

STEEL DYNAMICS INC  
Form 10-Q  
August 04, 2010  
Table of Contents

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2010

OR

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

Commission File Number 0-21719

**Steel Dynamics, Inc.**

(Exact name of registrant as specified in its charter)

**Indiana**

(State or other jurisdiction of incorporation or organization)

**35-1929476**

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

**7575 West Jefferson Blvd, Fort Wayne, IN**

(Address of principal executive offices)

**46804**

(Zip Code)

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

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

---

Table of Contents

STEEL DYNAMICS, INC.

Table of Contents

	<b>Page</b>	
<b>PART I. Financial Information</b>		
Item 1.	Financial Statements:	
	<u>Consolidated Balance Sheets as of June 30, 2010 (unaudited) and December 31, 2009</u>	1
	<u>Consolidated Statements of Operations for the three and six-month periods ended June 30, 2010 and 2009 (unaudited)</u>	2
	<u>Consolidated Statements of Cash Flows for the three and six-month periods ended June 30, 2010 and 2009 (unaudited)</u>	3
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	4
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	26
<u>Item 4.</u>	<u>Controls and Procedures</u>	26
<b>PART II. Other Information</b>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	27
<u>Item 1A.</u>	<u>Risk Factors</u>	27
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	27
<u>Item 5.</u>	<u>Other Information</u>	27
<u>Item 6.</u>	<u>Exhibits</u>	27
	<u>Signatures</u>	29

---

Table of Contents

## STEEL DYNAMICS, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

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

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

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

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

See notes to consolidated financial statements.

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

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

See notes to consolidated financial statements.



Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Table of Contents

STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

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



See notes to consolidated financial statements.

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 1. Description of the Business and Significant Accounting Policies**

**Description of the Business**

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

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

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

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

**Significant Accounting Policies**

## Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

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

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

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

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

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

Table of Contents

## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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

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

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

**Note 2. Earnings (Loss) Per Share**

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

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

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

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

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

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

**Note 3. Inventories**

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

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

Table of Contents

## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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

*Senior Secured Revolving Credit Facility, due 2012*

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

**Note 5. Changes in Stockholders' Equity**

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

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

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

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

**Note 6. Derivative Financial Instruments**

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

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

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

Table of Contents

## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 6. Derivative Financial Instruments (continued)**

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

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

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

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

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

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





Table of Contents

## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 7. Fair Value Measurements**

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

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

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

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

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

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

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

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

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 8. Commitments and Contingencies**

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

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

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

Table of Contents

## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 9. Segment Information**

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

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

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

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

(1)	Corporate SG&A	\$	(7.5)
-----	----------------	----	-------

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

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

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 9. Segment Information (continued)**

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

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

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

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

(6)	Deferred income 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)

**Note 9. Segment Information (continued)**

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

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

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

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

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

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

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

Table of Contents

## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 10. Condensed Consolidating Information**

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

*Condensed Consolidating Balance Sheets (in thousands)*

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



Table of Contents

## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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

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



Table of Contents

## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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

For the three months ended, June 30, 2009	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net sales	\$ 346,848	\$ 845,858	\$ 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 of 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 loss of subsidiaries	(1,059)(2)			1,059(2)	
Net loss attributable to noncontrolling interests			530		530
Net income (loss) attributable to Steel Dynamics, Inc.	\$ (15,991)	\$ 5,428	\$ (1,356)	\$ (4,072)	\$ (15,991)





Table of Contents

## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 10. Condensed Consolidating Information (continued)**

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

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 income (loss)	(76,042)	(4,514)	(7,806)	(18,957)	(107,319)
Interest expense, net of 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 loss of subsidiaries	(5,854)(2)			5,854(2)	
Net loss attributable to noncontrolling interests			2,442		2,442
Net income (loss) attributable to Steel Dynamics, Inc.	\$ (103,853)	\$ 11,624	\$ (3,602)	\$ (8,022)	\$ (103,853)

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

(2) The Parent Statement of Operations for the three and six-month periods ended June 30, 2009 was adjusted to change Equity in Net Loss of Subsidiaries to \$(1,059), from \$3,542; and to (\$5,854), from \$5,580, respectively, to reflect in net loss attributable to Steel Dynamics, Inc. the net loss attributable to the noncontrolling interests, and the net income (loss) effect of consolidating adjustments. These adjustments had no impact on previously reported combined non-guarantors or total consolidated amounts.

Table of Contents

## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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

<b>For the six months ended, June 30, 2009</b>	<b>Parent</b>	<b>Guarantors</b>	<b>Combined Non-Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated</b>
Net cash provided by (used in) operating activities	\$ 133,313	\$ 148,666	\$ (19,542)	\$ 23,924	\$ 286,361
Net cash used in investing activities	(92,981)	(37,494)	(88,964)	61,422	(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

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 domestic and global economies, conditions in the steel and recycled metals marketplaces, our revenue, costs of purchased materials, future profitability and earnings, and the operation of new or existing facilities. These statements are intended to be made as forward-looking, subject to many risks and uncertainties, within the safe harbor protections of the Private Securities Litigation Reform Act of 1995. Such predictive statements are not guarantees of future performance, and actual results could differ materially from our current expectations. Factors that could cause such predictive statements to turn out other than as anticipated or predicted include, among others: the effects of a prolonged 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/A for the year ended December 31, 2009, as well as in other reports which we file with the Securities and Exchange Commission, for a more detailed discussion of some of the many factors, variable risks and uncertainties that could cause actual results to differ materially from those we may have expected or anticipated. These reports are available publicly on the SEC web site, [www.sec.gov](http://www.sec.gov), and on our web site, [www.steeldynamics.com](http://www.steeldynamics.com). Forward-looking or predictive statements we make are based upon information and assumptions, concerning our businesses and the environments in which they operate, which we consider reasonable as of the date on which these statements are made. Due to the foregoing risks and uncertainties however, as well as, matters beyond our control which can affect forward-looking statements, you are cautioned not to place undue reliance on these predictive statements, which speak only as of the date of this report. We undertake no duty to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

**Operating Statement Classifications**

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

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

purchased steel and direct and indirect labor and related benefit expenses.

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

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

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

## Overview

Net income was \$49.2 million, or \$.22 per diluted share, during the second quarter of 2010, compared with a net loss of \$16.0 million, or \$.08 per diluted share, during the second quarter of 2009, and compared with net income of \$65.0 million, or \$0.29 per diluted share, during the first quarter of 2010. Our net sales increased \$840.6 million, or 106%, to \$1.6 billion in the second quarter of 2010 versus the second quarter of 2009, and our second quarter 2010 net sales increased \$77.0 million, or 5% versus the first quarter of 2010. Our gross profit percentage was 12% during the second quarter of 2010 as compared to 9% for the second quarter of 2009, and 14% for the first quarter of 2010.

Net income was \$114.2 million, or \$.51 per diluted share during the first six months of 2010, compared with net loss of \$103.9 million, or \$.56 per diluted share during the first six months of 2009. Our net sales increased \$1.6 billion, or 98%, to \$3.2 billion in the first six months of 2010 versus the first six months of 2009. Our gross profit percentage was 13% during the first six months of 2010 as compared to 2% for the first six months of 2009.

## Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

### Table of Contents

During the first half of 2010, we have continued to experience the return to profitability we saw in the latter half of 2009, in the wake of the global economic recession of late 2008 and early 2009. Since the second quarter of 2009, sequentially improving quarterly net sales have been driven by the general improvement of the domestic economy, resulting in increasing customer demand for our products.

We have experienced consistent to moderately improving customer order volume within our steel operations, as product pricing has also generally improved. Within our steel operations, the most impactful demand improvement has been in our sheet and special bar-quality steel products. However, order entry activity for our sheet steel did decline late in the second quarter of 2010 and has continued into July. Operating income in our steel operations for the second quarter of 2010 was consistent with that of the first quarter of 2010. As we head into the latter half of 2010, we anticipate continued steady demand in special bar-quality products, with moderate improvements in our other long products categories. Structural steel and steel fabrication demand continues to lag but is showing modest signs of improvement.

Additionally, our metals recycling operations experienced improving net sales and shipping volumes of ferrous and nonferrous metals, as demand improved due in large part to domestic and international steel production utilization rates increasing. While sales volumes continued to show improvement in the second quarter of 2010, operating income retreated as compared to the first quarter due to declining margins in nonferrous operations, as the underlying commodity pricing for copper, aluminum and nickel declined.

### Segment Operating Results 2010 vs. 2009

	Three Months Ended June 30,			Six Months Ended June 30,			First Quarter	Linked Quarter
	2010	% Change	2009	2010	% Change	2009	2010	% Change
<b>Net sales</b>								
Steel	\$ 1,019,929	95%	\$ 522,704	\$ 2,032,425	94%	\$ 1,049,818	\$ 1,012,496	1%
<b>Metals recycling and ferrous resources</b>								
Steel fabrication	848,367	175%	308,938	1,604,670	165%	605,346	756,303	12%
Other	42,267	14%	37,026	66,265	-32%	97,833	23,998	76%
	26,472	177%	9,560	55,890	157%	21,733	29,418	-10%
	1,937,035		878,228	3,759,250		1,774,730	1,822,215	
Intra-company	(304,236)		(86,070)	(570,661)		(167,922)	(266,425)	
Consolidated	\$ 1,632,799	106%	\$ 792,158	\$ 3,188,589	98%	\$ 1,606,808	\$ 1,555,790	5%
<b>Operating income (loss)</b>								
Steel	\$ 131,146		\$ 33,470	\$ 265,884		\$ (34,741)	\$ 134,738	
<b>Metals recycling and ferrous resources</b>								
Steel fabrication	6,939		(6,557)	31,073		(30,705)	24,134	
Other	(4,713)		16	(11,293)		3,077	(6,580)	
	(16,820)		(9,757)	(35,695)		(22,808)	(18,875)	
	116,552		17,172	249,969		(85,177)	133,417	
Eliminations	83		(10,888)	(1,037)		(22,142)	(1,120)	
Consolidated	\$ 116,635		\$ 6,284	\$ 248,932		\$ (107,319)	\$ 132,297	

### Steel Operations

**Steel Operations.** Steel operations consist of our five electric-arc furnace mini-mills, producing steel from steel scrap, utilizing continuous casting, automated rolling mills, and various downstream finishing facilities, including The Techs operations. Collectively, our steel operations sell directly to end users and service centers. These products are used in numerous industry sectors, including the automotive, construction, commercial, transportation and industrial machinery markets. In the second quarters of 2010 and 2009, our steel operations accounted for 60% and 64%, respectively, of our external net sales, and accounted for 63% in the first quarter of 2010. Operating income for steel operations increased \$97.7 million or 292%, to \$131.1 million in the second quarter of 2010 compared to the second quarter of 2009 due to significant increases in sales volumes across all product types as well as increased selling prices per ton, but decreased \$3.6 million, or 3%, on a linked-quarter basis. This decrease was due primarily to the decreased shipping volumes of sheet products compared to the first quarter of 2010, partially offset by increased selling prices per ton. Steel operations accounted for 61% and 63% of our external net sales during the first six months of 2010 and 2009, respectively. Operating income for steel operations increased \$300.6 million to \$265.9 million in the first six months of 2010 versus the first six months of 2009 due to significant increases in sales volumes across all product types as well as increased selling prices per ton.

**Sheet Products.** Our Flat Roll Division sells a broad range of sheet steel products, such as hot rolled, cold rolled and coated steel products, including a large variety of specialty products such as light gauge hot rolled, galvanized, Galvalume® and painted products. The Techs operations, comprised of three galvanizing lines, also sells specialized galvanized sheet steels used in non-automotive applications. During the second quarter of 2010, our sheet operations represented 66% of our steel segment's operating income, as compared to 74% in the second quarter of 2009. The decrease in the percentage in 2010 from 2009 is due primarily to the improved profitability of the Engineered Bar Products and Roanoke Bar divisions during the second quarter of 2010 relative to the segment as a whole.

## Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

### Table of Contents

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

	Three Months Ended June 30,			Six Months Ended June 30,			First Quarter 2010			
	2010	2009		2010	2009					
<b>Shipments (net tons)</b>										
Flat Roll Division	622,861	454,745		1,372,119	758,683			749,258		
The Techs	191,960	127,290		402,505	245,649			210,545		
Sheet products	814,821	69%	582,035	69%	1,774,624	71%	1,004,332	66%	959,803	73%
<b>Structural and Rail</b>										
Division	159,252		96,476		314,601		226,031		155,349	
<b>Engineered Bar</b>										
Products Division	128,802		63,124		253,861		134,664		125,059	
Roanoke Bar Division	109,393		89,112		218,579		165,722		109,186	
Steel of West Virginia	52,720		54,959		106,125		98,083		53,405	
Long products	450,167	38%	303,671	36%	893,166	36%	624,500	41%	442,999	33%
Total shipments	1,264,988		885,706		2,667,790		1,628,832		1,402,802	
<b>Intra-company and segment</b>										
	(86,866)	(7)%	(47,590)	(6)%	(168,819)	(7)%	(99,602)	(7)%	(81,953)	(6)%
External shipments	1,178,122		838,116		2,498,971		1,529,230		1,320,849	

Second quarter 2010 total shipments were up 43% compared to the same period in 2009 due to an improved economic climate during the first half of 2010 as steel mill utilization improved with more automotive and heavy machinery demand, and service center inventories have continued to remain at low levels. Linked-quarter total shipments decreased 10%, driven by sheet products which declined 15%. Long products achieved increased shipments of 2% on a linked-quarter basis. While recent order entry for sheet products has slowed, long products continue to show modest improvement. We anticipate sheet product demand to show gradual improvement later in the third quarter, while long products should continue to show strong demand, especially special and merchant bar quality, and bolstered by our continued development of rail products.

Total shipments for the first six months of 2010 were up 64% compared to the same period in 2009 due to an improved economic climate during the first half of 2010 as compared to the same period in 2009. Sheet products achieved increased shipments of 77% while long products achieved increased shipments of 43%.

Our second quarter 2010 average steel operations selling price per ton shipped, including intra-company shipments, increased \$224 compared with the second quarter of 2009, and increased \$93 compared with the first quarter of 2010. In sheet products, our second quarter 2010 average selling price per ton shipped increased \$266 per ton compared with the second quarter of 2009, and increased \$94 on a linked-quarter basis. Long products average selling prices increased \$143 per ton compared with the second quarter of 2009, and \$88 on a linked-quarter basis. Net sales for the segment increased by \$497.2 million, or 95%, compared to the second quarter of 2009, and \$7.4 million, or 1%, on a linked-quarter basis. Stronger demand for our steel products in conjunction with the improving economic climate have driven increases in both volumes and product pricing as compared to the second quarter of 2009.

Our first six months 2010 average steel operations selling price per ton shipped, including intra-company shipments, increased \$117 compared with the first six months of 2009. In sheet products, our first six months of 2010 average selling price per ton shipped increased \$163 per ton



## Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

compared with the first six months of 2009. Long products average selling prices increased \$48 per ton compared with the first six months of 2009. Net sales for the segment increased by \$982.6 million, or 94%, in the first six months of 2010 compared to the same period in 2009. Stronger demand for our steel products in conjunction with the improving economic climate have driven increases in both volumes and product pricing as compared to the first half of 2009.

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 increased \$183 in the second quarter 2010 compared with the second quarter of 2009, and \$49 on a linked-quarter basis. During the second quarter of 2010 and 2009, respectively, our metallic raw material costs represented 62% and 45% of our steel operations manufacturing costs, excluding the operations of The Techs, which purchases, rather than produces, the steel it further processes.

Our metallic raw material cost per net ton consumed in our steel operations increased \$122 for the first six months of 2010 compared with the first six months of 2009, and represented 62% and 47% of our steel operations manufacturing costs during the first six months of 2010 and 2009, respectively, excluding the operations of The Techs.

**Metals Recycling and Ferrous Resources Operations**

***Metals Recycling and Ferrous Resources Operations.*** This operating segment includes our metals recycling operations, liquid pig iron manufacturing facility and iron nugget manufacturing start-up facility. In the second quarter of 2010 and 2009, our metals recycling and ferrous resources operations accounted for 36% and 30%, respectively, of our external net sales, and accounted for 34% in the first quarter of 2010. Operating income for the segment increased \$13.5 million, to \$6.9 million, compared to the second quarter of 2009, due to increased volumes and pricing.

***Metals Recycling.*** Our metals recycling operations represent our metals sourcing and processing operations and are the most significant source of income in this segment. These operations sell ferrous metals to steel mills and foundries, and nonferrous metals, such as copper, brass, aluminum and stainless steel to, among others, ingot manufacturers, copper refineries and mills, smelters, and specialty mills. During the second

## Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

quarter of 2010, our metals recycling operations represented 236% of this segment's operating income, as compared to 16% of this segment's operating loss during the second quarter of 2009, and 144% of this segment's operating income during the first quarter of 2010, as losses were experienced in our ferrous resources operations for all periods due primarily to the construction and start up of production at Mesabi Nugget.

***Ferrous Resources.*** Our ferrous resource operations consist of the revenues and expenses associated with our scrap substitute manufacturing facility, Iron Dynamics (IDI); our iron-nugget manufacturing facility, Mesabi Nugget; and our potential future mining operations, Mesabi Mining. IDI primarily produces liquid pig iron, which is used as a scrap substitute raw material input exclusively at our Flat Roll Division. Mesabi Nugget began initial, limited production of iron nuggets in January 2010. During 2010, we anticipate reaching monthly production rates of approximately two-thirds of the facility's anticipated annual production capacity of 500,000 metric tons.

## Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

### Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,		First Quarter 2010
	2010	2009	2010	2009	
<b>Ferrous metal shipments (gross tons)</b>					
Combined	1,350,364	750,178	2,580,439	1,401,847	1,230,075
Intra-company	(563,350)	(279,485)	(1,082,656)	(471,229)	(519,306)
External	787,014	470,693	1,497,783	930,618	710,769
<b>Non-ferrous metals shipments (thousands of pounds)</b>					
Combined	236,648	169,784	474,893	360,178	238,245
Intra-company	(1,946)		(4,140)		(2,194)
External	234,702	169,784	470,753	360,178	236,051
<b>Mesabi Nugget shipments (metric tons)</b>	<b>17,478</b>		<b>24,657</b>		<b>7,179</b>
<b>Iron Dynamics shipments (metric tons)</b>					
Liquid pig iron	39,193	40,272	85,621	77,672	46,428
Hot briquetted iron	15,357	1,345	26,729	19,785	11,372
Other	568	26	1,266	637	698
Intra-company	55,118	41,643	113,616	98,094	58,498

During the second quarter of 2010, this segment recorded combined shipments of 1,350,000 gross tons of ferrous metals and 236.6 million pounds of non-ferrous materials, compared with 750,000 gross tons and 169.8 million pounds during the same period in 2009. On a linked-quarter basis, combined shipments of ferrous metals increased by 120,000 gross tons while shipments of non-ferrous metals decreased by 1.6 million pounds, or less than 1%. During the second quarter of 2010, the metals recycling operations provided approximately 48% of the steel scrap purchased by our steel mills. This represented 28% of the metals recycling operations net sales for the quarter as compared to 27% during the first quarter of 2010, and 18% during the second quarter of 2009. Domestic steel mill utilization has increased from 66% to 75% over the past three quarters, and as a major consumer of ferrous scrap, this has increased demand.

Net sales for the segment in the second quarter of 2010 increased by \$539.4 million, or 175%, compared to the second quarter of 2009, and increased \$92.1 million, or 12%, on a linked-quarter basis. The second quarter 2010 increase over 2009 was due to both the increased scrap volumes and pricing as the markets in 2010 were much healthier than in 2009. Copper prices fell 17% over the quarter, aluminum dropped 16% and nickel dropped 21%, which eroded our second quarter 2010 nonferrous margins as compared to those achieved in the first quarter 2010. Net sales for the segment for the first half of 2010 increased by \$999.3 million to \$1.6 billion compared to the first half of 2009.

Operating income for the segment increased \$13.5 million, to \$6.9 million in the second quarter 2010, compared to the second quarter of 2009 due to increased scrap volumes and pricing, but decreased \$17.2 million, or 71%, on a linked-quarter basis. The majority of the sequential quarter over quarter decline in segment operating income was attributable to margin compression in our nonferrous metals operations as noted above, whereas ferrous metals experienced only a modest decrease in operating income. The operating loss attributable to our Mesabi Nugget start-up operations of \$11.5 million (including noncontrolling interest) in the second quarter was consistent with that of the first quarter of 2010, but higher than the second quarter 2009 operating loss of \$1.9 million, when the location was still being constructed.

Operating income for the segment increased \$61.8 million to \$31.1 million for the first half of 2010 compared the first half of 2009 due to both the increased scrap volumes and pricing as the markets in 2010 were much healthier than in 2009. This was despite the operating loss attributable to our Mesabi Nugget start-up operations increasing to \$23.3 million (including noncontrolling interest) in the first half of 2010 from \$3.6 million in the first half of 2009, when the location was still being constructed.

### Steel Fabrication Operations

Our steel fabrication operations include three operating and two idled New Millennium Building Systems plants located in the Midwest and Southeastern part of the 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 3% and 5% of our external net sales during the second quarter of 2010 and 2009, respectively, and 2% during the first quarter of 2010. Operating loss for the segment was \$4.7 million compared to operating income of \$16,000 in the second quarter of 2009, and an operating loss of \$6.6 million, or 28% lower, on a linked-quarter basis. Operating loss for the segment was \$11.3 million for the first half of 2010 compared to operating income of \$3.1 million for the first half of 2009.

Net sales for the segment increased by \$5.2 million, or 14%, in the second quarter 2010 compared to the second quarter of 2009, and \$18.3 million, or 76%, on a linked-quarter basis. While volumes were up in the second quarter 2010, our average steel fabrication operations selling price per ton shipped decreased \$38, or 4%, during the second quarter of 2010 when compared with the same period in 2009, but increased 8% on a linked-quarter basis. Net sales for the segment decreased \$31.6 million to \$66.3 million for the first half of 2010 as compared to the first half of 2009. Our average steel fabrication operations selling price per ton shipped decreased \$232, or 19%, in the first half of 2010 as compared to the same period in 2009.

Table of Contents

The purchase of various steel products is the largest single cost of production for our steel fabrication operations. During the second quarter of 2010 and 2009, the cost of steel products purchased represented 71% of the total cost of manufacturing for our steel fabrication operations; however, costs of steel increased in the second quarter of 2010 as compared to the same period in 2009 by \$64 per ton, which also caused margins and operating profit to decrease. During the first half of 2010 and 2009, the cost of total steel products consumed represented 68% and 73%, respectively, of the total cost of manufacturing for our steel fabrication operations. The cost of steel decreased in the first half of 2010 as compared to the same period in 2009 by \$74 per ton. Despite this decrease, gross margins decreased due to the \$232 per ton decrease in selling price per ton.

The slowly recovering economy and depressed activity in non-residential construction continues to have a negative impact on this operating segment in 2010. Some encouraging signs have emerged, including the exit of a major competitor from the joist and deck market; however, we anticipate the non-residential construction recovery to develop slowly during 2010. We are beginning to see slightly positive trends in order entry activity and product pricing, though gross margins are still tight with input costs outpacing pricing increases.

**Second Quarter Consolidated Results 2010 vs. 2009**

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses (including profit sharing and amortization of intangible assets) were \$75.3 million during the second quarter of 2010, as compared to \$62.6 million during the second quarter of 2009, an increase of \$12.8 million, or 20%. Our selling, general and administrative expenses represented 5% and 8% of our total net sales during the second quarter of 2010 and 2009, respectively. The percentage decrease is primarily a result of improved net sales in the second quarter of 2010 compared with the prior year as measured against certain fixed cost components in selling, general and administrative expenses.

## Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

The most significant increase in our selling, general and administrative expenses was due to the accrual of profit sharing expense during the second quarter of 2010 as a result of our positive financial results compared to 2009. During the second quarter of 2010, we recorded expense of \$6.8 million related to our Steel Dynamics performance-based profit sharing plan (and \$1.0 million of other profit sharing), while no such expense was recorded in the second quarter of 2009. The contribution percentage for this plan consists of 2% of consolidated pretax earnings plus a unique percentage of each of our operating segments' pretax earnings. The resulting total contribution percentage was 8% of consolidated pretax earnings (before profit sharing) during the second quarter of 2010.

**Interest Expense, net of Capitalized Interest.** During the second quarter of 2010, gross interest expense increased \$3.7 million, or 9%, to \$45.4 million, and capitalized interest decreased \$2.6 million to \$2.0 million, when compared to the same period in 2009. The increase in gross interest expense for the second quarter of 2010 compared to the second quarter of 2009 is primarily a result of our issuance of \$350.0 million of 7 5/8% senior notes due 2020 in March 2010. The interest capitalization that occurred during these periods resulted from the interest required to be capitalized with respect to construction activities at our various operating segments, which with the completion of several of our construction projects, is not as significant in the second quarter 2010. Our weighted-average interest rate on our outstanding borrowings was 7.3% and 6.0% at June 30, 2010 and 2009, respectively. We currently anticipate gross interest expense to remain consistent through the remainder of the year.

**Other (Income) Expense, net.** Other income was \$3.5 million during the second quarter of 2010, as compared to net expense of \$786,000 during the same period in 2009. During the second quarter of 2010, we recorded interest income of \$950,000 during the second quarter of 2010 versus \$100,000 in the same period in 2009. During the second quarter of 2009, the company recorded other expense of \$1.3 million from the termination of an interest rate swap contract related to a senior secured term loan, which was paid off in the second quarter of 2009.

Table of Contents

**Income Taxes (Benefit).** During the second quarter of 2010, our income tax expense was \$29.9 million, as compared to a benefit of \$15.0 million during the same period in 2009. Our effective income tax rate before noncontrolling interests was 39.0% and (47.6%) during the second quarter of 2010 and 2009, respectively.

**First Six Months Consolidated Results 2010 vs. 2009**

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$153.5 million during the first six months of 2010, as compared to \$135.5 million during the same period in 2009, an increase of \$18.0 million, or 13%. During the first six months of 2010 and 2009, selling, general and administrative expenses represented approximately 5% and 8% of net sales, respectively. The increase in selling, general and administrative expenses in the first six months of 2010 compared to the first six months of 2009 primarily relates to recording profit sharing expense of \$15.3 million related to our Steel Dynamics performance-based profit sharing plan (and \$2.0 million of other profit sharing) during the first six months of 2010 and no such expense during the same period in 2009.

**Interest Expense, net of Capitalized Interest.** During the first six months of 2010, gross interest expense increased \$5.4 million, or 7%, to \$86.4 million, and capitalized interest decreased \$2.2 million, or 29%, to \$5.4 million as compared to the same period in 2009. The increase in gross interest expense for the first six months of 2010 compared to the first six months of 2009 is primarily a result of our issuance of \$350.0 million of 7 5/8% senior notes in March 2010. The interest capitalization that occurred during these periods resulted from the interest required to be capitalized with respect to construction activities at our various operating segments, which with the completion of several of our construction projects, is not as significant in 2010.

**Other (Income) Expense, net.** Other income was \$6.6 million during the first six months of 2010, as compared to other expense of \$38,000 during the same period in 2009. Earnings from investments in metals recycling entities accounted for under the equity method of accounting were approximately \$400,000 for the first six months of versus a loss in the same period in 2009 of more than \$300,000. In addition, we have recorded interest income of nearly \$1.9 million for the first six months of 2010 versus less than \$300,000 in 2009. 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 a senior secured term loan, which was paid off in the second quarter of 2009.

**Income Taxes.** During the first six months of 2010, our income tax provision was \$64.4 million, as compared to a benefit of \$74.4 million during the same period in 2009. During the first six months of 2010 and 2009, our effective income tax rates before noncontrolling interests were 36.9% and 41.2%, respectively.

**Liquidity and Capital Resources**

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



**Working Capital.** During the first half of 2010, our operational working capital position, representing our cash invested in trade receivables, inventories and income taxes receivable, less current liabilities other than debt, increased \$145.0 million to \$1,134.0 million compared to December 31, 2009. Trade receivables increased \$201.7 million, or 47%, during the first six months of 2010 to \$628.3 million, of which over 98% were current or less than 60 days past due. Our largest customer is an affiliated company, Heidtman Steel, which represented 7% and 6% of our outstanding trade receivables at June 30, 2010 and December 31, 2009, respectively. Trade receivables increased during the first six months of 2010 due to increased sales from higher product prices and volumes compared to the fourth quarter of 2009. Total inventories increased \$165.0 million, or 19%, to \$1,017.9 million during the first six months of 2010. The dollar value of our raw materials, primarily steel scrap inventories, increased by approximately \$98.2 million during the first six months of 2010, with scrap volumes increasing by 65,000 gross tons. Likewise the dollar value of work-in-process and finished goods inventories increased \$61.6 million, with volumes increasing by 32,000 net tons. Our trade payables and general accruals increased \$120.6 million, or 28%, during the first six months of 2010. The increase in trade payables is a reflection of increased production activities and commodity raw material purchasing during the first half of 2010 compared to the fourth quarter of 2009, and the increase in profit sharing is due to income in the first half of 2010. We also received \$90.4 million of 2009 income tax overpayment refunds in the second quarter 2010.

**Capital Investments.** During the first half of 2010, we invested \$71.6 million in property, plant and equipment, of which \$29.2 million was within our steel operations, \$9.1 million related to metals recycling operations and \$24.4 million related to our Mesabi Nugget and Mesabi Mining facilities. We believe these capital investments will benefit our net sales and related cash flows as each project reaches completion and attains appropriate operational metrics. We continue to estimate capital expenditures for the year 2010 to be less than \$150 million.

**Capital Resources and Long-term Debt.** During the first half of 2010, our total outstanding debt increased \$185.3 million to \$2.4 billion, due to our issuance of \$350.0 million of 7 5/8% senior notes due 2020 in March 2010. The net proceeds were used to repay the balance on our senior secured revolving credit facility. The remaining net proceeds are for general corporate purposes, with a portion held as cash and equivalents as of June 30, 2010. 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% at June 30, 2010 and December 31, 2009. At June 30, 2010, there were no outstanding borrowings under our senior secured revolver, which is subject to a monthly borrowing base.

Table of Contents

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.

We amended our senior secured credit agreement on June 12, 2009, allowing for, among other things, greater flexibility within our financial covenants during 2009 and throughout 2010. The current financial covenants state that we must maintain an interest coverage ratio of not less 2.00:1.00 for June 30, 2010 and 2.50:1.00 for September 30, 2010 through maturity. Our interest coverage ratio is calculated by dividing our last-twelve trailing months (LTM) consolidated adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, and certain other non-cash transactions as allowed in our senior secured credit agreement) by our LTM gross interest expense. We must also maintain a first lien debt to LTM EBITDA ratio of not more than 2.50:1.00 to September 30, 2010; and 3.00:1.00 for December 31, 2010 through maturity. Beginning with the twelve month period ending December 31, 2010, and at all times thereafter, a total debt to consolidated LTM adjusted EBITDA ratio of not more than 5.00:1.00 must be maintained. In addition, if the total debt to EBITDA ratio exceeds 3.50:1.00 at any time, then the ability of the company to make restricted payments as defined in the credit agreement (which includes cash dividends to stockholders and share purchases, among other things), is limited to \$25.0 million per quarter.

At June 30, 2010, our interest coverage ratio and first lien ratio were 4.43:1.00 and 0.03:1.00, respectively. We were in compliance with these covenants at June 30, 2010, and we expect to remain in compliance during the remainder of 2010.

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

At June 30, 2010, we had \$907.0 million of availability on the senior secured revolver. The amendment also activated a monthly borrowing base requirement regarding the maximum availability for the revolver. At the end of each month, our revolver must be the lesser of:

1. \$924.0 million less other applicable commitments, such as letters of credit and other secured debt, as defined within the credit agreement; or

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

**Cash Dividends.** We declared cash dividends of \$32.5 million, or \$.150 per share (\$0.075 per share per quarter), during the first half of 2010 and \$34.3 million, or \$.175 per share (\$0.10 per share in the first quarter 2009 and \$0.075 per share in the second quarter 2009), during the first half of 2009. We paid cash dividends of \$32.4 million and \$36.4 million during the first half of 2010 and 2009, respectively. Our board of directors, along with executive management, approves the payment of dividends on a quarterly basis. During the remainder of 2010, we anticipate maintaining our current level of quarterly dividends; however, the determination to pay cash dividends in the future will be at the discretion of our board of directors, after taking into account various factors, including our financial condition, results of operations, outstanding

indebtedness, current and anticipated cash needs and growth plans. In addition, the terms of our senior secured revolving credit agreement and the indenture relating to our senior notes restrict the amount of cash dividends we can pay.

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

#### **Other Matters**

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

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

#### **Critical Accounting Policies and Estimates**

No material changes have occurred to the indicated critical accounting policies and estimates as disclosed in our 2009 Annual Report on Form 10-K/A.

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.

**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 24 months for physical commodity requirements and for up to 11 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, 2010, no material changes had occurred related to these commodity risks from the information disclosed in our Annual Report on Form 10-K/A for the year ended December 31, 2009.

In our metals recycling operations we have certain fixed price contracts with various customers and suppliers for future delivery of nonferrous metals. Our risk strategy has 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, 2010, we had a cumulative unrealized gain associated with these financial contracts of \$668,000, all of which have a settlement date within the next twelve months. We expect the customer contracts associated with the financial contracts to be fully consummated.

**ITEM 4. CONTROLS AND PROCEDURES**

(a) *Evaluation of Disclosure Controls and Procedures.* Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2010. The term disclosure controls and

## Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commissions rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of June 30, 2010, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective.

(b) ***Changes in Internal Controls Over Financial Reporting.*** No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended June 30, 2010 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**

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

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

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

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

**ITEM 1A. RISK FACTORS**

No material changes have occurred to the indicated risk factors as disclosed in our 2009 Annual Report on Form 10-K/A.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

**Executive Officer Certifications**

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

Table of Contents

**XBRL Documents**

101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Document
101.LAB*	XBRL Taxonomy Extension Label Document
101.PRE*	XBRL Taxonomy Presentation Document
101.DEF*	XBRL Taxonomy Extension Definition 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 4, 2010

STEEL DYNAMICS, INC.

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