

STEEL DYNAMICS INC
Form 10-Q
November 06, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 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

35-1929476

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(State or other jurisdiction of incorporation or organization)

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

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

46804
(Zip Code)

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

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 November 3, 2009, Registrant had 215,626,562 outstanding shares of common stock.

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STEEL DYNAMICS, INC.

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STEEL DYNAMICS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2009 (unaudited)	December 31, 2008
Assets		
Current assets		
Cash and equivalents	\$ 8,094	\$ 16,233
Accounts receivable, net	448,902	453,011
Accounts receivable-related parties	31,495	49,921
Inventories	835,079	1,023,235
Deferred income taxes	37,631	23,562
Income taxes receivable	92,755	86,321
Other current assets	14,820	57,632
Total current assets	1,468,776	1,709,915
Property, plant and equipment, net	2,214,998	2,072,857
Restricted cash	12,480	18,515
Intangible assets, net	545,327	614,786
Goodwill	759,983	770,438
Other assets	107,400	67,066
Total assets	\$ 5,108,964	\$ 5,253,577
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 353,122	\$ 259,742
Accounts payable-related parties	6,085	3,651
Accrued expenses	91,376	148,627
Accrued interest	63,067	30,874
Accrued payroll and benefits	38,585	34,303
Accrued profit sharing	507	62,561
Senior secured revolving credit facility, due 2012	85,000	366,000
Current maturities of long-term debt	1,145	65,223
Total current liabilities	638,887	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	63,563	15,361
	2,051,063	2,219,161
Deferred income taxes	362,520	365,496
Other liabilities	68,411	65,626
Commitments and contingencies		

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Stockholders' equity

Common stock voting, \$.0025 par value; 900,000,000 shares authorized; 252,148,525 and 218,733,363 shares issued; and 215,558,699 and 181,820,012 shares outstanding, as of September 30, 2009 and December 31, 2008, respectively	628	545
Treasury stock, at cost; 36,589,826 and 36,913,351 shares, as of September 30, 2009 and December 31, 2008, respectively	(730,857)	(737,319)
Additional paid-in capital	967,103	541,686
Other accumulated comprehensive loss		(1,411)
Retained earnings	1,735,060	1,820,385
Total Steel Dynamics, Inc. stockholders' equity	1,971,934	1,623,886
Noncontrolling interests	16,149	8,427
Total stockholders' equity	1,988,083	1,632,313
Total liabilities and stockholders' equity	\$ 5,108,964	\$ 5,253,577

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net sales				
Unrelated parties	\$ 1,129,024	\$ 2,479,655	\$ 2,689,971	\$ 6,582,741
Related parties	43,172	84,288	89,033	287,346
Total net sales	1,172,196	2,563,943	2,779,004	6,870,087
Costs of goods sold	955,503	2,118,737	2,534,101	5,597,917
Gross profit	216,693	445,206	244,903	1,272,170
Selling, general and administrative expenses	56,133	72,723	162,012	223,353
Profit sharing	451	30,800	409	76,204
Amortization of intangible assets	11,661	10,765	41,353	30,416
Total selling, general and administrative expenses	68,245	114,288	203,774	329,973
Operating income	148,448	330,918	41,129	942,197
Interest expense, net capitalized interest	34,520	37,446	107,814	102,728
Other income, net	(2,167)	(8,342)	(2,129)	(33,048)
Income (loss) before income taxes	116,095	301,814	(64,556)	872,517
Income taxes (benefit)	47,365	114,070	(26,991)	330,456
Net income (loss)	68,730	187,744	(37,565)	542,061
Net loss attributable to noncontrolling interests	(288)	(5,264)	(2,730)	(3,998)
Net income (loss) attributable to Steel Dynamics, Inc.	\$ 69,018	\$ 193,008	\$ (34,835)	\$ 546,059
Basic earnings (loss) per share attributable to Steel Dynamics, Inc. stockholders	\$.32	\$.99	\$ (.18)	\$ 2.85
Weighted average common shares outstanding	215,218	195,347	195,689	191,579
Diluted earnings (loss) per share attributable to Steel Dynamics, Inc. stockholders, including the effect of assumed conversions when dilutive	\$.30	\$.98	\$ (.18)	\$ 2.75
Weighted average common shares and share equivalents outstanding	234,080	196,859	195,689	198,840
Dividends declared per share	\$.075	\$.10	\$.25	\$.30

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Operating activities:				
Net income (loss) attributable to Steel Dynamics, Inc.	\$ 69,018	\$ 193,008	\$ (34,835)	\$ 546,059
Adjustments to reconcile net income (loss) attributable to Steel Dynamics, Inc. to net cash provided by operating activities				
Depreciation and amortization	51,915	55,359	166,643	156,153
Equity-based compensation	2,887	3,293	14,779	9,976
Deferred income taxes	8,341	(2,047)	21,833	(9,893)
(Gain) loss on disposal of property, plant and equipment	(276)	27	(1,023)	(208)
Noncontrolling interests	(288)	(3,365)	(2,730)	(2,099)
Changes in certain assets and liabilities:				
Accounts receivable	(117,442)	89,664	18,354	(307,540)
Inventories	(96,062)	(135,430)	192,331	(353,125)
Other assets	40,052	(33,670)	43,296	(46,719)
Accounts payable	130,610	(133,911)	82,763	230,269
Income taxes payable	2,432	(32,114)	1,027	5,743
Accrued expenses	45,495	76,421	(79,395)	117,507
Net cash provided by operating activities	136,682	77,235	423,043	346,123
Investing activities:				
Purchases of property, plant and equipment	(95,662)	(115,636)	(243,166)	(310,625)
Acquisition of businesses, net of cash acquired				(271,159)
Purchase of securities				(20,373)
Sale of securities		32,533		32,758
Investment in direct financing lease	(27,967)		(27,967)	
Other investing activities	(2,857)	(1,753)	(13,370)	2,176
Net cash used in investing activities	(126,486)	(84,856)	(284,503)	(567,223)
Financing activities:				
Issuance of current and long-term debt	240,586	1,186,000	949,330	2,190,900
Repayment of current and long-term debt	(251,219)	(814,665)	(1,451,666)	(1,449,820)
Debt issuance costs	(221)	(28)	(13,972)	(7,544)
Issuance of common stock (net of expenses) and proceeds from exercise of stock options, including related tax effect	6,645	2,029	417,134	19,483
Purchase of treasury stock		(439,166)		(485,293)
Contribution from noncontrolling investor			5,000	
Dividends paid	(16,110)	(19,819)	(52,505)	(52,977)
Net cash provided by (used in) financing activities	(20,319)	(85,649)	(146,679)	214,749
Decrease in cash and equivalents	(10,123)	(93,270)	(8,139)	(6,351)
Cash and equivalents at beginning of period	18,217	115,405	16,233	28,486

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Cash and equivalents at end of period	\$	8,094	\$	22,135	\$	8,094	\$	22,135
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Supplemental disclosure information:

Cash paid for interest	\$	3,849	\$	7,982	\$	83,282	\$	76,701
Cash paid for federal and state income taxes, net of refunds	\$	228	\$	153,938	\$	(53,546)	\$	315,847

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Description of the Business, 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 57% and 53% of the company's net sales during the three-month periods ended September 30, 2009 and 2008, respectively, and 58% and 55% of the company's net sales during the nine-month periods ended September 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 40% and 42% of the company's net sales during the three-month periods ended September 30, 2009 and 2008, respectively, and 37% and 40% of the company's net sales during the nine-month periods ended September 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 2% and 4% of the company's net sales during the three-month periods ended September 30, 2009 and 2008, respectively, and 4% and 3% of the company's net sales during the nine-month periods ended September 30, 2009 and 2008, respectively.

Significant Accounting Policies

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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. 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 \$2.1 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 2006.

Included in the amount of unrecognized tax benefits at September 30, 2009, are potential benefits of \$17.5 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 nine-month period ended September 30, 2009, the company recognized interest expense of \$1.0 million net of tax, and benefits from the reduction of penalties of \$49,000. At September 30, 2009, the company had \$8.7 million accrued for the payment of interest and penalties.

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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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income (loss)	\$ 69,018	\$ 193,008	\$ (34,835)	\$ 546,059
Reversal of unrealized gain upon sale of available-for-sale securities, net of tax		(5,011)		(21)
Unrealized gain on interest rate swap, net of tax			581	
Reversal of unrealized loss on interest rate swap, net of tax			830	
Comprehensive income (loss)	\$ 69,018	\$ 187,997	\$ (33,424)	\$ 546,038

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

	September 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

In June 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification was issued. The standard established the Accounting Standards Codification as the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP), and is effective for interim and annual periods ending after September 15, 2009. The company has adopted the standard as of September 30, 2009. Other than the manner in which accounting guidance is referenced, the adoption had no impact on the company's financial statements.

On January 1, 2009, the company adopted guidance issued by the FASB on fair value measurements 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. The guidance defines fair value, establishes a framework for measuring fair value in 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, as it relates to nonfinancial assets and nonfinancial liabilities, had no impact on the company's financial statements for the three or nine months ended September 30, 2009. The provisions 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.

On January 1, 2009, the company adopted guidance issued by the FASB on disclosures about derivative instruments and hedging activities. The guidance 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, 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 had no impact on the company's financial statements.

On January 1, 2009, the company adopted guidance issued by the FASB to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Noncontrolling interest, previously called a minority interest, is defined as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. Guidance 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 were applied retrospectively. The adoption did not have a material impact on the company's financial statements.

On January 1, 2009, the company adopted guidance issued by the FASB on business combinations, 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. In a business combination, including business combinations achieved in stages (step acquisition), the acquirer is required 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, it requires acquisition-related costs to be expensed in the period in which the costs are incurred and the services are

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

received instead of including such costs as part of the acquisition price. The adoption has not had a material impact on the company's financial statements.

On January 1, 2009, the company adopted guidance issued by the FASB on the determination of the useful life of intangible assets, which 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 prior guidance in order to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The adoption had no impact on the company's financial statements.

On January 1, 2009, the company adopted guidance issued by the FASB on determining whether instruments granted in share-based payment transactions are participating securities, which 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 had no impact on the company's financial statements.

The company adopted guidance issued by the FASB on disclosures about fair value of financial instruments, as of March 31, 2009. The guidance 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 had no impact on the company's financial statements.

On June 30, 2009, the company adopted guidance issued by the FASB on subsequent events. It discusses management's assessment of subsequent events and incorporates this guidance into accounting literature. It 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 November 6, 2009, the date its consolidated financial statements were filed with the SEC.

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 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 2009 the company adjusted the initial 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):

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	December 31, 2008		Adjustments		September 30, 2009	
Current assets	\$	213,513	\$	(2,400)	\$	211,113
Property, plant & equipment		94,484		5,322		99,806
Intangible assets		155,000		(29,000)		126,000
Goodwill		272,355		28,978		301,333
Other assets		5,406		(926)		4,480
Total assets acquired		740,758		1,974		742,732
Current liabilities, excluding debt		94,015		1,974		95,989
Debt		144,947				144,947
Total liabilities assumed		238,962		1,974		240,936
Net assets acquired	\$	501,796	\$		\$	501,796

Goodwill and intangible assets of \$301.3 million and \$126.0 million, respectively, were recorded as a result of the acquisition. The goodwill is deductible for tax purposes.

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	

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 nine-month periods ended September 30, 2009 were \$4.1 and \$17.2 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 September 30)	\$	21,366
2010		16,483
2011		12,802
2012		10,620
2013		8,492
Thereafter		51,233
Total	\$	120,996

Note 3. 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 senior notes and are excluded from the computation in periods in which they have an anti-dilutive effect.

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 September 30,					
	Net Income (Numerator)	2009 Shares (Denominator)	Per Share Amount	Net Income (Numerator)	2008 Shares (Denominator)	Per Share Amount
Basic earnings per share	\$ 69,018	215,218	\$.32	\$ 193,008	195,347	\$.99
Dilutive stock option effect		2,480			978	
Convertible subordinated 4.0% notes				13	534	
5.125% convertible senior notes	2,211	16,382				
Diluted earnings per share	\$ 71,229	234,080	\$.30	\$ 193,021	196,859	\$.98

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	Nine Months Ended September 30					
	Net Loss (Numerator)	2009 Shares (Denominator)	Per Share Amount	Net Income (Numerator)	2008 Shares (Denominator)	Per Share Amount
Basic earnings (loss) per share	\$ (34,835)	195,689	\$ (.18)	\$ 546,059	191,579	\$ 2.85
Dilutive stock option effect					1,370	
Convertible subordinated 4.0% notes				429	5,891	
5.125% convertible senior notes						
Diluted earnings (loss) per share	\$ (34,835)	195,689	\$ (.18)	\$ 546,488	198,840	\$ 2.75

As of September 30, 2009, all of the company's convertible subordinated 4.0% notes have been converted. Options to purchase 1.3 million and 2.8 million shares were anti-dilutive for the three and nine-month periods ending September 30, 2009, respectively. Options to purchase 580,000 were anti-dilutive and excluded for the three and nine-month periods ending September 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):

	September 30, 2009	December 31, 2008
Raw materials	\$ 395,926	\$ 554,815
Supplies	220,431	224,710
Work-in-progress	62,254	57,489
Finished goods	156,468	186,221
Total inventories	\$ 835,079	\$ 1,023,235

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 September 30, 2009 the company's interest coverage ratio was 1.90. 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 September 30, 2009 the company's first lien debt to consolidated last-twelve-months trailing adjusted EBITDA was 0.39:1.00. 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 September 30, 2009, and expects to remain in compliance over the next twelve months.

The amendment also activated a monthly borrowing base requirement on the revolving credit facility. The borrowing base is determined by 85% of eligible accounts receivable and 65% of eligible inventory. The borrowing base exceeded the revolving credit facility's capacity at September 30, 2009.

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.							
	Total	Common Stock	Additional Paid-In Capital	Retained Earnings	Other Accumulated Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interests	
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	417,134	83	417,051					
Dividends declared	(50,490)			(50,490)				
Contributions from noncontrolling investors	5,000						5,000	
Change in noncontrolling investment	2,366						2,366	
Tax adjustment to noncontrolling interest	3,086						3,086	
Equity-based compensation and issuance of restricted stock	14,828		8,366			6,462		
Comprehensive income and net loss	(36,154)			(34,835)	1,411		(2,730)	
Balances at September 30, 2009	\$ 1,988,083	\$ 628	\$ 967,103	\$ 1,735,060	\$	\$ (730,857)	\$ 16,149	

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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.

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 September 30, 2009 (MT represents metric tons and Lbs represents pounds):

Commodity	Long/Short	Total	
Aluminum	Long	5,975	MT
Aluminum	Short	5,450	MT
Copper	Long	7,416	MT
Copper	Short	9,548	MT
Nickel	Long	582	MT
Nickel	Short	1,104	MT
Silver	Short	1,371	Lbs

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

	Location in Consolidated Balance Sheets	Fair Value September 30, 2009	Fair Value December 31, 2008
Commodity futures net asset	Other current assets	\$ 2,400	\$
Commodity futures net liability	Accrued expenses		38,371
Interest rate swap liability	Accrued expenses		2,294

	Location in Consolidated Statements of Operations	Loss for Three Months Ended September 30, 2009	Loss for Three Months Ended September 30, 2008
Commodity futures contracts	Costs of goods sold	\$ 469	\$ 2,994

	Location in Consolidated Statements of Operations	Gain for Nine Months Ended September 30, 2009	Gain for Nine Months Ended September 30, 2008
Commodity futures contracts	Costs of goods sold	\$ 12,848	\$ 6,873
Interest rate swap	Other comprehensive income	944	
Interest rate swap	Other expense	1,350	

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 8. Fair Value Measurements

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

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

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

		September 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Commodity futures	financial assets	\$ 5,728	\$	\$ 5,728	\$
Commodity futures	financial liabilities	\$ 3,328	\$	\$ 3,328	\$
		December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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	\$

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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 \$2.2 billion and \$2.1 billion at September 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. All briefs have been filed and oral argument was held on October 8, 2009.

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

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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. On August 31, 2009, the company and Messrs. Busse and Bates filed Motions to Dismiss the amended complaint. 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 and other debt, 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 nine-month periods ended September 30 are as follows (in thousands):

For the three months ended September 30, 2009	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication Operations	Other	Eliminations	Consolidated
Net Sales						
External	\$ 725,635	\$ 351,788	\$ 32,310	\$ 12,871	\$	\$ 1,122,604
External Non-U.S.	17,455	32,094		43		49,592
Other segments	28,096	171,351	620	1,517	(201,584)	
	771,186	555,233	32,930	14,431	(201,584)	1,172,196
Operating income (loss)	125,178	36,915	(3,291)	(6,279)(1)	(4,075)(2)	148,448
	110,085	27,516	(4,577)	(12,854)	(4,075)	116,095

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Income (loss) before income taxes					
Depreciation and amortization	26,455	23,079	1,449	932	51,915
Capital expenditures	13,701	81,743	(26)	244	95,662

As of September 30, 2009

Assets	2,297,886	2,230,991	154,089	636,580(3)	(210,582)(4)	5,108,964
Liabilities	279,415	323,227	8,682	2,717,413(5)	(207,856)(6)	3,120,881

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

(1) Corporate SG&A	\$	(7.8)
Other income		1.5
	\$	(6.3)

(2) Margin impact from inter-company sales	\$	(4.1)
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(3) Deferred tax asset	\$	287.8
Income taxes receivable		92.8
Debt issuance costs		25.9
Fixed assets		30.3
Intercompany debt receivable		104.8
Other		95.0
	\$	636.6

(4) Elimination of inter-company receivables	\$	(31.4)
Deferred taxes elimination		(86.4)
Elimination of intercompany debt		(104.8)
Other		12.0
	\$	(210.6)

(5) Debt	\$	2,076.2
Deferred taxes		476.2
Accrued Interest		62.3
Other		102.7
	\$	2,717.4

(6) Deferred taxes elimination	\$	(90.6)
Intercompany debt		(104.3)
Other		(13.0)
	\$	(207.9)

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended September 30, 2008	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication Operations	Other	Eliminations	Consolidated
Net Sales						
External	\$ 1,436,195	\$ 788,205	\$ 110,084	\$ 32,630	\$	\$ 2,367,114
External Non-U.S.	115,463	81,297		69		196,829
Other segments	112,294	469,345	442	436	(582,517)	
	1,663,952	1,338,847	110,526	33,135	(582,517)	2,563,943
Operating income (loss)	278,300	95,830	4,430	(61,618)	13,976	330,918
Income (loss) before income taxes	261,961	82,351	2,318	(58,792)	13,976	301,814
Depreciation and amortization	27,798	24,340	1,919	1,302		55,359
Capital expenditures	54,679	59,608	911	438		115,636

As of September 30, 2008

Assets	3,098,925	2,484,008	283,356	344,398	(155,808)	6,054,879
Liabilities	510,370	360,374	15,396	3,547,089	(117,744)	4,315,485

For the nine months ended September 30, 2009	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication Operations	Other	Eliminations	Consolidated
Net Sales						
External	\$ 1,708,648	\$ 787,257	\$ 129,565	\$ 32,315	\$	\$ 2,657,785
External Non-U.S.	46,377	74,729		113		121,219
Other segments	65,979	298,593	1,198	3,736	(369,506)	
	1,821,004	1,160,579	130,763	36,164	(369,506)	2,779,004
Operating income (loss)	88,963	5,562	(329)	(28,427)	(24,640)	41,129
Income (loss) before income taxes	40,504	(22,356)	(4,518)	(48,545)	(29,641)	(64,556)
Depreciation and amortization	77,143	80,186	4,696	4,618		166,643
Capital expenditures	57,479	185,813	(475)	349		243,166

As of September 30, 2009

Assets	2,297,886	2,230,991	154,089	636,580(3)	(210,582)(4)	5,108,964
Liabilities	279,415	323,227	8,682	2,717,413(5)	(207,856)(6)	3,120,881

For the nine months ended September 30, 2008	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication Operations	Other	Eliminations	Consolidated
Net Sales						
External	\$ 4,025,859	\$ 2,045,443	\$ 281,778	\$ 109,501	\$	\$ 6,462,581
External Non-U.S.	233,784	173,432		290		407,506
Other segments	286,284	1,084,687	559	1,631	(1,373,161)	
	4,545,927	3,303,562	282,337	111,422	(1,373,161)	6,870,087
Operating income (loss)	840,400	223,345	12,435	(131,873)	(2,110)	942,197
Income (loss) before income taxes	794,329	214,162	6,651	(140,517)	(2,108)	872,517
Depreciation and amortization	89,451	58,457	5,663	2,582		156,153
Capital expenditures	180,422	116,405	10,079	3,719		310,625

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As of September 30, 2008						
Assets	3,098,925	2,484,008	283,356	344,398	(155,808)	6,054,879
Liabilities	510,370	360,374	15,396	3,547,089	(117,744)	4,315,485

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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 September 30, 2009	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Cash and equivalents	\$ 703	\$ 6,351	\$ 1,040	\$	\$ 8,094
Accounts receivable, net	208,099	511,526	6,868	(246,096)	480,397
Inventories	458,276	353,821	30,364	(7,382)	835,079
Other current assets	253,074	5,434	477	(113,779)	145,206
Total current assets	920,152	877,132	38,749	(367,257)	1,468,776
Property, plant and equipment, net	1,164,544	740,561	309,893		2,214,998
Intangible assets, net		545,327			545,327
Goodwill		759,983			759,983
Other assets, including investments in subs	2,325,222	316,370	8,918	(2,530,630)	119,880
Total assets	\$ 4,409,918	\$ 3,239,373	\$ 357,560	\$ (2,897,887)	\$ 5,108,964
Accounts payable	\$ 147,555	\$ 209,158	\$ 32,498	\$ (30,004)	\$ 359,207
Accrued expenses	117,377	114,129	1,452	(39,423)	193,535
Current maturities of long-term debt	85,795	350	14,906	(14,906)	86,145
Total current liabilities	350,727	323,637	48,856	(84,333)	638,887
Long-term debt	2,002,501	38	161,807	(113,283)	2,051,063
Other liabilities	344,005	2,281,937	33,402	(2,228,413)	430,931
Common stock	628	19,753	7,713	(27,466)	628
Treasury stock	(730,857)				(730,857)
Additional paid-in-capital	967,103	117,753	112,437	(230,190)	967,103
Retained earnings	1,475,811	496,255	(22,804)	(214,202)	1,735,060
Total Steel Dynamics, Inc. stockholders' equity	1,712,685	633,761	97,346	(471,858)	1,971,934
Noncontrolling interests			16,149		16,149
Total stockholders' equity	1,712,685	633,761	113,495	(471,858)	1,988,083
Total liabilities and stockholders equity	\$ 4,409,918	\$ 3,239,373	\$ 357,560	\$ (2,897,887)	\$ 5,108,964

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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, September 30, 2009	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net sales	\$ 532,431	\$ 1,323,768	\$ 12,505	\$ (696,508)	\$ 1,172,196
Costs of goods sold	427,132	1,203,069	11,123	(685,821)	955,503
Gross profit	105,299	120,699	1,382	(10,687)	216,693
Selling, general and administrative	16,611	53,360	3,580	(5,306)	68,245
Operating income (loss)	88,688	67,339	(2,198)	(5,381)	148,448
Interest expense, net capitalized interest	18,298	14,002	1,201	1,019	34,520
Other (income) expense, net	(88)	(3,004)	(17)	942	(2,167)
	70,478	56,341	(3,382)	(7,342)	116,095

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Income (loss) before income taxes and
equity in net income of subsidiaries

Income taxes (benefit)	27,518	24,983	(1,470)	(3,666)	47,365
	42,960	31,358	(1,912)	(3,676)	68,730
Equity in net income of subsidiaries	29,446			(29,446)	
Net loss attributable to noncontrolling interests			(288)		(288)
Net income (loss) attributable to Steel Dynamics, Inc.	\$ 72,406	\$ 31,358	\$ (1,624)	\$ (33,122)	\$ 69,018

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended, September 30, 2008	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net sales	\$ 1,187,112	\$ 2,987,157	\$ 33,219	\$ (1,643,545)	\$ 2,563,943
Costs of goods sold	939,794	2,775,282	44,576	(1,640,915)	2,118,737
Gross profit	247,318	211,875	(11,357)	(2,630)	445,206
Selling, general and administrative	69,506	46,755	2,004	(3,977)	114,288
Operating income (loss)	177,812	165,120	(13,361)	1,347	330,918
Interest expense, net capitalized interest	16,653	19,223	221	1,349	37,446
Other (income) expense, net	72,947	(81,462)	(52)	225	(8,342)
Income (loss) before income taxes and equity in net income of subsidiaries	88,212	227,359	(13,530)	(227)	301,814
Income taxes (benefit)	32,815	83,291	(5,141)	3,105	114,070
	55,397	144,068	(8,389)	(3,332)	187,744
Equity in net income of subsidiaries	135,679			(135,679)	
Net loss attributable to noncontrolling interests			(5,264)		(5,264)
Net income (loss) attributable to Steel Dynamics, Inc.	\$ 191,076	\$ 144,068	\$ (3,125)	\$ (139,011)	\$ 193,008

For the nine months ended, September 30, 2009	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net sales	\$ 1,229,082	\$ 3,034,599	\$ 34,238	\$ (1,518,915)	\$ 2,779,004
Costs of goods sold	1,163,834	2,813,517	34,643	(1,477,893)	2,534,101
Gross profit	65,248	221,082	(405)	(41,022)	244,903
Selling, general and administrative	52,602	158,257	9,599	(16,684)	203,774
Operating income (loss)	12,646	62,825	(10,004)	(24,338)	41,129
Interest expense, net capitalized interest	59,292	41,281	1,996	5,245	107,814
Other (income) expense, net	51,038	(54,741)	5	1,569	(2,129)
Income (loss) before income taxes and equity in net income of subsidiaries	(97,684)	76,285	(12,005)	(31,152)	(64,556)
Income taxes (benefit)	(42,645)	33,303	(4,049)	(13,600)	(26,991)
	(55,039)	42,982	(7,956)	(17,552)	(37,565)
Equity in net income of subsidiaries	35,026			(35,026)	
Net loss attributable to noncontrolling interests			(2,730)		(2,730)
Net income (loss) attributable to Steel Dynamics, Inc.	\$ (20,013)	\$ 42,982	\$ (5,226)	\$ (52,578)	\$ (34,835)

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended, September 30, 2008	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net sales	\$ 3,195,055	\$ 7,862,106	\$ 111,642	\$ (4,298,716)	\$ 6,870,087
Costs of goods sold	2,467,936	7,298,021	115,749	(4,283,789)	5,597,917
Gross profit	727,119	564,085	(4,107)	(14,927)	1,272,170
Selling, general and administrative	187,667	150,032	7,086	(14,812)	329,973
Operating income (loss)	539,452	414,053	(11,193)	(115)	942,197
Interest expense, net capitalized interest	51,612	47,867	570	2,679	102,728
Other (income) expense, net	204,459	(237,892)	(250)	635	(33,048)
Income (loss) before income taxes and equity in net income of subsidiaries	283,381	604,078	(11,513)	(3,429)	872,517
Income taxes (benefit)	106,979	221,410	(4,363)	6,430	330,456
	176,402	382,668	(7,150)	(9,859)	542,061
Equity in net income of subsidiaries	375,518			(375,518)	
Net loss attributable to noncontrolling interests			(3,998)		(3,998)
Net income (loss) attributable to Steel Dynamics, Inc.	\$ 551,920	\$ 382,668	\$ (3,152)	\$ (385,377)	\$ 546,059

Condensed Consolidating Statements of Cash Flows (in thousands)

For the nine months ended, September 30, 2009	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net cash provided by (used in) operating activities	\$ 95,162	\$ 170,207	\$ (27,478)	\$ 185,152	\$ 423,043
Net cash used in investing activities	(71,030)	(55,211)	(158,262)		(284,503)
Net cash provided by (used in) financing activities	(24,818)	(120,159)	183,450	(185,152)	(146,679)
Decrease in cash and equivalents	(686)	(5,163)	(2,290)		(8,139)
Cash and equivalents at beginning of period	1,389	11,514	3,330		16,233
Cash and equivalents at end of period	\$ 703	\$ 6,351	\$ 1,040	\$	\$ 8,094

For the nine months ended, September 30, 2008	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net cash provided by operating activities	\$ 448,458	\$ 162,963	\$ 9,383	\$ (274,681)	\$ 346,123
Net cash used in investing activities	(355,025)	(132,383)	(79,815)		(567,223)
Net cash provided by (used in) financing activities	(99,042)	(32,716)	71,826	274,681	214,749
Increase (decrease) in cash and equivalents	(5,609)	(2,136)	1,394		(6,351)
Cash and equivalents at beginning of period	6,327	20,096	2,063		28,486
Cash and equivalents at end of period	\$ 718	\$ 17,960	\$ 3,457	\$	\$ 22,135

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

Forward-Looking Statements

This report contains some predictive statements about future events, including statements related to conditions in the steel and recycled metals marketplaces, our revenue, costs of purchased materials, future profitability and earnings, and the operation of new or existing facilities. These statements are intended to be made as forward-looking, subject to many risks and uncertainties, within the safe harbor protections of the Private Securities Litigation Reform Act of 1995. Such predictive statements are not guarantees of future performance, and actual results could differ materially from our current expectations. Factors that could cause such predictive statements to turn out other than as anticipated or predicted include, among others: the effects of a prolonged or deepening recession on industrial demand; general or specific sector (i.e., automotive, consumer appliance or construction) economic conditions affecting steel or recycled metals 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 volumes shipped, product mix and related pricing. We charge premium prices for certain grades of steel, product dimensions, certain smaller volumes, and for value-added processing or coating of the steel products. Except for our steel fabrication operations segment, we recognize revenue from sales and the allowance for estimated costs associated with returns from these sales at the time the title of the product is transferred to the customer. Provision is made for estimated product returns and customer claims based on estimates and actual historical experience. Net sales from steel fabrication operations are recognized from construction contracts utilizing a percentage-of-completion method, which is based on the percentage of steel consumed to date as compared to the estimated total steel required for each contract.

Costs of Goods Sold. Our costs of goods sold represent all direct and indirect costs associated with the manufacture of our products. The principal elements of these costs for our steel operations are steel scrap and scrap substitutes (which represent the most significant single component of our consolidated costs of goods sold), alloys, zinc, natural gas, argon, direct and indirect labor and related benefits, electricity, oxygen, electrodes, depreciation, materials and freight. The principal elements of these costs for our metals recycling and ferrous resources operations are the costs of procuring the unprocessed scrap materials, material transportation costs, and processing expenses, such as direct and indirect labor, depreciation and utilities. 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 premiums, 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 temporary cash deposits and any other non-operating income activity, including gains on certain short-term investments and income from non-consolidated investments accounted for under the equity method. Other expense consists of any non-operating costs, including the expense from the termination of an interest rate swap contract related to the term A loan in the second quarter of 2009.

Third Quarter Operating Results 2009 vs. 2008

Outlook. Net income was \$69.0 million, or \$.30 per diluted share, during the third quarter of 2009, compared with net income of \$193.0 million, or \$.98 per diluted share, during the third quarter of 2008 and a net loss of \$16.0 million, or \$.08 per diluted share, during the second quarter of 2009. 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, experienced positive trends in volumes and order entry activity during the third quarter of 2009 at some of our operations, specifically in our flat-rolled steel and metals recycling operations. While we believe that flat-rolled and recycled metals market conditions from both a pricing and volume perspective could weaken from third quarter levels, we continue to be well positioned to capitalized on order activity with a highly-variable cost structure.

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Gross Profit. When comparing the third quarter of 2009 with the third quarter of 2008, our net sales decreased \$1.4 billion, or 54%, to \$1.2 billion. Our gross profit percentage was 18% during the third quarter of 2009 as compared to 17% for the third quarter of 2008, and as compared to 9% on a linked-quarter basis. Our improved gross profit percentage on a linked-quarter basis is primarily the result of increasing volumes and sales prices coupled with production costs being spread across higher volumes during the third quarter as compared to the second quarter.

Steel Operations

	Three Months Ended September 30,		Nine Months Ended September 30,		First Quarter 2009	Second Quarter 2009
	2009	2008	2009	2008		
Shipments (net tons)						
Flat Roll Division	656,512	576,059	1,415,195	1,967,660	303,938	454,745
Structural and Rail Division	134,390	281,126	360,421	866,963	129,555	96,476
Engineered Bar Products Division	80,428	149,708	215,092	442,741	71,540	63,124
Roanoke Bar Division	97,895	148,128	263,617	436,078	76,610	89,112
Steel of West Virginia	57,539	62,849	155,622	218,907	43,124	54,959
The Techs	220,383	209,191	466,032	734,110	118,359	127,290
Total shipments	1,247,147	1,427,061	2,875,979	4,666,459	743,126	885,706
Intercompany	(84,396)	(141,113)	(183,998)	(395,926)	(52,012)	(47,590)
External shipments	1,162,751	1,285,948	2,691,981	4,270,533	691,114	838,116

Steel operations accounted for 57% and 53% of our net sales during the third quarter of 2009 and 2008, respectively. Third quarter 2009 shipments were down 13% compared to the same period in 2008, with the exception of our flat-rolled products, where shipments were 14% higher during the third quarter of 2009 versus 2008 and our Flat Roll Division operated at near capacity production levels. Linked-quarter shipments increased at all of our steel divisions, with total steel shipments increasing 41% as compared to the second quarter, driven by increased shipments of 295,000 net tons in flat-rolled products.

Our third quarter 2009 average steel operations selling price per ton shipped decreased \$559 compared with the third quarter of 2008, but increased \$33 compared with the second quarter of 2009. We expect continued downward pressure on pricing throughout the fourth quarter, as order entry has declined from peak third quarter levels for our flat-rolled products. Long products will likely lag due to a continued stagnant non-residential construction arena, driven by the weak economy and lack of available financing for construction projects.

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 \$317 compared with the third quarter of 2008, but increased \$49 on a linked-quarter basis. During the third quarter of 2009 and 2008, respectively, our metallic raw material costs represented 54% and 39% of our steel operations manufacturing costs, excluding the operations of The Techs, which purchases, rather than produces, the steel it further processes. We currently anticipate steel scrap prices will decrease during the fourth quarter.

Average Quarterly Steel Selling Prices

Table of Contents**Metals Recycling and Ferrous Resources Operations**

	Three Months Ended September 30,		Nine Months Ended September 30,		First Quarter	Second Quarter
	2009	2008	2009	2008	2009	2009
Ferrous metal shipments (net tons)						
Combined	1,293,820	1,755,608	2,863,888	4,654,495	729,869	840,199
Intra-company	(575,840)	(714,234)	(1,103,616)	(1,832,244)	(214,753)	(313,023)
External	717,980	1,041,374	1,760,272	2,822,251	515,116	527,176
Non-ferrous shipments (thousands of pounds)	217,068	243,897	577,246	736,833	190,394	169,784
Iron Dynamics shipments (net tons)						
Liquid pig iron	55,007	44,254	140,625	142,039	41,226	44,392
Hot briquetted iron	4,497	17,715	26,306	48,404	20,326	1,483
Other	36	7,689	739	13,936		