations, or liquidity.

Although not presently necessary or appropriate to make a dollar estimate of exposure to loss, if any, in connection with the above matter, we may in the future determine that a loss accrual is necessary. Although we may make loss accruals, if and as warranted, any amounts that we may accrue from time to time could vary significantly from the amounts we actually pay, due to inherent uncertainties and the inherent shortcomings of the estimation process, the uncertainties involved in litigation and other factors. Additionally, an adverse result could have a material effect on our financial condition, results of operations and liquidity.

On October 25, 2010, our wholly-owned subsidiary, OmniSource Corporation, was indicted by a Grand Jury in Marion County, Indiana, on multiple criminal charges involving the alleged receipt or attempted receipt of stolen property and related racketeering charges. We vigorously denied these charges and engaged in an aggressive defense against them. On December 30, 2010, we filed a Motion to Dismiss this indictment, on multiple grounds, on February 4, 2011 this Motion was argued, and on May 4, 2011 the judge of the Marion County, Indiana Superior Court dismissed these charges. In a related matter, on October 18, 2010, our Indianapolis subsidiary filed a civil replevin lawsuit against the then Prosecutor, seeking return of cash previously seized by the police preceding the indictment. The Prosecutor then asserted a counterclaim against OmniSource, seeking forfeiture of OmniSource property. This counterclaim was likewise vigorously disputed and aggressively defended.

On July 13, 2011, in a Joint Press Release issued by the new and recently elected Prosecutor of Marion County, together with OmniSource Corporation, the Prosecutor announced that all criminal charges and all civil claims asserted in the counterclaim against OmniSource have been dismissed, with prejudice, and all monies seized from OmniSource by the police is being returned to OmniSource. The parties have agreed to work together to build upon OmniSource's long-standing and nationally recognized anti-metal theft training and enforcement program, with enhanced training available to both other scrap dealers and to law enforcement personnel. OmniSource also agreed to donate the proceeds returned to it to a City of Indianapolis Law Enforcement Fund, to be utilized in connection with such training activities.

**Note 8. 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. Intra-segment and intra-company sales and any related profits are eliminated in consolidation. Refer to the company's Annual Report on Form 10-K for the year ended December 31, 2010, for more information related to the company's segment reporting. The company's segment results for the three and six-month periods ended June 30, 2011 and 2010 are as follows (in thousands):

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 8. Segment Information (continued)**

| For the three months ended<br>June 30, 2011 | Steel Operations | Metals Recycling /<br>Ferrous Resources | Steel Fabrication<br>Operations | Other        | Eliminations | Consolidated |
|---|------------------|---|---------------------------------|--------------|--------------|--------------|
| <b>Net Sales</b>                            |                  |   |                                 |              |              |              |
| External                                    | \$ 1,221,472     | \$ 647,845                              | \$ 61,939                       | \$ 25,718    |              | \$ 1,956,974 |
| External Non-U.S.                           | 45,803           | 76,834                                  |                                 | 120          |              | 122,757      |
| Other segments                              | 62,191           | 353,192                                 | 23                              | 2,948        | (418,354)    |              |
|   | 1,329,466        | 1,077,871                               | 61,962                          | 28,786       | (418,354)    | 2,079,731    |
| Operating income (loss)                     | 213,968          | 3,885                                   | (1,635)                         | (25,422)(1)  | (2,577)(2)   | 188,219      |
| Income (loss) before<br>income taxes        | 192,782          | (6,354)                                 | (3,334)                         | (31,338)     | (2,604)      | 149,152      |
| Depreciation and<br>amortization            | 27,651           | 25,706                                  | 1,620                           | 1,331        | (51)         | 56,257       |
| Capital expenditures                        | 11,155           | 21,632                                  | 419                             | 1,770        |              | 34,976       |
| <b>As of June 30, 2011</b>                  |                  |   |                                 |              |              |              |
| Assets                                      | 2,712,461        | 2,536,751                               | 229,988                         | 632,242(3)   | (210,989)(4) | 5,900,453    |
| Liabilities                                 | 467,195          | 563,908                                 | 16,715                          | 2,740,245(5) | (199,098)(6) | 3,588,965    |

Footnotes related to the three months ended June 30, 2011 segment results (in millions):

|   |  |          |         |
|---|--|----------|---------|
| (1) Corporate SG&A                            |  | \$       | (10.0)  |
| Company-wide stock option expense             |  |          | (3.7)   |
| Profit sharing                                |  |          | (11.9)  |
| Other, net                                    |  |          | 0.2     |
|   |  | Total \$ | (25.4)  |
| (2) Margin reduction from intra-company sales |  | \$       | (2.6)   |
| (3) Cash and equivalents                      |  | \$       | 265.6   |
| Income taxes receivable                       |  |          | 15.3    |
| Deferred income taxes                         |  |          | 21.1    |
| Property, plant and equipment, net            |  |          | 69.9    |
| Debt issuance costs                           |  |          | 21.0    |
| Intra-company debt                            |  |          | 153.7   |
| Other   |  |          | 85.6    |
|   |  | Total \$ | 632.2   |
| (4) Elimination of intra-company receivables  |  | \$       | (42.3)  |
| Elimination of intra-company debt             |  |          | (153.7) |
| Other   |  |          | (15.0)  |
|   |  | Total \$ | (211.0) |

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|     |                                       |       |            |
|-----|---------------------------------------|-------|------------|
| (5) | Accounts payable                      |       | 35.4       |
|     | Income taxes payable                  |       | 11.6       |
|     | Accrued interest                      |       | 33.7       |
|     | Accrued profit sharing                |       | 25.8       |
|     | Debt                                  |       | 2,340.9    |
|     | Deferred income taxes                 |       | 227.0      |
|     | Other                                 |       | 65.8       |
|     |                                       | Total | \$ 2,740.2 |
| (6) | Elimination of intra-company payables | \$    | (43.8)     |
|     | Elimination of intra-company debt     |       | (153.7)    |
|     | Other                                 |       | (1.6)      |
|     |                                       | Total | \$ (199.1) |

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 8. Segment Information (continued)**

| For the three months ended<br>June 30, 2010 | Steel Operations | Metals Recycling /<br>Ferrous Resources | Steel Fabrication<br>Operations | Other        | Eliminations | Consolidated |
|---|------------------|---|---------------------------------|--------------|--------------|--------------|
| <b>Net Sales</b>                            |                  |   |                                 |              |              |              |
| 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<br>income taxes        | 111,778          | (7,238)                                 | (6,021)                         | (21,816)     | 5            | 76,708       |
| Depreciation and<br>amortization            | 28,138           | 24,443                                  | 1,739                           | 1,136        | (58)         | 55,398       |
| Capital expenditures                        | 17,146           | 13,682                                  | 43                              | 10,089       |              | 40,960       |
| <b>As of June 30, 2010</b>                  |                  |   |                                 |              |              |              |
| Assets (7)                                  | 2,548,149        | 2,438,573                               | 194,125                         | 628,888(3)   | (263,930)(4) | 5,545,805    |
| Liabilities (7)                             | 409,311          | 569,956                                 | 20,957                          | 2,705,058(5) | (257,076)(6) | 3,448,206    |

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

|   |  |          |         |
|---|--|----------|---------|
| (1) Corporate SG&A                              |  | \$       | (7.5)   |
| Company-wide stock option expense               |  |          | (2.9)   |
| Profit sharing                                  |  |          | (6.8)   |
| Other, net                                      |  |          | 0.4     |
|   |  | Total \$ | (16.8)  |
| (2) Margin improvement from intra-company sales |  | \$       | 0.1     |
| (3) Cash and equivalents                        |  | \$       | 182.8   |
| Income taxes receivable                         |  |          | 35.8    |
| Deferred income taxes                           |  |          | 21.7    |
| Property, plant and equipment, net              |  |          | 54.8    |
| Debt issuance costs                             |  |          | 27.0    |
| Intra-company debt                              |  |          | 224.8   |
| Other   |  |          | 82.0    |
|   |  | Total \$ | 628.9   |
| (4) Elimination of intra-company receivables    |  | \$       | (29.6)  |
| Elimination of intra-company debt               |  |          | (224.8) |
| Other   |  |          | (9.5)   |
|   |  | Total \$ | (263.9) |

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|     |                                       |          |         |
|-----|---------------------------------------|----------|---------|
| (5) | Accounts payable                      | \$       | 32.0    |
|     | Income taxes payable                  |          | 2.0     |
|     | Accrued interest                      |          | 33.7    |
|     | Accrued profit sharing                |          | 16.8    |
|     | Debt                                  |          | 2,341.1 |
|     | Deferred income taxes                 |          | 213.6   |
|     | Other                                 |          | 65.9    |
|     |                                       | Total \$ | 2,705.1 |
| (6) | Elimination of intra-company payables | \$       | (30.1)  |
|     | Elimination of intra-company debt     |          | (224.8) |
|     | Other                                 |          | (2.2)   |
|     |                                       | Total \$ | (257.1) |

- (7) Certain segment deferred tax asset and liability accounts have been reclassified at June 30, 2010, to conform to the June 30, 2011 presentation. These reclassifications had no impact to the previously reported segment income statement information or consolidated income statements as previously reported, nor did they impact previously reported consolidated total assets or liabilities.

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 8. Segment Information (continued)**

| For the six months ended<br>June 30, 2011 | Steel Operations | Metals Recycling /<br>Ferrous Resources | Steel Fabrication<br>Operations | Other       | Eliminations | Consolidated |
|---|------------------|---|---------------------------------|-------------|--------------|--------------|
| Net Sales                                 |                  |   |                                 |             |              |              |
| External                                  | \$ 2,367,961     | \$ 1,320,186                            | \$ 114,018                      | \$ 51,242   |              | \$ 3,853,407 |
| External Non-U.S.                         | 94,378           | 147,658                                 |                                 | 257         |              | 242,293      |
| Other segments                            | 114,137          | 718,442                                 | 596                             | 5,419       | (838,594)    |              |
|   | 2,576,476        | 2,186,286                               | 114,614                         | 56,918      | (838,594)    | 4,095,700    |
| Operating income (loss)                   | 406,923          | 43,375                                  | (4,518)                         | (49,678)(1) | (2,557)(2)   | 393,545      |
| Income (loss) before<br>income taxes      | 365,491          | 22,730                                  | (7,779)                         | (62,080)    | (2,663)      | 315,699      |
| Depreciation and<br>amortization          | 54,844           | 50,620                                  | 3,122                           | 2,519       | (102)        | 111,003      |
| Capital expenditures                      | 18,434           | 31,883                                  | 951                             | 2,401       |              | 53,669       |

Footnotes related to the six months ended June 30, 2011 segment results (in millions):

|   |  |  |  |       |        |        |
|---|--|--|--|-------|--------|--------|
| (1) Corporate SG&A                            |  |  |  | \$    | (19.3) |        |
| Company-wide stock option expense             |  |  |  |       | (7.4)  |        |
| Profit sharing                                |  |  |  |       | (25.2) |        |
| Other, net                                    |  |  |  |       | 2.2    |        |
|   |  |  |  | Total | \$     | (49.7) |
| (2) Margin reduction from intra-company sales |  |  |  | \$    | (2.6)  |        |

| For the six months ended<br>June 30, 2010 | Steel Operations | Metals Recycling /<br>Ferrous Resources | Steel Fabrication<br>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<br>income taxes      | 229,666          | 6,175                                   | (13,777)                        | (45,739)    | (1,754)      | 174,571      |
| Depreciation and<br>amortization          | 56,298           | 50,127                                  | 3,112                           | 2,218       | (85)         | 111,670      |
| Capital expenditures                      | 29,217           | 31,358                                  | 150                             | 11,557      | (638)        | 71,644       |



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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    |
|   | Total \$ | (35.7) |
| (2) Margin reduction from intra-company sales | \$       | (1.0)  |

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 9. 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, 2014, 2015, 2016, and 2020. 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 for the year ended December 31, 2010.

*Condensed Consolidating Balance Sheets (in thousands)*

| As of June 30, 2011                         | Parent       | Guarantors   | Combined<br>Non-Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Cash and equivalents                        | \$ 264,121   | \$ 9,170     | \$ 4,400                   | \$                           | \$ 277,691            |
| Accounts receivable, net                    | 355,583      | 781,506      | 13,116                     | (300,804)                    | 849,401               |
| Inventories                                 | 604,523      | 523,362      | 73,151                     | (5,842)                      | 1,195,194             |
| Other current assets                        | 74,566       | 7,979        | 2,352                      | (33,324)                     | 51,573                |
| Total current assets                        | 1,298,793    | 1,322,017    | 93,019                     | (339,970)                    | 2,373,859             |
| Property, plant and equipment, net          | 1,081,980    | 668,009      | 429,255                    | (2,930)                      | 2,176,314             |
| Intangible assets, net                      |              | 469,719      |                            |                              | 469,719               |
| Goodwill                                    |              | 748,383      |                            |                              | 748,383               |
| Other assets, including investments in subs | 2,809,475    | 36,405       | 8,095                      | (2,721,797)                  | 132,178               |
| Total assets                                | \$ 5,190,248 | \$ 3,244,533 | \$ 530,369                 | \$ (3,064,697)               | \$ 5,900,453          |
| Accounts payable                            | \$ 147,054   | \$ 313,747   | \$ 32,369                  | \$ (37,311)                  | \$ 455,859            |
| Accrued expenses                            | 136,489      | 91,125       | 8,966                      | (23,145)                     | 213,435               |
| Current maturities of long-term debt        | 432          | 300          | 36,002                     | (35,182)                     | 1,552                 |
| Total current liabilities                   | 283,975      | 405,172      | 77,337                     | (95,638)                     | 670,846               |
| Long-term debt                              | 2,344,178    |              | 187,123                    | (153,508)                    | 2,377,793             |
| Other liabilities                           | 286,196      | 2,179,199    | 29,228                     | (1,954,297)                  | 540,326               |
| Redeemable noncontrolling interest          |              |              | 54,294                     |                              | 54,294                |
| Common stock                                | 636          | 33,896       | 16,121                     | (50,017)                     | 636                   |
| Treasury stock                              | (725,849)    |              |                            |                              | (725,849)             |
| Additional paid-in-capital                  | 1,019,061    | 117,737      | 262,452                    | (380,189)                    | 1,019,061             |
| Retained earnings                           | 1,982,051    | 508,529      | (77,481)                   | (431,048)                    | 1,982,051             |
| Total Steel Dynamics, Inc. equity           | 2,275,899    | 660,162      | 201,092                    | (861,254)                    | 2,275,899             |
| Noncontrolling interests                    |              |              | (18,705)                   |                              | (18,705)              |
| Total equity                                | 2,275,899    | 660,162      | 182,387                    | (861,254)                    | 2,257,194             |

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|                              |    |           |    |           |    |         |    |             |    |           |
|------------------------------|----|-----------|----|-----------|----|---------|----|-------------|----|-----------|
| Total liabilities and equity | \$ | 5,190,248 | \$ | 3,244,533 | \$ | 530,369 | \$ | (3,064,697) | \$ | 5,900,453 |
|------------------------------|----|-----------|----|-----------|----|---------|----|-------------|----|-----------|

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 9. Condensed Consolidating Information (continued)***Condensed Consolidating Balance Sheets (in thousands)*

| As of December 31, 2010                        | Parent       | Guarantors   | Combined<br>Non-Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|--|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Cash and equivalents                           | \$ 173,563   | \$ 10,628    | \$ 2,322                   | \$                           | \$ 186,513            |
| Accounts receivable, net                       | 283,883      | 614,412      | 7,282                      | (283,388)                    | 622,189               |
| Inventories                                    | 548,726      | 487,298      | 84,183                     | (6,144)                      | 1,114,063             |
| Other current assets                           | 96,040       | 9,757        | 3,444                      | (32,003)                     | 77,238                |
| Total current assets                           | 1,102,212    | 1,122,095    | 97,231                     | (321,535)                    | 2,000,003             |
| Property, plant and equipment, net             | 1,110,350    | 684,118      | 421,897                    | (3,032)                      | 2,213,333             |
| Intangible assets, net                         |              | 489,240      |                            |                              | 489,240               |
| Goodwill                                       |              | 751,675      |                            |                              | 751,675               |
| Other assets, including investments in<br>subs | 2,788,097    | 36,617       | 7,601                      | (2,696,632)                  | 135,683               |
| Total assets                                   | \$ 5,000,659 | \$ 3,083,745 | \$ 526,729                 | \$ (3,021,199)               | \$ 5,589,934          |
| Accounts payable                               | \$ 127,246   | \$ 227,823   | \$ 26,015                  | \$ (32,483)                  | \$ 348,601            |
| Accrued expenses                               | 123,498      | 102,114      | 8,497                      | (30,317)                     | 203,792               |
| Current maturities of long-term debt           | 7,554        | 325          | 34,604                     | (33,559)                     | 8,924                 |
| Total current liabilities                      | 258,298      | 330,262      | 69,116                     | (96,359)                     | 561,317               |
| Long-term debt                                 | 2,344,399    |              | 168,278                    | (134,780)                    | 2,377,897             |
| Other liabilities                              | 305,092      | 2,158,725    | 27,072                     | (1,971,298)                  | 519,591               |
| Redeemable noncontrolling interest             |              |              | 54,294                     |                              | 54,294                |
| Common stock                                   | 633          | 33,901       | 16,121                     | (50,022)                     | 633                   |
| Treasury stock                                 | (727,624)    |              |                            |                              | (727,624)             |
| Additional paid-in-capital                     | 998,728      | 117,737      | 256,905                    | (374,642)                    | 998,728               |
| Retained earnings                              | 1,821,133    | 443,120      | (49,022)                   | (394,098)                    | 1,821,133             |
| Total Steel Dynamics, Inc. equity              | 2,092,870    | 594,758      | 224,004                    | (818,762)                    | 2,092,870             |
| Noncontrolling interests                       |              |              | (16,035)                   |                              | (16,035)              |
| Total equity                                   | 2,092,870    | 594,758      | 207,969                    | (818,762)                    | 2,076,835             |
| Total liabilities and equity                   | \$ 5,000,659 | \$ 3,083,745 | \$ 526,729                 | \$ (3,021,199)               | \$ 5,589,934          |

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 9. Condensed Consolidating Information (continued)***Condensed Consolidating Statements of Operations (in thousands)*

| <b>For the three months ended,<br/>June 30, 2011</b>                       | <b>Parent</b> | <b>Guarantors</b> | <b>Combined<br/>Non-Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total<br/>Consolidated</b> |
|--|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net sales  | \$ 952,487    | \$ 2,344,958      | \$ 50,943                          | \$ (1,268,657)                       | \$ 2,079,731                  |
| Costs of goods sold  | 754,436       | 2,239,226         | 66,156                             | (1,256,473)                          | 1,803,345                     |
| Gross profit (loss)  | 198,051       | 105,732           | (15,213)                           | (12,184)                             | 276,386                       |
| Selling, general and administrative  | 35,528        | 54,094            | 1,948                              | (3,403)                              | 88,167                        |
| Operating income (loss)  | 162,523       | 51,638            | (17,161)                           | (8,781)                              | 188,219                       |
| Interest expense, net of capitalized interest                              | 26,125        | 18,264            | 2,413                              | (1,990)                              | 44,812                        |
| Other (income) expense, net  | (3,704)       | (3,089)           | (968)                              | 2,016                                | (5,745)                       |
| Income (loss) before income taxes and equity in net income of subsidiaries | 140,102       | 36,463            | (18,606)                           | (8,807)                              | 149,152                       |
| Income taxes (benefit)   | 42,811        | 13,768            | (56)                               | (3,197)                              | 53,326                        |
|  | 97,291        | 22,695            | (18,550)                           | (5,610)                              | 95,826                        |
| Equity in net income of subsidiaries                                       | 1,419         |                   |                                    | (1,419)                              |                               |
| Net loss attributable to noncontrolling interests                          |               |                   | 2,884                              |                                      | 2,884                         |
| Net income (loss) attributable to Steel Dynamics, Inc.                     | \$ 98,710     | \$ 22,695         | \$ (15,666)                        | \$ (7,029)                           | \$ 98,710                     |

| <b>For the three months ended,<br/>June 30, 2010</b>                       | <b>Parent</b> | <b>Guarantors</b> | <b>Combined<br/>Non-Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total<br/>Consolidated</b> |
|--|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| 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                     |



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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 9. Condensed Consolidating Information (continued)***Condensed Consolidating Statements of Operations (in thousands)*

| For the six months ended,<br>June 30, 2011                                 | Parent       | Guarantors   | Combined<br>Non-Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|--|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Net sales  | \$ 1,865,304 | \$ 4,646,505 | \$ 98,465                  | \$ (2,514,574)               | \$ 4,095,700          |
| Costs of goods sold  | 1,483,977    | 4,404,604    | 123,751                    | (2,488,772)                  | 3,523,560             |
| Gross profit (loss)  | 381,327      | 241,901      | (25,286)                   | (25,802)                     | 572,140               |
| Selling, general and administrative  | 72,192       | 109,987      | 4,070                      | (7,654)                      | 178,595               |
| Operating income (loss)  | 309,135      | 131,914      | (29,356)                   | (18,148)                     | 393,545               |
| Interest expense, net of capitalized interest                              | 51,821       | 35,526       | 4,727                      | (3,916)                      | 88,158                |
| Other (income) expense, net  | (6,883)      | (5,764)      | (1,686)                    | 4,021                        | (10,312)              |
| Income (loss) before income taxes and equity in net income of subsidiaries | 264,197      | 102,152      | (32,397)                   | (18,253)                     | 315,699               |
| Income taxes (benefit)   | 83,740       | 38,672       | (13)                       | (6,756)                      | 115,643               |
|  | 180,457      | 63,480       | (32,384)                   | (11,497)                     | 200,056               |
| Equity in net income of subsidiaries                                       | 24,156       |              |                            | (24,156)                     |                       |
| Net loss attributable to noncontrolling interests                          |              |              | 4,557                      |                              | 4,557                 |
| Net income (loss) attributable to Steel Dynamics, Inc.                     | \$ 204,613   | \$ 63,480    | \$ (27,827)                | \$ (35,653)                  | \$ 204,613            |

| For the six months ended,<br>June 30, 2010                                 | Parent       | Guarantors   | Combined<br>Non-Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|--|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Net sales  | \$ 1,453,153 | \$ 3,564,273 | \$ 66,769                  | \$ (1,895,606)               | \$ 3,188,589          |
| Costs of goods sold  | 1,215,250    | 3,363,533    | 83,747                     | (1,876,407)                  | 2,786,123             |
| Gross profit (loss)  | 237,903      | 200,740      | (16,978)                   | (19,199)                     | 402,466               |
| Selling, general and administrative  | 53,381       | 100,526      | 4,594                      | (4,967)                      | 153,534               |
| Operating income (loss)  | 184,522      | 100,214      | (21,572)                   | (14,232)                     | 248,932               |
| Interest expense, net of capitalized interest                              | 46,885       | 32,858       | 5,535                      | (4,315)                      | 80,963                |
| Other (income) expense, net  | (7,266)      | (4,907)      | 538                        | 5,033                        | (6,602)               |
| Income (loss) before income taxes and equity in net income of subsidiaries | 144,903      | 72,263       | (27,645)                   | (14,950)                     | 174,571               |
| Income taxes (benefit)   | 51,852       | 27,038       | (10,348)                   | (4,157)                      | 64,385                |
|  | 93,051       | 45,225       | (17,297)                   | (10,793)                     | 110,186               |
| Equity in net income of subsidiaries                                       | 21,125       |              |                            | (21,125)                     |                       |
| Net loss attributable to noncontrolling interests                          |              |              | 3,990                      |                              | 3,990                 |
| Net income (loss) attributable to Steel Dynamics, Inc.                     | \$ 114,176   | \$ 45,225    | \$ (13,307)                | \$ (31,918)                  | \$ 114,176            |

*Condensed Consolidating Statements of Cash Flows (in thousands)*

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| <b>For the six months ended,<br/>June 30, 2011</b>  | <b>Parent</b> | <b>Guarantors</b> | <b>Combined<br/>Non-Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total<br/>Consolidated</b> |
|---|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net cash provided by (used in) operating activities | \$ 158,937    | \$ 34,056         | \$ (14,392)                        | \$ (8,667)                           | \$ 169,934                    |
| Net cash used in investing activities               | (14,734)      | (25,017)          | (12,919)                           |                                      | (52,670)                      |
| Net cash provided by (used in) financing activities | (53,645)      | (10,497)          | 29,389                             | 8,667                                | (26,086)                      |
| Increase (decrease) in cash and equivalents         | 90,558        | (1,458)           | 2,078                              |                                      | 91,178                        |
| Cash and equivalents at beginning of period         | 173,563       | 10,628            | 2,322                              |                                      | 186,513                       |
| Cash and equivalents at end of period               | \$ 264,121    | \$ 9,170          | \$ 4,400                           | \$                                   | \$ 277,691                    |

| <b>For the six months ended,<br/>June 30, 2010</b>  | <b>Parent</b> | <b>Guarantors</b> | <b>Combined<br/>Non-Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total<br/>Consolidated</b> |
|---|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net cash provided by (used in) operating activities | \$ 168,393    | \$ (17,285)       | \$ (58,376)                        | \$ (639)                             | \$ 92,093                     |
| Net cash used in investing activities               | (103,052)     | (16,823)          | (31,884)                           | 81,596                               | (70,163)                      |
| Net cash provided by financing activities           | 115,060       | 33,134            | 93,418                             | (80,957)                             | 160,655                       |
| Increase (decrease) in cash and equivalents         | 180,401       | (974)             | 3,158                              |                                      | 182,585                       |
| Cash and equivalents at beginning of period         | 430           | 6,363             | 2,215                              |                                      | 9,008                         |
| Cash and equivalents at end of period               | \$ 180,831    | \$ 5,389          | \$ 5,373                           | \$                                   | \$ 191,593                    |



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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements**

This report contains some predictive statements about future events, including statements related to conditions in domestic and global economies, conditions in the steel and recycled metals marketplaces, our revenue, costs of purchased materials, future profitability and earnings, and the operation of new or existing facilities. These statements are intended to be made as forward-looking, subject to many risks and uncertainties, within the safe harbor protections of the Private Securities Litigation Reform Act of 1995. Such predictive statements are not guarantees of future performance, and actual results could differ materially from our current expectations. Factors that could cause such predictive statements to turn out other than as anticipated or predicted include, among others: the effects of a prolonged recession resulting in a decrease of demand for our products; cyclical changes in market supply and demand for steel and recycled metals consumption; the impact of price competition, whether domestic or the result of foreign imports; risks and uncertainties involving new products or new technologies; changes in the availability or cost of steel scrap or substitute materials; increases in energy costs; occurrence of unanticipated equipment failures and plant outages; labor unrest; and the effect of the elements on production or consumption.

More specifically, we refer you to the sections titled *Special Note Regarding Forward-Looking Statements* and *Risk Factors* in our annual report on Form 10-K for the year ended December 31, 2010, as well as in other reports which we file with the Securities and Exchange Commission, for a more detailed discussion of some of the many factors, variable risks and uncertainties that could cause actual results to differ materially from those we may have expected or anticipated. These reports are available publicly on the SEC web site, [www.sec.gov](http://www.sec.gov), and on our web site, [www.steeldynamics.com](http://www.steeldynamics.com). Forward-looking or predictive statements we make are based upon information and assumptions, concerning our businesses and the environments in which they operate, which we consider reasonable as of the date on which these statements are made. Due to the foregoing risks and uncertainties however, as well as, matters beyond our control which can affect forward-looking statements, you are cautioned not to place undue reliance on these predictive statements, which speak only as of the date of this report. We undertake no duty to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

**Operating Statement Classifications**

**Net Sales.** Net sales from our operations are a factor of volumes shipped, product mix and related pricing. We charge premium prices for certain grades of steel, product dimensions, certain smaller volumes, and for value-added processing or coating of the steel products. Except for our steel fabrication operations segment, we recognize revenue from sales and the allowance for estimated costs associated with returns from these sales at the time the title of the product is transferred to the customer. Provision is made for estimated product returns and customer claims based on estimates and actual historical experience. Net sales from steel fabrication operations are recognized from construction contracts utilizing a percentage-of-completion method, which is based on the percentage of steel consumed to date as compared to the estimated total steel required for each contract.

**Costs of Goods Sold.** Our costs of goods sold represent all direct and indirect costs associated with the manufacture of our products. The principal elements of these costs for our steel operations are steel scrap and scrap substitutes (which represent the most significant single component of our consolidated costs of goods sold), alloys, zinc, natural gas, argon, direct and indirect labor and related benefits, electricity, oxygen, electrodes, depreciation, materials and freight. The principal elements of these costs for our metals recycling and ferrous resources operations are the costs of procuring the unprocessed scrap metals, material transportation costs, and processing expenses, such as direct and indirect labor and related benefits, depreciation and utilities. The principal elements of these costs for our steel fabrication operations include purchased steel and direct and indirect labor and related benefit expenses.

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses consist of all costs associated with our sales, finance and accounting, and administrative departments. These costs include, among other items, labor and related benefits, professional services, insurance premiums, property taxes, profit sharing, and amortization of intangible and other assets.

***Interest Expense, net of Capitalized Interest.*** Interest expense consists of interest associated with our senior credit facilities and other debt net of interest costs that are required to be capitalized during the construction period of certain capital investment projects.

***Other (Income) Expense, net.*** Other income consists of interest income earned on our temporary cash deposits and any other non-operating income activity, including gains on certain short-term investments and income from non-consolidated investments accounted for under the equity method. Other expense consists of any non-operating costs.

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#### Overview

Net income was \$98.7 million, or \$.43 per diluted share, during the second quarter of 2011, compared with net income of \$49.2 million, or \$.22 per diluted share, during the second quarter of 2010, and net income of \$105.9 million, or \$0.46 per diluted share, during the first quarter of 2011. Our net sales increased \$446.9 million, or 27%, to \$2.1 billion in the second quarter of 2011 versus the second quarter of 2010, and net sales increased \$63.8 million, or 3% versus the first quarter of 2011. Our gross profit percentage was 13% during the second quarter of 2011 as compared to 12% for the second quarter of 2010, and 15% for the first quarter of 2011.

Net income was \$204.6 million or \$.89 per diluted share during the first six months of 2011, compared with net income of \$114.2 million, or \$.51 per diluted share during the first six months of 2010. Our net sales increased \$907.1 million, or 28%, to \$4.1 billion in the first six months of 2011 versus the first six months of 2010. Our gross profit percentage was 14% during the first six months of 2011, as compared to 13% for the first six months of 2010.

During the first six months of 2011, we have experienced increased sales pricing and volumes, resulting in increased gross margin, across all reporting segments in comparison to the same period in 2010. Within our steel operations, long products volumes improved 26%, while sheet products were flat. Additionally during the period, both ferrous and nonferrous scrap realized significant sales volume increases of 19% and 14%, respectively, at OmniSource, our metals recycling operations, although there was margin compression in ferrous metal sales. Operating income for the period increased \$145 million, or 58%. Focusing on the second quarter of 2011 operating income, operational results were fairly consistent with the first quarter 2011 results after excluding the non-cash, unrealized hedging fluctuation between quarters of \$14.3 million, as operating income from steel operations increased \$21.0 million during the second quarter of 2011 as compared to the first quarter, and operating income decreased \$21.2 million in our metals recycling and ferrous resources operations (excluding the unrealized hedging impact).

#### Segment Operating Results 2011 vs. 2010 (*dollars in thousands*)

|   | Three Months Ended<br>June 30,<br>% |        |              | Six Months Ended<br>June 30,<br>% |        |              | First<br>Quarter<br>2011 | Linked<br>Quarter<br>% |
|---|-------------------------------------|--------|--------------|-----------------------------------|--------|--------------|--------------------------|------------------------|
|   | 2011                                | Change | 2010         | 2011                              | Change | 2010         |                          |                        |
| <b>Net sales:</b>                             |                                     |        |              |                                   |        |              |                          |                        |
| Steel   | \$ 1,329,466                        | 30%    | \$ 1,019,929 | \$ 2,576,476                      | 27%    | \$ 2,032,425 | \$ 1,247,010             | 7%                     |
| <b>Metals recycling and ferrous resources</b> |                                     |        |              |                                   |        |              |                          |                        |
|   | 1,077,871                           | 27%    | 848,367      | 2,186,286                         | 36%    | 1,604,670    | 1,108,415                | (3)%                   |
| Steel fabrication                             | 61,962                              | 47%    | 42,267       | 114,614                           | 73%    | 66,265       | 52,652                   | 18%                    |
| Other   | 28,786                              | 9%     | 26,472       | 56,918                            | 2%     | 55,890       | 28,132                   | 2%                     |
|   | 2,498,085                           |        | 1,937,035    | 4,934,294                         |        | 3,759,250    | 2,436,209                |                        |
| Intra-company                                 | (418,354)                           |        | (304,236)    | (838,594)                         |        | (570,661)    | (420,240)                |                        |
| Consolidated                                  | \$ 2,079,731                        | 27%    | \$ 1,632,799 | \$ 4,095,700                      | 28%    | \$ 3,188,589 | \$ 2,015,969             | 3%                     |
| <b>Operating income (loss):</b>               |                                     |        |              |                                   |        |              |                          |                        |
| Steel   | \$ 213,968                          |        | \$ 131,146   | \$ 406,923                        |        | \$ 265,884   | \$ 192,955               |                        |
|   | 3,885                               |        | 6,939        | 43,375                            |        | 31,073       | 39,490                   |                        |

Metals recycling  
and ferrous  
resources

|                   |            |            |            |            |            |
|-------------------|------------|------------|------------|------------|------------|
| Steel fabrication | (1,635)    | (4,713)    | (4,518)    | (11,293)   | (2,883)    |
| Other             | (25,422)   | (16,820)   | (49,678)   | (35,695)   | (24,256)   |
|                   | 190,796    | 116,552    | 396,102    | 249,969    | 205,306    |
| Eliminations      | (2,577)    | 83         | (2,557)    | (1,037)    | 20         |
| Consolidated \$   | \$ 188,219 | \$ 116,635 | \$ 393,545 | \$ 248,932 | \$ 205,326 |

### Steel Operations

**Steel Operations.** Steel operations consist of our five electric-arc furnace mini-mills, producing steel from steel scrap, utilizing continuous casting, automated rolling mills, and various downstream finishing facilities, including The Techs operations. Collectively, our 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. In the second quarters of 2011 and 2010, and first quarter of 2011, our steel operations accounted for 61%, 60%, and 59% respectively, of our external net sales. Operating income for steel operations increased \$82.8 million or 63%, to \$214.0 million in the second quarter of 2011 compared to the second quarter of 2010, and increased \$21.0 million, or 11%, on a linked-quarter basis. Sales volumes and pricing per ton shipped increased 15% and \$118 per ton, respectively, in the second quarter of 2011 as compared to the second quarter of 2010; with sales volumes overall unchanged in the second quarter of 2011 as compared to the first quarter of 2011 and pricing increasing \$58 per ton. Operating income for steel operations increased \$141.0 million to \$406.9 million in the first six months of 2011 versus the first six months of 2010 due to increases in sales volumes of 9%, primarily in long products, as well as increases in selling prices of \$138 per ton.

Table of Contents**Steel Operations Shipments (net tons)**

|                                     | Three Months Ended<br>June 30, |      |           | Six Months Ended<br>June 30, |           |           | First<br>Quarter<br>2011 |           |          |      |
|-------------------------------------|--------------------------------|------|-----------|------------------------------|-----------|-----------|--------------------------|-----------|----------|------|
|                                     | 2011                           |      | 2010      | 2011                         |           | 2010      |                          |           |          |      |
| Flat Roll Division                  | 680,679                        |      | 622,861   | 1,390,293                    |           | 1,372,119 |                          | 709,614   |          |      |
| The Techs                           | 186,903                        |      | 191,960   | 387,627                      |           | 402,505   |                          | 200,724   |          |      |
| Sheet products                      | 867,582                        | 65%  | 814,821   | 69%                          | 1,777,920 | 66%       | 1,774,624                | 71%       | 910,338  | 68%  |
| Structural and Rail<br>Division     | 213,368                        |      | 159,252   | 404,029                      |           | 314,601   |                          | 190,661   |          |      |
| Engineered Bar<br>Products Division | 144,280                        |      | 128,802   | 303,295                      |           | 253,861   |                          | 159,015   |          |      |
| Roanoke Bar<br>Division             | 152,906                        |      | 109,393   | 274,211                      |           | 218,579   |                          | 121,305   |          |      |
| Steel of West<br>Virginia           | 74,882                         |      | 52,720    | 146,938                      |           | 106,125   |                          | 72,056    |          |      |
| Long products                       | 585,436                        | 44%  | 450,167   | 38%                          | 1,128,473 | 42%       | 893,166                  | 36%       | 543,037  | 40%  |
| Total shipments                     | 1,453,018                      |      | 1,264,988 | 2,906,393                    |           | 2,667,790 |                          | 1,453,375 |          |      |
| Intra-segment<br>shipments          | (35,842)                       | (3)% | (21,259)  | (2)%                         | (72,313)  | (3)%      | (32,346)                 | (1)%      | (36,471) | (3)% |
| Segment shipments                   | 1,417,176                      |      | 1,243,729 | 2,834,080                    |           | 2,635,444 |                          | 1,416,904 |          |      |
| Intra-company<br>shipments          | (79,568)                       | (6)% | (65,607)  | (5)%                         | (153,070) | (5)%      | (136,473)                | (6)%      | (73,502) | (5)% |
| External shipments                  | 1,337,608                      |      | 1,178,122 | 2,681,010                    |           | 2,498,971 |                          | 1,343,402 |          |      |

**Sheet Products.** Our Flat Roll Division sells a broad range of sheet steel products, such as hot rolled, cold rolled and coated steel products, including a large variety of specialty products such as light gauge hot rolled, galvanized, Galvalume® and painted products. The Techs operations, comprised of three galvanizing lines, also sells specialized galvanized sheet steels used in non-automotive applications. Our sheet operations represented 71% of our steel segment's operating income in the second quarter of 2011, as compared to 66% in the second quarter of 2010, and 64% in the first quarter of 2011. The increase in the second quarter of 2011 percentage as compared to that of the second quarter of 2010 is due primarily to the increased profitability of our Flat Roll Division due to sales price per ton improvements versus both prior periods, and sales volume improvements versus the second quarter of 2010.

**Long Products.** Our Structural and Rail Division sells structural steel beams and pilings and is also designed to produce and sell a variety of standard and premium-grade rail for the railroad industry. Our Engineered Bar Products Division primarily sells special bar quality and merchant bar quality rounds and round-cornered squares. Our Roanoke Bar Division sells billets and merchant steel products, including angles, plain rounds, flats and channels. Steel of West Virginia primarily sells merchant beams, channels and specialty structural steel sections.

Net sales for the segment increased in the second quarter of 2011 by \$309.5 million, or 30%, compared to the second quarter of 2010, and \$82.5 million, or 7%, on a linked-quarter basis. Second quarter 2011 steel segment shipments were up 14% compared to the same period in 2010 due to the improved domestic economic climate as steel mill utilization improved with increased automotive and heavy machinery demand, and service center inventories continue to remain at relative low levels. Linked-quarter 2011 steel segment shipments remained flat; however sheet products shipments decreased 5% while long products increased 8%. Order entry for sheet products has had periods of volatility and slowed late in the second quarter of 2011, while long products continued to show improvement with strong backlogs, especially at our Engineered Bar Products Division. Although still at historically low levels due to the ongoing weak non-residential construction market, we have seen some

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improvement in order entry and backlog at our Structural and Rail Division. Additionally, demand for our rail products could be bolstered by our continued refinement of rail products and development of rail customer relationships.

Our second quarter 2011 average steel operations selling price per ton shipped, including intra-company shipments, increased \$118 compared with the second quarter of 2010 and \$58 compared with the first quarter of 2011. In sheet products, our second quarter 2011 average selling price per ton shipped increased \$140 per ton compared with the second quarter of 2010 and \$97 on a linked-quarter basis. Long products average selling prices increased \$80 per ton compared with the second quarter of 2010, but decreased \$8 on a linked-quarter basis.

Net sales for the segment increased by \$544.1 million, or 27%, in the first six months of 2011 compared to the same period in 2010. Stronger demand for our steel products in conjunction with the improving economic climate to date in 2011 have driven increases in both volumes and product pricing as compared to the first six months of 2010. Total shipments for the first six months of 2011 were up 9% overall compared to the same period in 2010, with sheet products remaining relatively consistent and long products increasing 26%. Our first six months 2011 average steel operations selling price per ton shipped, including intra-company shipments, increased \$138 compared with the first six months of 2010. In sheet products, our first six months of 2011 average selling price per ton shipped increased \$142 per ton compared with the first six months of 2010, while long products average selling prices increased \$124 per ton.

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**Steel Operations Average Selling Prices and Volumes**

Metallic raw materials used in our electric arc furnaces represent our single most significant manufacturing cost. Our metallic raw material cost per net ton consumed in our steel operations increased \$51 in the second quarter 2011 compared with the second quarter of 2010, and increased \$15 on a linked-quarter basis. During the second quarter of 2011 and 2010, respectively, our metallic raw material costs represented 68% and 62% of our steel operations' manufacturing costs, excluding the operations of The Techs, which purchases, rather than produces, the steel it further processes. Our metallic raw material cost per net ton consumed in our steel operations increased \$69 for the first six months of 2011 compared with the first six months of 2010, and represented 68% and 62% of our steel operations' manufacturing costs, respectively, excluding the operations of The Techs.

**Metals Recycling and Ferrous Resources Operations**

**Metals Recycling and Ferrous Resources Operations.** This operating segment includes our metals recycling operations, liquid pig iron manufacturing facility and iron nugget manufacturing start-up facility. In the second quarter of 2011 and 2010, and the first quarter of 2011, our metals recycling and ferrous resources operations accounted for 35%, 36%, and 37%, respectively, of our external net sales. Operating income for the segment decreased \$3.1 million in the second quarter of 2011, to \$3.9 million, compared to the second quarter of 2010. Increased volumes for both ferrous and nonferrous metals were offset by decreased metal margins for ferrous metals; and the additional operating losses of \$4.7 million (including noncontrolling interests impact of \$900,000) from the start-up iron nugget operations in the second quarter of 2011 over those of the second quarter of 2010 were more than offset by the increased operating income from Iron Dynamics, Inc. (IDI). Operating income for the segment increased \$12.3 million for the first six months of 2011, to \$43.4 million, compared to the same period in 2010, as the metals recycling operating margin improved slightly, and the additional operating losses of \$6.7 million (including noncontrolling interests impact of \$1.3 million) from start-up iron nugget operations in the first half of 2011 over those in the first half of 2010 were more than offset by the increased operating income of IDI.

**Metals Recycling and Ferrous Resources Operations Shipments**

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|  | Three Months Ended<br>June 30, |           | Six Months Ended<br>June, |             | First<br>Quarter<br>2011 |
|--|--------------------------------|-----------|---------------------------|-------------|--------------------------|
|  | 2011                           | 2010      | 2011                      | 2010        |                          |
| <b>Ferrous metal (gross tons)</b>                  |                                |           |                           |             |                          |
| Total  | 1,553,828                      | 1,350,364 | 3,082,019                 | 2,580,439   | 1,528,191                |
| Intra-segment                                      | (5,192)                        |           | (5,192)                   |             |                          |
| Segment shipments                                  | 1,548,636                      | 1,350,364 | 3,076,827                 | 2,580,439   | 1,528,191                |
| Intra-company                                      | (655,496)                      | (563,350) | (1,325,124)               | (1,082,656) | (669,628)                |
| External shipments                                 | 893,140                        | 787,014   | 1,751,703                 | 1,497,783   | 858,563                  |
| <b>Nonferrous metals (thousands of<br/>pounds)</b> |                                |           |                           |             |                          |
| Total and segment shipments                        | 255,113                        | 236,648   | 541,758                   | 474,893     | 286,645                  |
| Intra-company                                      | (1,978)                        | (1,946)   | (4,239)                   | (4,140)     | (2,261)                  |
| External shipments                                 | 253,135                        | 234,702   | 537,519                   | 470,753     | 284,384                  |
| <b>Mesabi Nugget (metric tons)</b>                 |                                |           |                           |             |                          |
| intra-company                                      | 38,265                         | 17,478    | 74,032                    | 24,657      | 35,767                   |
| <b>Iron Dynamics (metric tons)</b>                 |                                |           |                           |             |                          |
| intra-company                                      | 59,854                         | 55,118    | 120,997                   | 113,616     | 61,143                   |



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**Metals Recycling.** Our metals recycling operations, OmniSource, represent our metals sourcing and processing operations and are the most significant source of income in this segment. These operations sell ferrous metals to steel mills and foundries, and nonferrous metals, such as copper, brass, aluminum and stainless steel to, among others, ingot manufacturers, copper refineries and mills, smelters, and specialty mills. Our metals recycling operations represented 95% of this segment's net sales during the second quarter of 2011 and the first quarter of 2011, and 96% during the second quarter 2010; and \$11.2 million, \$42.0 million, and \$16.3 million of this segment's operating income for these same quarters, respectively.

During the second quarter of 2011, metals recycling recorded sales of \$1.0 billion on shipments of 1.55 million gross tons of ferrous metals and 255.1 million pounds of nonferrous metals, compared with sales of \$815.4 million on shipments of 1.35 million gross tons of ferrous and 236.6 million pounds of nonferrous metals during the same period in 2010. In the first quarter of 2011, metals recycling sales were \$1.1 billion on shipments of 1.5 million gross tons of ferrous metals and 286.6 million pounds of nonferrous metals. During the second quarter of 2011, the metals recycling operations provided approximately 54% of the steel scrap purchased by our steel mills. This represented 42% of the metals recycling operations' ferrous shipments for the second quarter of 2011 and 2010, as compared to 44% during the first quarter of 2011. During the first six months of 2011, metals recycling recorded sales of \$2.1 billion on shipments of 3.1 million gross tons of ferrous metals and 541.8 million pounds of nonferrous metals, compared with sales of \$1.5 billion on shipments of 2.6 million tons of ferrous and 474.9 million pounds of nonferrous metals. Sales prices of ferrous and nonferrous metals increased 10% and 14%, respectively, in the second quarter of 2011 versus the same period in 2010, and increased 15% and 13%, respectively, in the first six months 2011 versus the same period in 2010. The increased volume and pricing of our ferrous metals is directly impacted by the increase in both domestic steel mill utilization and global steel mill production, since the steel industry is our primary ferrous customer.

Operating income for metals recycling decreased \$5.1 million, to \$11.2 million, in the second quarter of 2011, compared to the second quarter of 2010, despite the increase in ferrous and nonferrous sales volumes, due primarily to decreased metals margins in ferrous metals of 14%. Metals recycling operating income decreased \$30.9 million on a linked-quarter basis due to decreases in ferrous metal margins of 10% and nonferrous metals margins of 38%. The nonferrous metals margin decrease included a net unfavorable change of \$14.3 million in unrealized hedging activity, with the second quarter of 2011 having \$4.8 million of unrealized losses and the first quarter of 2011 having \$9.5 million of unrealized gains. Operating income for metals recycling increased \$2.2 million in the first six months of 2011 as compared to the same period in 2010 with the impact of ferrous volume increases largely offset by decreased metals margins of 14%, while nonferrous metal margins held consistent between periods.

**Ferrous Resources.** Our ferrous resource operations consist primarily of the revenues and expenses associated with our IDI scrap substitute manufacturing facility, and our iron-nugget manufacturing facility, Mesabi Nugget. IDI primarily produces liquid pig iron which is used as a scrap substitute raw material input exclusively at our Flat Roll Division. Mesabi Nugget, which began initial production of iron nuggets in January 2010, continues to refine and improve its pioneering production process, and has seen improvement in its monthly up-time and production results. Mesabi Nugget iron nuggets have to date been used as a raw material input at our steel mills. The operating loss of Mesabi Nugget start-up operations in the second quarter of 2011 was \$4.7 million higher than in the second quarter of 2010 and \$2.4 million higher than in the first quarter of 2011 (including noncontrolling interest impact of \$900,000 and \$460,000, respectively). The increase in the second quarter 2011 as compared to the prior noted quarters was due to a planned three-week May 2011 furnace reline outage. The operating loss of Mesabi Nugget start-up operations increased \$6.7 million in the first six months of 2011 over that of the first six months of 2010 (including noncontrolling interest impact of \$1.3 million), when the location commissioned initial start-up.

### **Steel Fabrication Operations**

Our steel fabrication operations include six operating and two idled New Millennium Building Systems' plants located in the Midwest, Southeastern and Southwestern parts of the United States, and Northern Mexico. Revenues from these plants are generated from the fabrication

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of trusses, girders, steel joists and steel decking used within the non-residential construction industry. Steel fabrication operations accounted for 3% of our external net sales during the second quarter of 2011 and 2010, and the first quarter of 2011. The operating loss for the segment was \$1.6 million in the second quarter of 2011, compared to \$4.7 million in the second quarter of 2010, and \$2.9 million in the first quarter of 2011. Operating loss for the segment was \$4.5 million for the first six months of 2011 compared to an operating loss of \$11.3 million for the first six months of 2010.

Net sales for the segment increased by \$19.7 million, or 47%, in the second quarter of 2011 compared to the second quarter of 2010, and \$9.3 million, or 18%, on a linked-quarter basis. Both volumes and pricing increased in the second quarter of 2011 when compared with the same period in 2010 and the first quarter of 2011, with our average steel fabrication operations' selling price per ton shipped increasing \$288, or 29%, during the second quarter of 2011 versus the same period in 2010, and increasing \$102, or 9%, on a linked-quarter basis. Sales volumes increased 6,000 tons, or 14%, to 48,000 tons in the second quarter of 2011 compared to the second quarter of 2010, and 8% on a linked-quarter basis. Net sales for the segment increased \$48.3 million to \$114.6 million for the first six months of 2011 as compared to the first six months of 2010. Our average steel fabrication operations' selling price per ton shipped increased \$268, or 27%, in the first six months of 2011 as compared to the same period in 2010, and selling volumes increase 36% to 92,000 tons. While we have seen some increased order entry and sales volumes in the fabrication segment in 2011 versus 2010, the non-residential construction market continues to be at historically low levels, and we anticipate that if the non-residential market continues to develop, it may be slowly.

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The purchase of various steel products is the largest single cost of production for our steel fabrication operations. During the second quarter of 2011 and 2010, the cost of steel products purchased represented 71% of the total cost of manufacturing for our steel fabrication operations; while the cost of steel increased in the second quarter of 2011, as compared to the same period in 2010 by \$122 per ton. Margins expanded during the second quarter of 2011 versus those of the second quarter of 2010 as increases in selling values outpaced raw material cost increases, resulting in increased segment gross margin of \$5.4 million. During the first six months of 2011 and 2010, the cost of steel products consumed represented 69% and 68%, respectively, of the total cost of manufacturing for our steel fabrication operations, and the cost of steel increased in the first six months of 2011 as compared to the same period in 2010 by \$101 per ton. As the increase in selling prices outpaced the increase in input costs, the segment's gross margin increased \$12.2 million in the first six months of 2011 versus the same period in 2010.

**Steel Fabrication Operations Average Selling Prices and Volumes**

**Second Quarter Consolidated Results 2011 vs. 2010**

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses (including profit sharing and amortization of intangible assets) were \$88.2 million during the second quarter of 2011, as compared to \$75.3 million during the second quarter of 2010, an increase of \$12.8 million, or 17%. Our selling, general and administrative expenses represented 4% and 5% of our total net sales during the second quarter of 2011 and 2010, respectively. The percentage decrease is primarily a result of improved net sales in the second quarter of 2011 compared with the prior year as measured against certain fixed cost components in selling, general and administrative expenses.

The most significant increase in our selling, general and administrative expenses was due to increased profit sharing expense during the second quarter of 2011, as a result of increased profitability in 2011. During the second quarter of 2011, we recorded expense of \$12.0 million related to our Steel Dynamics performance-based profit sharing plan (and \$2.5 million of other profit sharing), while expense of \$6.8 million (and \$1.0 million of other profit sharing) was recorded in the second quarter of 2010. The contribution percentage for this plan consists of 2% of consolidated pretax earnings plus a unique percentage of each of our operating segments' pretax earnings. The resulting total contribution percentage was 7% of consolidated pretax earnings (before profit sharing) during the second quarter of 2011.

**Interest Expense, net of Capitalized Interest.** During the second quarter of 2011, gross interest expense decreased \$200,000, or 0.4%, to \$45.2 million, and capitalized interest decreased \$1.5 million to \$400,000, when compared to the same period in 2010. The interest capitalization that occurred during these periods resulted from the interest required to be capitalized with respect to construction activities at our various operating segments, which with the completion of several of our construction projects, was not as significant in the second quarter 2011. Our weighted-average interest rate on our outstanding borrowings was 7.3% at June 30, 2011 and 2010. We currently anticipate gross interest expense to remain consistent through the remainder of the year.

**Other (Income) Expense, net.** Other income was \$5.7 million during the second quarter of 2011, as compared to \$3.5 million during the same period in 2010. During the second quarter of 2011, we recorded interest income of \$1.3 million versus \$950,000 in the same period in 2010.

**Income Taxes.** During the second quarter of 2011, our income tax expense was \$53.3 million, as compared to \$29.9 million during the same period in 2010. Our effective income tax rate before noncontrolling interests was 35.8% and 39.0%, during the second quarter of 2011 and 2010, respectively. The lower rate in the second quarter of 2011 was due to discrete tax benefits recorded during the quarter, including the reduction of our deferred tax provision due to recent changes in Indiana tax law.

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**First Six Months Consolidated Results 2011 vs. 2010**

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses were \$178.6 million during the first six months of 2011, as compared to \$153.5 million during the same period in 2010, an increase of \$25.1 million, or 16%. During the first six months of 2011 and 2010, selling, general and administrative expenses represented approximately 4% and 5% of net sales, respectively. The percentage decrease is primarily a result of improved net sales in 2011 to date compared with the prior year same period as measured against certain fixed cost components in selling, general and administrative expenses. The increase in selling, general and administrative expenses in the first six months of 2011 compared to the first six months of 2010 primarily relates to recording profit sharing expense of \$25.2 million related to our Steel Dynamics performance-based profit sharing plan (and \$4.4 million of other profit sharing) during the first six months of 2011 as compared to expense of \$15.3 million (and \$2.0 million of other profit sharing ) during the same period in 2010.

***Interest Expense, net of Capitalized Interest.*** During the first six months of 2011, gross interest expense increased \$2.5 million, or 3%, to \$88.9 million, and capitalized interest decreased \$4.7 million, or 86%, to \$737,000, as compared to the same period in 2010. The increase in gross interest expense for the first six months of 2011 compared to the first six months of 2010 is primarily a result of our issuance of \$350.0 million of 7 5/8% senior notes due 2020, in March 2010. The interest capitalization that occurred during these periods resulted from the interest required to be capitalized with respect to construction activities at our various operating segments, which with the completion of several of our construction projects, is not as significant in 2011.

***Other (Income) Expense, net.*** Other income was \$10.3 million during the first six months of 2011, as compared to \$6.6 million during the same period in 2010. Interest income was \$2.3 million for the first six months of 2011 versus \$1.9 million in 2010.

***Income Taxes.*** During the first six months of 2011, our income tax provision was \$115.6 million, as compared to \$64.4 million during the same period in 2010, and our effective income tax rates before noncontrolling interests were 36.6% and 36.9%, respectively.

**Liquidity and Capital Resources**

Our business is capital intensive and requires substantial expenditures for, among other things, the purchase and maintenance of equipment used in our steelmaking and finishing operations and to remain in compliance with environmental laws. Our short-term and long-term liquidity needs arise primarily from capital expenditures, working capital requirements and principal and interest payments related to our outstanding indebtedness. We have met these liquidity requirements with cash provided by operations, issuances of common stock, long-term borrowings and state and local grants.

***Working Capital.*** During the first six months of 2011, our operational working capital position, representing our cash invested in trade receivables, inventories and income taxes receivable, less current liabilities other than debt, increased \$169.4 million to \$1.4 billion compared to December 31, 2010. Trade receivables increased \$227.2 million, or 37%, during the first six months of 2011 to \$849.4 million, of which over 98% were current or less than 60 days past due. Our largest customer is an affiliated company, Heidtman Steel, which represented 5% of our outstanding trade receivables at June 30, 2011, and December 31, 2010. Trade receivables increased during the first six months of 2011 due to increased sales from higher product prices and volumes compared to the fourth quarter of 2010. Total inventories increased \$81.1 million, or 7%, to \$1.2 billion during the first six months of 2011. Our raw materials, primarily steel scrap inventories, increased by approximately \$8.8

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million during the first six months of 2011, with scrap volumes decreasing by 75,000 gross tons (9%), but pricing increasing moreso. Likewise our work-in-process and finished goods inventories increased \$65.1 million, with volumes increasing by 64,000 tons. Our trade payables and general accruals increased \$116.9 million, or 21%, during the first six months of 2011. The increase in trade payables is a reflection of the increased production activities and commodity raw material pricing and purchasing prior to June 30, 2011, compared to that at December 31, 2010. The increase in accrued profit sharing is due to the increase in pretax income during 2011 when compared to 2010, as our profit sharing is directly tied to earnings.

**Capital Investments.** During the first six months of 2011, we invested \$53.7 million in property, plant and equipment, of which \$18.4 million was within our steel operations, \$20.0 million related to our metals recycling operations and \$4.5 million related to our Mesabi Nugget and Mesabi Mining facilities. We believe these capital investments will benefit our net sales and related cash flows as each project reaches completion and attains appropriate operational metrics. We continue to estimate capital expenditures for the year 2011 to be approximately \$200 million or less.

**Capital Resources and Long-term Debt.** During the first six months of 2011, our total outstanding debt decreased \$7.5 million to \$2.4 billion. Our total long-term debt to capitalization ratio, representing our long-term debt, including current maturities, divided by the sum of our long-term debt, redeemable noncontrolling interest, and our total stockholders' equity, was 50.7% at June 30, 2011, and 52.8% at December 31, 2010. At June 30, 2011, there were no outstanding borrowings under our senior secured revolver, which is subject to a monthly borrowing base.

Our senior secured credit agreement contains financial covenants and other covenants that limit or restrict our ability to make capital expenditures; incur indebtedness; permit liens on property; enter into transactions with affiliates; make restricted payments or investments; enter into mergers, acquisitions or consolidations; conduct asset sales; pay dividends or distributions and enter into other specified transactions and activities. Our ability to borrow funds within the terms of the revolver is dependent upon our continued compliance with our financial covenants, and other covenants contained in the senior secured credit agreement.

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The current financial covenants under our senior secured credit agreement state that we must maintain an interest coverage ratio of not less than 2.50:1.00. Our interest coverage ratio is calculated by dividing our last-twelve trailing months (LTM) consolidated adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, and certain other non-cash transactions as allowed in our senior secured credit agreement) by our LTM gross interest expense. We must also maintain a first lien debt to LTM EBITDA ratio of not more than 3.00:1.00. In addition, a total debt to consolidated LTM adjusted EBITDA ratio of not more than 5.00:1.00 must be maintained. If the total debt to EBITDA ratio exceeds 3.50:1.00 at any time, then the ability of the company to make restricted payments as defined in the credit agreement (which includes cash dividends to stockholders and share purchases, among other things), is limited to \$25.0 million per quarter.

At June 30, 2011, our first lien leverage ratio, interest coverage ratio, and total debt leverage ratio was 0.03:1.00, 4.55:1.00, and 3.04:1.00, respectively. We were in compliance with these covenants at June 30, 2011, and we expect to remain in compliance during the remainder of 2011.

The senior secured credit agreement also contains a monthly borrowing base requirement regarding the maximum availability for the revolver. At the end of each month, our revolver must be the lesser of:

1. \$924.0 million less other applicable commitments, such as letters of credit and other secured debt, as defined within the credit agreement; or
2. The sum of 85% of our eligible accounts receivable and 65% of our eligible inventories, less other applicable commitments, such as letters of credit and other secured debt, as defined within the credit agreement.

At June 30, 2011, we had \$907.4 million of funding availability pursuant to our senior secured revolving credit agreement

**Cash Dividends.** We declared cash dividends of \$43.7 million, or \$0.20 per common share (\$0.10 per common share each quarter), during the first six months of 2011 and \$32.5 million, or \$0.15 per common share (\$0.075 per common share per quarter), during the first six months of 2010. We paid cash dividends of \$38.1 million and \$32.4 million during the first six months of 2011 and 2010, respectively. Our board of directors, along with executive management, approves the payment of dividends on a quarterly basis. During the remainder of 2011, we anticipate maintaining our current level of quarterly dividends; however, the determination to pay cash dividends in the future will be at the discretion of our board of directors, after taking into account various factors, including our financial condition, results of operations, outstanding indebtedness, current and anticipated cash needs and growth plans. In addition, the terms of our senior secured revolving credit agreement and the indenture relating to our senior notes restrict the amount of cash dividends we can pay.

**Other.** Our ability to meet our debt service obligations and reduce our total debt will depend upon our future performance which, in turn, will depend upon general economic, financial and business conditions, along with competition, legislation and regulatory factors that are largely beyond our control. In addition, we cannot assure you that our operating results, cash flow, access to credit markets and capital resources will be sufficient for repayment of our indebtedness in the future. We believe that based upon current levels of operations and anticipated growth, cash flow from operations, together with other available sources of funds, including additional borrowings under our senior secured credit agreement through its term, which expires in June 2012, will be adequate for the next twelve months for making required payments of principal and interest on our indebtedness, funding working capital requirements and anticipated capital expenditures. We anticipate being able to put in place a new senior secured credit agreement that is sufficient for our capital and liquidity needs prior to the expiration of our current agreement in June 2012.

**Other Matters**

*Inflation.* We believe that inflation has not had a material effect on our results of operations.

*Environmental and Other Contingencies.* We have incurred, and in the future will continue to incur, capital expenditures and operating expenses for matters relating to environmental control, remediation, monitoring, and compliance. We believe, apart from our dependence on environmental construction and operating permits for our existing and proposed manufacturing facilities, that compliance with current environmental laws and regulations is not likely to have a materially adverse effect on our financial condition, results of operations or liquidity; however, environmental laws and regulations have changed rapidly in recent years, and we may become subject to more stringent environmental laws and regulations in the future, such as the impact of United States government or various governmental agencies introducing regulatory changes in response to the potential of climate change.

**Critical Accounting Policies and Estimates**

No material changes have occurred to the indicated critical accounting policies and estimates as disclosed in our 2010 Annual Report on Form 10-K.



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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Interest Rate Risk**

In the normal course of business, we are exposed to interest rate changes. Our objectives in managing exposure to interest rate changes are to limit the impact of these rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we primarily use interest rate swaps to manage net exposure to interest rate changes related to our portfolio of borrowings. We did not have any interest rate swaps during the periods ended June 30, 2011 or 2010.

**Commodity Risk**

In the normal course of business we are exposed to the market risk and price fluctuations related to the sale of steel products and to the purchase of commodities used in our production process, such as metallic raw materials, electricity, natural gas and alloys. Our risk strategy associated with product sales has generally been to obtain competitive prices for our products and to allow operating results to reflect market price movements dictated by supply and demand.

Our risk strategy associated with the purchase of raw materials utilized within our operations has generally been to make some commitments with suppliers relating to future expected requirements for certain commodities such as fuel, zinc, iron ore, electricity, and natural gas and its transportation. Certain commitments contain provisions which require us to take or pay for specified quantities without regard to actual usage for periods of up to 24 months for physical commodity requirements and for up to 10 years for commodity transportation requirements. We also purchase electricity consumed at our Flat Roll Division pursuant to a contract which extends through December 2012. The contract designates 160 hours annually as interruptible service and establishes an agreed fixed-rate energy charge per Mill/kWh consumed for each year through the expiration of the agreement. At June 30, 2011, no material changes had occurred related to these commodity risks from the information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010. We utilized such take or pay requirements during the past three years under these contracts. We believe that production requirements will be such that consumption of the products or services purchased under these commitments will occur in the normal production process.

In our metals recycling operations we have certain fixed price contracts with various customers and suppliers for future delivery of nonferrous metals. Our risk strategy has been to enter into base metal financial contracts with the goal to protect the profit margin, within certain parameters, that was contemplated when we entered into the transaction with the customer. At June 30, 2011, we had a cumulative unrealized loss associated with these financial contracts of \$310,000 all of which have a settlement date within the next twelve months. We expect the customer contracts associated with the financial contracts to be fully consummated.

**ITEM 4. CONTROLS AND PROCEDURES**

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(a) ***Evaluation of Disclosure Controls and Procedures.*** Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2011. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of June 30, 2011, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective.

(b) ***Changes in Internal Controls Over Financial Reporting.*** No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II**

**OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The company as well as its various subsidiaries, is from time to time involved in various lawsuits and/or governmental claims in the ordinary course of business. None of these lawsuits or claims at the present time, singly or in the aggregate, except as disclosed below, is material.

On September 17, 2008, we 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. In addition, on December 28, 2010, we and the other co-defendants were served with a substantially similar complaint in the Circuit Court of Cocke County, Tennessee, purporting to be on behalf of indirect purchasers of steel products in Tennessee. The case has been removed to federal court. 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 discovery. We believe that the lawsuits are without merit and we are aggressively defending these actions. Due to the uncertain nature of litigation, we cannot presently determine the ultimate outcome of this litigation, however we have determined, based on the information available at this time, that there is not presently a reasonable possibility (as that term is defined in ASC 450-20-20), that the outcome of these legal proceedings would have a material impact on our financial condition, results of operations, or liquidity.

Although not presently necessary or appropriate to make a dollar estimate of exposure to loss, if any, in connection with the above matter, we may in the future determine that a loss accrual is necessary. Although we may make loss accruals, if and as warranted, any amounts that we may accrue from time to time could vary significantly from the amounts we actually pay, due to inherent uncertainties and the inherent shortcomings of the estimation process, the uncertainties involved in litigation and other factors. Additionally, an adverse result could have a material effect on our financial condition, results of operations and liquidity.

On October 25, 2010, our wholly-owned subsidiary, OmniSource Corporation, was indicted by a Grand Jury in Marion County, Indiana, on multiple criminal charges involving the alleged receipt or attempted receipt of stolen property and related racketeering charges. We vigorously denied these charges and engaged in an aggressive defense against them. On December 30, 2010, we filed a Motion to Dismiss this indictment, on multiple grounds, on February 4, 2011 this Motion was argued, and on May 4, 2011 the judge of the Marion County, Indiana Superior Court dismissed these charges. In a related matter, on October 18, 2010, our Indianapolis subsidiary filed a civil replevin lawsuit against the then Prosecutor, seeking return of cash previously seized by the police preceding the indictment. The Prosecutor then asserted a counterclaim against OmniSource, seeking forfeiture of OmniSource property. This counterclaim was likewise vigorously disputed and aggressively defended.

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On July 13, 2011, in a Joint Press Release issued by the new and recently elected Prosecutor of Marion County, together with OmniSource Corporation, the Prosecutor announced that all criminal charges and all civil claims asserted in the counterclaim against OmniSource have been dismissed, with prejudice, and all monies seized from OmniSource by the police is being returned to OmniSource. The parties have agreed to work together to build upon OmniSource's long-standing and nationally recognized anti-metal theft training and enforcement program, with enhanced training available to both other scrap dealers and to law enforcement personnel. OmniSource also agreed to donate the proceeds returned to it to a City of Indianapolis Law Enforcement Fund, to be utilized in connection with such training activities.

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**ITEM 1A. RISK FACTORS**

No material changes have occurred to the indicated risk factors as disclosed in our 2010 Annual Report on Form 10-K.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

**Executive Officer Certifications**

- 31.1\* Certification of Chief Executive Officer required by Item 307 of Regulation S-K as promulgated by the Securities and Exchange Commission and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification of Chief Financial Officer required by Item 307 of Regulation S-K as promulgated by the Securities and Exchange Commission and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* Certification of Chief Executive Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification of Chief Financial Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**XBRL Documents**

101.INS\*      XBRL Instance Document  
101.SCH\*      XBRL Taxonomy Extension Schema Document  
101.CAL\*      XBRL Taxonomy Extension Calculation Document  
101.LAB\*      XBRL Taxonomy Extension Label Document  
101.PRE\*      XBRL Taxonomy Presentation Document  
101.DEF\*      XBRL Taxonomy Definition Document

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\*      Filed concurrently herewith

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

August 5, 2011

STEEL DYNAMICS, INC.

By: /s/ Theresa E. Wagler  
Theresa E. Wagler  
Executive Vice President and Chief Financial Officer