

STEEL DYNAMICS INC  
Form 10-Q  
August 07, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2012**

**OR**

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

**Commission File Number 0-21719**

**Steel Dynamics, Inc.**

(Exact name of registrant as specified in its charter)

**Indiana**

(State or other jurisdiction of incorporation or organization)

**35-1929476**

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

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

46804  
(Zip Code)

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

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

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

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

(Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of July 30, 2012, Registrant had 219,167,317 outstanding shares of common stock.

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## STEEL DYNAMICS, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

|  | June 30,<br>2012<br>(unaudited) | December 31,<br>2011 |
|--|---------------------------------|----------------------|
| <b>Assets</b>                              |                                 |                      |
| <b>Current assets</b>                      |                                 |                      |
| Cash and equivalents                       | \$ 420,938                      | \$ 390,761           |
| Investments in short-term commercial paper | 9,998                           | 84,830               |
| Accounts receivable, net                   | 660,351                         | 679,898              |
| Accounts receivable-related parties        | 55,089                          | 42,893               |
| Inventories                                | 1,252,153                       | 1,199,584            |
| Deferred income taxes                      | 26,917                          | 25,341               |
| Income taxes receivable                    | 17,082                          | 16,722               |
| Other current assets                       | 15,816                          | 15,229               |
| <b>Total current assets</b>                | <b>2,458,344</b>                | <b>2,455,258</b>     |
| <b>Property, plant and equipment, net</b>  | <b>2,208,660</b>                | <b>2,193,745</b>     |
| <b>Restricted cash</b>                     | <b>27,806</b>                   | <b>26,528</b>        |
| <b>Intangible assets, net</b>              | <b>433,559</b>                  | <b>450,893</b>       |
| <b>Goodwill</b>                            | <b>741,817</b>                  | <b>745,066</b>       |
| <b>Other assets</b>                        | <b>101,194</b>                  | <b>107,736</b>       |
| <b>Total assets</b>                        | <b>\$ 5,971,380</b>             | <b>\$ 5,979,226</b>  |
| <b>Liabilities and Equity</b>              |                                 |                      |
| <b>Current liabilities</b>                 |                                 |                      |
| Accounts payable                           | \$ 381,250                      | \$ 414,240           |
| Accounts payable-related parties           | 11,924                          | 6,584                |
| Income taxes payable                       | 2,164                           | 10,880               |
| Accrued expenses                           | 168,928                         | 185,964              |
| Accrued profit sharing                     | 15,271                          | 38,671               |
| Current maturities of long-term debt       | 439,912                         | 444,078              |
| <b>Total current liabilities</b>           | <b>1,019,449</b>                | <b>1,100,417</b>     |
| <b>Long-term debt</b>                      |                                 |                      |
| Term loan                                  | 254,375                         |                      |
| 7 3/8% senior notes, due 2012              |                                 | 261,250              |
| 5.125% convertible senior notes, due 2014  | 287,498                         | 287,500              |
| 6 3/4% senior notes, due 2015              | 500,000                         | 500,000              |
| 7 3/4% senior notes, due 2016              | 500,000                         | 500,000              |
| 7 5/8% senior notes, due 2020              | 350,000                         | 350,000              |
| Other long-term debt                       | 36,224                          | 37,272               |
| <b>Total long-term debt</b>                | <b>1,928,097</b>                | <b>1,936,022</b>     |
| <b>Deferred income taxes</b>               | <b>510,479</b>                  | <b>489,915</b>       |
| <b>Other liabilities</b>                   | <b>81,795</b>                   | <b>82,278</b>        |
| <b>Commitments and contingencies</b>       |                                 |                      |
| <b>Redeemable noncontrolling interest</b>  | <b>77,424</b>                   | <b>70,694</b>        |

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**Equity**

|   |                     |                     |
|---|---------------------|---------------------|
| Common stock voting, \$.0025 par value; 900,000,000 shares authorized; 255,225,325 and 255,052,811 shares issued; and 219,154,966 and 218,873,720 shares outstanding, as of June 30, 2012 and December 31, 2011, respectively | 636                 | 636                 |
| Treasury stock, at cost; 36,070,359 and 36,179,091 shares, as of June 30, 2012 and December 31, 2011, respectively  | (720,481)           | (722,653)           |
| Additional paid-in capital  | 1,033,086           | 1,026,157           |
| Retained earnings   | 2,058,108           | 2,011,801           |
| Total Steel Dynamics, Inc. equity   | 2,371,349           | 2,315,941           |
| Noncontrolling interests  | (17,213)            | (16,041)            |
| <b>Total equity</b>   | <b>2,354,136</b>    | <b>2,299,900</b>    |
| <b>Total liabilities and equity</b>   | <b>\$ 5,971,380</b> | <b>\$ 5,979,226</b> |

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

|  | Three Months Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                   |
|--|--------------------------------|------------------|------------------------------|-------------------|
|  | 2012                           | 2011             | 2012                         | 2011              |
| Net sales  |                                |                  |                              |                   |
| Unrelated parties  | \$ 1,830,117                   | \$ 2,004,283     | \$ 3,735,192                 | \$ 3,945,947      |
| Related parties  | 79,686                         | 75,448           | 156,651                      | 149,753           |
| <b>Total net sales</b>   | <b>1,909,803</b>               | <b>2,079,731</b> | <b>3,891,843</b>             | <b>4,095,700</b>  |
| Costs of goods sold  | 1,727,667                      | 1,803,345        | 3,508,443                    | 3,523,560         |
| <b>Gross profit</b>  | <b>182,136</b>                 | <b>276,386</b>   | <b>383,400</b>               | <b>572,140</b>    |
| Selling, general and administrative expenses   | 61,235                         | 63,631           | 125,619                      | 128,772           |
| Profit sharing   | 8,211                          | 14,454           | 16,283                       | 29,657            |
| Amortization of intangible assets  | 8,991                          | 10,082           | 17,983                       | 20,166            |
| <b>Total selling, general and administrative expenses</b>  | <b>78,437</b>                  | <b>88,167</b>    | <b>159,885</b>               | <b>178,595</b>    |
| <b>Operating income</b>  | <b>103,699</b>                 | <b>188,219</b>   | <b>223,515</b>               | <b>393,545</b>    |
| Interest expense, net of capitalized interest  | 41,106                         | 44,812           | 82,218                       | 88,158            |
| Other expense (income), net  | (1,892)                        | (5,745)          | 8,356                        | (10,312)          |
| <b>Income before income taxes</b>  | <b>64,485</b>                  | <b>149,152</b>   | <b>132,941</b>               | <b>315,699</b>    |
| Income taxes   | 25,180                         | 53,326           | 51,859                       | 115,643           |
| <b>Net income</b>  | <b>39,305</b>                  | <b>95,826</b>    | <b>81,082</b>                | <b>200,056</b>    |
| Net loss attributable to noncontrolling interests  | 5,167                          | 2,884            | 9,065                        | 4,557             |
| <b>Net income attributable to Steel Dynamics, Inc.</b>   | <b>\$ 44,472</b>               | <b>\$ 98,710</b> | <b>\$ 90,147</b>             | <b>\$ 204,613</b> |
| <b>Basic earnings per share attributable to Steel Dynamics, Inc. stockholders</b>  | <b>\$ .20</b>                  | <b>\$ .45</b>    | <b>\$ .41</b>                | <b>\$ .94</b>     |
| Weighted average common shares outstanding   | 219,104                        | 218,500          | 219,050                      | 218,246           |
| <b>Diluted earnings per share attributable to Steel Dynamics, Inc. stockholders, including the effect of assumed conversions when dilutive</b> | <b>\$ .20</b>                  | <b>\$ .43</b>    | <b>\$ .40</b>                | <b>\$ .89</b>     |
| Weighted average common shares and share equivalents outstanding   | 236,208                        | 236,266          | 236,367                      | 236,245           |
| <b>Dividends declared per share</b>  | <b>\$ .10</b>                  | <b>\$ .10</b>    | <b>\$ .20</b>                | <b>\$ .20</b>     |

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

|   | Three Months Ended<br>June 30, |                   | Six Months Ended<br>June 30, |                   |
|---|--------------------------------|-------------------|------------------------------|-------------------|
|   | 2012                           | 2011              | 2012                         | 2011              |
| <b>Operating activities:</b>  |                                |                   |                              |                   |
| Net income  | \$ 39,305                      | \$ 95,826         | \$ 81,082                    | \$ 200,056        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                |                   |                              |                   |
| Depreciation and amortization   | 55,502                         | 56,257            | 111,074                      | 111,003           |
| Equity-based compensation   | 2,602                          | 3,812             | 8,725                        | 7,522             |
| Deferred income taxes   | 10,634                         | 9,028             | 19,831                       | 21,963            |
| (Gain)loss on disposal of property, plant and equipment                           | 326                            | 139               | (413)                        | 96                |
| Changes in certain assets and liabilities:  |                                |                   |                              |                   |
| Accounts receivable   | 73,734                         | 34,536            | 12,914                       | (227,212)         |
| Inventories   | 18,787                         | (9,026)           | (36,303)                     | (81,133)          |
| Other assets  | (393)                          | 2,315             | 2,567                        | 5,697             |
| Accounts payable  | (60,837)                       | 2,750             | (25,935)                     | 96,925            |
| Income taxes receivable/payable   | (26,468)                       | (17,119)          | (9,076)                      | 28,320            |
| Accrued expenses  | (12,590)                       | (12,521)          | (42,446)                     | 6,697             |
| Net cash provided by operating activities   | 100,602                        | 165,997           | 122,020                      | 169,934           |
| <b>Investing activities:</b>  |                                |                   |                              |                   |
| Purchases of property, plant and equipment  | (54,789)                       | (34,976)          | (100,344)                    | (53,669)          |
| Proceeds from maturity of short-term commercial paper                             | 54,984                         |                   | 74,832                       |                   |
| Other investing activities  | 678                            | 2,142             | (21,034)                     | 999               |
| Net cash provided by (used in) investing activities                               | 873                            | (32,834)          | (46,546)                     | (52,670)          |
| <b>Financing activities:</b>  |                                |                   |                              |                   |
| Issuance of current and long-term debt  |                                |                   | 289,969                      | 5,126             |
| Repayment of current and long-term debt   | (21,896)                       | (491)             | (305,344)                    | (7,816)           |
| Debt issuance costs   |                                |                   | (2,188)                      |                   |
| Proceeds from exercise of stock options, including related tax effect             | 341                            | 4,569             | 1,438                        | 12,865            |
| Contributions from noncontrolling investors, net                                  | 5,117                          | 1,470             | 14,623                       | 1,887             |
| Dividends paid  | (21,908)                       | (21,830)          | (43,795)                     | (38,148)          |
| Net cash used in financing activities   | (38,346)                       | (16,282)          | (45,297)                     | (26,086)          |
| Increase in cash and equivalents  | 63,129                         | 116,881           | 30,177                       | 91,178            |
| Cash and equivalents at beginning of period                                       | 357,809                        | 160,810           | 390,761                      | 186,513           |
| <b>Cash and equivalents at end of period</b>                                      | <b>\$ 420,938</b>              | <b>\$ 277,691</b> | <b>\$ 420,938</b>            | <b>\$ 277,691</b> |
| <b>Supplemental disclosure information:</b>                                       |                                |                   |                              |                   |
| Cash paid for interest  | \$ 62,807                      | \$ 71,047         | \$ 81,560                    | \$ 86,157         |



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|   |    |        |    |        |    |        |    |        |
|---|----|--------|----|--------|----|--------|----|--------|
| Cash paid for federal and state income taxes, net | \$ | 41,302 | \$ | 60,455 | \$ | 40,347 | \$ | 61,975 |
|---|----|--------|----|--------|----|--------|----|--------|

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

**Description of the Business**

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

**Steel Operations.** Steel operations include the company's Flat Roll Division, Structural and Rail Division, Engineered Bar Products Division, Roanoke Bar Division, Steel of West Virginia (SWVA) and The Techs operations. These operations consist of mini-mills, producing steel from steel scrap, using electric arc furnaces, continuous casting, automated rolling mills, and downstream finishing facilities. The company's steel operations sell directly to end users and service centers. These products are used in numerous industry sectors, including the automotive, construction, commercial, transportation and industrial machinery markets. Steel operations accounted for approximately 63% and 61% of the company's external net sales during the three-month periods ended June 30, 2012 and 2011, respectively, and 62% and 60% of the company's external net sales during the six-month periods ended June 30, 2012 and 2011, respectively.

**Metals Recycling and Ferrous Resources Operations.** Metals recycling and ferrous resources operations include OmniSource Corporation (OmniSource), the company's metals recycling, steel scrap procurement, and processing locations, and our two ironmaking initiatives: Iron Dynamics (IDI), a liquid pig iron production facility; and our Minnesota iron operations, an iron nugget production facility and planned operations to supply the nugget facility with its primary raw material, iron concentrate. Metals recycling and ferrous resources operations accounted for approximately 31% and 35% of the company's external net sales during the three-month periods ended June 30, 2012 and 2011, respectively, and 33% and 36% of the company's external net sales during the six-month periods ended June 30, 2012 and 2011, respectively.

**Steel Fabrication Operations.** Steel fabrication operations include the company's New Millennium Building Systems plants located throughout the United States and Northern Mexico. Revenues from these plants are generated from the fabrication of trusses, girders, steel joists and steel decking used within the non-residential construction industry. Steel fabrication operations accounted for approximately 5% and 3% of the company's external net sales during the three-month periods ended June 30, 2012 and 2011, respectively, and 4% and 3% of the company's external net sales during the six-month periods ended June 30, 2012 and 2011, respectively.

**Significant Accounting Policies**

**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

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noncontrolling owner's proportionate share in the equity, income, or losses of the company's majority-owned or controlled consolidated subsidiaries.

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

In the opinion of management, these financial statements reflect all normal recurring adjustments necessary for a fair presentation of the interim period results. These financial statements and notes should be read in conjunction with the audited financial statements and notes thereto included in the company's Annual Report on Form 10-K for the year ended December 31, 2011.

**Goodwill.** The company's goodwill is allocated to the following reporting units at June 30, 2012, and December 31, 2011, (in thousands):

|   | June 30,<br>2012 | December 31,<br>2011 |
|---|------------------|----------------------|
| OmniSource Metals Recycling/Ferrous Resources Segment | \$ 568,068       | \$ 571,317           |
| The Techs Steel Segment                               | 142,783          | 142,783              |
| Roanoke Bar Division Steel Segment                    | 29,041           | 29,041               |
| New Millennium Building Systems Fabrication Segment   | 1,925            | 1,925                |
|   | \$ 741,817       | \$ 745,066           |

OmniSource goodwill decreased \$3.2 million from December 31, 2011 to June 30, 2012, in recognition of the 2012 tax benefit related to the amortization of the component of OmniSource tax-deductible goodwill in excess of book goodwill.

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 2. Earnings Per Share**

Basic earnings per share is based on the weighted average shares of common stock outstanding during the period. Diluted earnings per share assumes the weighted average dilutive effect of common share equivalents outstanding during the period applied to the company's basic earnings per share. Common share equivalents represent potentially dilutive stock options and restricted shares, and dilutive shares related to the company's 5.125% convertible senior notes, and are excluded from the computation in periods in which they have an anti-dilutive effect. Options to purchase 6.6 million and 1.2 million shares were anti-dilutive at June 30, 2012 and 2011, respectively.

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

|   | Three Months Ended June 30, |                                 |                     |                           |                                 |                     |
|---|-----------------------------|---------------------------------|---------------------|---------------------------|---------------------------------|---------------------|
|   | Net Income<br>(Numerator)   | 2012<br>Shares<br>(Denominator) | Per Share<br>Amount | Net Income<br>(Numerator) | 2011<br>Shares<br>(Denominator) | Per Share<br>Amount |
| Basic earnings per share                    | \$ 44,472                   | 219,104                         | \$ .20              | \$ 98,710                 | 218,500                         | \$ .45              |
| Dilutive stock option effect                |                             | 722                             |                     |                           | 1,384                           |                     |
| 5.125% convertible senior notes, net of tax | 2,358                       | 16,382                          |                     | 2,358                     | 16,382                          |                     |
| Diluted earnings per share                  | \$ 46,830                   | 236,208                         | \$ .20              | \$ 101,068                | 236,266                         | \$ .43              |

|   | Six Months Ended June 30, |                                 |                     |                           |                                 |                     |
|---|---------------------------|---------------------------------|---------------------|---------------------------|---------------------------------|---------------------|
|   | Net Income<br>(Numerator) | 2012<br>Shares<br>(Denominator) | Per Share<br>Amount | Net Income<br>(Numerator) | 2011<br>Shares<br>(Denominator) | Per Share<br>Amount |
| Basic earnings per share                    | \$ 90,147                 | 219,050                         | \$ .41              | \$ 204,613                | 218,246                         | \$ .94              |
| Dilutive stock option effect                |                           | 935                             |                     |                           | 1,617                           |                     |
| 5.125% convertible senior notes, net of tax | 4,716                     | 16,382                          |                     | 4,716                     | 16,382                          |                     |
| Diluted earnings per share                  | \$ 94,863                 | 236,367                         | \$ .40              | \$ 209,329                | 236,245                         | \$ .89              |

**Note 3. Inventories**

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

|                   | June 30,<br>2012 |    | December 31,<br>2011 |
|-------------------|------------------|----|----------------------|
| Raw materials     | \$ 654,831       | \$ | 609,150              |
| Supplies          | 262,061          |    | 251,716              |
| Work-in-progress  | 82,839           |    | 106,609              |
| Finished goods    | 252,422          |    | 232,109              |
| Total inventories | \$ 1,252,153     | \$ | 1,199,584            |

#### Note 4. Debt

On January 11, 2012, the company expanded its senior secured credit facility by adding a \$275.0 million term loan that matures on September 30, 2016 (Term Loan). Quarterly principal payments under the Term Loan are required to be made in amounts ranging from 1.25% to 3.75% of the original principal amount, with the unpaid principal balance of approximately \$158.0 million due on the maturity date. The company used the net proceeds of the Term Loan, together with cash on hand, to fund the January 2012 purchase of \$279.7 million of the company's 7 3/8% Senior Notes, due 2012 pursuant to a tender offer. As a result of the tender, the company recorded expenses of \$13.9 million in January 2012 related to the tender premium, unamortized debt issuance costs write-off, and tender expenses, which are reflected in other expenses in the consolidated statement of income for the six-months ended June 30, 2012.

On August 2, 2012, the company announced that it plans to sell approximately \$750 million aggregate principal amount of debt securities in a transaction exempt from the registration requirements of the Securities Act of 1933, subject to market and other conditions. Pursuant to a concurrent debt tender offer and consent solicitation (Offer), the company intends to use the proceeds from this new debt financing, along with available cash, to purchase up to \$210.0 million of the \$420.3 million outstanding aggregate principal amount of the 7 3/8% Senior Notes due 2012 and for any and all of the \$500.0 million outstanding aggregate principal amount of the 7 3/4% Senior Notes due 2016 (collectively, the Notes), and to pay fees and expenses associated with the tender offer and consent solicitation. The Offer is subject to a number of conditions including, without limitation, the completion of the new debt financing on terms reasonably satisfactory to the company and in an amount generating net proceeds sufficient to purchase the Notes tendered in the Offer, up to the tender cap.

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 5. Changes in Equity**

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

|   | Stockholders of Steel Dynamics, Inc. |              |                            |                   |                |                          |
|---|--------------------------------------|--------------|----------------------------|-------------------|----------------|--------------------------|
|   | Total Equity                         | Common Stock | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Noncontrolling Interests |
| <b>Balances at January 1, 2012</b>  | \$ 2,299,900                         | \$ 636       | \$ 1,026,157               | \$ 2,011,801      | \$ (722,653)   | \$ (16,041)              |
| Proceeds from the exercise of stock options, including related tax effect | 1,438                                |              | 1,438                      |                   |                |                          |
| Dividends declared  | (43,840)                             |              |                            | (43,840)          |                |                          |
| Equity-based compensation and issuance of restricted stock                | 7,661                                |              | 5,491                      |                   | 2,170          |                          |
| Conversion of 5.125% convertible senior notes                             | 2                                    |              |                            |                   | 2              |                          |
| Contributions from noncontrolling investors                               | 7,973                                |              |                            |                   |                | 7,973                    |
| Distributions to noncontrolling investor                                  | (80)                                 |              |                            |                   |                | (80)                     |
| Net income (loss)   | 81,082                               |              |                            | 90,147            |                | (9,065)                  |
| <b>Balances at June 30, 2012</b>  | \$ 2,354,136                         | \$ 636       | \$ 1,033,086               | \$ 2,058,108      | \$ (720,481)   | \$ (17,213)              |

**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 and option contracts on various commodities are entered into to manage the price risk associated with forecasted purchases and sales of nonferrous metals (specifically aluminum, copper, nickel and silver) from the company's metals recycling operations. Interest rate swaps may be entered into to manage interest rate risk associated with the company's fixed and floating-rate borrowings. Forward exchange contracts on various foreign currencies may be entered into to manage foreign currency exchange rate risk as necessary. No interest rate swaps or significant forward exchange contracts on foreign currency existed for the periods presented.

*Cash Flow Hedging Strategy.* For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative

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instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings (e.g., in interest expense when the hedged transactions are interest cash flows associated with floating-rate borrowings). The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (i.e., the ineffectiveness portion), or hedge components excluded from the assessment of effectiveness, are recognized in the statement of income during the current period.

*Commodity Futures Contracts.* If the company is long on futures contracts, it means the company has more futures contracts purchased than futures contracts sold for the underlying commodity. If the company is short on futures contracts, it means the company has more futures contracts sold than futures contracts purchased for the underlying commodity. The following summarizes the company's commodity option and futures contract commitments as of June 30, 2012 (MT represents metric tons and Lbs represents pounds):

|                   |        |    |    |
|-------------------|--------|----|----|
| Commodity Options | nickel | 60 | MT |
|-------------------|--------|----|----|

| Commodity Futures | Long/Short | Total  |     |
|-------------------|------------|--------|-----|
| Aluminum          | Long       | 6,600  | MT  |
| Aluminum          | Short      | 5,800  | MT  |
| Copper            | Long       | 4,797  | MT  |
| Copper            | Short      | 15,547 | MT  |
| Nickel            | Short      | 90     | MT  |
| Silver            | Short      | 343    | Lbs |

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

The following summarizes the location and amounts of the fair values and gains or losses related to derivatives included in the company's financial statements as of June 30, 2012, and December 31, 2011, and for the three and six-month periods ended June 30, 2012 and 2011 (in thousands):

|                                    |                      | Fair Value                         |                   |
|------------------------------------|----------------------|------------------------------------|-------------------|
|                                    |                      | June 30, 2012                      | December 31, 2011 |
| <b><u>Balance Sheets</u></b>       |                      |                                    |                   |
| Commodity futures and options      | net asset            | \$ 1,864                           | \$                |
| Commodity futures                  | net liability        |                                    | 1,219             |
|                                    | Other current assets |                                    |                   |
|                                    | Accrued expenses     |                                    |                   |
|                                    |                      | <b>Gain for Three Months Ended</b> |                   |
|                                    |                      | June 30, 2012                      | June 30, 2011     |
| <b><u>Statements of Income</u></b> |                      |                                    |                   |
| Commodity futures                  | Costs of goods sold  | \$ 5,893                           | \$ 1,422          |
|                                    |                      | <b>Gain for Six Months Ended</b>   |                   |
|                                    |                      | June 30, 2012                      | June 30, 2011     |
| <b><u>Statements of Income</u></b> |                      |                                    |                   |
| Commodity futures                  | Costs of goods sold  | \$ 2,275                           | \$ 4,345          |

**Note 7. Fair Value Measurements**

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

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



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The following table sets forth financial assets and liabilities measured at fair value in the consolidated balance sheets and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of June 30, 2012, and December 31, 2011 (in thousands):

|  |                       | Total     | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|-----------------------|-----------|--|---|--|
| <b>June 30, 2012</b>                       |                       |           |  |   |  |
| Investments in short-term commercial paper |                       |           |  |   |  |
|  |                       | \$ 9,998  | \$   | \$ 9,998  | \$   |
| Commodity options                          | financial liabilities | 9         |  | 9   |  |
| Commodity futures                          | financial assets      | 6,138     |  | 6,138   |  |
| Commodity futures                          | financial liabilities | 4,265     |  | 4,265   |  |
| <b>December 31, 2011</b>                   |                       |           |  |   |  |
| Investments in short-term commercial paper |                       |           |  |   |  |
|  |                       | \$ 84,830 | \$   | \$ 84,830   | \$   |
| Commodity futures                          | financial assets      | 3,159     |  | 3,159   |  |
| Commodity futures                          | financial liabilities | 4,378     |  | 4,378   |  |

The carrying amounts of financial instruments including cash and equivalents, accounts receivable and accounts payable approximate fair value, because of the relatively short maturity of these instruments. The fair values of short-term commercial paper and commodity futures and options contracts are estimated by the use of quoted market prices, estimates obtained from brokers, and other appropriate valuation techniques based on references available. The fair value of long-term debt, including current maturities, as determined by quoted market prices, was approximately \$2.4 billion and \$2.5 billion (with a corresponding carrying amount in the consolidated balance sheet of \$2.4 billion) at June 30, 2012 and December 31, 2011, respectively.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 8. Commitments and Contingencies**

The company is involved, along with eight other steel manufacturing companies, in a class action antitrust complaint filed in federal court in Chicago, Illinois that alleges a conspiracy 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. All but one of the Complaints purport to be brought on behalf of a class consisting of all direct purchasers of steel products during the period of the alleged conspiracy. 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, but this motion was denied. The parties have been conducting discovery related primarily to class certification matters, and on May 24, 2012, Plaintiffs filed their Motion for Class Certification. A time frame for hearing this Motion has not yet been determined. Due to the uncertainties of litigation, the company cannot presently determine the ultimate outcome of this litigation. However, the company believes that, based on the information available to us at this time, there is not presently a reasonable possibility (as that term is defined in ASC 450-20-20) that the outcome of these legal proceedings would have a material impact on the company's financial condition, results of operations, or liquidity.

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

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 9. Segment Information**

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

The company's operations are primarily organized and managed by operating segment. Operating segment performance and resource allocations are primarily based on operating results before income taxes. The accounting policies of the reportable segments are consistent with those described in Note 1 to the financial statements. Intra-segment and intra-company sales and any related profits are eliminated in consolidation. Refer to the company's Annual Report on Form 10-K for the year ended December 31, 2011, for more information related to the company's segment reporting. The company's segment results for the three and six-month periods ended June 30, 2012 and 2011 are as follows (in thousands):

| <b>For the three months ended June 30, 2012</b><br>(in thousands) | <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  | \$ 1,157,908            | \$ 533,841                                  | \$ 95,767                           | \$ 16,183    | \$                  | \$ 1,803,699        |
| External Non-U.S.   | 49,392                  | 56,668                                      |                                     | 44           |                     | 106,104             |
| Other segments  | 52,923                  | 329,947                                     |                                     | 4,164        | (387,034)           |                     |
|   | 1,260,223               | 920,456                                     | 95,767                              | 20,391       | (387,034)           | 1,909,803           |
| Operating income (loss)   | 136,597                 | (19,371)                                    | 193                                 | (14,673)(1)  | 953(2)              | 103,699             |
| Income (loss) before income taxes                                 | 118,049                 | (28,830)                                    | (1,449)                             | (24,238)     | 953                 | 64,485              |
| Depreciation and amortization                                     | 26,384                  | 25,591                                      | 2,059                               | 1,519        | (51)                | 55,502              |
| Capital expenditures  | 6,275                   | 46,857                                      | 1,329                               | 328          |                     | 54,789              |
| <b>As of June 30, 2012</b>  |                         |   |                                     |              |                     |                     |
| Assets  | 2,604,810               | 2,607,834                                   | 255,967                             | 725,717(3)   | (222,948)(4)        | 5,971,380           |
| Liabilities   | 464,861                 | 574,204                                     | 14,807                              | 2,699,661(5) | (213,713)(6)        | 3,539,820           |

Footnotes related to the three months ended June 30, 2012 segment results (in millions):

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|  |    |         |
|--|----|---------|
| (1) Corporate SG&A                                 | \$ | (7.2)   |
| Company-wide stock option expense                  |    | (2.0)   |
| Profit sharing                                     |    | (5.9)   |
| Other, net   |    | 0.4     |
|  | \$ | (14.7)  |
| (2) Gross profit increase from intra-company sales | \$ | 1.0     |
| (3) Cash and equivalents                           | \$ | 309.2   |
| Investments in short-term commercial paper         |    | 10.0    |
| Income taxes receivable                            |    | 17.1    |
| Deferred income taxes                              |    | 26.9    |
| Property, plant and equipment, net                 |    | 83.9    |
| Debt issuance costs, net                           |    | 22.3    |
| Intra-company debt                                 |    | 170.6   |
| Other  |    | 85.7    |
|  | \$ | 725.7   |
| (4) Elimination of intra-company receivables       | \$ | (38.8)  |
| Elimination of intra-company debt                  |    | (170.6) |
| Other  |    | (13.5)  |
|  | \$ | (222.9) |
| (5) Accounts payable                               | \$ | 28.7    |
| Income taxes payable                               |    | 2.9     |
| Accrued interest                                   |    | 31.0    |
| Accrued profit sharing                             |    | 12.6    |
| Debt   |    | 2,330.0 |
| Deferred income taxes                              |    | 213.0   |
| Other  |    | 81.5    |
|  | \$ | 2,699.7 |
| (6) Elimination of intra-company payables          | \$ | (41.2)  |
| Elimination of intra-company debt                  |    | (170.6) |
| Other  |    | (1.9)   |
|  | \$ | (213.7) |

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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

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

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

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|     |  |          |         |
|-----|--|----------|---------|
| (4) | Elimination of intra-company receivables | \$       | (42.3)  |
|     | Elimination of intra-company debt        |          | (153.7) |
|     | Other                                    |          | (15.0)  |
|     |  | Total \$ | (211.0) |
| (5) | Accounts payable                         |          | 35.4    |
|     | Income taxes payable                     |          | 11.6    |
|     | Accrued interest                         |          | 33.7    |
|     | Accrued profit sharing                   |          | 25.8    |
|     | Debt                                     |          | 2,340.9 |
|     | Deferred income taxes                    |          | 227.0   |
|     | Other                                    |          | 65.8    |
|     |  | Total \$ | 2,740.2 |
| (6) | Elimination of intra-company payables    | \$       | (43.8)  |
|     | Elimination of intra-company debt        |          | (153.7) |
|     | Other                                    |          | (1.6)   |
|     |  | Total \$ | (199.1) |

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| For the six months ended<br>June 30, 2012<br>(in thousands) | Steel Operations | Metals Recycling /<br>Ferrous Resources | Steel Fabrication<br>Operations | Other       | Eliminations | Consolidated |
|---|------------------|---|---------------------------------|-------------|--------------|--------------|
| <b>Net Sales</b>  |                  |   |                                 |             |              |              |
| External  | \$ 2,293,820     | \$ 1,167,975                            | \$ 170,659                      | \$ 36,915   | \$           | \$ 3,669,369 |
| External Non-U.S.   | 100,200          | 122,134                                 |                                 | 140         |              | 222,474      |
| Other segments  | 100,682          | 741,467                                 | 4                               | 7,426       | (849,579)    |              |
|   | 2,494,702        | 2,031,576                               | 170,663                         | 44,481      | (849,579)    | 3,891,843    |
| Operating income<br>(loss)                                  | 273,905          | (15,208)                                | (2,475)                         | (31,535)(1) | (1,172)(2)   | 223,515      |
| Income (loss) before<br>income taxes                        | 237,127          | (33,103)                                | (5,633)                         | (64,278)    | (1,172)      | 132,941      |
| Depreciation and<br>amortization                            | 52,468           | 51,665                                  | 3,907                           | 3,136       | (102)        | 111,074      |
| Capital expenditures  | 12,223           | 84,763                                  | 2,497                           | 861         |              | 100,344      |

Footnotes related to the six months ended June 30, 2012 segment results (in millions):

|   |    |        |
|---|----|--------|
| (1) Corporate SG&A                                  | \$ | (14.8) |
| Company-wide stock option expense                   |    | (5.7)  |
| Profit sharing                                      |    | (12.4) |
| Other, net  |    | 1.4    |
|   | \$ | (31.5) |
| (2) Gross profit reduction from intra-company sales | \$ | (1.2)  |

| For the six months ended<br>June 30, 2011<br>(in thousands) | Steel Operations | Metals Recycling /<br>Ferrous Resources | Steel Fabrication<br>Operations | Other       | Eliminations | Consolidated |
|---|------------------|---|---------------------------------|-------------|--------------|--------------|
| <b>Net Sales</b>  |                  |   |                                 |             |              |              |
| External  | \$ 2,367,961     | \$ 1,320,186                            | \$ 114,018                      | \$ 51,242   | \$           | \$ 3,853,407 |
| External Non-U.S.   | 94,378           | 147,658                                 |                                 | 257         |              | 242,293      |
| Other segments  | 114,137          | 718,442                                 | 596                             | 5,419       | (838,594)    |              |
|   | 2,576,476        | 2,186,286                               | 114,614                         | 56,918      | (838,594)    | 4,095,700    |
| Operating income<br>(loss)                                  | 406,923          | 43,375                                  | (4,518)                         | (49,678)(1) | (2,557)(2)   | 393,545      |
|   | 365,491          | 22,730                                  | (7,779)                         | (62,080)    | (2,663)      | 315,699      |

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|                                      |        |        |       |       |       |         |
|--------------------------------------|--------|--------|-------|-------|-------|---------|
| Income (loss) before<br>income taxes |        |        |       |       |       |         |
| Depreciation and<br>amortization     | 54,844 | 50,620 | 3,122 | 2,519 | (102) | 111,003 |
| Capital expenditures                 | 18,434 | 31,883 | 951   | 2,401 |       | 53,669  |

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

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



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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 10. Condensed Consolidating Information**

Certain 100%-owned subsidiaries of SDI have fully and unconditionally guaranteed all of the indebtedness relating to the issuance of the company's senior notes due 2012, 2014, 2015, 2016, and 2020. Following are the company's condensed consolidating financial statements, including the guarantors, which present the financial position, results of operations and cash flows of (i) SDI (in each case, reflecting investments in its consolidated subsidiaries under the equity method of accounting), (ii) the guarantor subsidiaries of SDI, (iii) the non-guarantor subsidiaries of SDI, and (iv) the eliminations necessary to arrive at the information for the company on a consolidated basis. The following statements should be read in conjunction with the accompanying consolidated financial statements and the company's Annual Report on Form 10-K for the year ended December 31, 2011.

*Condensed Consolidating Balance Sheets (in thousands)*

| As of June 30, 2012                         | Parent       | Guarantors   | Combined<br>Non-Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Cash and equivalents                        | \$ 304,807   | \$ 105,248   | \$ 10,883                  | \$                           | \$ 420,938            |
| Investments in short-term commercial paper  | 9,998        |              |                            |                              | 9,998                 |
| Accounts receivable, net                    | 302,173      | 767,638      | 11,230                     | (365,601)                    | 715,440               |
| Inventories                                 | 648,242      | 522,961      | 84,899                     | (3,949)                      | 1,252,153             |
| Other current assets                        | 71,774       | 7,755        | 1,910                      | (21,624)                     | 59,815                |
| Total current assets                        | 1,336,994    | 1,403,602    | 108,922                    | (391,174)                    | 2,458,344             |
| Property, plant and equipment, net          | 1,028,099    | 656,804      | 526,482                    | (2,725)                      | 2,208,660             |
| Intangible assets, net                      |              | 433,559      |                            |                              | 433,559               |
| Goodwill                                    |              | 741,817      |                            |                              | 741,817               |
| Other assets, including investments in subs | 2,819,033    | 31,869       | 9,417                      | (2,731,319)                  | 129,000               |
| Total assets                                | \$ 5,184,126 | \$ 3,267,651 | \$ 644,821                 | \$ (3,125,218)               | \$ 5,971,380          |
| Accounts payable                            | \$ 123,796   | \$ 268,860   | \$ 39,208                  | \$ (38,690)                  | \$ 393,174            |
| Accrued expenses                            | 110,034      | 100,385      | 11,665                     | (35,721)                     | 186,363               |
| Current maturities of long-term debt        | 434,498      | 300          | 25,608                     | (20,494)                     | 439,912               |
| Total current liabilities                   | 668,328      | 369,545      | 76,481                     | (94,905)                     | 1,019,449             |
| Long-term debt                              | 1,898,084    |              | 215,034                    | (185,021)                    | 1,928,097             |
| Other liabilities                           | 246,365      | 2,146,367    | 41,360                     | (1,841,818)                  | 592,274               |
| Redeemable noncontrolling interest          |              |              | 77,424                     |                              | 77,424                |
| Common stock                                | 636          | 33,896       | 18,121                     | (52,017)                     | 636                   |
| Treasury stock                              | (720,481)    |              |                            |                              | (720,481)             |
| Additional paid-in-capital                  | 1,033,086    | 117,737      | 384,888                    | (502,625)                    | 1,033,086             |
| Retained earnings (deficit)                 | 2,058,108    | 600,106      | (151,274)                  | (448,832)                    | 2,058,108             |
| Total Steel Dynamics, Inc. equity           | 2,371,349    | 751,739      | 251,735                    | (1,003,474)                  | 2,371,349             |

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|                              |              |              |            |                |              |          |
|------------------------------|--------------|--------------|------------|----------------|--------------|----------|
| Noncontrolling interests     |              |              |            | (17,213)       |              | (17,213) |
| Total equity                 | 2,371,349    | 751,739      | 234,522    | (1,003,474)    | 2,354,136    |          |
| Total liabilities and equity | \$ 5,184,126 | \$ 3,267,651 | \$ 644,821 | \$ (3,125,218) | \$ 5,971,380 |          |

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| As of December 31, 2011                        | Parent       | Guarantors   | Combined<br>Non-Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|--|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Cash and equivalents                           | \$ 301,073   | \$ 58,699    | \$ 30,989                  | \$                           | \$ 390,761            |
| Investments in short-term<br>commercial paper  | 84,830       |              |                            |                              | 84,830                |
| Accounts receivable, net                       | 319,995      | 726,192      | 8,971                      | (332,367)                    | 722,791               |
| Inventories                                    | 584,079      | 533,022      | 85,046                     | (2,563)                      | 1,199,584             |
| Other current assets                           | 83,116       | 4,119        | 2,304                      | (32,247)                     | 57,292                |
| Total current assets                           | 1,373,093    | 1,322,032    | 127,310                    | (367,177)                    | 2,455,258             |
| Property, plant and equipment, net             | 1,059,011    | 660,048      | 477,514                    | (2,828)                      | 2,193,745             |
| Intangible assets, net                         |              | 450,893      |                            |                              | 450,893               |
| Goodwill                                       |              | 745,066      |                            |                              | 745,066               |
| Other assets, including investments<br>in subs | 2,791,718    | 33,507       | 9,853                      | (2,700,814)                  | 134,264               |
| Total assets                                   | \$ 5,223,822 | \$ 3,211,546 | \$ 614,677                 | \$ (3,070,819)               | \$ 5,979,226          |
| Accounts payable                               | \$ 155,220   | \$ 273,049   | \$ 23,195                  | \$ (30,640)                  | \$ 420,824            |
| Accrued expenses                               | 157,868      | 98,498       | 10,012                     | (30,863)                     | 235,515               |
| Current maturities of long-term debt           | 439,199      | 300          | 53,551                     | (48,972)                     | 444,078               |
| Total current liabilities                      | 752,287      | 371,847      | 86,758                     | (110,475)                    | 1,100,417             |
| Long-term debt                                 | 1,905,199    |              | 169,797                    | (138,974)                    | 1,936,022             |
| Other liabilities                              | 250,395      | 2,132,778    | 51,625                     | (1,862,605)                  | 572,193               |
| Redeemable noncontrolling interest             |              |              | 70,694                     |                              | 70,694                |
| Common stock                                   | 636          | 33,896       | 18,121                     | (52,017)                     | 636                   |
| Treasury stock                                 | (722,653)    |              |                            |                              | (722,653)             |
| Additional paid-in-capital                     | 1,026,157    | 117,737      | 347,151                    | (464,888)                    | 1,026,157             |
| Retained earnings (deficit)                    | 2,011,801    | 555,288      | (113,428)                  | (441,860)                    | 2,011,801             |
| Total Steel Dynamics, Inc. equity              | 2,315,941    | 706,921      | 251,844                    | (958,765)                    | 2,315,941             |
| Noncontrolling interests                       |              |              | (16,041)                   |                              | (16,041)              |
| Total equity                                   | 2,315,941    | 706,921      | 235,803                    | (958,765)                    | 2,299,900             |
| Total liabilities and equity                   | \$ 5,223,822 | \$ 3,211,546 | \$ 614,677                 | \$ (3,070,819)               | \$ 5,979,226          |

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| <b>For the three months ended,<br/>June 30, 2012</b>                       | <b>Parent</b> | <b>Guarantors</b> | <b>Combined<br/>Non-Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total<br/>Consolidated</b> |
|--|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net sales  | \$ 926,791    | \$ 2,181,236      | \$ 36,022                          | \$ (1,234,246)                       | \$ 1,909,803                  |
| Costs of goods sold  | 804,586       | 2,084,159         | 56,063                             | (1,217,141)                          | 1,727,667                     |
| Gross profit (loss)  | 122,205       | 97,077            | (20,041)                           | (17,105)                             | 182,136                       |
| Selling, general and administrative  | 24,703        | 52,935            | 4,449                              | (3,650)                              | 78,437                        |
| Operating income (loss)  | 97,502        | 44,142            | (24,490)                           | (13,455)                             | 103,699                       |
| Interest expense, net of capitalized interest                              | 27,213        | 13,605            | 1,739                              | (1,451)                              | 41,106                        |
| Other (income) expense, net  | (2,695)       | 194               | (844)                              | 1,453                                | (1,892)                       |
| Income (loss) before income taxes and equity in net income of subsidiaries | 72,984        | 30,343            | (25,385)                           | (13,457)                             | 64,485                        |
| Income taxes (benefit)   | 18,710        | 11,552            | 18                                 | (5,100)                              | 25,180                        |
|  | 54,274        | 18,791            | (25,403)                           | (8,357)                              | 39,305                        |
| Equity in net income of subsidiaries                                       | (9,802)       |                   |                                    | 9,802                                |                               |
| Net loss attributable to noncontrolling interests                          |               |                   | 5,167                              |                                      | 5,167                         |
| Net income (loss) attributable to Steel Dynamics, Inc.                     | \$ 44,472     | \$ 18,791         | \$ (20,236)                        | \$ 1,445                             | \$ 44,472                     |

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



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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| <b>For the six months ended,<br/>June 30, 2012</b>                         | <b>Parent</b> | <b>Guarantors</b> | <b>Combined<br/>Non-Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total<br/>Consolidated</b> |
|--|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net sales  | \$ 1,839,984  | \$ 4,489,392      | \$ 82,857                          | \$ (2,520,390)                       | \$ 3,891,843                  |
| Costs of goods sold  | 1,590,153     | 4,283,057         | 119,957                            | (2,484,724)                          | 3,508,443                     |
| Gross profit (loss)  | 249,831       | 206,335           | (37,100)                           | (35,666)                             | 383,400                       |
| Selling, general and administrative  | 52,269        | 107,490           | 6,908                              | (6,782)                              | 159,885                       |
| Operating income (loss)  | 197,562       | 98,845            | (44,008)                           | (28,884)                             | 223,515                       |
| Interest expense, net of capitalized interest                              | 54,430        | 27,211            | 3,449                              | (2,872)                              | 82,218                        |
| Other (income) expense, net  | 8,074         | (870)             | (1,721)                            | 2,873                                | 8,356                         |
| Income (loss) before income taxes and equity in net income of subsidiaries | 135,058       | 72,504            | (45,736)                           | (28,885)                             | 132,941                       |
| Income taxes (benefit)   | 34,580        | 27,686            | 371                                | (10,778)                             | 51,859                        |
| Equity in net income of subsidiaries                                       | 100,478       | 44,818            | (46,107)                           | (18,107)                             | 81,082                        |
| Net loss attributable to noncontrolling interests                          | (10,331)      |                   |                                    | 10,331                               |                               |
| Net income (loss) attributable to Steel Dynamics, Inc.                     | \$ 90,147     | \$ 44,818         | \$ (37,042)                        | \$ (7,776)                           | \$ 90,147                     |

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



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## 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,<br/>June 30, 2012</b>  | <b>Parent</b> | <b>Guarantors</b> | <b>Combined<br/>Non-Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total<br/>Consolidated</b> |
|---|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net cash provided by (used in) operating activities | \$ 24,722     | \$ 116,105        | \$ (23,941)                        | \$ 5,134                             | \$ 122,020                    |
| Net cash provided by (used in) investing activities | 8,922         | (55,747)          | (54,773)                           | 55,052                               | (46,546)                      |
| Net cash provided by (used in) financing activities | (29,910)      | (13,809)          | 58,608                             | (60,186)                             | (45,297)                      |
| Increase (decrease) in cash and equivalents         | 3,734         | 46,549            | (20,106)                           |                                      | 30,177                        |
| Cash and equivalents at beginning of period         | 301,073       | 58,699            | 30,989                             |                                      | 390,761                       |
| Cash and equivalents at end of period               | \$ 304,807    | \$ 105,248        | \$ 10,883                          | \$                                   | \$ 420,938                    |

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



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

**Forward-Looking Statements**

This report contains some predictive statements about future events, including statements related to conditions in domestic and global economies, conditions in the steel and recycled metals marketplaces, our revenue, costs of purchased materials, future profitability and earnings, and the operation of new or existing facilities. These statements are intended to be made as forward-looking, subject to many risks and uncertainties, within the safe harbor protections of the Private Securities Litigation Reform Act of 1995. Such predictive statements are not guarantees of future performance, and actual results could differ materially from our current expectations. Some factors that could cause such forward-looking statements to turn out differently than anticipated include: (1) the effects of a recurrent recession on industrial demand; (2) changes in economic conditions, either generally or in any of the steel or scrap-consuming sectors which affect demand for our products, including the strength of the non-residential and residential construction, automotive, appliance, and other steel-consuming industries; (3) fluctuations in the cost of key raw materials (including steel scrap, iron units, and energy costs) and our ability to pass-on any cost increases; (4) the impact of domestic and foreign import price competition; (5) risks and uncertainties involving product and/or technology development; and (6) occurrences of unexpected plant outages or equipment failures.

More specifically, we refer you to the sections titled *Special Note Regarding Forward-Looking Statements* and *Risk Factors* in our annual report on Form 10-K for the year ended December 31, 2011, 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 are scrap and scrap substitutes (which represent the most significant single component of our consolidated costs of goods sold), steel, direct and indirect labor and related benefits, alloys, zinc, transportation and freight, repairs and maintenance, utilities (most notably electricity and natural gas), and depreciation.

***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 investments; any other non-operating income activity, including gains on certain short-term investments; and income from non-consolidated investments accounted for under the equity method. Other expense consists of any non-operating costs, including premiums paid for refinancing activities.

Table of Contents**Overview**

Net income was \$44.5 million, or \$0.20 per diluted share, during the second quarter of 2012, compared with net income of \$98.7 million, or \$0.43 per diluted share, during the second quarter of 2011, and net income of \$45.7 million, or \$0.20 per diluted share, during the first quarter of 2012. Our net sales decreased \$169.9 million, or 8%, to \$1.9 billion in the second quarter of 2012 versus the second quarter of 2011, while net sales decreased \$72.2 million, or 4%, versus the first quarter of 2012. Our gross profit percentage was 10% during the second quarter of 2012 as compared to 13% for the second quarter of 2011, and 10% for the first quarter of 2012.

While second quarter 2012 external steel shipments increased 6% as compared to the second quarter of 2011 (with flat roll shipments increasing 1% and long products shipments increasing 10%) and fabrication volumes increased 63%; metals recycling external ferrous metals shipments decreased 8% while nonferrous shipments were consistent. Despite overall consolidated second quarter 2012 shipping volume increases, consolidated net sales decreased 8% compared to the prior year second quarter due to decreased selling prices in all our operations. Operating income decreased 45% in the second quarter 2012 as compared to the same period in 2011, as gross margins decreased from the historically high margins achieved in the first half of 2011 within the Flat Roll Division, as well as in our metals recycling operations. The average external selling price per ton shipped for the company's steel operations decreased \$93 per ton in the second quarter of 2012 compared to the prior year second quarter while the average ferrous scrap cost per ton melted decreased only \$19 for the same comparative period.

Looking at the second quarter of 2012 as compared to the first quarter of 2012, steel and fabrication external shipments increased 4% and 29%, respectively, while metals recycling external nonferrous shipments decreased 12% and ferrous external shipments remained consistent. Consolidated quarterly operating income decreased 13% sequentially due primarily to weakening metals recycling ferrous and nonferrous metal margins, and decreases in nonferrous selling volumes. The domestic ferrous scrap market became oversupplied during the second quarter due to decreased exports of ferrous scrap as well as declining domestic steel mill utilization rates. The result was weakening ferrous prices throughout the second quarter, and a resulting 10% reduction in ferrous metal margins. Nonferrous metals margins also declined in the second quarter, most notably in copper. These factors caused overall metals recycling metal margins to decrease 21% quarter versus quarter resulting in a \$20 million decrease in metals recycling operating income in the second quarter of 2012 as compared to the first quarter in 2012.

**Segment Operating Results 2012 vs. 2011 (dollars in thousands)**

|   | Three Months Ended<br>June 30,<br>% |        |              | First<br>Quarter | Sequential<br>Quarter<br>% | Six Months Ended<br>June 30,<br>% |        |              |
|---|-------------------------------------|--------|--------------|------------------|----------------------------|-----------------------------------|--------|--------------|
|   | 2012                                | Change | 2011         | 2012             | Change                     | 2012                              | Change | 2011         |
| Net sales:                                |                                     |        |              |                  |                            |                                   |        |              |
| Steel                                     | \$ 1,260,223                        | (5)%   | \$ 1,329,466 | \$ 1,234,479     | 2%                         | \$ 2,494,702                      | (3)%   | \$ 2,576,476 |
| Metals recycling and<br>ferrous resources | 920,456                             | (15)%  | 1,077,871    | 1,111,120        | (17)%                      | 2,031,576                         | (7)%   | 2,186,286    |
| Steel fabrication                         | 95,767                              | 55%    | 61,962       | 74,896           | 28%                        | 170,663                           | 49%    | 114,614      |
| Other                                     | 20,390                              | (29)%  | 28,786       | 24,090           | (15)%                      | 44,480                            | (22)%  | 56,918       |
|   | 2,296,836                           |        | 2,498,085    | 2,444,585        |                            | 4,741,421                         |        | 4,934,294    |
| Intra-company                             | (387,033)                           |        | (418,354)    | (462,545)        |                            | (849,578)                         |        | (838,594)    |
| Consolidated                              | \$ 1,909,803                        | (8)%   | \$ 2,079,731 | \$ 1,982,040     | (4)%                       | \$ 3,891,843                      | (5)%   | \$ 4,095,700 |
| Operating income<br>(loss):               |                                     |        |              |                  |                            |                                   |        |              |
| Steel                                     | \$ 136,597                          | (36)%  | \$ 213,968   | \$ 137,308       | (1)%                       | \$ 273,905                        | (33)%  | \$ 406,923   |

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|  |          |        |            |            |        |            |        |            |
|--|----------|--------|------------|------------|--------|------------|--------|------------|
| Metals recycling and ferrous resources | (19,371) | (599)% | 3,885      | 4,163      | (565)% | (15,208)   | (135)% | 43,375     |
| Steel fabrication                      | 193      | 112%   | (1,635)    | (2,668)    | 107%   | (2,475)    | 45%    | (4,518)    |
| Other                                  | (14,673) | 42%    | (25,422)   | (16,862)   | 13%    | (31,535)   | 37%    | (49,678)   |
|  | 102,746  | (46)%  | 190,796    | 121,941    | (16)%  | 224,687    | (43)%  | 396,102    |
| Eliminations                           | 953      |        | (2,577)    | (2,125)    |        | (1,172)    |        | (2,557)    |
| Consolidated \$                        | 103,699  | (45)%  | \$ 188,219 | \$ 119,816 | (13)%  | \$ 223,515 | (43)%  | \$ 393,545 |

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## 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, agriculture and industrial machinery markets. In the second quarters of 2012 and 2011, our steel operations accounted for 63% and 61%, respectively, of our external net sales. Operating income for the steel segment decreased \$77.4 million or 36%, to \$136.6 million in the second quarter of 2012 compared to the second quarter of 2011. Gross margin, and correspondingly operating income, compressed due to a \$93 decrease in average segment selling prices per ton shipped coupled with only a \$19 per ton decrease in average ferrous scrap cost melted in the second quarter of 2012, as compared to the second quarter of 2011. Operating income for the steel segment decreased \$133.0 million or 33%, to \$273.9 million in the first half of 2012 compared to the first half of 2011. Gross margin, and correspondingly operating income, compressed due to a \$53 decrease in average segment selling prices per ton shipped while the average ferrous scrap cost melted in the first half of 2012 virtually unchanged from the first half of 2011.

**Steel Operations Shipments (net tons)**

|                                     | Three Months Ended<br>June 30, |           |      | First<br>Quarter<br>2012 | Six Months Ended<br>June 30, |           |      |
|-------------------------------------|--------------------------------|-----------|------|--------------------------|------------------------------|-----------|------|
|                                     | 2012                           | 2011      | 2011 |                          | 2012                         | 2011      | 2011 |
| Flat Roll Division                  | 706,944                        | 680,679   |      | 658,505                  | 1,365,449                    | 1,390,293 |      |
| The Techs                           | 171,437                        | 186,903   |      | 144,615                  | 316,052                      | 387,627   |      |
| Sheet products                      | 878,381                        | 867,582   | 60%  | 803,120                  | 55%                          | 1,681,501 | 57%  |
| Long products                       |                                |           |      |                          |                              |           | 61%  |
| Structural and Rail<br>Division     | 252,524                        | 213,368   |      | 261,006                  | 513,530                      | 404,029   |      |
| Engineered Bar<br>Products Division | 166,208                        | 144,280   |      | 157,489                  | 323,697                      | 303,295   |      |
| Roanoke Bar Division                | 149,010                        | 152,906   |      | 151,296                  | 300,306                      | 274,211   |      |
| Steel of West Virginia              | 74,456                         | 74,882    |      | 77,212                   | 151,668                      | 146,938   |      |
| Long products                       | 642,198                        | 585,436   | 40%  | 647,003                  | 45%                          | 1,289,201 | 39%  |
| Total shipments                     | 1,520,579                      | 1,453,018 |      | 1,450,123                | 2,970,702                    | 2,906,393 |      |
| Intra-segment<br>shipments          | (29,560)                       | (35,842)  | (2)% | (28,057)                 | (2)%                         | (57,617)  | (3)% |
| Segment shipments                   | 1,491,019                      | 1,417,176 |      | 1,422,066                | 2,913,085                    | 2,834,080 |      |
| Intra-company<br>shipments          | (77,315)                       | (79,568)  | (6)% | (66,119)                 | (5)%                         | (143,434) | (5)% |
| External shipments                  | 1,413,704                      | 1,337,608 |      | 1,355,947                | 2,769,651                    | 2,681,010 |      |

**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. Sheet products represented 58% of total steel total shipped tons in the second quarter of 2012, as compared to 60% in the second quarter of 2011.

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

Net sales for the segment decreased in the second quarter of 2012 by \$69.2 million, or 5%, compared to the second quarter of 2011. While total shipments in the second quarter of 2012 were 5% higher than the second quarter of 2011, there was a shift in mix with long products shipments increasing 10%, or 57,000 tons, outpacing the sheet products sales volumes increase of 1%, or 11,000 tons. Rail product shipments continue to show steady improvement, with the second quarter of 2012 shipments increasing 10% over the second quarter of 2011. Our second quarter 2012 average steel operations segment selling price per ton shipped, decreased \$93 compared with the second quarter of 2011, as the high sheet selling prices seen in the second quarter of 2011 were not duplicated in the market in 2012, as increased domestic flat roll capacity and increased imports did not support higher pricing.

Net sales for the segment decreased by \$81.8 million, or 3%, in the first six months of 2012 compared to the same period in 2011. While demand for our steel products improved moderately overall in 2012 compared to the first six months of 2011 there was an even more pronounced shift in mix to long products in the first six months of 2012 compared to the same period in 2011, than in the second quarter comparison noted above. Segment shipments for the first six months of 2012 were up 3% overall compared to the same period in 2011, with sheet products decreasing 5%, while long products increased 14%. Our first six months 2012 average steel operations segment selling price per ton shipped decreased \$54 compared with the first six months of 2011, as the high sheet selling prices seen in the first half of 2011 were not duplicated in the market in 2012.

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Metallic raw materials used in our electric arc furnaces represent our single most significant manufacturing cost. Our metallic raw material cost per net ton consumed in our steel operations decreased \$19 in the second quarter 2012 compared with the second quarter of 2011. During the second quarter of 2012 and 2011, respectively, our metallic raw material costs represented 67% and 68% 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 was virtually unchanged for the first six months of 2012 compared with the first six months of 2011, and represented 68% of our steel operations' manufacturing costs in each period, 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 (OmniSource); our liquid pig iron production facility, Iron Dynamics (IDI); and our Minnesota iron operations. Our metals recycling and ferrous resources operations segment accounted for 31% of our external net sales in the second quarter of 2012 and 35% in the second quarter of 2011. Operating income for the metals recycling and ferrous resources operations segment decreased \$23.3 million in the second quarter of 2012 to a loss of \$19.4 million, compared to the second quarter of 2011, due primarily to decreased metal margins for both ferrous and nonferrous metals in metals recycling, and to a lesser extent a decrease in nonferrous sales volume. Operating income for the metals recycling and ferrous resources operations segment decreased \$58.6 million in the first six months of 2012 from \$43.4 million to a loss of \$15.2 million, compared to the first six months of 2011, due primarily to decreased metal margins for both ferrous and nonferrous metals in metals recycling operations, and to a lesser extent a decrease in nonferrous sales volume.

**Metals Recycling and Ferrous Resources Operations Shipments**

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|   | Three Months Ended<br>June 30, |           | First<br>Quarter<br>2012 | Six Months Ended<br>June, |             |
|---|--------------------------------|-----------|--------------------------|---------------------------|-------------|
|   | 2012                           | 2011      |                          | 2012                      | 2011        |
| Ferrous metal (gross tons)                  |                                |           |                          |                           |             |
| Total                                       | 1,486,222                      | 1,553,828 | 1,582,840                | 3,069,062                 | 3,082,019   |
| Intra-segment                               | (2,007)                        | (5,192)   | (1,787)                  | (2,920)                   | (5,192)     |
| Segment shipments                           | 1,484,215                      | 1,548,636 | 1,581,053                | 3,066,142                 | 3,076,827   |
| Intra-company                               | (664,661)                      | (655,496) | (761,980)                | (1,427,515)               | (1,325,124) |
| External shipments                          | 819,554                        | 893,140   | 819,073                  | 1,638,627                 | 1,751,703   |
| Nonferrous metals (thousands of pounds)     |                                |           |                          |                           |             |
| Total                                       | 258,932                        | 255,113   | 291,636                  | 550,568                   | 541,758     |
| Intra-segment                               | (1,707)                        |           |                          | (1,707)                   |             |
| Segment shipments                           | 257,225                        | 255,113   | 291,636                  | 548,861                   | 541,758     |
| Intra-company                               | (2,891)                        | (1,978)   | (1,958)                  | (4,849)                   | (4,239)     |
| External shipments                          | 254,334                        | 253,135   | 289,678                  | 544,012                   | 537,519     |
| Mesabi Nugget (metric tons)   intra-company | 33,840                         | 38,265    | 46,230                   | 80,070                    | 74,032      |
| Iron Dynamics (metric tons)   intra-company | 59,103                         | 59,854    | 56,628                   | 115,731                   | 120,997     |



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**Metals Recycling.** Our metals recycling operations, OmniSource, represent our metals sourcing and processing operations and are the most significant source of net sales in this segment. These operations sell ferrous metals to steel mills and foundries, and nonferrous metals, such as copper, brass, aluminum and stainless steel to, among others, ingot manufacturers, copper refineries and mills, smelters, and specialty mills. Our metals recycling operations represented 95% of this segment's net sales during the second quarters of 2012 and 2011.

During the second quarter of 2012, metals recycling recorded sales of \$876.7 million on shipments of 1.5 million gross tons of ferrous metals and 257.2 million pounds of nonferrous metals, compared with sales of \$1.0 billion on shipments of 1.5 million gross tons of ferrous and 255.1 million pounds of nonferrous metals during the same period in 2011. During the second quarter of 2012 and 2011, the metals recycling operations provided approximately 52% and 54%, respectively, of the steel scrap purchased by our steel mills. This represented 45% and 42% of the metals recycling operations' ferrous shipments for the second quarter of 2012 and 2011, respectively. Sales prices of ferrous metals decreased 11% in the second quarter of 2012 versus the same period in 2011, while sales prices of nonferrous metals decreased 17% between the same periods. Specifically, copper commodity (Comex) and aluminum commodity (LME) pricing was 18% and 26% lower, respectively, at the end of the second quarter 2012 than at the end of the comparable prior year period. During the first six months of 2012, metals recycling recorded sales of \$1.9 billion on shipments of 3.1 million gross tons of ferrous metals and 548.9 million pounds of nonferrous metals, compared with sales of \$2.1 billion on shipments of 3.1 million gross tons of ferrous and 541.8 million pounds of nonferrous metals during the same period in 2011. Sales prices of ferrous metals decreased 5% in first six months of 2012 versus the same period in 2011, while sales prices of nonferrous metals decreased 13% between the same periods.

Operating income for metals recycling decreased \$12.3 million in the second quarter of 2012 to a loss of \$1.1 million, compared to the second quarter of 2011, due primarily to decreased metals spreads for both ferrous (10%) and nonferrous (3%) metals, along with a 4% volume decrease in our ferrous metals products. Decreased exports of ferrous scrap, along with moderating domestic steel mill utilization rates, resulted in oversupply and therefore selling prices declined more rapidly than inputs and margin compressed during the quarter, negatively impacting operating income. Operating income for metals recycling decreased \$35.6 million in the first six months of 2012 to \$17.6 million, compared to the first six months of 2011, due primarily to decreased metals spreads for both ferrous (9%) and nonferrous (16%) metals.

**Ferrous Resources.** Our ferrous resource operations consist of our two ironmaking initiatives: Iron Dynamics (IDI), a liquid pig iron production facility, and our Minnesota iron operations, consisting of an iron nugget production facility and planned operations to supply the nugget facility with its primary raw material, iron concentrate. IDI primarily produces liquid pig iron, which is used as a scrap substitute raw material input exclusively at our Flat Roll Division. Our Minnesota iron operations consists of Mesabi Nugget, (owned 81% by us); our planned future iron mining operations which is currently in the permitting process, Mesabi Mining; and, our planned iron tailings operations, Mining Resources (owned 80% by us). The construction of the Mesabi Nugget facility was completed in 2009, and initial production of iron nuggets commenced January 2010. Since then, we have continued to refine this pioneering production process and changed equipment configurations to increase production and plant availability. During a planned five week outage in April and May 2012, we made numerous equipment modifications to improve the percentage of time the plant is available to operate each month. After restarting, availability for the month of June increased to just over 80 percent – a significant improvement. This improvement supports the attainability of the target rate for plant availability of over 90 percent. Operating rates, or productivity, also showed improvement post outage. Operating at these higher rates for longer periods of time allowed us to identify a number of key process optimization opportunities that are necessary for further improvement in both productivity and product quality. The company has identified several possible solutions which it is currently evaluating and intends to implement within the next twelve months, based on equipment delivery lead times and subsequent installation and startup. In the second quarter of 2012 and 2011, Mesabi Nugget produced 34,000 and 38,000 metric tons of iron-nuggets, respectively, for use by our own steel mills. We are currently constructing the iron tailings operation, which is expected to start up in the third quarter of 2012. This operation is planned to provide iron ore tailings to be concentrated for use by Mesabi Nugget as a low-cost iron concentrate to the nugget production process, replacing higher-priced concentrate from external sources. Losses from our Minnesota iron operations reduced our net income in the second quarter of 2012 by approximately \$11 million, \$3 million more than in the second quarter of 2011. The increase in losses was due primarily to a planned outage to address normal and certain other mechanical and operational issues during April/May of 2012. In the first six months of 2012 and 2011, Mesabi Nugget produced 80,000 and 74,000 metric tons of iron-nuggets, respectively, for use by our own steel mills. Losses from our Minnesota iron operations reduced our net income in the first six months of 2012 by approximately \$20 million, \$5 million more than in the first six months of 2011.

### Steel Fabrication Operations

Our steel fabrication operations represent the company's New Millennium Building Systems plants located throughout the United States and Northern Mexico. Revenues from these plants are generated from the fabrication of trusses, girders, steel joists and steel decking used within the non-residential construction industry. Steel fabrication operations accounted for 5% and 3% of our external net sales during the second quarter of 2012 and 2011, respectively. The segment achieved operating income of \$193,000 in the second quarter of 2012, compared to a \$1.6 million loss in the second quarter of 2011. Selling price decreases were mitigated by higher selling volumes and improved margins with the increased production in the second quarter of 2012 compared to the same period in 2011. The segment had an operating loss of \$2.5 million in the first six months of 2012, compared to a \$4.5 million loss in the first six months of 2011. Selling price decreases were mitigated by higher selling volumes and improved margins with the increased production for the first half of 2012 compared to the same period in 2011.

Net sales for the segment increased by \$33.8 million, or 55%, in the second quarter of 2012 compared to the second quarter of 2011, as volumes increased 63% in the second quarter of 2012 when compared with the same period in 2011. However, our average steel fabrication operations selling price per ton shipped decreased \$69, or 5%, during the same period. Sales volume increases of 30,000 tons, to 78,000, tons in the second quarter of 2012 compared to the second quarter of 2011 were the result of market share gains in existing markets, as well as our expansion into the western United States from the start-up of plants in Arkansas, Nevada and Northern Mexico. We anticipate continuing to

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expand our market presence and penetration in the western portion of the United States as we ramp up our operations in that market. While we have seen increased order entry and sales volumes in 2012 versus 2011, the non-residential construction market continues to recover slowly, with the Architectural Billing Index (a leading economic indicator published by the American Institute of Architects, that leads nonresidential construction activity by approximately nine to twelve months) declining during the second quarter of 2012 after several months of increases. Net sales for the segment increased by \$56.0 million, or 49%, in the first half of 2012 compared to the first half of 2011, as volumes increased 50%. However, our average steel fabrication operations' selling price per ton shipped decreased \$14, or 1%, during first half of 2012 versus the same period in 2011. Sales volume increases of 46,000 tons, to 138,000, tons in the first half of 2012 compared to the first half of 2011 were the result of market share gains in existing markets, including our expansion into the western United States.

The purchase of various steel products is the largest single cost of production for our steel fabrication operations. During the second quarter of 2012 and 2011, the cost of steel products purchased represented 72% and 71% of the total cost of manufacturing for our steel fabrication operations, respectively; while the cost of steel decreased in the second quarter of 2012, as compared to the same period in 2011 by \$34 per ton. During the first half of 2012 and 2011, the cost of steel products purchased represented 71% and 69% of the total cost of manufacturing for our steel fabrication operations, respectively; while the cost of steel increased in the first half of 2012, as compared to the same period in 2011 by \$7 per ton.

**Second Quarter Consolidated Results 2012 vs. 2011**

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses (including profit sharing and amortization of intangible assets) were \$78.4 million during the second quarter of 2012, as compared to \$88.2 million during the second quarter of 2011, a decrease of \$9.7 million, or 11%. Our selling, general and administrative expenses represented 4% of our total net sales during the second quarter of 2012 and 2011. The decrease in our selling, general and administrative expenses during the second quarter of 2012 as compared to the same period 2011 was due primarily to decreased profit sharing and bonus expenses, consistent with the lower levels of profitability in the

second quarter of 2012, as these items are directly linked to company profitability.

**Interest Expense, net of Capitalized Interest.** During the second quarter of 2012, gross interest expense decreased \$3.9 million to \$41.3 million, and capitalized interest decreased by \$164,000 to \$224,000, when compared to the same period in 2011. 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. The decrease in gross interest expense in the second quarter of 2012 as compared to the second quarter of 2011 is due to a lower effective interest rate due to the execution of the January 2012 partial tender offer for \$279.7 million of our 7<sup>3</sup>/<sub>8</sub>% Senior Notes due in November 2012 and refinancing the tendered notes through the expansion of our senior secured credit facility in the form of a \$275.0 million lower interest rate term loan which has minimal amortization requirements, with a final maturity in the third quarter of 2016.

**Other (Income) Expense, net.** Other income was \$1.9 million during the second quarter of 2012, as compared to \$5.7 million during the same period in 2011. During the second quarter of 2012, we recorded interest income of \$1.3 million, consistent with the same period in 2011.

**Income Taxes.** During the second quarter of 2012, our income tax expense was \$25.2 million, as compared to \$53.3 million during the same period in 2011. Our effective income tax rate before noncontrolling interests was 39.0% and 35.8%, during the second quarter of 2012 and 2011, respectively. The higher effective tax rate in the second quarter of 2012 is due most notably to our inability to recognize any benefit from the research and development tax credits that have not yet been approved by Congress for 2012, and the second quarter of 2011 having discrete tax benefit items that reduced the effective tax rate.

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**First Six Months Consolidated Results 2012 vs. 2011**

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$159.9 million during the first six months of 2012, as compared to \$178.6 million during the same period in 2011, a decrease of \$18.7 million, or 10%. During the first six months of 2012 and 2011, selling, general and administrative expenses represented approximately 4% of net sales. The decrease in selling, general and administrative expenses during the first six months of 2012 as compared to the first six months of 2011 was due primarily to decreased profit sharing and bonus expenses, consistent with the lower levels of profitability in the first six months of 2012, as these items are directly linked to company profitability.

**Interest Expense, net of Capitalized Interest.** During the first six months of 2012, gross interest expense decreased \$6.1 million, or 7%, to \$82.7 million, and capitalized interest decreased \$210,000, or 28%, to \$527,000, as compared to the same period in 2011. The decrease in gross interest expense for the first six months of 2012 compared to the first six months of 2011 is due to the execution of the January 2012 partial tender offer for \$279.7 million of our 7<sup>3</sup>/<sub>8</sub>% Senior Notes due in November 2012 and refinancing the tendered notes through the expansion of our senior secured credit facility in the form of a \$275.0 million lower interest rate term loan as discussed above.

**Other (Income) Expense, net.** Other expense was \$8.4 million during the first six months of 2012, as compared to other income of \$10.3 million during the same period in 2011. We incurred expenses of \$13.9 million during the first quarter of 2012 related to the partial tender of our 7<sup>3</sup>/<sub>8</sub>% Senior Notes. Interest income was \$2.6 million for the first six months of 2012 versus \$2.3 million in the same period in 2011.

**Income Taxes.** During the first six months of 2012, our income tax provision was \$51.9 million, as compared to \$115.6 million during the same period in 2011, and our effective income tax rates before noncontrolling interests were 39.0% and 36.6%, respectively. The higher rate in 2012 versus 2011 is due most notably to our inability to recognize any benefit from the research and development tax credits that have not yet been approved by Congress for 2012, and due to 2011 having discrete tax benefit items that reduced the effective tax rate.

**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.** Trade receivables decreased \$7.4 million during the first six months of 2012 on lower sales. Total inventories increased \$52.6 million, or 4%, to \$1.3 billion during the first six months of 2012. Our raw materials, primarily steel scrap inventories, increased by approximately \$45.7 million during the first six months of 2012, with scrap volumes increasing by 123,000 gross tons (16%), and pricing decreasing 5%. Our work-in-process and finished goods inventories decreased \$3.5 million, with volumes decreasing by 22,000 net tons. Our trade payables and general accruals decreased \$76.8 million, or 12%, during the first six months of 2012, as trade payables were lower due to the lower production levels, and 2011 profit sharing and bonus amounts were paid in the first quarter of 2012.

**Capital Investments.** During the first six months of 2012, we invested \$100.3 million in property, plant and equipment, of which 48% related to the construction of our copper rod mill and iron tailings plants. 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 estimate total capital expenditures for 2012 to be between \$225 and \$245 million.

**Capital Resources and Long-term Debt.** During the first six months of 2012, our total outstanding debt decreased \$12.1 million to \$2.4 billion. Our total long-term debt to capitalization ratio, representing our long-term debt, including current maturities, divided by the sum of our long-term debt, redeemable noncontrolling interest, and our total stockholders' equity, was 49.3% at June 30, 2012, and 50.1% at December 31, 2011.

We have a senior secured credit facility (Facility) which expires in September 2016 which provides for a \$1.1 billion revolver (Revolver). Subject to certain conditions, we have the opportunity to increase the Revolver capacity by an additional \$125.0 million. The Facility is guaranteed by certain of our subsidiaries and is secured by substantially all of our accounts receivable and inventories and pledges of shares of our wholly owned subsidiaries' capital stock. The Revolver is available to fund working capital, capital expenditures, and other general corporate purposes.

The outstanding balance on the Revolver must be the lesser of \$1.1 billion less other applicable commitments such as letters of credit and other secured debt, as defined within the Facility or the sum of 85% of our eligible accounts receivable and 65% of our eligible inventories, less other applicable commitments. At June 30, 2012, we had \$1.1 billion of availability on the Revolver, \$14.1 million of outstanding letters of credit and other obligations which reduce availability, and there were no borrowings outstanding. We must maintain minimum liquidity through maturity or repayment of our 7<sup>3</sup>/<sub>8</sub>% senior notes, due November 2012. The minimum liquidity covenant required is determined by the sum of unrestricted cash and Revolver availability, being at least \$150.0 million plus any outstanding amount of the 7<sup>3</sup>/<sub>8</sub>% senior notes due November 2012. The minimum liquidity requirement was \$570.3 million at June 30, 2012, and our minimum liquidity is over \$1.5 billion; thus we are in compliance with this covenant, and we expect to remain in compliance for its duration.

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In January 2012, we expanded our Facility by adding a \$275.0 million term loan that matures on September 30, 2016 (Term Loan). Quarterly principal payments under the Term Loan are required to be made in amounts ranging from 1.25% to 3.75% of the original principal amount, with the unpaid principal balance of approximately \$158.0 million due on the maturity date. We used the net proceeds of the Term Loan, together with cash on hand, to fund the January 2012 purchase of \$279.7 million of our 7<sup>3</sup>/<sub>8</sub>% Senior Notes, due 2012 pursuant to a tender offer for up to \$350 million of the 7<sup>3</sup>/<sub>8</sub>% Senior Notes.

The Facility 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 the financial and other covenants.

The financial covenants under our Facility state that we must maintain an interest coverage ratio of not less than 2.50:1.00. Our interest coverage ratio is calculated by dividing our last-twelve trailing months (LTM) consolidated adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, and certain other non-cash transactions as allowed in our Facility) by our LTM gross interest expense. In addition, a net debt (as defined in the Facility) to consolidated LTM adjusted EBITDA ratio (leverage ratio) of not more than 5.00:1.00 must be maintained. If the net debt to EBITDA ratio exceeds 3.50:1.00 at any time, our ability to make restricted payments as defined in the credit agreement (which includes cash dividends to stockholders and share purchases, among other things), is limited. At June 30, 2012, our interest coverage ratio and net debt leverage ratio were 4.03:1.00 and 2.99:1.00, respectively. We were therefore in compliance with these covenants at June 30, 2012, and we anticipate we will remain in compliance during 2012.

On August 2, 2012, we announced plans to sell approximately \$750 million aggregate principal amount of debt securities in a transaction exempt from the registration requirements of the Securities Act of 1933, subject to market and other conditions. Pursuant to a concurrent debt tender offer and consent solicitation (Offer), we intend to use the proceeds from this new debt financing, along with available cash, to purchase up to \$210.0 million of the \$420.3 million outstanding aggregate principal amount of the 7<sup>3</sup>/<sub>8</sub>% Senior Notes due 2012 and for any and all of the \$500.0 million outstanding aggregate principal amount of the 7<sup>3</sup>/<sub>4</sub>% Senior Notes due 2016 (collectively, the Notes), and to pay fees and expenses associated with the tender offer and consent solicitation. The Offer is subject to a number of conditions including, without limitation, the completion of the new debt financing on terms reasonably satisfactory to us and in an amount generating net proceeds sufficient to purchase the Notes tendered in the Offer, up to the tender cap.

**Cash Dividends.** We declared cash dividends of \$43.8 million, or \$0.20 per common share (\$0.10 per common share each quarter), during the first half of 2012 and \$43.7 million, or \$0.20 per common share, during the first half of 2011. We paid cash dividends of \$43.8 million and \$38.1 million during the first half of 2012 and 2011, respectively. Our board of directors, along with executive management, approves the payment of dividends on a quarterly basis. During the remainder of 2012, we anticipate maintaining our current level of quarterly dividends; however, the determination to pay cash dividends in the future will be at the discretion of our board of directors, after taking into account various factors, including our financial condition, results of operations, outstanding indebtedness, current and anticipated cash needs and growth plans. In addition, the terms of our senior secured revolving credit agreement and the indenture relating to our senior notes restrict the amount of cash dividends we can pay.

**Other.** Our ability to meet our debt service obligations and reduce our total debt will depend upon our future performance which, in turn, will depend upon general economic, financial and business conditions, along with competition, legislation and regulatory factors that are largely beyond our control. In addition, we cannot assure you that our operating results, cash flow, access to credit markets and capital resources will be sufficient for repayment of our indebtedness in the future. We believe that based upon current levels of operations and anticipated growth, cash flow from operations, together with other available sources of funds, including additional borrowings under our senior secured credit agreement through its term, which expires in September 2016, 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 2011 Annual Report on Form 10-K.



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

**Interest Rate Risk**

In the normal course of business, we are exposed to interest rate changes. Our objectives in managing exposure to interest rate changes are to limit the impact of these rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we primarily use interest rate swaps to manage net exposure to interest rate changes related to our portfolio of borrowings. We did not have any interest rate swaps during the periods ended June 30, 2012 or 2011.

**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 raw materials used in our operations, such as metallic raw materials, electricity, natural gas, iron concentrate, fuel and zinc. Our risk strategy associated with product sales has generally been to obtain competitive prices for our products and to allow operating results to reflect market price movements dictated by supply and demand.

Our risk strategy associated with the purchase of raw materials utilized within our operations has generally been to make some commitments with suppliers relating to future expected requirements for certain commodities such as electricity, natural gas and its transportation, fuel, zinc, and iron concentrate. Certain commitments contain provisions which require us to take or pay for specified quantities without regard to actual usage for periods of up to 33 months for physical commodity requirements and for up to 9 years for commodity transportation requirements. We also purchase electricity consumed at our Flat Roll Division pursuant to a contract which extends through December 2012. The contract designates 160 hours annually as interruptible service and establishes an agreed fixed-rate energy charge per Mill/kWh consumed for each year through the expiration of the agreement. At June 30, 2012, no material changes had occurred related to these commodity risks from the information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011. We utilized such take or pay requirements during the past three years under these contracts. We believe that production requirements will be such that consumption of the products or services purchased under these commitments will occur in the normal production process.

In our metals recycling operations we have certain fixed price contracts with various customers and suppliers for future delivery of nonferrous metals. Our risk strategy has been to enter into base metal financial contracts with the goal to protect the profit margin, within certain parameters, that was contemplated when we entered into the transaction with the customer or supplier. At June 30, 2012, we had a cumulative unrealized gain associated with these financial contracts of \$1,864,000, substantially all of which have a settlement date within the next twelve months. We believe the customer and supplier contracts associated with the financial contracts will be fully consummated.

**ITEM 4. CONTROLS AND PROCEDURES**

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(a) ***Evaluation of Disclosure Controls and Procedures.*** Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2012. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of June 30, 2012, our principal executive officer and principal 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, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

We are involved, along with eight other steel manufacturing companies, in a class action antitrust complaint filed in federal court in Chicago, Illinois that alleges a conspiracy 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. All but one of the Complaints purport to be brought on behalf of a class consisting of all direct purchasers of steel products during the period of the alleged conspiracy. 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, but this motion was denied. The parties have been conducting discovery related primarily to class certification matters, and on May 24, 2012, Plaintiffs filed their Motion for Class Certification. A time frame for hearing this Motion has not yet been determined. Due to the uncertainties of litigation, we cannot presently determine the ultimate outcome of this litigation. However, we believe that, based on the information available to us at this time, there is not presently a reasonable possibility (as that term is defined in ASC 450-20-20) that the outcome of these legal proceedings would have a material impact on our financial condition, results of operations, or liquidity.

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

**ITEM 1A. RISK FACTORS**

No material changes have occurred to the indicated risk factors as disclosed in our 2011 Annual Report on Form 10-K.

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

None.

**ITEM 3.           DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4.           MINE SAFETY DISCLOSURES**

The information required to be furnished pursuant to Item 4 concerning mine safety disclosure matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95 to this Quarterly Report.

**ITEM 5.           OTHER INFORMATION**

None.

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**ITEM 6. EXHIBITS**

**Executive Officer Certifications**

- 31.1\* Certification of Principal 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 Principal 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.

**Other**

- 95\* Mine Safety Disclosures.

**XBRL Documents**

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

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\* Filed concurrently herewith

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SIGNATURE

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

August 7, 2012

STEEL DYNAMICS, INC.

By:

/s/ Theresa E. Wagler  
Theresa E. Wagler  
Executive Vice President and Chief Financial Officer  
(Principal Accounting Officer)