STEEL DYNAMICS INC
Form 10-K
February 26, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006

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

Commission File Number 0-21719

Steel Dynamics, Inc.

(Exact name of registrant as specified in its charter)

Indiana	**35-1929476**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
6714 Pointe Inverness Way, Suite 200, Fort Wayne, IN	**46804**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(260) 459-3553**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $.005 par value	Nasdaq Global Select Stock Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this

Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant computed by reference to the price at which the common equity was last sold as of June 30, 2006, was approximately, $2,417,197,000. Registrant has no non-voting shares. For purposes of this calculation, shares of common stock held by directors, officers and 5% stockholders known to the registrant have been deemed to be owned by affiliates, but this should not be construed as an admission that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or that such person is controlled by or under common control with the registrant.

As of February 16, 2007, Registrant had outstanding 96,939,871 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of registrant s definitive proxy statement referenced in Part III, Items 10 through 14 of this report, to be filed prior to April 30, 2007, which are incorporated by reference herein.

STEEL DYNAMICS, INC.

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PART I

Special Note Regarding Forward-Looking Statements

Throughout this report, or in other reports or registration statements filed from time to time with the Securities and Exchange Commission under the Securities Exchange Act of 1934, or under the Securities Act of 1933, as well as in documents we incorporate by reference or in press releases or oral statements made by our officers or representatives, we may make statements that express our opinions, expectations, or projections regarding future events or future results, in contrast with statements that reflect historical facts. These predictive statements, which we generally precede or accompany by such typical conditional words as anticipate, intend, believe, estimate, plan, seek, project or e the words may, will, or should, are intended to operate as forward looking statements of the kind permitted by the Private Securities Litigation Reform Act of 1995, incorporated in Section 27A of the Securities Act and Section 21E of the Securities Exchange Act. That legislation protects such predictive statements by creating a safe harbor from liability in the event that a particular prediction does not turn out as anticipated.

While we always intend to express our best judgment when we make statements about what we believe will occur in the future, and although we base these statements on assumptions that we believe to be reasonable when made, these forward looking statements are not a guarantee of performance, and you should not place undue reliance on such statements. Forward looking statements are subject to many uncertainties and other variable circumstances, many of which are outside of our control, that could cause our actual results and experience to differ materially from those we thought would occur.

The following listing represents some, but not necessarily all, of the factors that may cause actual results to differ from those we may have anticipated or predicted:

- cyclical changes in market supply and demand for steel; general economic conditions affecting steel consumption; U.S. or foreign trade policy affecting the price of imported steel, or adverse outcomes of pending and future trade cases alleging unlawful practices in connection with steel imports or exports, including the repeal, lapse or exemptions, from existing U.S. tariffs on imported steel; and governmental monetary or fiscal policy in the U.S. and other major international economies;

- increased price competition brought about by excess domestic and global steelmaking capacity and imports of low priced steel;

- consolidation in the domestic and global steel industry, resulting in larger producers with much greater market power to affect price and/or supply;

- inability to integrate acquired businesses as quickly and effectively as anticipated;

- changes in the availability or cost of steel scrap or in the availability or cost of steel scrap substitute materials, including pig iron, or other raw materials or supplies which we use in our production processes, as well as periodic fluctuations in the availability and cost of electricity, natural gas or other utilities;

- the occurrence of unanticipated equipment failures and plant outages or the occurrences of extraordinary operating expenses;

- margin compression resulting from our inability to pass increases in costs of raw materials and supplies through to our customers, through price increases or surcharges;

- loss of business from one or more of our major customers or end-users;

- labor unrest, work stoppages and/or strikes involving our own workforce, those of our important suppliers or customers, or those affecting the steel industry in general;

- the effect of the elements upon our production or upon the production or needs of our important suppliers or customers;

- the impact of, or changes in, environmental laws or in the application of other legal or regulatory requirements upon our production processes or costs of production or upon those of our suppliers or customers, including actions by government agencies, such as the U.S. Environmental Protection Agency or the Indiana Department of Environmental Management, on pending or future environmentally related construction or operating permits;

- private or governmental liability claims or litigation, or the impact of any adverse outcome of any litigation on the adequacy of our reserves, the availability or adequacy of our insurance coverage, our financial well-being or our business and assets;

- changes in interest rates or other borrowing costs, or the effect of existing loan covenants or restrictions upon the cost or availability of credit to fund operations or take advantage of other business opportunities;

- changes in our business strategies or development plans which we may adopt or which may be brought about in response to actions by our suppliers or customers, and any difficulty or inability to successfully consummate or implement as planned any planned or potential projects, acquisitions, joint ventures or strategic alliances; and

- the impact of regulatory or other governmental permits or approvals, litigation, construction delays, cost overruns, technology risk or operational complications upon our ability to complete, start-up or continue to profitably operate a project or a new business, or to complete, integrate and operate any potential acquisitions as anticipated.

We also refer you to and believe that you should carefully read the portion of this report described in Risk Factors to better understand the risks and uncertainties inherent in our business or in owning our securities.

Any forward looking statements which we make in this report or in any of the documents that are incorporated by reference herein speak only as of the date of such statement, and we undertake no ongoing obligation to update such statements. Comparisons of results between current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

ITEM 1. BUSINESS

Our Company

We are one of the largest steel producers in the United States based on an estimated annual steelmaking capability of approximately 5.2 million tons, with actual 2006 shipments from steel operations totaling 4.8 million tons. Our 2006 consolidated shipments, excluding shipments between our operating divisions, totaled 4.7 million tons. During 2006, our net sales were $3.2 billion. Prior to April 2006, our operations consisted of two reporting segments: steel operations and steel scrap substitute operations. However, on April 11, 2006, we consummated the acquisition of Roanoke Electric Steel Corporation (Roanoke Electric) and thereby acquired three additional joist fabrication facilities, which when added to our two existing New Millennium Building Systems joist and deck fabrication facilities, now constitutes our third reporting segment: steel fabrication. Moreover, with the addition of two Roanoke Electric steel scrap processing locations, we have also renamed our steel scrap substitute operations segment to steel scrap and scrap substitute operations.

- ***Steel Operations.*** Steel operations include our Flat Roll Division, which operates plants in Butler and Jeffersonville, Indiana; our Structural and Rail Division, which operates a plant in Columbia City,

Indiana; our Engineered Bar Products Division, which operates a plant in Pittsboro, Indiana; our Roanoke Bar Division, which operates a plant in Roanoke, Virginia; and our Steel of West Virginia (SWVA) operations, which operate plants in Huntington, West Virginia and Memphis, Tennessee. These operations consist of mini-mills, producing steel from steel scrap, using electric arc furnaces, continuous casting and automated rolling mills. Steel operations accounted for 89% of our consolidated net sales during 2006.

The Flat Roll Division sells a broad range of hot rolled, cold rolled and coated steel products, including a large variety of specialty products such as light gauge hot-rolled, galvanized, and painted products. The 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. The Engineered Bar Products Division primarily sells special bar quality and merchant bar quality rounds and round-cornered squares. The Roanoke Bar Division sells billets and merchant steel products, including angles, plain rounds, flats and channels. SWVA primarily sells merchant beams, channels and specialty structural steel sections. Our steel operations sell directly to end users and service centers. These products are used in numerous industry sectors, including the automotive, construction, commercial, transportation and industrial machinery markets.

- ***Fabrication Operations.*** Fabrication operations include our five New Millennium Building Systems plants located in Butler, Indiana; Lake City, Florida; Salem, Virginia; Florence, South Carolina; and Continental, Ohio. The operations located in Salem, Florence and Continental were acquired in 2006 pursuant to the Roanoke Electric merger. Revenues from these plants are generated from the fabrication of trusses, girders, steel joists and steel decking used within the non-residential construction industry. Fabrication operations accounted for 8% of our consolidated net sales during 2006.

- ***Steel Scrap and Scrap Substitute Operations***. Steel scrap and scrap substitute operations include the revenues and expenses associated with our two steel scrap processing locations acquired through the Roanoke Electric merger and from our scrap substitute manufacturing facility, Iron Dynamics (IDI). Output from these operations is generally used as raw materials within our steel operations.

Roanoke Electric Merger

We completed our merger with Roanoke Electric on April 11, 2006, immediately following approval of the transaction by Roanoke Electric stockholders. Through the merger we have further diversified our product mix, expanded our presence in the bar joist market and gained additional expertise and presence in the scrap processing business. Roanoke Electric has steel manufacturing facilities in Roanoke, Virginia and Huntington, West Virginia. These facilities produce angles, rounds, flats, channels, beams, special sections and billets, which are sold to steel service centers, fabricators, original equipment manufacturers and other steel producers. Roanoke also has certain subsidiaries involved in steel fabrication including bar joist and truck trailer beams, and has two steel scrap processing locations.

Pursuant to the merger agreement, Roanoke Electric stockholders received $9.75 in cash and 0.8 shares of our common stock for each share of Roanoke Electric stock outstanding at the effective date of the merger. Based on 11,360,901 shares of Roanoke Electric stock outstanding prior to the close of the transaction, we paid $110.8 million in cash, issued 9.1 million shares of registered Steel Dynamics common stock (valued at $127.7 million), incurred $4.9 million in transaction costs, and assumed $44.7 million in debt, which we retired on April 12, 2006. The cash portion of the purchase price was funded from cash on hand.

Financing

At December 31, 2006, our total outstanding debt, including unamortized bond premium, was $438.9 million. Our long-term debt to capitalization ratio, representing our long-term debt divided by the sum of our long-term debt and our total stockholders equity, was 23% at December 31, 2006.

We have a 5-year $350 million senior secured revolving credit facility, which includes a provision to increase the new facility by as much as $100 million under certain circumstances. At December 31, 2006 there were outstanding borrowings of $80.0 million under the revolving credit facility, which was classified as a current maturity on our consolidated balance sheet.

The senior secured credit agreement is secured by substantially all of our and our wholly-owned subsidiary s receivables and inventories and by pledges of all shares of capital stock and inter-company debt held by us and each of our wholly-owned subsidiaries. The senior secured credit agreement contains financial covenants and other covenants that limit or restrict our ability to make capital expenditures; incur indebtedness; permit liens on property; enter into transactions with affiliates; make restricted payments or investments; enter into mergers, acquisitions or consolidations; conduct asset sales; pay dividends or distributions and enter into other specified transactions and activities. Our ability to borrow funds within the terms of the revolver is dependent upon our continued compliance with the financial covenants and other covenants contained in the senior secured credit agreement. We were in compliance with these covenants at February 20, 2007, and expect to remain in compliance during the next twelve months.

Our board of directors authorized a two-for-one stock split, in the form of a stock dividend, for shareholders of record at the close of business on November 9, 2006, and also authorized an increase in our authorized common shares from 100 million shares with a par value of $.01 per common share to 200 million shares with a par value of $.005 per common share. All share and per share amounts in this filing have been adjusted to reflect this stock split.

Steel Dynamics, Inc. was incorporate in August 1993, in Indiana. We maintain our principal executive offices at 6714 Pointe Inverness Way, Suite 200, Fort Wayne, Indiana 46804. Our telephone number is (260) 459-3553. At December 31, 2006, we had 3,490 employees, of which approximately 12% are represented by a collective bargaining agreement at the SWVA operations. This agreement expires June 2009.

Competitive Strengths

We believe that the following are some of our competitive strengths:

One of the Lowest Cost Producers in the United States; State-of-the-Art Facilities

We believe that our facilities are among the lowest-cost steel producing facilities in the United States. Our low operating costs are primarily a result of our efficient plant designs and operations, our high productivity rate of approximately 0.3 man hours per hot band ton produced at our Flat Roll Division s mini-mill, low ongoing maintenance cost requirements and strategic locations near sources of our primary raw material, scrap steel and our customers.

Experienced Management Team and Unique Corporate Culture

Our senior management team is highly experienced and has a proven track record in the steel industry, including pioneering the development of thin-slab flat rolled technology. Their objectives are closely aligned with our stockholders through meaningful stock ownership positions and performance-based compensation programs. Our corporate culture is also unique for the steel industry. We emphasize decentralized decision making and have established incentive compensation programs specifically designed

to reward employee teams for their efforts towards enhancing productivity, improving profitability and controlling costs.

Diversified Product Mix

Our current products on a company-wide basis include hot rolled, cold rolled, galvanized and painted sheet steel; various structural steel beams and rails; special bar quality steel; various merchant steel products, including beams, angles, flats and channels; and steel joists and deck materials. We plan to construct and operate a second structural rolling mill, a paint line and the capability to produce Galvalume® to further enrich our product mix. This diversified mix of products enables us to access a broader range of end-user markets, serve a broader customer base and mitigate our exposure to cyclical downturns in commodity grade flat-rolled products or in any one product or end-user market.

Strategic Geographic Locations

The locations of our steelmaking facilities, near sources of scrap materials and near our customer base, allow us to realize freight savings for inbound scrap as well as for outbound steel products destined for our customers. Steel scrap and scrap substitutes represent the most significant component of our costs of manufacturing. Our mini-mills are located in the Upper Midwest and South Eastern United States, regions which we believe account for a majority of the total scrap produced in the United States. Our Jeffersonville, Indiana galvanizing facility, located on the Ohio River, also provides us with an expanded geographic reach to Southern markets.

Business Strategy

Expand Product Offerings

The completion of our structural and rail mill, the completion of the paint line by our Flat Roll Division, our acquisitions of the Pittsboro, Indiana bar mill and the Jeffersonville, Indiana galvanizing facility, as well as the expansions and upgrades of both facilities, are important steps in pursuing our strategy of product line expansion. The Structural and Rail Division is strategically located to serve the Upper Midwest, Northeast and Canadian markets, which we believe are attractive and under-served markets. Our strategy to expand our flat rolled steel product offerings is to focus on the production of high value-added light gauge products, galvanized products and various coated products. The margins on high value-added products typically exceed those of the commodity grade and the number of producers that make them is more limited. Our Engineered Bar Products Division is likewise strategically located to cost-effectively serve SBQ markets. We will continue to seek additional opportunities to further expand our range of high value-added products through the expansion of existing facilities, greenfield projects and acquisitions of other steel producers or steelmaking assets that may become available through the continuing consolidation of the domestic steel industry.

Enter New Geographic Markets

We may seek to enter new steel markets in strategic geographic locations that offer attractive growth opportunities. The recent Roanoke Electric merger and greenfield expansion of our New Millennium joist and deck business in Lake City, Florida, are examples of such activities.

Continue to Maintain Low Production Costs

We are focused on continuing to maintain one of the lowest operating cost structures in the North American steel industry based upon operating cost per ton. We will continue to strive to optimize the use of our equipment, enhance our productivity and explore new technologies to further improve our unit cost of production at each of our facilities.

Foster Entrepreneurial Culture

We intend to continue to foster our entrepreneurial corporate culture and emphasize decentralized decision making and responsibility, while rewarding teamwork, innovation and operating efficiency. We will also continue to focus on maintaining the effectiveness of our incentive-based bonus plans that are designed to enhance overall productivity and align the interests of our management and employees with our stockholders.

Industry Segments

Under Statement of Financial Accounting Standards Statement No. 131, *Disclosures About Segments of an Enterprise and Related Information*, we have three reportable segments: Steel Operations, Fabrication Operations and Steel Scrap and Scrap Substitute Operations.

Available Information

Our internet website address is http://www.steeldynamics.com. We make available on our internet website, under Investor Relations SEC Filings, free of charge, as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the SEC., our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, as well as press releases, ownership reports pursuant to Section 16(a) of the Securities Act of 1933, and our Code of Ethics for Principal Executive Officers and Senior Financial Officers, and any amendments to or waivers of our Code of Ethics. We do not intend to incorporate the contents of our or any other website into this report.

Our Business

Steel Operations

Flat Roll Division

Our Butler, Indiana, mini-mill manufactures flat rolled, hot rolled, cold rolled and coated steel products. It currently has an estimated annual capacity of 2.8 million tons. We produced 2.5 million tons and 2.6 million tons at this facility during 2005 and 2006, respectively. Our products are characterized by high quality surface characteristics, precise tolerances and light gauge. In addition, our mini-mill was one of the first U.S. flat roll mini-mills to achieve ISO 9002 and QS 9000 certifications. We believe that these certifications have enabled us to serve a broader range of customers and end-users.

We have two twin-shell electric arc furnaces, which enable us to melt scrap in one vessel while tapping the other vessel and refilling it with scrap and scrap substitute to make it ready for the next heat. This results in more heats and greater productivity per shift. We have three ladle metallurgy stations, two continuous thin-slab casters which produce a two-inch slab, and two tunnel furnaces. Our hot rolling mill, which progressively reduces the slab in thickness, consists of a seven-stand rolling mill capable of rolling sheet steel down to 1.0mm, with excellent surface quality, which enables us to access markets previously available only to more costly cold finished material.

We sell a portion of our hot band coil production directly to end-users or to intermediate steel processors or service centers, where they may be pickled, cold rolled, annealed, tempered, galvanized, or painted by those customers. The rest of our hot band coil production is directed to our cold mill, where we add value to this product through our own pickling, cold rolling, annealing, tempering, galvanizing, and painting processes. A portion of our cold rolled production is shipped to our Jeffersonville, Indiana galvanizing facility.

Our cold mill is located adjacent to our hot mill and produces products that require gauges, properties or surface conditions that cannot be achieved in our hot mill.

From a central coil storage area, our hot band coils will enter the cold mill and be processed through our continuous pickle line. Once pickled, we can move our coils in one of three directions: we can (1) ship pickled and oiled coils directly to customers from the continuous pickled line as finished product; (2) galvanize coils on our hot-rolled galvanizing line to be then sold as finished product; or (3) process coils through our cold reversing mill (one of only two, two-stand reversing cold rolling operations in the world). Coils that have been processed through our cold reversing mill are typically either galvanized at on our cold-rolled galvanizing line or annealed. Cold rolled galvanized and annealed coils can either be sold as finished product or further processed through our on-site paint line.

Our on-site paint line, located adjacent to our cold mill, has an estimated coating capacity of 240,000 tons per year, in gauges from .010 to .070 inches and in widths ranging from 36 to 64 inches. The paint line receives material directly from our other processing lines and is capable of painting hot rolled galvanized coil, cold rolled coil and cold rolled galvanized coil. The line incorporates state-of-the-art coil coating equipment with quick color change capability and on-line color matching. We believe that we are the only mill in North America with an on-site paint line, which we believe enables us to realize substantial savings in overhead, maintenance, engineering, sales and marketing, capital costs and infrastructure, and eliminates the typical cost of transfer freight that a customer must otherwise pay to transport coils to other remote coating facilities.

Our Jeffersonville, Indiana, cold rolled galvanizing facility, which we purchased in March 2003, is located within the Clark Maritime Centre on the Ohio River. The galvanizing line has an estimated capacity of between 300,000 and 350,000 tons per year and is capable of coating cold rolled steel in gauges from .008 to .045 inches and in widths between 24 and 60 inches. This gauge range is lighter than that available from our Butler facility and creates further expansion of our value added product offerings. The galvanizing line was built in 1999 and is similar to the cold rolled galvanizing line at our Butler mill. We have announced plans to expand our offering of value-added flat-rolled steel products at our Jeffersonville facility through the addition of three strategic capabilities. We plan to invest approximately $40 million in plant and equipment in order to produce pre-painted steel, acrylic-coated steel and 55% aluminum-zinc alloy coated steel. Construction is expected to be completed during the second quarter of 2007, with operations commencing in the second half of 2007. The paint line will have an expected annual capacity of 190,000 tons.

Our Butler cold mill provides our Jeffersonville facility with cold rolled material. The Ohio River location of our Jeffersonville facility also creates opportunities for market expansion into other geographic regions.

Structural and Rail Division

Our Columbia City, Indiana, structural mini-mill is designed to have an annual production capacity of up to 1.1 million tons of structural steel beams, pilings and other steel components for the construction, transportation and industrial machinery markets, as well as standard and premium grade rails for the railroad industry. We produced 762,000 tons and 1.0 million tons at this facility during 2005 and 2006, respectively. Our facility melts scrap and scrap substitutes in a single-shell electric arc furnace, although we have a second single-shell furnace which currently provides us with backup melting capability, and will be the source of the steel required by our new rolling mill project described below. Our continuous caster casts three strands, expandable to four, of various sized blooms and beam blanks, in varying lengths of 17 to 48 feet. We can transport the cast strands either directly through a reheat furnace to our advanced four-stand, all reversing, hot rolling mill, or into a storage area for rolling at a later time. In the hot rolling mill, we can roll the product into either a structural steel product or a rail product.

During 2006, we announced the addition of a $200 million second rolling mill that will be located adjacent to the current structural mill. This additional annual production capacity of approximately 600,000 tons will allow us to produce a higher volume of rail products and add lighter-weight structural shapes and merchant bars to our product offerings. We plan to construct the facility throughout 2007 and anticipate steel shipments to begin during the first quarter of 2008.

For the production of rail products, we fitted our caster with special molds and segments to cast 13 x 10 blooms required for rail production. We are able to produce Class I quality standard rail and we expect to receive customer orders for rail during 2007. We are capable of manufacturing highly desirable 240 and 320-foot rail lengths, which no one else produces in, or imports into, the U.S. or Canadian rail markets. We have completed a rail-welding facility during the first quarter of 2007, which we plan to use to weld our longer length rails to lengths of 1,600 feet.

Engineered Bar Products Division

We purchased our Pittsboro, Indiana, bar mini-mill in September 2002, and during 2004 completed our announced program to upgrade and retrofit the mill to produce a broad array of merchant bar quality (MBQ) bars and reinforcing bar products, as well as special bar quality (SBQ) products. The mill was originally constructed in 1997 as an SBQ mill and, as upgraded, consists of a 100-ton single-shell AC furnace, a three-stand continuous caster capable of casting both a 7 x7 billet and a 14 x10 bloom, a reheat furnace, and a rolling mill consisting of a roughing mill and intermediate mill, as well as reducing and sizing blocks used in the production of SBQ rounds. SBQ products are uniquely designed to be in motion and include such items as gears, shafts and forgings. The Pittsboro facility can produce SBQ rounds in sizes from 1½ to 9 and SBQ round cornered squares in sizes from 2 to 8 .

During 2006 we constructed a bar finishing facility adjacent to the Pittsboro mill and commenced operations during the second half of the year, adding various downstream finishing operations for our SBQ steel bars. The facility has an estimated annual processing capacity of 160,000 tons. Processing operations include turning, polishing, straightening, chamfering, precision saw-cutting and heat-treating capabilities. In addition, non-destructive testing services are available, including eddy current, flux leakage and ultrasonic inspection. The additional processing capabilities provide essential processes and services that have been requested by SDI s growing SBQ customer base.

The Pittsboro facility has an estimated annual production capacity of between 500,000 and 600,000 tons. During 2005 and 2006, respectively, we produced 378,000 tons and 523,000 tons at this facility, of which substantially all of the production was SBQ products, and we expect to employ this facility primarily, if not exclusively, for the manufacture of SBQ products.

Roanoke Bar Division

We acquired our Roanoke, Virginia, mini-mill in April 2006, pursuant to the Roanoke Electric merger. The mill was originally constructed in the mid-1950 s and went through several major upgrades and expansions during the past 50 years. Currently, the mill consists of a primary 100-ton electric arc furnace, a five-stand continuous caster capable of casting up to a 6 inch square billet, a reheat furnace, and a rolling mill with automatic in-line straightening, shearing and bundling capabilities.

The Roanoke mill has an estimated annual production capacity of between 450,000 and 500,000 tons of finished products, while its annual melting capacity is 650,000 tons. From the effective date of the merger, April 11, 2006, through December 31, 2006, the mill produced 330,000 tons of various merchant shapes, including angles, plain rounds, flats and channels of various lengths and sizes, and produced 477,000 tons of billets. The excess steel billet production is sold to mills without sufficient melting capacities.

Steel of West Virginia

We acquired our Steel of West Virginia mini-mill in April 2006, pursuant to the Roanoke Electric merger. The facility in its current configuration dates back to the 1950 s; although, it has undergone significant modernizations and upgrades during the 1980 s and 1990 s. The plant consists of two 70-ton electric arc furnaces, a three strand continuous caster capable of casting squares from 4 x4 to 8 x8 and rectangles from 5 x4 to 6 x9¾ , two rolling mills and various types of fabrication equipment. Unlike most other mini-mills, Steel of West Virginia frequently performs finishing operations on its products, such as cutting to length, additional straightening, hold punching, shot blasting, welding and coating. Through this additional finishing, we create custom finished products that are generally placed directly into our customers assembly operations. Steel of West Virginia has fabrication facilities in Huntington, West Virginia and Memphis, Tennessee.

The Steel of West Virginia mini-mill has an estimated annual production capacity of 315,000 tons of finished products. From the effective date of the merger, April 11, 2006, through December 31, 2006, the mill produced 192,000 tons of various merchant and structural steel products. The niche markets supplied with these productions include truck trailers, industrial lift trucks, guardrail posts, manufactured housing, mining and off-highway construction equipment.

Fabrication Operations

New Millennium Building Systems

Our fabrication operations consist of five production facilities located in Butler, Indiana; Continental, Ohio; Florence, South Carolina; Lake City, Florida; and Salem, Virginia. These facilities produce steel building components, including steel joists, girders, and trusses. Our individual joist products include bowstring, arched, scissor, double-pitched and single-pitched joists. Our Butler and Lake City plants also produce steel roof, form, and composite floor decking. These products are sold to the non-residential building components market. Our Flat Roll Division and Roanoke Bar Division supply a substantial portion of the steel utilized in these manufacturing operations.

Our Butler and Lake City plants were part of New Millennium Building Systems during the entire year of 2006, with original operations beginning in 2002 and 2005, respectively. These two facilities produced 182,000 tons of steel building components in 2006. Our Continental, Florence and Salem plants were acquired in April 2006, pursuant to the Roanoke Electric merger. From the effective date of the merger, April 11, 2006, through December 31, 2006, these plants produced 62,000 tons of steel building components. We are currently investing between $50and $60 million in these plants to modernize the facilities and enhance product capabilities and efficiency. We also plan to add the capability for steel deck manufacturing at our Salem location. We expect the renovations to be completed by mid-2007.

Steel Scrap and Scrap Substitute Operations

Iron Dynamics Steel Scrap Substitute Facility

Historically, the price of steel scrap, as a commodity, has tended to be volatile, rising and falling with supply and demand and not always in lock step with or in proportion to the market price of new steel. More recently, and increasingly so during 2004 and into 2005, scrap costs accelerated to historic highs, threatening one of the principal elements of the mini-mills traditional lower cost structure the cost of its metallic raw material. Therefore, having a lower cost alternative source of iron for a portion of a mini-mill s melt mix, if realizable, would partially buffer the effects of high scrap prices and scrap price volatility. With the growing proportion of electric furnace steelmaking, both worldwide and domestically, we believe that the benefits of developing a cost-effective alternate iron source to augment scrap, our primary raw material, makes good economic sense in the long run.

Since 1997, Iron Dynamics has worked to develop and commercialize a pioneering process of producing a form of iron that might serve as a lower cost substitute for a portion of the metallic raw material mix that goes into our electric arc furnaces to be melted into new steel. Direct reduced iron is a metallic product made from iron ore or iron ore fines that have been treated in a direct reduction furnace, such as a rotary hearth furnace, with either natural gas or coal to reduce the iron oxide to metallic iron. The method selected by Iron Dynamics is one that uses coal as the reducing agent. The direct reduced iron, or DRI, is then compacted by briquetters to form hot briquetted iron, or HBI, which is stable and can be immediately used in our melting furnaces or stockpiled for later use. Liquid pig iron, the ultimate end product intended to be produced by Iron Dynamics, is a pure metal product produced by smelting the direct reduced iron in a submerged arc furnace. We have used and plan to use all of Iron Dynamics HBI and liquid pig iron in our steelmaking operations.

Since the plant s initial start-up in August 1999, we have made continuous process, design and equipment modifications, as we encountered various quality and consistency issues with this pioneering technology. In connection with the liquid pig iron conversion process, the direct reduced iron is first liquefied and the hot liquid pig iron is then transferred in ladles to the flat roll mill s meltshop and combined with scrap steel in the mill s electric arc furnaces. During 2006, the Iron Dynamics facility produced 236,000 tonnes of direct reduced iron, of which 135,000 tonnes were converted into HBI and 80,000 tonnes were converted into liquid pig iron.

Shredded Products Scrap Processing Locations

We acquired two steel scrap processing sites located in Rocky Mount and Montvale, Virginia, during April 2006 pursuant to the Roanoke Electric merger. These operations process steel scrap and other metals from wrecked or obsolete automobiles and other waste materials. The steel scrap is used as a source of raw material for our Roanoke Bar Division. We sell the nonferrous metals to outside customers.

Products and Customers

Steel Operations

Flat Roll Division

Products. Our Flat Roll Division produces hot rolled products that include a variety of high quality mild and medium carbon and high strength low alloy hot rolled bands in 40 inch to 62 inch widths and in thicknesses from .500 inch down to .043 inch. We also produce an array of lighter gauge hot-rolled products, including high strength low alloy and medium carbon steels. These products are suitable for automobile, truck, trailer and recreational vehicle parts and components, mechanical and structural steel tubing, gas and fluid transmission piping, metal building systems, rail cars, ships, barges, and other marine equipment, agricultural equipment and farm implements, lawn, garden, and recreation equipment, industrial machinery and shipping containers.

We believe that our basic production hot band material has shape characteristics that exceed those of other thin-slab flat roll mini-mills and compares favorably with those of the integrated mills. In addition, as a result of our lighter gauge hot rolling capabilities, we are able to produce hot rolled galvanized and galvannealed steel products. These products are capable of replacing products that have traditionally only been available as more costly cold rolled galvanized or cold rolled galvannealed steel.

We also produce hot rolled, pickled and oiled, hot rolled galvanized, hot rolled galvannealed, cold rolled galvanized, cold rolled galvannealed and fully processed cold rolled sheet. Our paint line paints pickled and oiled, hot rolled galvanized coil, cold rolled coil and cold rolled galvanized coil in gauges from .010 to .070 inches and widths ranging from 36 inches to 64 inches. This material is typically used in transportation products, building products such as raised garage door panels, heating and cooling products, appliances, furniture and lighting equipment.

Customers. The following tables show information about the types of flat rolled products we sold and the types of customers we sold them to during the respective years:

	2005	2006
Products:		
Hot band	39 %	37 %
Pickled	7	4
Cold-rolled	6	5
Hot-rolled galvanized	17	19
Cold-rolled galvanized	19	21
Painted	12	