

STEEL DYNAMICS INC
Form 10-Q
August 07, 2009
[Table of Contents](#)

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, 2009

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.)

7575 West Jefferson Blvd, Fort Wayne, IN
(Address of principal executive offices)

46804
(Zip Code)

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

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 August 3, 2009, Registrant had 215,163,173 outstanding shares of common stock.

Table of Contents

STEEL DYNAMICS, INC.

Table of Contents

PART I. Financial Information

	Page
Item 1. Financial Statements:	
<u>Consolidated Balance Sheets as of June 30, 2009 (unaudited) and December 31, 2008</u>	1
<u>Consolidated Statements of Operations for the three and six-month periods ended June 30, 2009 and 2008 (unaudited)</u>	2
<u>Consolidated Statements of Cash Flows for the three and six-month periods ended June 30, 2009 and 2008 (unaudited)</u>	3
<u>Notes to Consolidated Financial Statements (unaudited)</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	25
Item 4. <u>Controls and Procedures</u>	25
<u>PART II. Other Information</u>	
Item 1. <u>Legal Proceedings</u>	26
Item 1A. <u>Risk Factors</u>	26
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	26
Item 3. <u>Defaults Upon Senior Securities</u>	26
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	26
Item 5. <u>Other Information</u>	27
Item 6. <u>Exhibits</u>	27
<u>Signatures</u>	28

Table of Contents

STEEL DYNAMICS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2009 (unaudited)	December 31, 2008
Assets		
Current assets		
Cash and equivalents	\$ 18,217	\$ 16,233
Accounts receivable, net	340,426	453,011
Accounts receivable-related parties	24,310	49,921
Inventories	738,470	1,023,235
Deferred income taxes	32,179	23,562
Income taxes receivable	125,912	86,321
Other current assets	22,017	57,632
Total current assets	1,301,531	1,709,915
Property, plant and equipment, net	2,144,360	2,072,857
Restricted cash	13,932	18,515
Intangible assets, net	557,194	614,786
Goodwill	780,321	770,438
Other assets	84,474	67,066
Total assets	\$ 4,881,812	\$ 5,253,577
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 225,753	\$ 259,742
Accounts payable-related parties	1,693	3,651
Accrued expenses	81,025	148,627
Accrued interest	27,656	30,874
Accrued payroll and benefits	37,157	34,303
Accrued profit sharing	56	62,561
Senior secured revolving credit facility, due 2012	114,000	366,000
Current maturities of long-term debt	1,049	65,223
Total current liabilities	488,389	970,981
Long-term debt		
Senior secured term A loan		503,800
7 3/8% senior notes, due 2012	700,000	700,000
5.125% convertible senior notes, due 2014	287,500	
6 3/4% senior notes, due 2015	500,000	500,000
7 3/4% senior notes, due 2016	500,000	500,000
Other long-term debt	42,392	15,361
	2,029,892	2,219,161
Deferred income taxes	371,953	365,496
Other liabilities	67,095	65,626
Commitments and contingencies		

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Stockholders' equity

Common stock voting, \$.0025 par value; 900,000,000 shares authorized; 251,398,691 and 218,733,363 shares issued; and 214,808,597 and 181,820,012 shares outstanding, as of June 30, 2009 and December 31, 2008, respectively	626	545
Treasury stock, at cost; 36,590,094 and 36,913,351 shares, as of June 30, 2009 and December 31, 2008, respectively	(730,862)	(737,319)
Additional paid-in capital	958,558	541,686
Other accumulated comprehensive loss		(1,411)
Retained earnings	1,682,208	1,820,385
Total Steel Dynamics, Inc. stockholders' equity	1,910,530	1,623,886
Noncontrolling interests	13,953	8,427
Total stockholders' equity	1,924,483	1,632,313
Total liabilities and stockholders' equity	\$ 4,881,812	\$ 5,253,577

See notes to consolidated financial statements.

Table of Contents

STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net sales				
Unrelated parties	\$ 773,137	\$ 2,289,121	\$ 1,560,947	\$ 4,103,082
Related parties	19,021	114,818	45,861	203,062
Total net sales	792,158	2,403,939	1,606,808	4,306,144
Costs of goods sold	723,321	1,924,284	1,578,598	3,479,180
Gross profit	68,837	479,655	28,210	826,964
Selling, general and administrative expenses	48,559	85,766	105,879	150,631
Profit sharing		26,897	(42)	45,404
Amortization of intangible assets	13,994	8,120	29,692	19,650
Total selling, general and administrative expenses	62,553	120,783	135,529	215,685
Operating income (loss)	6,284	358,872	(107,319)	611,279
Interest expense, net capitalized interest	37,043	35,475	73,294	65,282
Other (income) expense, net	786	(16,901)	38	(24,707)
Income (loss) before income taxes	(31,545)	340,298	(180,651)	570,704
Income taxes (benefit)	(15,024)	129,013	(74,356)	216,387
Net income (loss)	(16,521)	211,285	(106,295)	354,317
Net income (loss) attributable to noncontrolling interests	(530)	791	(2,442)	1,266
Net income (loss) attributable to Steel Dynamics, Inc.	\$ (15,991)	\$ 210,494	\$ (103,853)	\$ 353,051
Basic earnings (loss) per share attributable to Steel Dynamics, Inc. stockholders	\$ (.08)	\$ 1.11	\$ (.56)	\$ 1.86
Weighted average common shares outstanding	189,848	190,351	185,924	189,695
Diluted earnings (loss) per share attributable to Steel Dynamics, Inc. stockholders, including the effect of assumed conversions when dilutive	\$ (.08)	\$ 1.05	\$ (.56)	\$ 1.77
Weighted average common shares and share equivalents outstanding	189,848	200,345	185,924	199,831
Dividends declared per share	\$.075	\$.10	\$.175	\$.20

See notes to consolidated financial statements.

Table of Contents

STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Operating activities:				
Net income (loss) attributable to Steel Dynamics, Inc.	\$ (15,991)	\$ 210,494	\$ (103,853)	\$ 353,051
Adjustments to reconcile net income (loss) attributable to Steel Dynamics, Inc. to net cash provided by operating activities				
Depreciation and amortization	57,765	47,582	114,728	100,794
Equity-based compensation	3,313	2,754	11,892	6,683
Deferred income taxes	5,797	(6,872)	13,492	(7,845)
Gain on disposal of property, plant and equipment	(475)	(252)	(747)	(238)
Noncontrolling interests	(530)	791	(2,442)	1,266
Changes in certain assets and liabilities:				
Accounts receivable	(5,297)	(211,411)	135,796	(397,204)
Inventories	95,296	(227,270)	288,393	(217,695)
Other assets	(14,581)	(15,680)	3,244	(13,047)
Accounts payable	(13,793)	249,665	(47,847)	364,180
Income taxes payable	2,702	(34,751)	(1,405)	37,857
Accrued expenses	(42,540)	40,241	(124,890)	41,085
Net cash provided by operating activities	71,666	55,291	286,361	268,887
Investing activities:				
Purchases of property, plant and equipment	(73,166)	(101,225)	(147,504)	(194,989)
Acquisition of businesses, net of cash acquired		(271,158)		(271,158)
Purchase of securities				(20,373)
Other investing activities	(7,290)	2,824	(10,513)	4,153
Net cash used in investing activities	(80,456)	(369,559)	(158,017)	(482,367)
Financing activities:				
Issuance of current and long-term debt	471,685	786,900	708,744	1,004,900
Repayment of current and long-term debt	(841,781)	(401,941)	(1,200,447)	(635,155)
Debt issuance costs	(13,298)	(5,568)	(13,751)	(7,514)
Issuance of common stock (net of expenses) and proceeds from exercise of stock options, including related tax effect	412,547	10,277	410,489	17,454
Purchase of treasury stock				(46,128)
Contribution from noncontrolling investor			5,000	
Dividends paid	(18,213)	(18,884)	(36,395)	(33,158)
Net cash provided by (used in) financing activities	10,940	370,784	(126,360)	300,399
Increase in cash and equivalents	2,150	56,516	1,984	86,919
Cash and equivalents at beginning of period	16,067	58,889	16,233	28,486
Cash and equivalents at end of period	\$ 18,217	\$ 115,405	\$ 18,217	\$ 115,405

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Supplemental disclosure information:

Cash paid for interest	\$	67,450	\$	57,334	\$	79,433	\$	68,719
Cash paid for federal and state income taxes, net of refunds	\$	1,656	\$	160,522	\$	(53,774)	\$	161,909

See notes to consolidated financial statements.

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Description of the Business, Significant Accounting Policies, and Recent Accounting Pronouncements

Description of the Business

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

Steel Operations. Steel operations include the company's Flat Roll Division, Structural and Rail Division, Engineered Bar Products Division, Roanoke Bar Division, Steel of West Virginia (SWVA) and The Techs operations. These operations consist of mini-mills, producing steel from steel scrap, using electric arc furnaces, continuous casting, automated rolling mills, and downstream finishing facilities. The company's steel operations sell directly to end users and service centers. These products are used in numerous industry sectors, including the automotive, construction, commercial, transportation and industrial machinery markets. Steel operations accounted for approximately 60% and 56% of the company's net sales during the three-month periods ended June 30, 2009 and 2008, respectively, and 59% and 57% of the company's net sales during the six-month periods ended June 30, 2009 and 2008, respectively.

Metals Recycling and Ferrous Resources Operations. Metals recycling and ferrous resources operations primarily are composed of the company's steel scrap procurement and processing locations, operated through the company's wholly-owned subsidiary, OmniSource Corporation (OmniSource), as well as Iron Dynamics (IDI), the company's iron-substitute production facility. In addition, the impact related to the construction of the Mesabi Nugget iron-making facility and future mining operations in Hoyt Lakes, Minnesota is also included in this segment. Metals recycling and ferrous resources operations accounted for approximately 35% and 40% of the company's net sales during the three-month periods ended June 30, 2009 and 2008, respectively, and 34% and 38% of the company's net sales during the six-month periods ended June 30, 2009 and 2008, respectively.

Steel Fabrication Operations. Steel fabrication operations represent the company's New Millennium Building Systems plants located in the eastern United States. Revenues from these plants are generated from the fabrication of trusses, girders, steel joists and steel decking used within the non-residential construction industry. Steel fabrication operations accounted for approximately 4% and 3% of the company's net sales during the three-month periods ended June 30, 2009 and 2008, respectively, and 6% and 3% of the company's net sales during the six-month periods ended June 30, 2009 and 2008, respectively.

Significant Accounting Policies

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Principles of Consolidation. The consolidated financial statements include the accounts of SDI, together with its subsidiaries, after elimination of significant intercompany accounts and transactions. Noncontrolling interest represents the minority shareholders' proportionate share in the equity or income of the company's consolidated subsidiaries.

Use of Estimates. These financial statements are prepared in conformity with accounting principles generally accepted in the United States and, accordingly, include amounts that require management to make estimates and assumptions that affect the amounts reported in the financial statements and in the notes thereto. Significant items subject to such estimates and assumptions include the carrying value of property, plant and equipment, intangible assets and goodwill; valuation allowances for trade receivables, inventories and deferred income tax assets; unrecognized tax benefits; potential environmental liabilities, 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, 2008.

Uncertain Tax Positions. The company files income tax returns in the U.S. federal jurisdiction and in various state jurisdictions. The state of Indiana completed its examination of the calendar years 2000 through 2005 in the third quarter of 2008. The company paid additional taxes of \$20.7 million as a result of the examinations. This amount was recorded as an unrecognized tax benefit when the company adopted Financial Accounting Standards Board (FASB) Interpretation 48 (FIN 48) on January 1, 2007. It is reasonably possible that the amount of unrecognized tax benefits could change in the next twelve months as a result of state income tax audits. Based on current audits in process, the payment of additional taxes could be in an amount from zero to \$2.0 million during 2009, primarily related to state nexus issues. With few exceptions, the company is no longer subject to federal, state and local income tax examinations by tax authorities for years ended before 2005.

Included in the amount of unrecognized tax benefits at June 30, 2009, are potential benefits of \$38.2 million that, if recognized, would affect the company's effective tax rate. The company recognizes interest and penalties related to its tax contingencies on a net-of-tax basis in income tax expense. During the six-month period ended June 30, 2009, the company recognized interest of \$549,000, net of tax, and benefits from the reduction of penalties of \$56,000. At June 30, 2009, the company had \$7.9 million accrued for the payment of interest and penalties.

[Table of Contents](#)

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income (loss)	\$ (15,991)	\$ 210,494	\$ (103,853)	\$ 353,051
Unrealized gain on available-for-sale securities, net of tax		6,772		4,990
Unrealized gain on interest rate swap, net of tax	243		581	
Reversal of unrealized loss on interest rate swap, net of tax	830		830	
Comprehensive income (loss)	\$ (14,918)	\$ 217,266	\$ (102,442)	\$ 358,041

Other accumulated comprehensive loss consisted of the following (in thousands):

	June 30, 2009	December 31, 2008
Unrealized loss on interest rate swap	\$	\$ (2,294)
Tax effect		883
Total other accumulated comprehensive loss	\$	\$ (1,411)

Recent Accounting Pronouncements

On January 1, 2009, the company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, (SFAS 157) as it relates to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on at least an annual basis. SFAS 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America (GAAP), and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements and are to be applied prospectively with limited exceptions. The adoption of SFAS 157, as it relates to nonfinancial assets and nonfinancial liabilities, had no impact on the company's financial statements for the three or six months ended June 30, 2009. The provisions of SFAS 157 will be applied at such time a fair value measurement of a nonfinancial asset or nonfinancial liability is required, which may result in a fair value that is materially different than would have been calculated prior to the adoption of SFAS 157.

On January 1, 2009, the company adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of *FASB Statement No. 133*, (SFAS 161). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities, including (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS 133), and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Other than the required disclosures, the adoption of SFAS 161 had no impact on the company's financial statements.

On January 1, 2009, the company adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*, (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard defines a noncontrolling interest, previously called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. SFAS 160 requires, among other items, that a noncontrolling interest be included in the consolidated balance sheets within equity separate from the parent's equity; consolidated net income to be reported at amounts inclusive of both the parent's and noncontrolling interest's shares and, separately, the amounts of consolidated net income attributable to the parent and noncontrolling interest all on the consolidated statements of income; and if a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be measured at fair value and a gain or loss be recognized in net income based on such fair value. The presentation and disclosure requirements of SFAS 160 were applied retrospectively. The adoption of SFAS 160 did not have a material impact on the company's financial statements.

On January 1, 2009, the company adopted SFAS No. 141 (revised 2007), *Business Combinations*, (SFAS 141(R)), which replaces SFAS No. 141, *Business Combinations*, (SFAS 141) but retains the fundamental requirements in SFAS 141, including that the purchase method be used for all business combinations and for an acquirer to be identified for each business combination. This standard defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control instead of the date that the consideration is transferred. SFAS 141(R) requires an acquirer in a business combination, including business combinations achieved in stages (step acquisition), to recognize the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. It also requires the recognition of assets acquired and liabilities assumed arising from certain contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. Additionally, SFAS 141(R) requires acquisition-related costs to be expensed in the period in which the costs are incurred and the services are received instead of including such costs as part of the acquisition price. The adoption of SFAS 141(R) had no impact on the company's financial statements.

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

On January 1, 2009, the company adopted Financial Accounting Standards Board (FASB) Staff Position (FSP) No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*, (SFAS 142) in order to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other GAAP. The adoption of FSP FAS 142-3 had no impact on the company's financial statements.

On January 1, 2009, the company adopted FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, (FSP EITF 03-6-1). FSP EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The adoption of FSP EITF 03-6-1 had no impact on the company's financial statements.

The company adopted FSP 107-1, *Disclosures About Fair Value of Financial Instruments*, as of March 31, 2009. FSP 107-1 requires disclosures about fair value of all financial instruments for interim reporting periods. The applicable disclosures are included in Note 8 to the company's financial statements included in this filing. The adoption of FSP 107-1 had no impact on the company's financial statements.

The company adopted SFAS No. 165, *Subsequent Events*, as of June 30, 2009. SFAS No. 165 provides guidance on management's assessment of subsequent events and incorporates this guidance into accounting literature. SFAS No. 165 is effective prospectively for interim and annual periods ending after June 15, 2009. The implementation of this standard did not have a material impact on the company's financial statements. The company has evaluated subsequent events through August 7, 2009, the date of issuance of its consolidated financial statements.

Note 2. Acquisition

On June 9, 2008, the company completed its acquisition of Recycle South, one of the nation's largest, privately-held, regional scrap metal recycling companies, headquartered in Spartanburg, South Carolina. OmniSource (which already owned 25% of Recycle South), acquired the remaining 75% equity interest for a purchase price of approximately \$376.3 million. The company paid approximately \$236.6 million in cash, including transaction costs, and issued 3,938,000 shares of Steel Dynamics, Inc. common stock valued at \$139.8 million. In addition, the company assumed \$144.9 million of net debt, of which approximately \$142.8 million was repaid upon the closing of the acquisition. The cash portion of the acquisition was funded from the company's available cash which included proceeds from the issuance of the \$500 million 7¾% senior notes due April 2016. The company valued the common stock issued at \$35.49 per share based on the average stock price of the company's common stock during the two days before and after the date the acquisition was agreed to and announced (May 8, 2008).

The company purchased Recycle South to expand its metals recycling business. Recycle South provides a significant presence in the southeastern United States through its 22 locations within North Carolina, South Carolina and Georgia. Recycle South's consolidated operating

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

results have been reflected in the company's financial statements since June 9, 2008, in the metals recycling and ferrous resources reporting segment.

The purchase price of \$376.3 million for the remaining 75% equity interest in Recycle South, combined with the 25% interest owned pursuant to the OmniSource acquisition, results in an aggregate purchase price of \$501.8 million. During the second quarter of 2009, the company adjusted the preliminary purchase price allocation to reflect additional refinement in the valuation of the acquisition. The final purchase price allocation below is based on actual acquisition costs and the fair value of the acquired assets, assumed liabilities and identifiable intangible assets (in thousands):

	March 31, 2009		Adjustments		June 30, 2009	
Current assets	\$	213,513	\$	(2,400)	\$	211,113
Property, plant & equipment		99,403		403		99,806
Intangible assets		107,000		19,000		126,000
Goodwill		315,235		(16,077)		299,158
Other assets		5,406		(926)		4,480
Total assets acquired		740,557				740,557
Current liabilities, excluding debt		93,814				93,814
Debt		144,947				144,947
Total liabilities assumed		238,761				238,761
Net assets acquired	\$	501,796	\$		\$	501,796

Goodwill and intangible assets of \$299.2 million and \$126.0 million, respectively, were recorded as a result of the acquisition. The goodwill is deductible for tax purposes.

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The identifiable intangible assets related to the acquisition consisted of the following (in thousands):

	Amount		Useful Life
Customer relationships	\$	21,000	20 years
Scrap generator relationships		77,000	20 years
Trademarks		16,000	3 years
Covenants not to compete		12,000	5 years
	\$	126,000	

The company utilizes an accelerated amortization methodology for customer and scrap generator relationships in order to follow the pattern in which the economic benefits of the intangible assets are anticipated to be consumed. Finite-lived trademarks and covenants not to compete are amortized using a straight line methodology. The related aggregate amortization expense recognized for the three and six-month periods ended June 30, 2009 were \$5.8 and \$13.1 million, respectively. The estimated intangible asset amortization expense related to the total acquisition of Recycle South for the next five years and thereafter follows (in thousands):

2009 (including January 1 to June 30)	\$	21,366
2010		16,483
2011		12,802
2012		10,620
2013		8,492
Thereafter		51,233
Total	\$	120,996

Unaudited Pro Forma Information. The following unaudited pro forma information is presented below as if the acquisition of Recycle South (effective on June 9, 2008) had occurred as of January 1, 2008 (in thousands, except per share amounts):

	Three Months Ended June 30, 2008		Six Months Ended June 30, 2008	
Net sales	\$	2,608,712	\$	4,679,803
Net income attributable to Steel Dynamics, Inc.		226,491		376,065
Basic earnings per share attributable to Steel Dynamics, Inc. stockholders	\$	1.17	\$	1.95
Diluted earnings per share attributable to Steel Dynamics, Inc. stockholders		1.11		1.85

The information presented above is for information purposes only and is not necessarily indicative of the actual results that could have occurred had the acquisition been consummated at January 1, 2008, nor is it necessarily indicative of future operating results of the combined companies

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

under the ownership and management of the company. The pro forma results reflect the inclusion of the acquired operations of Recycle South for the three and six-month periods ended June 30, 2008, The actual results of Recycle South for the three and six-month periods ended June 30, 2009 are included in the consolidated results of the company.

Note 3. Earnings Per Share

The company computes and presents earnings per common share in accordance with FASB Statement No. 128, *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, in addition to the above, the weighted average dilutive effect of common share equivalents outstanding during the period. Common share equivalents represent dilutive stock options and dilutive shares related to the company's convertible subordinated debt and are excluded from the computation in periods in which they have an anti-dilutive effect.

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	Three Months Ended June 30,					
	Net Loss	2009	Per Share	Net Income	2008	Per Share
	(Numerator)	Shares	Amount	(Numerator)	Shares	Amount
		(Denominator)			(Denominator)	
Basic earnings (loss) per share	\$ (15,991)	189,848	\$ (.08)	\$ 210,494	190,351	\$ 1.11
Dilutive stock option effect					1,616	
Convertible subordinated 4.0% notes				203	8,378	
Convertible 5.125% senior notes						
Diluted earnings (loss) per share	\$ (15,991)	189,848	\$ (.08)	\$ 210,697	200,345	\$ 1.05

	Six Months Ended June 30					
	Net Loss	2009	Per Share	Net Income	2008	Per Share
	(Numerator)	Shares	Amount	(Numerator)	Shares	Amount
		(Denominator)			(Denominator)	
Basic earnings (loss) per share	\$ (103,853)	185,924	\$ (.56)	\$ 353,051	189,695	\$ 1.86
Dilutive stock option effect					1,566	
Convertible subordinated 4.0% notes				415	8,570	
Convertible 5.125% senior notes						
Diluted earnings (loss) per share	\$ (103,853)	185,924	\$ (.56)	\$ 353,466	199,831	\$ 1.77

As of June 30, 2009, all of the company's convertible subordinated 4.0% notes have been converted. Options to purchase 2.9 million shares were anti-dilutive at June 30, 2009. No options were excluded at June 30, 2008.

Note 4. Inventories

Inventories are stated at lower of cost or market. Cost is determined principally on a first-in, first-out basis. The company recorded lower of cost or market adjustments of \$36.6 million to certain inventories at December 31, 2008. Inventory consisted of the following, of which all ferrous materials residing at both the steel and metals recycling and ferrous resources operations are included in raw materials (in thousands):

	June 30, 2009	December 31, 2008
Raw materials	\$ 334,201	\$ 554,815
Supplies	229,761	224,710
Work-in-progress	43,584	57,489
Finished goods	130,924	186,221
Total inventories	\$ 738,470	\$ 1,023,235

Note 5. Debt*Senior Secured Credit Facility*

The company's senior secured credit agreement contains financial covenants and other covenants that limit or restrict the company's 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. The company's ability to borrow funds within the terms of the revolver is dependent upon its continued compliance with its financial covenants, and other covenants contained in the senior secured credit agreement.

An amendment to the credit agreement was completed on June 12, 2009. This amendment made certain adjustments to the covenant structure. The current financial covenants state that the company must maintain an interest coverage ratio of not less than 1.25:1.00 for June 30, 2009 to December 31, 2009; 2.00:1.00 for March 31, 2010 to June 30, 2010; and 2.50:1.00 for September 30, 2010 through maturity. At June 30, 2009 the company's interest coverage ratio was 3.30.

The company must also maintain a first lien debt to consolidated last-twelve-months trailing adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, and certain other non-cash transaction adjustments as defined in the credit agreement) ratio of not more than 2.50:1.00 for April 1, 2009 to September 30, 2010; and 3.00:1.00 for December 31, 2010 through maturity. At June 30, 2009 the company's first lien debt to consolidated last-twelve-months trailing adjusted EBITDA was 0.28. In addition, beginning with the twelve month period ending December 31, 2010, and at all times through the maturity date, a total debt to consolidated adjusted EBITDA ratio of not more than 5.00:1.00 must be maintained. The company was in compliance with these covenants at June 30, 2009, and expects to remain in compliance over the next twelve months.

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The amendment also activated a monthly borrowing base requirement. The borrowing base is determined by 85% of eligible accounts receivable and 65% of eligible inventory.

In addition, if the total debt to EBITDA ratio exceeds 3.50:1.00, 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 million per quarter.

5.125% Convertible Senior Notes

In June 2009 the company issued \$287.5 million of 5.125% convertible senior notes due 2014. Note holders can convert the notes into shares of the company's common stock at an initial conversion rate of 56.9801 per \$1,000 principal amount of notes. The net proceeds from these notes along with the issuance of common stock was slightly more than \$675 million and was used to prepay the term A loan as well as repay a portion of the company's revolving credit facility.

Note 6. Changes in Stockholders' Equity

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

	Stockholders of Steel Dynamics, Inc.							
		Common	Additional	Retained	Other	Treasury	Noncontrolling	
	Total	Stock	Paid-In	Earnings	Accumulated	Stock	Interests	
			Capital		Comprehensive			
					Income (Loss)			
Balances at January 1, 2009	\$ 1,632,313	\$ 545	\$ 541,686	\$ 1,820,385	\$ (1,411)	\$ (737,319)	\$ 8,427	
Issuance of common stock (net of expenses) and proceeds from exercise of stock options, including related tax effect	410,489	81	410,408					
Dividends declared	(34,324)			(34,324)				
Contribution from noncontrolling investor	5,000							5,000
	2,968							2,968

Tax adjustment to noncontrolling interest									
Equity-based compensation and issuance of restricted stock	12,921		6,464				6,457		
Comprehensive income and net loss	(104,884)			(103,853)		1,411		(2,442)	
Balances at June 30, 2009	\$ 1,924,483	\$ 626	\$ 958,558	\$ 1,682,208	\$	\$ (730,862)	\$	13,953	

In June 2009 Steel Dynamics, Inc. completed a public offering of 31,050,000 shares of its common stock at a public offering price of \$13.50. Net proceeds of the offering along with the issuance of the 5.125% convertible senior notes was slightly more than \$675 million, after deducting underwriting discounts, commissions, and offering expenses.

Note 7. Derivative Financial Instruments

Financial Accounting Standards Board Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (FAS 133) requires companies to recognize all of their derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge or a cash flow hedge.

The company is exposed to certain risks relating to its ongoing business operations. The primary risks mitigated by using derivative instruments by the company are commodity margin risk, interest rate risk, and foreign currency exchange rate risk. Forward contracts on various commodities are entered into to manage the price risk associated with forecasted purchases and sales of non-ferrous materials from the company's metals recycling and ferrous resources operations. Interest rate swaps are entered into to manage interest rate risk associated with the company's fixed and floating-rate borrowings. Forward exchange contracts on various foreign currencies are entered into to manage the foreign currency exchange rate risk as necessary.

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

In accordance with FAS 133, the company designated its interest rate swap, which was terminated in June 2009, as a cash flow hedge of floating-rate borrowings. Forward contracts on various commodities and forward exchange contracts on various foreign currencies are not designated as hedging instruments.

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

Commodity futures contracts. The following summarizes the company's commodity futures contract commitments as of June 30, 2009 (MT represents metric tons and Lbs represents pounds):

Commodity	Long/Short	Total
Aluminum	Long	12,500MT
Aluminum	Short	13,700MT
Copper	Long	8,471MT
Copper	Short	5,296MT
Nickel	Long	36MT
Nickel	Short	708MT
Silver	Long	686Lbs
Silver	Short	2,400Lbs

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, 2009 and December 31, 2008, and for the three and six-month periods ended June 30, 2009 and 2008 (in thousands):

Location in Consolidated Balance Sheets		Fair Value	Fair Value
		June 30, 2009	December 31, 2008
Commodity futures net liability	Accrued expenses	\$ 6,521	\$ 38,371
Interest rate swap liability	Accrued expenses		2,294
Location in Consolidated Statements of Operations		Gain for Three Months Ended	Loss for Three Months Ended
		June 30, 2009	June 30, 2008
Commodity futures contracts	Costs of goods sold	\$ 1,856	\$ 4,628

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Interest rate swap	Other comprehensive income	395
Interest rate swap	Other expense	1,350

			Gain for Six Months Ended June 30, 2009		Gain for Six Months Ended June 30, 2008
	Location in Consolidated Statements of Operations				
Commodity futures contracts	Costs of goods sold	\$	13,317	\$	9,867
Interest rate swap	Other comprehensive income		944		
Interest rate swap	Other expense		1,350		

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 8. Fair Value Measurements

FASB Statement No. 157 (FAS 157), *Fair Value Measurements*, provides a comprehensive framework for measuring fair value and expands disclosures which are required about fair value measurements. Specifically, FAS 157 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. FAS 157 defines levels within the hierarchy as follows:

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

The following table sets forth financial assets and liabilities measured at fair value in the consolidated balance sheets and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of June 30, 2009, and December 31, 2008 (in thousands):

		Quoted Prices in Active Markets for Identical Assets (Level 1)				Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		June 30, 2009					
Commodity futures	financial assets	\$	7,184	\$		\$	7,184
Commodity futures	financial liabilities	\$	13,705	\$		\$	13,705
		Quoted Prices in Active Markets for Identical Assets (Level 1)				Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		December 31, 2008					
Commodity futures	financial assets	\$	15,866	\$		\$	15,866
Interest rate swap		\$	2,294	\$		\$	2,294
Commodity futures			54,237				54,237
Financial liabilities		\$	56,531	\$		\$	56,531

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

The carrying amounts of financial instruments including cash and equivalents, accounts receivable and accounts payable approximate fair value, because of the relatively short maturity of these instruments. The fair value of long-term debt, including current maturities, was approximately \$2.0 billion and \$2.1 billion at June 30, 2009, and December 31, 2008, respectively.

Note 9. Commitments and Contingencies

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

On September 17, 2008, Steel Dynamics, Inc. 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. Six additional lawsuits, each of them materially similar to the original, have also been filed in the same federal court, each of them likewise seeking similar class certification. All but one of the Complaints purport to be brought on behalf of a class consisting of all direct purchasers of steel products between January 1, 2005 and the present. The other Complaint purports to be brought on behalf of a class consisting of all indirect purchasers of steel products within the same time period. All Complaints seek treble damages and costs, including

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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. Although the company believes that the lawsuits are without merit and plans to aggressively defend these actions, the company cannot presently predict the outcome of this litigation or make any judgment with respect to its potential exposure, if any.

On March 18, 2009, Steel Dynamics, Inc., together with its Chairman and Chief Executive Officer, Keith E. Busse, and John Bates, a member of its board of directors, were served with a complaint, captioned Panasuk v. Steel Dynamics, Inc., et al., Civil Action No. 1109cv0066, filed in the United States District Court for the Northern District of Indiana, Fort Wayne Division, and purporting to represent a class of purchasers of Steel Dynamics common stock between January 26, 2009 and March 11, 2009. The complaint, which was amended on July 13, 2009, alleges securities fraud in connection with the company's issuance of certain earnings guidance and seeks damages in an unspecified amount. The company believes that the complaint is without merit and will appropriately defend its interests.

Note 10. 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 All 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, All Other also includes certain unallocated corporate accounts, such as the company's senior secured credit facilities, senior notes, certain other investments, and certain profit sharing expenses.

The company's operations are primarily organized and managed by operating segment. Operating segment performance and resource allocations are primarily based on operating results before income taxes. The accounting policies of the reportable segments are consistent with those described in Note 1 to the financial statements. Refer to the company's Annual Report on Form 10-K for the year ended December 31, 2008, for more information related to the company's segment reporting. Inter-segment sales and any related profits are eliminated in consolidation. The company's segment results for the three and six-month periods ended June 30 are as follows (in thousands):

For the three months ended June 30, 2009	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication Operations	Other	Eliminations	Consolidated
Net Sales						
External	\$ 494,873	\$ 213,070	\$ 36,470	\$ 8,337	\$	\$ 752,750
External Non-U.S.	12,020	27,328		60		39,408
Other segments	15,811	68,540	556	1,163	(86,070)	
	522,704	308,938	37,026	9,560	(86,070)	792,158
Operating income (loss)	32,699	(6,887)	(38)	(8,602)(1)	(10,888)(2)	6,284
	16,319	(15,683)	(1,295)	(16,324)	(14,562)	(31,545)

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Income (loss) before income taxes						
Depreciation and amortization	25,996	27,299	1,490	2,980		57,765
Capital expenditures	12,690	60,406	17	53		73,166
As of June 30, 2009						
Assets	2,203,502	2,142,622	158,364	598,232(3)	(220,908)(4)	4,881,812
Liabilities	184,559	211,557	8,930	2,735,762(5)	(183,479)(6)	2,957,329

Footnotes related to June 30, 2009 segment results (in millions):

(1)	Corporate SG&A	\$	(9.2)
	Other income		0.6
		\$	(8.6)
(2)	Margin impact from inter-company sales	\$	(10.9)
(3)	Deferred tax asset	\$	317.0
	Income taxes receivable		125.9
	Debt issuance costs		27.7
	Other		127.6
		\$	598.2
(4)	Elimination of inter-company receivables	\$	(19.4)
	Deferred taxes elimination		(111.0)
	Other		(90.5)
		\$	(220.9)
(5)	Debt	\$	2,101.5
	Deferred taxes		507.5
	Other		126.8
		\$	2,735.8
(6)	Deferred taxes elimination	\$	(113.5)
	Intercompany debt		(57.6)
	Other		(12.3)
		\$	(183.4)

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended June 30, 2008

	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication Operations	Other	Eliminations	Consolidated
Net Sales						
External	\$ 1,453,845	\$ 691,057	\$ 93,237	\$ 43,265	\$	\$ 2,281,404
External Non-U.S.	70,810	51,557		168		122,535
Other segments	100,517	418,337	51	828	(519,733)	
	1,625,172	1,160,951	93,288	44,261	(519,733)	2,403,939
Operating income (loss)	327,543	80,339	4,361	(45,581)	(7,790)	358,872
Income (loss) before income taxes	312,255	85,770	2,085	(52,025)	(7,787)	340,298
Depreciation and amortization	27,661	17,297	1,909	715		47,582
Capital expenditures	61,371	34,524	3,931	1,399		101,225

As of June 30, 2008

Assets	2,904,625	2,695,655	267,443	310,916	(135,050)	6,043,589
Liabilities	531,454	497,303	14,343	3,105,607	(92,670)	4,056,037

For the six months ended June 30, 2009

	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication Operations	Other	Eliminations	Consolidated
Net Sales						
External	\$ 983,013	\$ 435,469	\$ 97,255	\$ 19,444	\$	\$ 1,535,181
External Non-U.S.	28,922	42,635		70		71,627
Other segments	37,883	127,242	578	2,219	(167,922)	
	1,049,818	605,346	97,833	21,733	(167,922)	1,606,808
Operating income (loss)	(36,215)	(31,353)	2,962	(22,148)	(20,565)	(107,319)
Income (loss) before income taxes	(69,581)	(49,872)	59	(35,691)	(25,566)	(180,651)
Depreciation and amortization	50,688	57,107	3,247	3,686		114,728
Capital expenditures	43,778	104,070	(449)	105		147,504

As of June 30, 2009

Assets	2,203,502	2,142,622	158,364	598,232(3)	(220,908)(4)	4,881,812
Liabilities	184,559	211,557	8,930	2,735,762(5)	(183,479)(6)	2,957,329

For the six months ended June 30, 2008

	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication Operations	Other	Eliminations	Consolidated
Net Sales						
External	\$ 2,589,662	\$ 1,257,238	\$ 171,694	\$ 76,873	\$	\$ 4,095,467
External Non-U.S.	118,322	92,135		220		210,677
Other segments	173,990	615,342	117	1,195	(790,644)	
	2,881,974	1,964,715	171,811	78,288	(790,644)	4,306,144
Operating income (loss)	562,100	127,515	8,005	(70,255)	(16,086)	611,279

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Income (loss) before income taxes	532,368	131,811	4,333	(81,725)	(16,083)	570,704
Depreciation and amortization	61,653	34,117	3,744	1,280		100,794
Capital expenditures	125,743	56,797	9,168	3,281		194,989
As of June 30, 2008						
Assets	2,904,625	2,695,655	267,443	310,916	(135,050)	6,043,589
Liabilities	531,454	497,303	14,343	3,105,607	(92,670)	4,056,037

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 11. Condensed Consolidating Information

Certain 100%-owned subsidiaries of SDI have fully and unconditionally guaranteed all of the indebtedness relating to the issuance of the company's senior notes due 2012, 2015, and 2016 and convertible senior notes due 2014. Following are the company's condensed consolidating financial statements, including the guarantors, which present the financial position, results of operations and cash flows of (i) SDI (in each case, reflecting investments in its consolidated subsidiaries under the equity method of accounting), (ii) the guarantor subsidiaries of SDI, (iii) the non-guarantor subsidiaries of SDI, and (iv) the eliminations necessary to arrive at the information for the company on a consolidated basis. The following statements should be read in conjunction with the accompanying consolidated financial statements and the company's Annual Report on Form 10-K for the year ended December 31, 2008.

Condensed Consolidating Balance Sheets (in thousands)

As of June 30, 2009	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Cash and equivalents	\$ 5,032	\$ 12,024	\$ 1,161	\$	\$ 18,217
Accounts receivable, net	162,971	427,995	4,355	(230,585)	364,736
Inventories	430,363	290,419	20,330	(2,642)	738,470
Other current assets	233,585	11,903	291	(65,671)	180,108
Total current assets	831,951	742,341	26,137	(298,898)	1,301,531
Property, plant and equipment, net	1,178,378	743,074	222,908		2,144,360
Intangible assets, net		557,194			557,194
Goodwill		780,321			780,321
Other assets, including investments in subs	2,327,031	312,303	8,891	(2,549,819)	98,406
Total assets	\$ 4,337,360	\$ 3,135,233	\$ 257,936	\$ (2,848,717)	\$ 4,881,812
Accounts payable	\$ 82,294	\$ 134,459	\$ 28,708	\$ (18,015)	\$ 227,446
Accrued expenses	83,664	102,209	826	(40,805)	145,894
Current maturities of long-term debt	114,787	262	14,906	(14,906)	115,049
Total current liabilities	280,745	236,930	44,440	(73,726)	488,389
Long-term debt	2,002,598	50	92,342	(65,098)	2,029,892
Other liabilities	376,153	2,304,923	15,809	(2,257,837)	439,048
Common stock	626	19,753	7,713	(27,466)	626
Treasury stock	(730,862)				(730,862)
Additional paid-in capital	958,558	117,753	105,000	(222,753)	958,558
Retained earnings	1,449,542	455,824	(21,321)	(201,837)	1,682,208
Total Steel Dynamics, Inc. stockholders equity	1,677,864	593,330	91,392	(452,056)	1,910,530
Noncontrolling interests			13,953		13,953
Total stockholders' equity	1,677,864	593,330	105,345	(452,056)	1,924,483
Total liabilities and stockholders' equity	\$ 4,337,360	\$ 3,135,233	\$ 257,936	\$ (2,848,717)	\$ 4,881,812

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As of December 31, 2008	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Cash and equivalents	\$ 1,389	\$ 11,514	\$ 3,330	\$	\$ 16,233
Accounts receivable, net	266,709	461,366	8,410	(233,553)	502,932
Inventories	612,731	369,412	23,408	17,684	1,023,235
Other current assets	126,969	46,949	351	(6,754)	167,515
Total current assets	1,007,798	889,241	35,499	(222,623)	1,709,915
Property, plant and equipment, net	1,186,317	751,904	134,636		2,072,857
Intangible assets, net		614,786			614,786
Goodwill		770,438			770,438
Other assets, including investments in subs	2,480,319	259,610	8,922	(2,663,270)	85,581
Total assets	\$ 4,674,434	\$ 3,285,979	\$ 179,057	\$ (2,885,893)	\$ 5,253,577
Accounts payable	\$ 119,969	\$ 124,009	\$ 43,322	\$ (23,907)	\$ 263,393
Accrued expenses	165,547	155,962	3,910	(49,054)	276,365
Current maturities of long-term debt	431,172	51	14,906	(14,906)	431,223
Total current liabilities	716,688	280,022	62,138	(87,867)	970,981
Long-term debt	2,219,085	76	6,703	(6,703)	2,219,161
Other liabilities	353,294	2,424,175	4,175	(2,350,522)	431,122
Common stock	545	19,753	7,833	(27,586)	545
Treasury stock	(737,319)				(737,319)
Additional paid-in capital	541,686	117,753	101,973	(219,726)	541,686
Other accumulated comprehensive loss	(1,411)				(1,411)
Retained earnings	1,581,866	444,200	(12,192)	(193,489)	1,820,385
Total Steel Dynamics, Inc. stockholders equity	1,385,367	581,706	97,614	(440,801)	1,623,886
Noncontrolling interests			8,427		8,427
Total stockholders' equity	1,385,367	581,706	106,041	(440,801)	1,632,313
Total liabilities and stockholders' equity	\$ 4,674,434	\$ 3,285,979	\$ 179,057	\$ (2,885,893)	\$ 5,253,577

Condensed Consolidating Statements of Operations (in thousands)

For the three months ended, June 30, 2009	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net sales	\$ 346,848	\$ 845,858	\$ 9,559	\$ (410,107)	\$ 792,158
Costs of goods sold	321,467	787,150	9,057	(394,353)	723,321
Gross profit	25,381	58,708	502	(15,754)	68,837
Selling, general and administrative	7,925	59,428	3,087	(7,887)	62,553
Operating income (loss)	17,456	(720)	(2,585)	(7,867)	6,284
Interest expense, net capitalized interest	20,542	12,793	516	3,192	37,043
Other (income) expense, net	25,457	(25,009)	5	333	786
Income (loss) before income taxes and equity in net income of subsidiaries	(28,543)	11,496	(3,106)	(11,392)	(31,545)
Income taxes (benefit)	(13,611)	6,068	(1,220)	(6,261)	(15,024)
	(14,932)	5,428	(1,886)	(5,131)	(16,521)
Equity in net income of subsidiaries	3,542			(3,542)	

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Net loss attributable to noncontrolling interests					(530)		(530)
Net income (loss) attributable to Steel Dynamics, Inc.	\$	(11,390)	\$	5,428	\$	(1,356)	\$ (8,673) (15,991)

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended, June 30, 2008	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net sales	\$ 1,142,874	\$ 2,792,637	\$ 44,396	\$ (1,575,968)	\$ 2,403,939
Costs of goods sold	866,128	2,598,870	39,999	(1,580,713)	1,924,284
Gross profit	276,746	193,767	4,397	4,745	479,655
Selling, general and administrative	68,821	55,524	2,957	(6,519)	120,783
Operating income	207,925	138,243	1,440	11,264	358,872
Interest expense, net capitalized interest	18,436	15,353	186	1,500	35,475
Other (income) expense, net	73,116	(90,170)	(56)	209	(16,901)
Income before income taxes and equity in net income of subsidiaries	116,373	213,060	1,310	9,555	340,298
Income taxes	44,222	78,141	209	6,441	129,013
	72,151	134,919	1,101	3,114	211,285
Equity in net income of subsidiaries	136,020			(136,020)	
Net income attributable to noncontrolling interests			791		791
Net income attributable to Steel Dynamics, Inc.	\$ 208,171	\$ 134,919	\$ 310	\$ (132,906)	\$ 210,494

For the six months ended, June 30, 2009	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net sales	\$ 696,651	\$ 1,710,831	\$ 21,733	\$ (822,407)	\$ 1,606,808
Costs of goods sold	736,702	1,610,448	23,520	(792,072)	1,578,598
Gross profit (loss)	(40,051)	100,383	(1,787)	(30,335)	28,210
Selling, general and administrative	35,991	104,897	6,019	(11,378)	135,529
Operating loss	(76,042)	(4,514)	(7,806)	(18,957)	(107,319)
Interest expense, net capitalized interest	40,994	27,279	795	4,226	73,294
Other (income) expense, net	51,126	(51,737)	22	627	38
Income (loss) before income taxes and equity in net income of subsidiaries	(168,162)	19,944	(8,623)	(23,810)	(180,651)
Income taxes (benefit)	(70,163)	8,320	(2,579)	(9,934)	(74,356)
	(97,999)	11,624	(6,044)	(13,876)	(106,295)
Equity in net income of subsidiaries	5,580			(5,580)	
Net loss attributable to noncontrolling interests			(2,442)		(2,442)
Net income (loss) attributable to Steel Dynamics, Inc.	\$ (92,419)	\$ 11,624	\$ (3,602)	\$ (19,456)	\$ (103,853)

For the six months ended, June 30, 2008	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net sales	\$ 2,007,943	\$ 4,874,949	\$ 78,423	\$ (2,655,171)	\$ 4,306,144
Costs of goods sold	1,528,142	4,522,739	71,173	(2,642,874)	3,479,180
Gross profit	479,801	352,210	7,250	(12,297)	826,964
Selling, general and administrative	118,161	103,277	5,082	(10,835)	215,685
Operating income	361,640	248,933	2,168	(1,462)	611,279
Interest expense, net capitalized interest	34,959	28,644	349	1,330	65,282
Other (income) expense, net	131,511	(156,430)	(198)	410	(24,707)
Income before income taxes and equity in net income of subsidiaries	195,170	376,719	2,017	(3,202)	570,704
Income taxes	74,165	138,119	297	3,806	216,387

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

	121,005	238,600	1,720	(7,008)	354,317
Equity in net income of subsidiaries	240,320			(240,320)	
Net income attributable to noncontrolling interests			1,266		1,266
Net income attributable to Steel Dynamics, Inc.	\$ 361,325	\$ 238,600	\$ 454	\$ (247,328)	\$ 353,051

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Condensed Consolidating Statements of Cash Flows (in thousands)

For the six months ended, June 30, 2009	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net cash provided by (used in) operating activities	\$ 71,891	\$ 148,666	\$ (19,542)	\$ 85,346	\$ 286,361
Net cash used in investing activities	(31,559)	(37,494)	(88,964)		(158,017)
Net cash provided by (used in) financing activities	(36,689)	(110,662)	106,337	(85,346)	(126,360)
Increase (decrease) in cash and equivalents	3,643	510	(2,169)		1,984
Cash and equivalents at beginning of period	1,389	11,514	3,330		16,233
Cash and equivalents at end of period	\$ 5,032	\$ 12,024	\$ 1,161	\$	\$ 18,217
For the six months ended, June 30, 2008	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net cash provided by operating activities	\$ 304,370	\$ 10,695	\$ 8,229	\$ (54,407)	\$ 268,887
Net cash used in investing activities	(339,044)	(95,697)	(47,626)		(482,367)
Net cash provided by financing activities	59,202	146,976	39,814	54,407	300,399
Increase in cash and equivalents	24,528	61,974	417		86,919
Cash and equivalents at beginning of period	6,327	20,096	2,063		28,486
Cash and equivalents at end of period	\$ 30,855	\$ 82,070	\$ 2,480	\$	\$ 115,405

Table of Contents

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 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 prolonged or deepening recession on industrial demand; general or specific sector (i.e., automotive, consumer appliance or construction) economic conditions affecting steel consumption; the impact of price competition, whether domestic or the result of foreign imports; difficulties in integrating acquired businesses; 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, 2008, 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, and on our web site, 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 net tons 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 cogs), 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 materials, material transportation costs, and processing expenses. The principal elements of these costs for our 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 coverage, property taxes, profit-sharing, and amortization of intangible assets.

Interest Expense, net Capitalized Interest. Interest expense consists of interest associated with our senior credit facilities and other debt (described in the notes to our financial statements included in our 2008 Annual Report on Form 10-K and in note 5 of this report) net of capitalized interest costs that are related to capital projects during the related construction period.

Other (Income) Expense, net. Other income consists of interest income earned on our cash balances and any other non-operating income activity, including gains on certain short-term investments and income from equity investments. Other expense consists of any non-operating costs, including the expense from the termination of an interest rate swap contract related to the term A loan in the second quarter of 2009.

Acquisition

On June 9, 2008, we completed our acquisition of Recycle South, one of the nation's largest, privately-held, regional scrap metal recycling companies, headquartered in Spartanburg, South Carolina. OmniSource (which already owned 25% of Recycle South), acquired the remaining 75% equity interest for a purchase price of approximately \$376.3 million. We paid approximately \$236.6 million in cash, including transaction costs, and issued 3,938,000 shares of Steel Dynamics, Inc. common stock valued at \$139.8 million. In addition, we assumed \$144.9 million of net debt, of which approximately \$142.8 million was repaid upon the closing of the acquisition.

We purchased Recycle South to expand our metals recycling business. Recycle South operates as a division of OmniSource and provides a significant presence in the southeastern United States through its 22 locations within North Carolina, South Carolina, and Georgia. Recycle South's consolidated operating results have been reflected in our financial statements since June 9, 2008, in the metals recycling and ferrous resources reporting segment.

Table of Contents**Second Quarter Operating Results 2009 vs. 2008**

Outlook. Net loss was \$16.0 million, or \$.08 per diluted share, during the second quarter of 2009, compared with net income of \$210.5 million, or \$1.05 per diluted share, during the second quarter of 2008. As is the case throughout the global steel industry, we have been adversely impacted in recent quarters by the overall economic recession. We have, however, begun to see positive trends in volumes and order entry activity during the past two months at some of our operations, specifically in our flat-rolled steel and metals recycling operations. Given the high-variability of our cost structure and additional measures we have taken in recent quarters to further reduce costs, we believe that we are well positioned in the near term to capitalize on increasing demand for our products.

Gross Profit. When comparing the second quarter of 2009 with the second quarter of 2008, our net sales decreased \$1.6 billion, or 67%, to \$792.2 million. Our gross profit percentage was 9% during the second quarter of 2009 as compared to 20% for the second quarter of 2008, and as compared to a negative 5% on a linked-quarter basis (and positive 5% excluding the first quarter's inventory write down). Our improved gross profit percentage on a linked-quarter basis is primarily the result of increasing volumes coupled with lower cost raw material inputs and production costs.

Steel Operations

	Three Months Ended June 30,		Six Months Ended June 30,		First Quarter 2009
	2009	2008	2009	2008	
Shipments (net tons)					
Flat Roll Division	454,745	706,281	758,683	1,391,601	303,938
Structural and Rail Division	96,476	286,150	226,031	585,837	129,555
Engineered Bar Products Division	63,124	145,085	134,664	293,033	71,540
Roanoke Bar Division	89,112	136,582	165,722	287,950	76,610
Steel of West Virginia	54,959	80,334	98,083	156,058	43,124
The Techs	127,290	262,908	245,649	524,919	118,359
Total shipments	885,706	1,617,340	1,628,832	3,239,398	743,126
Intra-company	(47,590)	(124,128)	(99,602)	(254,813)	(52,012)
External shipments	838,116	1,493,212	1,529,230	2,984,585	691,114

Steel operations accounted for 60% and 56% of our net sales during the second quarter of 2009 and 2008, respectively. Second quarter 2009 shipments were down dramatically compared to the same period in 2008 at all our steel operations divisions due to the current depressed economic climate compared to the historically high operating levels of a year ago. We did, however, experience increased linked-quarter shipments at all our steel operations divisions, with the exception of the Structural and Rail and Engineered Bar Products divisions. The market for these products remain weaker due to the continued weakness in the non-residential construction and heavy equipment industries.

Our second quarter 2009 average steel operations selling price per ton shipped decreased \$417 compared with the second quarter of 2008 and \$126 compared with the first quarter of 2009. While weak global demand for steel products continued to put downward pressure on selling prices during the second quarter, we have recently experienced increased order entry, sales activity, and pricing for our flat rolled products. Steel service center customers, which are the largest customer base of our flat roll shipments, have resumed purchasing of steel products after an extended destocking effort. We anticipate continued strong order entry and capacity utilization in our flat rolled steel divisions into the next quarter (including The Techs), while long products will likely continue to lag somewhat due to on-going destocking efforts within their customer

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

base. Stagnant non-residential construction activity, driven by the weak economy and lack of available financing for construction projects, has resulted in continued low volumes and product pricing within our long products divisions, particularly our Structural and Rail and Engineered Bar Products divisions.

Table of Contents

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 decreased \$279 compared with the second quarter of 2008, and \$79 on a linked-quarter basis. During the second quarter of 2009 and 2008, respectively, our metallic raw material costs represented 45% and 57% of our steel operations manufacturing costs, excluding the operations of The Techs, which purchases, rather than produces, the steel it further processes. We anticipate steel scrap prices to remain relatively stable during the remainder of 2009.

Metals Recycling and Ferrous Resources Operations

	Three Months Ended June 30,		Six Months Ended June 30,		First Quarter 2009
	2009	2008	2009	2008	
Ferrous metals shipments (net tons)					
Total	840,199	1,506,902	1,570,068	2,898,284	729,869
Intra-company	(313,023)	(654,117)	(527,776)	(1,118,010)	(214,753)
External	527,176	852,785	1,042,292	1,780,274	515,116
Non-ferrous metals shipments (thousands of pounds)	169,784	254,147	360,178	492,935	190,394
Iron Dynamics shipments (net tons)					
Liquid pig iron	44,392	52,342	85,618	97,785	41,226
Hot briquetted iron	1,483	10,947	21,809	30,689	20,326
Other	29	3,438	703	6,247	674
	45,904	66,727	108,130	134,721	62,226

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Metals recycling and ferrous resources operations accounted for 35% and 40% of our net sales during the second quarters of 2009 and 2008, respectively. Our metals recycling operations primarily engage in the brokerage, collection and processing of ferrous and non-ferrous metals for resale to steel companies, brokers and other metals processors. During the second quarter of 2009, this segment recorded external shipments of 527,000 tons of ferrous metals and 169.8 million pounds of non-ferrous materials, compared with 853,000 tons and 254.1 million pounds during the same period in 2008. On a linked-quarter basis, external shipments of ferrous metals increased by 12,000 tons while shipments of non-ferrous metals decreased by 20.6 million pounds. External shipments for the quarter fell substantially compared to the same period in 2008, in spite of the acquisition in June 2008 of Recycle South. Due to the global economic recession, electric arc furnace utilization has been running at levels below 50% utilization, thus contributing to the weakened demand for ferrous metals. Conversely, the market for non-ferrous materials, particularly copper, has shown modest signs of strengthening, with demand from China appearing to be the primary driver. The market for aluminum products, however, has remained more stagnant, thus driving our linked-quarter decrease in non-ferrous shipments.

We anticipate ferrous material costs to remain relatively stable during the remainder of 2009, as suppressed demand is being offset by limited supply due to low levels of manufacturing activity, which generates most of our supply of industrial scrap. While flows of scrap have increased modestly in recent months, it is anticipated that increasing steel mill utilization will likely work to sustain current price levels.

Table of Contents

Steel Fabrication Operations

Steel fabrication operations accounted for 4% and 3% of our net sales during the second quarters of 2009 and 2008, respectively. Our average steel fabrication operations selling price per ton shipped decreased \$180, or 15%, during the second quarter of 2009 when compared with 2008, and decreased \$296, or 22%, on a linked-quarter basis. The purchase of various steel products is the largest single cost of production for our steel fabrication operations. During the second quarters of 2009 and 2008, respectively, the cost of steel products purchased represented 71% and 77% of the total cost of manufacturing for our steel fabrication operations. In spite of the weak economy and decreased activity in non-residential construction, our steel fabrication segment was able to operate at an approximately break-even operating level in the second quarter of 2009. We anticipate non-residential construction activity to remain slow during the remainder of 2009, resulting in decreased shipping volumes and selling prices for this segment of our operations, and putting downward pressure on operating income levels.

Selling, General and Administrative Expenses. Selling, general and administrative expenses (including profit sharing and amortization of intangible assets) were \$62.6 million during the second quarter of 2009, as compared to \$120.8 million during the second quarter of 2008, a decrease of \$58.2 million, or 48%. Our selling, general and administrative expenses represented 8% and 5% of our total net sales during the second quarters of 2009 and 2008, respectively. The percentage increase is primarily a result of the significant decline in net sales in the second quarter of 2009 compared with the prior year.

The decrease in our selling, general and administrative expenses was significantly due to reduced levels of performance-based compensation and not incurring profit sharing expense during the second quarter of 2009 as a result of the quarter's net loss. During the second quarter of 2008, we recorded expense of \$23.8 million related to our Steel Dynamics performance-based profit sharing plan. During 2008 our board of directors modified the contribution percentage for this plan to consist of 2% of consolidated pretax earnings plus a unique percentage of each of our operating segments' pretax earnings. The resulting total contribution percentage was 8% of consolidated pretax earnings during the second quarter of 2008. During the second quarter of 2008, we recorded additional profit sharing expense of \$3.1 million related to certain subsidiaries whose employees did not participate in the aforementioned plan.

Amortization of intangible assets increased \$5.9 million during the second quarter of 2009 compared to the same period in 2008. This increase includes \$2.1 million of additional amortization of intangible assets required to be recorded due to the adjustment of the purchase price allocation and intangible asset valuations related to the acquisition of Recycle South in June 2008. The Recycle South valuation of finite-lived intangibles is now final, which will result in slightly lower quarterly amortization expense on a prospective basis than what was recorded during the first half of 2009.

Interest Expense, net Capitalized Interest. During the second quarter of 2009, gross interest expense increased \$671,000, or 2%, to \$41.7 million, and capitalized interest decreased \$896,000 to \$4.6 million, when compared to the same period in 2008. During the second quarter we prepaid the term A loan, which resulted in the recording of an additional \$2.2 million of interest expense due to the write off of the related capitalized financing costs. 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. Our weighted-average interest rate on our outstanding borrowings was 6.0% and 5.8% at June 30, 2009 and March 31, 2009, respectively. We currently anticipate gross interest expense to decrease during the remainder of 2009 due, in part, to the repayment of certain debt obligations in June 2009.

Table of Contents

Other (Income) Expense, net. Other expense was \$786,000 during the second quarter of 2009, as compared to other income of \$16.9 million during the same period in 2008. During the second quarter of 2009, the company recorded an expense of \$1.3 million from the termination of an interest rate swap contract related to the term A loan. During the second quarter of 2008, other income of \$14.9 million was attributable to earnings from investments in scrap procurement and processing entities which were accounted for under the equity method of accounting. As of the date of its acquisition, Recycle South, which was \$14.0 million of other income during the second quarter of 2008, is no longer included in other income, as its results are consolidated in our financial statements after acquisition.

Income Taxes (Benefit). During the second quarter of 2009, our income tax provision was a benefit of \$15.0 million, as compared to expense of \$129.0 million during the same period in 2008. Our effective income tax rate was 48.4% and 37.9% during the second quarters of 2009 and 2008, respectively. Our second quarter 2009 effective income tax rate was impacted by an increase to the FIN 48 reserve. We estimate that our effective income tax rate will be 41.3% for the remainder of 2009. However, this could change if our actual earnings in the second half of 2009 are materially different than currently anticipated. We account for income taxes and the related accounts under the liability method. Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted rates expected to be in effect during the year in which the basis differences reverse.

Included in the amount of unrecognized tax benefits at June 30, 2009, are potential benefits of \$38.2 million that, if recognized, would affect our effective tax rate. We recognize interest and penalties related to our tax contingencies on a net-of-tax basis in income tax expense. During the six-month period ended June 30, 2009, we recognized interest of \$549,000, net of tax, and benefits from the reduction of penalties of \$56,000. At June 30, 2009, we had \$7.9 million accrued for the payment of interest and penalties.

We file income tax returns in the U.S. federal jurisdiction and in various state jurisdictions. The state of Indiana completed its examination of the calendar years 2000 through 2005 in the third quarter of 2008. We paid additional taxes of \$20.7 million as a result of the examinations. This amount was recorded as an unrecognized tax benefit when we adopted Financial Accounting Standards Board (FASB) Interpretation 48 (FIN 48) on January 1, 2007. It is reasonably possible that the amount of unrecognized tax benefits could change in the next twelve months as a result of state income tax audits. Based on current audits in process, the payment of additional taxes could be in an amount from zero to \$2.0 million during 2009, primarily related to state nexus issues. With few exceptions, we are no longer subject to federal, state and local income tax examinations by tax authorities for years ended before 2005.

First Six Months Operating Results 2009 vs. 2008

Net loss was \$103.9 million or \$.56 per diluted share during the first six months of 2009, compared with net income of \$353.1 million or \$1.77 per diluted share during the first six months of 2008.

Gross Profit. When comparing the first six months of 2009 with the same period in 2008, our net sales decreased \$2.7 billion, or 63%, to \$1.6 billion. Our gross margin percentage was 2% during the first six months of 2009 as compared to 19% during the first six months of 2008. First six months 2009 financial results include the operations of Recycle South. The primary driver of the decrease in our year-to-year gross margin percentage was the global economic recession which has had an adverse impact on our shipping volumes and average selling prices.

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$135.5 million during the first six months of 2009, as compared to \$215.7 million during the same period in 2008, a decrease of \$80.2 million, or 37%. During the first six months of 2009 and 2008, selling, general and administrative expenses represented approximately 8% and 5% of net sales, respectively. The decrease in selling, general and administrative expenses in the first six months of 2009 compared to the first six months of 2008 primarily relates to not recording profit sharing expense during 2009, an expense of \$40.1 million during the first six months of 2008, as well as cost-cutting measures we have taken during the first half of this year.

Interest Expense, net Capitalized Interest. During the first six months of 2009, gross interest expense increased \$5.1 million, or 7%, to \$81.0 million, and capitalized interest decreased \$2.9 million, or 27%, to \$7.7 million as compared to the same period in 2008. The increase in gross interest expense for the first six months of 2009 compared to the first six months of 2008 is a result of increased borrowings for, among other things, capital outlays for our expansion projects. The increase is also due to the prepayment the term A loan, which resulted in the recording of an additional \$2.2 million of interest expense due to the write off of the related capitalized financing costs. The interest capitalization that occurred during these periods primarily resulted from the interest required to be capitalized with respect to construction activities at our Structural and Rail division and our Mesabi Nugget operations.

Other (Income) Expense, net. Other expense was \$38,000 during the first six months of 2009, as compared to other income of \$24.7 million during the same period in 2008. During the second quarter of 2009, the company recorded an expense of \$1.3 million from the termination of an interest rate swap contract related to the term A loan. During 2008, other income of \$21.6 million was attributable to earnings from investments in scrap procurement and processing entities which were accounted for under the equity method of accounting. As of the date of its acquisition, Recycle South, which was \$20.4 million of other income during the first six months of 2008, is no longer included in other income, as its results are consolidated in our financial statements after acquisition.

Income Taxes. During the first six months of 2009, our income tax provision was a benefit of \$74.4 million, as compared to expense of \$216.4 million during the same period in 2008. During the first six months of 2009 and 2008, our effective income tax rates were 41.7% and 37.9%, respectively. Our first half 2009 effective income tax rate was impacted by an increase to the FIN 48 reserve. We estimate that our effective income tax rate will be 41.3% for the remainder of 2009. However, this could change if our actual earnings in the second half of 2009 are materially different than currently anticipated.

Table of Contents

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, state and local grants and capital cost reimbursements.

Working Capital. During the first half of 2009, our operational working capital position, representing our cash invested in trade receivables and inventories less trade payables and accruals decreased \$256.5 million to \$729.9 million compared to December 31, 2008. Trade receivables decreased \$138.2 million, or 27%, during the first half of 2009 to \$364.7 million, of which 92% were current or less than 60 days past due. Our largest customer is an affiliated company, Heidtman Steel, which represented 6% and 10% of our outstanding trade receivables at June 30, 2009 and December 31, 2008, respectively. Trade receivables declined substantially during the first half of 2009 due to decreased shipping volumes and product prices as compared to the latter half of 2008. The dollar value of our raw materials, primarily steel scrap inventories, decreased by approximately \$220.6 million during the first half of 2009. Approximately \$78.9 million of this decrease related to the \$83.3 million non-cash inventory write down taken during the first quarter. Steel scrap inventory volumes, including both steel operations and metals recycling and ferrous resources, decreased by 188,000 gross tons during the first half of 2009. The dollar value of total inventories decreased \$284.8 million, or 28%, to \$738.5 million during the first half of 2009, with volumes of work-in-process and finished goods inventories decreasing 14,000 net tons, or 4%. Our trade payables and general accruals decreased \$166.4 million, or 31%, during the first half of 2009. This is a reflection of the slowdown in our production process and commodity raw material prices purchased during the first half of 2009 to match the decrease in the demand for our products, as well as the payment in March 2009 of \$61.7 million of accrued profit sharing related to calendar year 2008.

Capital Expenditures. During the first half of 2009, we invested \$147.5 million in property, plant and equipment, of which \$19.1 million related primarily to the addition of a second rolling mill at our Structural and Rail Division, \$14.7 million related to metals recycling operations and \$88.9 million related to construction at Mesabi Nugget, our planned iron-nugget manufacturing facility and related mining operations. The other capital expenditures of \$24.8 million primarily represented maintenance projects at our other facilities. We believe these capital investments will benefit our net sales and related cash flows as each project reaches completion.

Capital Resources and Long-term Debt. During the first half of 2009, our total outstanding debt decreased \$505.4 million to \$2.1 billion, primarily because we prepaid our term A loan in June 2009. 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 and our total stockholders' equity, was 53% and 62% at June 30, 2009 and December 31, 2008, respectively. At June 30, 2009, there were outstanding borrowings of \$114.0 million under our \$874.0 million 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.

An amendment to the credit agreement was completed on June 12, 2009. This amendment made certain adjustments to the covenant structure. The current financial covenants state that we must maintain an interest coverage ratio of not less than 1.25:1.00 for June 30, 2009 to

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

December 31, 2009; 2.00:1.00 for March 31, 2010 to June 30, 2010; and 2.50:1.00 for September 30, 2010 and through maturity.

We must also maintain a first lien debt to consolidated last-twelve-months trailing adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, and certain other non-cash transaction adjustments as defined in the credit agreement) ratio of not more than 2.50:1.00 for April 1, 2009 to September 30, 2010; and 3.00:1.00 for December 31, 2010 through maturity. In addition, beginning with the twelve month period ending December 31, 2010 and at all times thereafter, a total debt to consolidated adjusted EBITDA ratio of not more than 5.00:1.00 must be maintained. We were in compliance with these covenants at June 30, 2009 and expect to remain in compliance during the next twelve months.

In June 2009 we completed a public offering of 31,050,000 shares of our common stock at a public offering price of \$13.50. Concurrent with the issuance of common stock, we issued \$287.5 million of 5.125% convertible senior notes due 2014. The net proceeds of slightly more than \$675 million from these notes and the sale of common stock were used to prepay the term A loan in the amount of \$552.0 million and to repay a portion of our revolving credit facility.

Cash Dividends. We declared cash dividends of \$34.3 million, or \$.175 per share, during the first half of 2009 and \$38.7 million, or \$.20 per share, during the first half of 2008. We paid cash dividends of \$36.4 million and \$33.2 million during the first half of 2009 and 2008, respectively. Our board of directors, along with executive management, approves the payment of dividends on a quarterly basis. The board of directors, during the second quarter of 2009, declared a dividend of .075 per common share, a decrease from the .10 declared in the first quarter, to be distributed to shareholders of record at the close of business on June 30, 2009. 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.

Table of Contents

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 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, will be adequate for the next two years for making required payments of principal and interest on our indebtedness, funding working capital requirements and anticipated capital expenditures.

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 material adverse effect on our financial condition, results of operations, or liquidity; however, environmental laws and regulations are subject to change, and we may become subject to more stringent environmental laws and regulations in the future.

[Table of Contents](#)

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. A portion of our debt has an interest component that resets on a periodic basis to reflect current market conditions. During the quarter we terminated an interest rate swap agreement (Swap Agreement) with a notional amount of \$185 million that was associated with our term A portion of our senior secured credit facility. Under the terms of the Swap Agreement, we were entitled to receive on the 28th of each month interest payments at a floating-rate based on the one month LIBOR rate, and we were obligated to make interest payments on the 28th of each month at a fixed rate of 2.21%. We incurred additional interest expense of \$1.5 million during the quarter as a result of the termination of this contract.

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 commodities utilized within our production process has generally been to make certain commitments with suppliers relating to future expected requirements for such commodities. Certain commitments contain provisions which require us to take or pay for specified quantities without regard to actual usage for periods of up to 23 months for physical commodity requirements and for up to 12 years for commodity transportation requirements. We fully utilized all 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. 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, 2009, 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, 2008.

In our metals recycling operations, we have certain fixed price contracts with various customers for future delivery of nonferrous metals. Our risk strategy has generally 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, 2009 we had a cumulative unrealized loss primarily associated with these financial contracts of \$6.5 million. We expect the customer contracts to be fully consummated.

ITEM 4. CONTROLS AND PROCEDURES

(a) **Evaluation of Disclosure Controls and Procedures.** Our management, with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2009. The term disclosure controls and procedures, as we use that term and as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures that are designed to provide reasonable assurance that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that information is accumulated and communicated to management, including the principal executive and financial officer, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of June 30, 2009, our principal executive officer and our principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective.

(b) ***Changes in Internal Controls Over Financial Reporting.*** During the quarter ended June 30, 2009, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended June 30, 2009, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

On September 17, 2008, Steel Dynamics, Inc. 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. Six additional lawsuits, each of them materially similar to the original, have also been filed in the same federal court, each of them likewise seeking similar class certification. All but one of the Complaints purport to be brought on behalf of a class consisting of all direct purchasers of steel products between January 1, 2005 and the present. The other Complaint purports to be brought on behalf of a class consisting of all indirect purchasers of steel products within the same time period. All Complaints seek treble damages and costs, including reasonable attorney fees, pre- and post-judgment interest and injunctive relief. On January 2, 2009, Steel Dynamics and the other defendants filed a Joint Motion to Dismiss all of the direct purchaser lawsuits. On June 12, 2009, however, the Court denied the Motion. Although the company believes that the lawsuits are without merit and plans to aggressively defend these actions, the company cannot presently predict the outcome of this litigation or make any judgment with respect to its potential exposure, if any.

On March 18, 2009, Steel Dynamics, Inc., together with its Chairman and Chief Executive Officer, Keith E. Busse, and John Bates, a member of its board of directors, were served with a complaint, captioned Panasuk v. Steel Dynamics, Inc., et al., Civil Action No. 1109cv0066, filed in the United States District Court for the Northern District of Indiana, Fort Wayne Division, purporting to represent a class of purchasers of Steel Dynamics common stock between January 26, 2009 and March 11, 2009. The complaint, which was amended on July 13, 2009, alleges securities fraud in connection with the company's issuance of certain earnings guidance and seeks damages in an unspecified amount. The company believes that the complaint is without merit and will appropriately defend its interests.

ITEM 1A. RISK FACTORS

No material changes have occurred to the indicated risk factors as disclosed in our 2008 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Following are the results of matters submitted to a vote of shareholders at the Steel Dynamics Annual Shareholders Meeting held May 21, 2009.

- With respect to Proposal No. 1 in our Proxy Statement (Election of Directors):

Director	Shares Voted For	Shares Voted
		Against or Withheld
Keith E. Busse	132,787,655	27,341,964
Mark D. Millett	133,411,409	26,718,210
Richard P. Teets, Jr.	133,276,553	26,853,066
John C. Bates	124,137,970	35,991,650
Dr. Frank D. Byrne	134,615,156	25,514,463
Paul B. Edgerley	139,607,460	20,522,159
Richard J. Freeland	134,444,339	25,685,280
Dr. Jürgen Kolb	129,804,806	30,324,813
James C. Marcuccilli	139,502,803	20,626,816
Joseph D. Ruffolo	134,662,233	25,467,386

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Table of Contents

- With respect to Proposal No. 2 in our Proxy Statement (Approval of Ernst & Young LLP as Auditors for the Year 2009), Ernst & Young LLP was approved as our independent auditors for the year 2009:

Shares Voted For	136,495,649
Shares Voted Against	23,513,184
Abstentions	120,786

- With respect to Proposal No. 3 in our Proxy Statement (Give Proxies Discretion to Vote on Any Other Matters):

Shares Voted For	61,259,028
Shares Voted Against	96,356,475
Abstentions	2,514,116

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Bylaws

3.2b* Amended and Restated Bylaws of Steel Dynamics, Inc., effective July 31, 2009, reflecting new Section 3.15.

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

* Filed concurrently herewith

Table of Contents

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 7, 2009

STEEL DYNAMICS, INC.

By: /s/ Theresa E. Wagler
Theresa E. Wagler
Chief Financial Officer