

STEEL DYNAMICS INC  
Form 10-Q  
August 08, 2008  
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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, 2008**

**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.)

**6714 Pointe Inverness Way, Suite 200, Fort Wayne, IN**

(Address of principal executive offices)

**46804**

(Zip Code)

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

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act).

(Check one): Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

As of August 5, 2008, Registrant had 200,492,268 outstanding shares of common stock.

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## STEEL DYNAMICS, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

|   | June 30,<br>2008<br>(unaudited) | December 31,<br>2007 |
|---|---------------------------------|----------------------|
| <b>Assets</b>                                 |                                 |                      |
| <b>Current assets</b>                         |                                 |                      |
| Cash and equivalents                          | \$ 115,405                      | \$ 28,486            |
| Accounts receivable, net                      | 1,147,277                       | 670,020              |
| Accounts receivable-related parties           | 87,333                          | 44,103               |
| Inventories                                   | 1,201,640                       | 904,398              |
| Deferred income taxes                         | 8,317                           | 10,427               |
| Other current assets                          | 67,566                          | 38,795               |
| Total current assets                          | 2,627,538                       | 1,696,229            |
| <b>Property, plant and equipment, net</b>     | <b>1,916,403</b>                | <b>1,652,097</b>     |
| <b>Restricted cash</b>                        | <b>7,656</b>                    | <b>11,945</b>        |
| <b>Intangible assets, net</b>                 | <b>636,649</b>                  | <b>514,547</b>       |
| <b>Goodwill</b>                               | <b>789,580</b>                  | <b>510,983</b>       |
| <b>Other assets</b>                           | <b>65,763</b>                   | <b>133,652</b>       |
| <b>Total assets</b>                           | <b>\$ 6,043,589</b>             | <b>\$ 4,519,453</b>  |
| <b>Liabilities and Stockholders Equity</b>    |                                 |                      |
| <b>Current liabilities</b>                    |                                 |                      |
| Accounts payable                              | \$ 757,590                      | \$ 358,921           |
| Accounts payable-related parties              | 14,682                          | 19,928               |
| Income taxes payable                          | 63,728                          | 25,870               |
| Accrued expenses                              | 247,934                         | 150,687              |
| Accrued profit sharing                        | 44,767                          | 53,958               |
| Senior secured revolving credit facility      | 201,000                         | 239,000              |
| Other current maturities of long-term debt    | 65,808                          | 56,162               |
| Total current liabilities                     | 1,395,509                       | 904,526              |
| <b>Long-term debt</b>                         |                                 |                      |
| Senior secured term A loan                    | 536,000                         | 481,250              |
| 7 3/8% senior notes, due 2012                 | 700,000                         | 700,000              |
| 6 3/4% senior notes, due 2015                 | 500,000                         | 500,000              |
| 7 3/4% senior notes, due 2016                 | 500,000                         |                      |
| 4.0% convertible subordinated notes, due 2012 | 16,000                          | 37,250               |
| Other long-term debt                          | 17,785                          | 16,183               |
|   | 2,269,785                       | 1,734,683            |
| <b>Deferred income taxes</b>                  | <b>334,436</b>                  | <b>301,470</b>       |
| <b>Minority interest</b>                      | <b>12,304</b>                   | <b>11,038</b>        |
| <b>Other liabilities</b>                      | <b>44,003</b>                   | <b>38,540</b>        |
| <b>Commitments and contingencies</b>          |                                 |                      |

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**Stockholders equity**

|   |              |              |
|---|--------------|--------------|
| Common stock voting, \$.0025 par value; 900,000,000 shares authorized; 218,551,353 and 217,770,922 shares issued; and 198,191,407 and 190,324,402 shares outstanding, as of June 30, 2008 and December 31, 2007, respectively | 544          | 542          |
| Treasury stock, at cost; 20,359,946 and 27,446,520 shares, as of June 30, 2008 and December 31, 2007, respectively  | (348,303)    | (457,368)    |
| Additional paid-in capital  | 583,756      | 553,805      |
| Other accumulated comprehensive income  | 5,011        | 21           |
| Retained earnings   | 1,746,544    | 1,432,196    |
| Total stockholders equity   | 1,987,552    | 1,529,196    |
| <b>Total liabilities and stockholders equity</b>  | \$ 6,043,589 | \$ 4,519,453 |

Note: All prior period share data has been adjusted to reflect the company's two-for-one stock split effective March 2008.

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

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(in thousands, except per share data)

|   | Three Months Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                   |
|---|--------------------------------|------------------|------------------------------|-------------------|
|   | 2008                           | 2007             | 2008                         | 2007              |
| Net sales   |                                |                  |                              |                   |
| Unrelated parties   | \$ 2,289,121                   | \$ 850,443       | \$ 4,103,082                 | \$ 1,675,037      |
| Related parties   | 114,818                        | 60,805           | 203,062                      | 101,885           |
| <b>Total net sales</b>  | <b>2,403,939</b>               | <b>911,248</b>   | <b>4,306,144</b>             | <b>1,776,922</b>  |
| Costs of goods sold   | 1,924,284                      | 694,666          | 3,479,180                    | 1,343,937         |
| <b>Gross profit</b>   | <b>479,655</b>                 | <b>216,582</b>   | <b>826,964</b>               | <b>432,985</b>    |
| Selling, general and administrative expenses                            | 86,557                         | 31,681           | 151,897                      | 60,543            |
| Profit sharing  | 26,897                         | 13,813           | 45,404                       | 29,071            |
| Amortization of intangible assets                                       | 8,120                          | 3,428            | 19,650                       | 4,401             |
| <b>Total selling, general and administrative expenses</b>               | <b>121,574</b>                 | <b>48,922</b>    | <b>216,951</b>               | <b>94,015</b>     |
| <b>Operating income</b>   | <b>358,081</b>                 | <b>167,660</b>   | <b>610,013</b>               | <b>338,970</b>    |
| Interest expense, net capitalized interest                              | 35,475                         | 7,198            | 65,282                       | 14,444            |
| Other (income) expense, net   | (16,901)                       | 11,523           | (24,707)                     | 10,807            |
| Income before income taxes  | 339,507                        | 148,939          | 569,438                      | 313,719           |
| Income taxes  | 129,013                        | 54,997           | 216,387                      | 117,613           |
| <b>Net income</b>   | <b>\$ 210,494</b>              | <b>\$ 93,942</b> | <b>\$ 353,051</b>            | <b>\$ 196,106</b> |
| Basic earnings per share  | \$ 1.11                        | \$ .50           | \$ 1.86                      | \$ 1.03           |
| Weighted average common shares outstanding                              | 190,351                        | 186,859          | 189,695                      | 189,745           |
| Diluted earnings per share, including the effect of assumed conversions | \$ 1.05                        | \$ .48           | \$ 1.77                      | \$ .98            |
| Weighted average common shares and share equivalents outstanding        | 200,345                        | 197,561          | 199,831                      | 200,418           |
| Dividends declared per share  | \$ .10                         | \$ .075          | \$ .20                       | \$ .15            |

Note: All prior period share data has been adjusted to reflect the company's two-for-one stock split effective March 2008.

See notes to consolidated financial statements.

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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, |                  |
|---|--------------------------------|------------------|------------------------------|------------------|
|   | 2008                           | 2007             | 2008                         | 2007             |
| <b>Operating activities:</b>  |                                |                  |                              |                  |
| Net income  | \$ 210,494                     | \$ 93,942        | \$ 353,051                   | \$ 196,106       |
| Adjustments to reconcile net income to net cash provided<br>by (used in) operating activities:                          |                                |                  |                              |                  |
| Depreciation and amortization   | 47,582                         | 32,978           | 100,794                      | 62,244           |
| Unamortized bond premium  |                                | (3,350)          |                              | (3,350)          |
| Equity-based compensation   | 2,754                          | 2,132            | 6,683                        | 4,401            |
| Deferred income taxes   | (6,872)                        | (796)            | (7,845)                      | (1,118)          |
| (Gain) loss on disposal of property, plant and equipment  | (252)                          | 86               | (238)                        | 80               |
| Minority interest   | 792                            | (173)            | 1,267                        | (555)            |
| Changes in certain assets and liabilities:  |                                |                  |                              |                  |
| Accounts receivable   | (211,411)                      | (20,146)         | (397,204)                    | (33,748)         |
| Inventories   | (227,270)                      | (96,824)         | (217,695)                    | (153,726)        |
| Other assets  | (15,681)                       | (17,703)         | (13,048)                     | (18,499)         |
| Accounts payable  | 249,665                        | (6,532)          | 364,180                      | 70,810           |
| Income taxes payable  | (34,751)                       | (58,982)         | 37,857                       | (4,132)          |
| Accrued expenses  | 40,241                         | 25,101           | 41,085                       | (20,345)         |
| Net cash provided by (used in) operating activities   | 55,291                         | (50,267)         | 268,887                      | 98,168           |
| <b>Investing activities:</b>  |                                |                  |                              |                  |
| Purchases of property, plant and equipment  | (101,225)                      | (101,981)        | (194,989)                    | (155,910)        |
| Acquisition of businesses, net of cash acquired   | (271,158)                      | (38,219)         | (271,158)                    | (38,219)         |
| Purchase of securities  |                                |                  | (20,373)                     |                  |
| Other investing activities  | 2,824                          | 61               | 4,153                        | (162)            |
| Net cash used in investing activities   | (369,559)                      | (140,139)        | (482,367)                    | (194,291)        |
| <b>Financing activities:</b>  |                                |                  |                              |                  |
| Issuance of current and long-term debt  | 786,900                        | 852,000          | 1,004,900                    | 997,000          |
| Repayment of current and long-term debt   | (401,941)                      | (532,079)        | (635,155)                    | (662,157)        |
| Debt issuance costs   | (5,568)                        | (7,988)          | (7,514)                      | (7,988)          |
| Issuance of common stock (net of expenses) and proceeds<br>from exercise of stock options, including related tax effect | 10,277                         | 8,960            | 17,454                       | 16,146           |
| Purchase of treasury stock  |                                | (132,429)        | (46,128)                     | (235,314)        |
| Dividends paid  | (18,884)                       | (14,178)         | (33,158)                     | (28,725)         |
| Net cash provided by financing activities   | 370,784                        | 174,286          | 300,399                      | 78,962           |
| Increase (decrease) in cash and equivalents   | 56,516                         | (16,120)         | 86,919                       | (17,161)         |
| Cash and equivalents at beginning of period   | 58,889                         | 28,332           | 28,486                       | 29,373           |
| <b>Cash and equivalents at end of period</b>  | <b>\$ 115,405</b>              | <b>\$ 12,212</b> | <b>\$ 115,405</b>            | <b>\$ 12,212</b> |
| <b>Supplemental disclosure information:</b>   |                                |                  |                              |                  |
| Cash paid for interest  | \$ 57,334                      | \$ 2,019         | \$ 68,719                    | \$ 18,358        |

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|  |    |         |    |         |    |         |    |         |
|--|----|---------|----|---------|----|---------|----|---------|
| Cash paid for federal and state income taxes | \$ | 160,522 | \$ | 131,817 | \$ | 161,909 | \$ | 132,285 |
|--|----|---------|----|---------|----|---------|----|---------|

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 1. Summary of Accounting Policies and Recent Accounting Pronouncements**

**Description of the Business.**

Steel Dynamics, Inc. (SDI), together with its subsidiaries (the company), is a domestic manufacturer of steel products. The company has three reporting segments: steel operations, steel fabrication operations, and metals recycling and ferrous resources 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 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 Techs was acquired in July 2007 and operates three galvanizing lines specializing in the galvanizing of specific types of flat-rolled steels in non-automotive applications. 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 56%, and 84% of the company's net sales during the three-month periods ended June 30, 2008 and 2007, respectively and approximately 57% and 85% during the six-month periods ended June 30, 2008 and 2007, respectively.

*Fabrication Operations.* Fabrication operations include the company's five New Millennium Building System's plants located in Butler, Indiana; Lake City, Florida; Salem, Virginia; Florence, South Carolina; and Continental, Ohio. 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 approximately 3% and 9% of the company's net sales during the three and six-month periods ended June 30, 2008 and 2007, respectively.

*Metals Recycling and Ferrous Resources Operations.* This segment, formerly referred to as steel scrap and scrap substitute operations, has been renamed to more accurately reflect the nature of its operations, which remain unchanged. The segment includes Iron Dynamics and the company's steel scrap procurement and processing locations, including OmniSource Corporation (OmniSource) operations, which were acquired on October 26, 2007 and Recycle South operations which were acquired on June 9, 2008 (See Note 2). In addition, the expenses related to the construction of the Mesabi Nugget iron-making facility in Hoyt Lakes, Minnesota are also included in this segment. Metals recycling and ferrous resources operations accounted for approximately 40% and 6% of the company's net sales during the three-month periods ended June 30, 2008 and 2007, respectively and approximately 38% and 4% during the

six-month periods ended June 30, 2008 and 2007, respectively.

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

**Uncertain Tax Positions.** The company files income tax returns in the U.S. federal jurisdiction as well as income tax returns in various state jurisdictions. The Internal Revenue Service (IRS) completed an examination of the company's federal income tax returns for 1997 through 2001 in the third quarter of 2007. The final examination adjustments did not result in a material change to the company's financial position or results of operations. The company is currently under examination by the state of Indiana for calendar years 2000 through 2005. It is reasonably possible that the amount of unrecognized tax benefits could change in the next twelve months as a result of this audit or other state income tax audits. Based on the current audits in process, the payment of taxes as a result of audit settlements could be in an amount from zero to \$20.1 million by the end of 2008, primarily related to the deductibility of intercompany royalty and related interest payments. With few exceptions, and as noted for the state of Indiana, the company is no longer subject to federal, state and local income tax examinations by tax authorities for years ended before 2004.

Included in the balance of unrecognized tax benefits at June 30, 2008 are potential benefits of \$29.7 million that, if recognized, would affect the effective tax rate. The company recognizes interest and penalties related to its tax contingencies on a net-of-tax basis in income tax expense. During the six-month period ended June 30, 2008, the company recognized interest of \$434,000, net of tax, and penalties of \$107,000. At June 30, 2008, the company had \$6.5 million accrued for the payment of interest and penalties.

**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; potential environmental liabilities, litigation claims and settlements. Actual results may differ from these estimates and assumptions.

In the opinion of management, these financial statements reflect all normal recurring adjustments necessary for a fair presentation of the interim period results. These financial statements and notes should be read in conjunction with the audited financial statements included in the company's Annual Report on Form 10-K for the year ended December 31, 2007.

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Comprehensive Income.** The components of comprehensive income during the three and six-month periods ended June 30 are summarized in the following table (in thousands):

|  | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |            |
|--|--------------------------------|-----------|------------------------------|------------|
|  | 2008                           | 2007      | 2008                         | 2007       |
| Net income   | \$ 210,494                     | \$ 93,942 | \$ 353,051                   | \$ 196,106 |
| Unrealized gain on available-for-sale securities, net of tax | 6,772                          |           | 4,990                        |            |
| Comprehensive income   | \$ 217,266                     | \$ 93,942 | \$ 358,041                   | \$ 196,106 |

Other accumulated comprehensive income consisted of the following as of the periods indicated (in thousands):

|  | June 30,<br>2008 | December 31,<br>2007 |
|--|------------------|----------------------|
| Unrealized gain on available-for-sale securities | \$ 8,082         | \$ 21                |
| Tax effect                                       | (3,071)          |                      |
| Total other accumulated comprehensive income     | \$ 5,011         | \$ 21                |

**Recent Accounting Pronouncements.**

**FASB Statement No. 159.** In February 2007, the FASB issued Statement No. 159 (FAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure, on an item-by-item basis, specific financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. FAS 159 is effective for fiscal years beginning after November 15, 2007. The provisions of this statement are required to be applied prospectively. The company adopted FAS 159 January 1, 2008, and there was no significant impact to the company's financial statements from the adoption.

**FASB Statement No. 160.** In December 2007, the FASB issued Statement No. 160 (FAS 160), *Non-Controlling Interests in Consolidated Financial Statements*. The statement clarifies the classification of non-controlling interests in consolidated statements of financial position and the accounting for and reporting of transactions between the reporting entity and holders of such non-controlling interests. FAS 160 is effective for the first annual reporting period beginning on or after December 15, 2008, and early adoption is prohibited. FAS 160 is generally required to be adopted prospectively. The minority interest reflected in the company's balance sheet will be reclassified to stockholders' equity upon adoption of FAS 160.

*FASB Statement No. 161.* In March 2008, the FASB issued Statement No. 161 (FAS 161), *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133*. FAS 161 amends and expands the disclosure requirements for derivative instruments and hedging activities, with the intent to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial statements. FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The company will comply with the disclosure requirements of FAS 161 beginning January 1, 2009.

**Note 2. Acquisitions.**

**Sturgis Iron & Metal Acquisition**

On June 24, 2008, the company completed the acquisition of certain assets of bankrupt Sturgis Iron & Metal, an operator of scrap yards in Indiana, Michigan and Georgia. The assets were purchased for approximately \$42.2 million in cash through bankruptcy proceedings. The Sturgis Iron & Metal assets will be operated as a part of our wholly-owned subsidiary, OmniSource Corporation. The company purchased the assets to continue its expansion of its metals recycling operations and expects to begin operating certain of these acquired scrap yards during the second half of 2008.

**Recycle South Acquisition**

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

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

OmniSource purchased Recycle South to significantly expand its metals recycling business. Recycle South will provide a significant presence in the southeastern United States through its 22 locations throughout North Carolina, South Carolina and Georgia. Recycle South's consolidated operating results have been reflected in the company's financial statements since June 9, 2008, the effective date of the acquisition, in the metals recycling and ferrous resources reporting segment.

The aggregate purchase price of \$376.3 million for the remaining 75% equity interest in Recycle South, combined with the recently acquired 25% interest through the OmniSource acquisition, results in a total purchase price of \$501.8 million. The following initial allocation of the total purchase price is preliminary with much refinement still to be made. The following is subject to adjustments based on further determination of actual acquisition costs and the fair values, lives, and amortization methods of the acquired assets, assumed liabilities and identifiable intangible assets (in thousands):

|                                     |    |         |
|-------------------------------------|----|---------|
| Current assets                      | \$ | 212,599 |
| Property, plant & equipment, net    |    | 93,949  |
| Intangible assets                   |    | 155,000 |
| Goodwill                            |    | 271,785 |
| Other assets                        |    | 1,902   |
| Total assets                        |    | 735,235 |
| Current liabilities, excluding debt |    | 88,492  |
| Debt                                |    | 144,947 |
| Total liabilities                   |    | 233,439 |
| Total assets acquired               | \$ | 501,796 |

Preliminary goodwill and intangible assets of \$271.8 million and \$155.0 million, respectively, were recorded as a result of the acquisition. The goodwill is expected to be deductible for tax purposes.

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

|                               | Amount     | Useful Life |
|-------------------------------|------------|-------------|
| Customer relationships        | \$ 31,000  | 10 years    |
| Scrap generator relationships | 77,500     | 25 years    |
| Trademarks                    | 46,500     | Indefinite  |
|                               | \$ 155,000 |             |

The company utilizes an accelerated amortization methodology so as to follow the pattern in which the economic benefits of the intangible assets are anticipated to be consumed. The estimated intangible asset amortization expense related to the total acquisition of Recycle South for the next five years and thereafter follows (in thousands):

|            |    |         |
|------------|----|---------|
| 2008       | \$ | 5,005   |
| 2009       |    | 10,049  |
| 2010       |    | 9,135   |
| 2011       |    | 8,461   |
| 2012       |    | 7,785   |
| Thereafter |    | 68,065  |
| Total      | \$ | 108,500 |

#### **OmniSource Corporation Acquisition**

On October 26, 2007, the company completed its acquisition of 100% of the stock of OmniSource Corporation, a privately owned ferrous and non-ferrous scrap processing and trading company. The company paid approximately \$449.1 million in cash, including transaction costs, and issued 19.4 million shares (on a post March 19, 2008 two-for-one stock split basis) of the company's common stock with a value of approximately \$455.0 million. In addition, the company assumed approximately \$210.6 million of debt, which the company repaid on the closing of the acquisition. The cash portion of the acquisition was funded from the company's cash on hand which included the proceeds of the \$700.0 million 7<sup>3</sup>/<sub>8</sub>% senior note offering that was consummated on October 12, 2007. The company valued the common stock issued at \$23.46 per share based on the average stock price of the company's common stock during the two days before and after the date the acquisition agreement was agreed to and announced (October 1, 2007).

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The aggregate purchase price of \$904.1 million was preliminarily allocated to the opening balance sheet of OmniSource at October 26, 2007, the date of the acquisition. During the first and second quarters of 2008, the company adjusted the initial purchase price allocation to reflect additional refinement in the valuation of the acquisition. The following purchase price allocation is subject to further adjustments based on additional determination of actual acquisition costs and the fair value, and lives of the acquired assets, assumed liabilities and identifiable intangible assets (in thousands):

|                                     | <b>June 30,<br/>2008</b> |
|-------------------------------------|--------------------------|
| Current assets                      | \$ 485,909               |
| Property, plant & equipment, net    | 209,862                  |
| Intangible assets                   | 305,000                  |
| Goodwill                            | 307,140                  |
| Other assets                        | 111,403                  |
| Total assets                        | 1,419,314                |
| Current liabilities, excluding debt | 275,956                  |
| Debt                                | 210,797                  |
| Other liabilities                   | 28,459                   |
| Total liabilities                   | 515,212                  |
| Total assets acquired               | \$ 904,102               |

Preliminary goodwill and intangible assets of \$307.1 million and \$305.0 million, respectively, were recorded as a result of the acquisition. The goodwill is expected to be deductible for tax purposes. In addition, goodwill recorded for tax purposes is approximately \$135.0 million greater than goodwill recorded for financial statement purposes. For tax purposes, the excess tax-goodwill will be amortized over a 15-year period, and the resulting tax benefit will be recorded as a reduction to goodwill recorded for financial statement purposes. The identifiable intangible assets related to the acquisition consisted of the following (in thousands):

|                               | <b>Amount</b> | <b>Useful Life</b> |
|-------------------------------|---------------|--------------------|
| Customer relationships        | \$ 54,000     | 10 years           |
| Scrap generator relationships | 143,000       | 25 years           |
| Trademarks                    | 108,000       | Indefinite         |
|                               | \$ 305,000    |                    |

The company utilizes an accelerated amortization methodology so as to follow the pattern in which the economic benefits of the intangible assets are anticipated to be consumed. The related aggregate amortization expense recognized for the three and six-month periods ended June 30, 2008 was \$4.5 and \$10.0 million, respectively. The estimated intangible asset amortization expense related to the OmniSource transaction for the next five years and thereafter follows (in thousands):

|  |    |        |
|--|----|--------|
| 2008, including January 1 to June 30, 2008 | \$ | 18,934 |
|--|----|--------|

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|            |            |
|------------|------------|
| 2009       | 17,773     |
| 2010       | 16,206     |
| 2011       | 15,004     |
| 2012       | 13,878     |
| Thereafter | 113,205    |
| Total      | \$ 195,000 |

*Unaudited Pro Forma Information.* The following unaudited pro forma information is presented below as if the acquisitions of Recycle South (effective on June 9, 2008) and OmniSource (effective on October 26, 2007) had occurred as of January 1, 2007 related to both OmniSource and Recycle South, and January 1, 2008 related to Recycle South (in thousands, except per share amounts):

|                            | Three Months Ended<br>June 30, |              | Six Months Ended<br>June 30, |              |
|----------------------------|--------------------------------|--------------|------------------------------|--------------|
|                            | 2008                           | 2007         | 2008                         | 2007         |
| Net sales                  | \$ 2,608,712                   | \$ 1,578,163 | \$ 4,679,803                 | \$ 3,100,481 |
| Net income                 | 226,522                        | 104,834      | 376,127                      | 224,007      |
| Basic earnings per share   | \$ 1.17                        | \$ .50       | \$ 1.95                      | \$ 1.05      |
| Diluted earnings per share | 1.12                           | .48          | 1.86                         | 1.00         |

The information presented above is for information purposes only and is not necessarily indicative of the actual results that could have occurred had the acquisitions been consummated at January 1, 2007 or 2008, nor is it necessarily indicative of future operating results of the combined companies under the ownership and management of the company. The pro forma results reflect the inclusion of the acquired operations of Recycle South for the three and six-month periods ended June 30, 2008 and 2007 and OmniSource Corporation for the three and six-month periods ended June 30, 2007. The actual results of OmniSource are included in the consolidated results of the company for the three and six-month periods ended June 30, 2008.

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 3. Earnings Per Share**

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

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 for the three and six-month periods ended June 30, 2008 and 2007, respectively (in thousands, except per share data):

|  | Three Months Ended June 30 |                                 |                     |                           |                                 |                     |
|--|----------------------------|---------------------------------|---------------------|---------------------------|---------------------------------|---------------------|
|  | Net Income<br>(Numerator)  | 2008<br>Shares<br>(Denominator) | Per Share<br>Amount | Net Income<br>(Numerator) | 2007<br>Shares<br>(Denominator) | Per Share<br>Amount |
| Basic earnings per share               | \$ 210,494                 | 190,351                         | \$ 1.11             | \$ 93,942                 | 186,859                         | \$ .50              |
| Dilutive stock option effect           |                            | 1,616                           |                     |                           | 1,881                           |                     |
| Subordinated convertible<br>4.0% notes | 203                        | 8,378                           |                     | 214                       | 8,821                           |                     |
| Diluted earnings per share             | \$ 210,697                 | 200,345                         | \$ 1.05             | \$ 94,156                 | 197,561                         | \$ .48              |

|  | Six Months Ended June 30  |                                 |                     |                           |                                 |                     |
|--|---------------------------|---------------------------------|---------------------|---------------------------|---------------------------------|---------------------|
|  | Net Income<br>(Numerator) | 2008<br>Shares<br>(Denominator) | Per Share<br>Amount | Net Income<br>(Numerator) | 2007<br>Shares<br>(Denominator) | Per Share<br>Amount |
| Basic earnings per share               | \$ 353,051                | 189,695                         | \$ 1.86             | \$ 196,106                | 189,745                         | \$ 1.03             |
| Dilutive stock option effect           |                           | 1,566                           |                     |                           | 1,852                           |                     |
| Subordinated convertible<br>4.0% notes | 415                       | 8,570                           |                     | 428                       | 8,821                           |                     |
| Diluted earnings per share             | \$ 353,466                | 199,831                         | \$ 1.77             | \$ 196,534                | 200,418                         | \$ .98              |

During the three and six-month periods ended June 30, 2008, holders of the company's subordinated convertible 4% notes converted \$21.3 million of the notes to Steel Dynamics common stock, resulting in the issuance of 5.0 million shares of the company's treasury stock. As of June 30, 2008, there were 3.8 million shares still available for conversion pursuant to these notes.

**Note 4. Financing Activities**

On March 31, 2008, the company amended its senior secured credit facility to increase the commitments of the term A loan by \$94 million and the revolving credit facility by \$124 million, resulting in a total senior secured revolver of \$874 million. The net proceeds for the additional term A loan were used to repay amounts outstanding under the senior secured revolving credit facility and for general corporate purposes. In addition, the amendment includes a provision to increase either the revolver or the term A loan facility by as much as \$250 million, under certain circumstances. The combined facilities are due June 2012 and are secured by substantially all of the company's and its wholly-owned subsidiaries' receivables and inventories and by pledges of all shares of the company's wholly-owned subsidiaries' capital stock.

The senior secured credit agreement contains financial covenants and other covenants that limit or restrict the company's ability to make capital expenditures; incur indebtedness; permit liens on property; enter into transactions with affiliates; make restricted payments or investments; enter into mergers, acquisitions or consolidations; conduct asset sales; pay dividends or distributions and enter into other specified transactions and activities. The company's ability to borrow funds under the combined facilities is dependent upon its continued compliance with the financial covenants and other covenants contained in the senior secured credit agreement, as amended and restated.

During April 2008, the company issued \$500 million of 7¾% senior notes due April 2016. The net proceeds were used to repay amounts outstanding under the company's senior secured revolving credit facility and for general corporate purposes.

#### Note 5. Inventories

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

|                   | June 30,<br>2008 | December 31,<br>2007 |
|-------------------|------------------|----------------------|
| Raw materials     | \$ 656,630       | \$ 461,194           |
| Supplies          | 198,714          | 175,052              |
| Work-in-progress  | 87,191           | 72,518               |
| Finished goods    | 259,105          | 195,634              |
| Total inventories | \$ 1,201,640     | \$ 904,398           |

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 6. Fair Value Measurements**

Effective January 1, 2008, the company adopted FASB Statement No. 157 (FAS 157), Fair Value Measurements, which provides a comprehensive framework for measuring fair value and expands disclosures which are required about fair value measurements. Specifically, FAS 157 sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. The adoption of this statement had an immaterial impact on the company's financial statements. FAS 157 defines levels within the hierarchy as follows:

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

In February 2008, the FASB issued FSP 157-2, which delays the effective date FAS 157 for all non-financial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008. The company is currently evaluating the potential impact that the application of FSP 157-2 will have on its financial statements. The following table sets forth financial assets and liabilities measured at fair value in the consolidated statement of financial position and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of June 30, 2008 (in thousands):

|   | June 30, 2008 | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|---------------|---|---|--|
| Cash equivalents                        | \$ 887        | \$ 887  |   | \$   |
| Available-for-sale securities           | 32,018        | 32,018  |   |  |
| Commodity futures                       | 23,880        |   | 23,880  |  |
| Financial assets                        | \$ 56,785     | \$ 32,905   | \$ 23,880   | \$   |
| Commodity futures-Financial liabilities | \$ 16,483     |   | \$ 16,483   | \$   |

**Note 7. Contingencies**

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On February 1, 2008, the company was served with a complaint by Prime Eagle Group Limited (Plaintiff), a corporation with its principal place of business in Thailand. The complaint alleges that the company, which performed certain consulting services for a management company formed to assist a Thailand-based steel company, Nakornthai Strip Mill Public Company, Limited (NSM) in its operational start-up in 1998, caused NSM's start-up efforts to fail by falsely and fraudulently expressing its opinion that there were certain equipment and design issues that needed to be addressed. The complaint alleges damages in excess of \$1.1 billion. The company believes that the allegations and claims set forth in the complaint are without merit and accordingly has not accrued a liability for this complaint. On April 30, 2008, the company filed a Motion to Dismiss the entire lawsuit.

Based upon current knowledge, including discussions with legal counsel, the company believes that the results of any threatened or pending litigation will not have a material effect on the company's financial position, results of operations or cash flows.

### **Note 8. Segment Information**

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

The company's operations are primarily organized and managed as operating segments. Operating segment performance and resource allocations are primarily based on operating results before income taxes. The accounting policies of the reportable segments are consistent with those described in Note 1 to the financial statements. Refer to the company's Annual Report on Form 10-K for the year ended December 31, 2007, for more information related to the company's segment reporting. Inter-segment sales and any related profits are eliminated in consolidation.

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The company's segment results for the three and six-month periods ended June 30 are as follows (in thousands):

|   | Three Months Ended |           | Six Months Ended |           |
|---|--------------------|-----------|------------------|-----------|
|   | 2008               | 2007      | 2008             | 2007      |
| <b>Steel Operations</b>                       |                    |           |                  |           |
| Net sales                                     |                    |           |                  |           |
| External                                      | 1,453,845          | 733,901   | 2,589,662        | 1,459,006 |
| External Non-U.S.                             | 70,810             | 59,027    | 118,322          | 97,678    |
| Other segments                                | 100,517            | 48,611    | 173,990          | 94,212    |
| Operating income                              | 327,543            | 176,936   | 562,100          | 363,756   |
| Income before income taxes                    | 312,255            | 171,719   | 532,368          | 352,753   |
| Depreciation and amortization                 | 27,661             | 26,324    | 61,653           | 52,620    |
| Assets  | 2,904,625          | 1,984,711 | 2,904,625        | 1,984,711 |
| Liabilities                                   | 531,454            | 267,090   | 531,454          | 267,090   |
| Capital expenditures                          | 61,371             | 75,743    | 125,743          | 113,090   |
| <b>Steel Fabrication Operations</b>           |                    |           |                  |           |
| Net sales                                     |                    |           |                  |           |
| External                                      | 93,237             | 86,605    | 171,694          | 168,069   |
| Other segments                                | 51                 | 642       | 117              | 2,401     |
| Operating income                              | 4,361              | 7,017     | 8,005            | 12,137    |
| Income before income taxes                    | 2,085              | 6,199     | 4,333            | 10,540    |
| Depreciation and amortization                 | 1,909              | 1,520     | 3,744            | 2,459     |
| Assets  | 267,443            | 215,808   | 267,443          | 215,808   |
| Liabilities                                   | 14,343             | 16,912    | 14,343           | 16,912    |
| Capital expenditures                          | 3,931              | 15,971    | 9,168            | 28,842    |
| <b>Metals Recycling and Ferrous Resources</b> |                    |           |                  |           |
| Net sales                                     |                    |           |                  |           |
| External                                      | 691,057            | 15,682    | 1,257,238        | 15,777    |
| External Non-U.S.                             | 51,557             |           | 92,135           |           |
| Other segments                                | 418,337            | 42,109    | 615,342          | 71,977    |
| Operating income                              | 80,339             | 4,672     | 127,515          | 6,396     |
| Income before income taxes                    | 85,770             | 4,650     | 131,811          | 6,291     |
| Depreciation and amortization                 | 17,297             | 2,220     | 34,117           | 4,025     |
| Assets  | 2,695,655          | 171,272   | 2,695,655        | 171,272   |
| Liabilities                                   | 497,303            | 9,190     | 497,303          | 9,190     |
| Capital expenditures                          | 34,524             | 1,241     | 56,797           | 3,982     |
| <b>All Other</b>                              |                    |           |                  |           |
| Net sales                                     |                    |           |                  |           |
| External                                      | 43,265             | 15,960    | 76,873           | 36,308    |
| External Non-U.S.                             | 168                | 73        | 220              | 84        |
| Other segments                                | 828                | 402       | 1,195            | 619       |
| Operating loss                                | (45,581)           | (23,563)  | (70,255)         | (45,658)  |
| Loss before income taxes                      | (52,025)           | (36,196)  | (81,725)         | (58,171)  |
| Depreciation and amortization                 | 715                | 2,914     | 1,280            | 3,140     |

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|                                   |           |           |           |           |
|-----------------------------------|-----------|-----------|-----------|-----------|
| Assets                            | 310,916   | 288,871   | 310,916   | 288,871   |
| Liabilities                       | 3,105,607 | 1,154,154 | 3,105,607 | 1,154,154 |
| Capital expenditures              | 1,399     | 9,026     | 3,281     | 9,996     |
| <b>Eliminations</b>               |           |           |           |           |
| Net sales                         |           |           |           |           |
| Other segments                    | (519,733) | (91,764)  | (790,644) | (169,209) |
| Operating income (loss)           | (8,581)   | 2,598     | (17,352)  | 2,339     |
| Income (loss) before income taxes | (8,578)   | 2,567     | (17,349)  | 2,306     |
| Assets                            | (135,050) | (84,776)  | (135,050) | (84,776)  |
| Liabilities                       | (92,670)  | (55,615)  | (92,670)  | (55,615)  |
| <b>Consolidated</b>               |           |           |           |           |
| Net sales                         | 2,281,404 | 852,148   | 4,095,467 | 1,679,160 |
| Net sales Non-U.S.                | 122,535   | 59,100    | 210,677   | 97,762    |
| Operating income                  | 358,081   | 167,660   | 610,013   | 338,970   |
| Income before income taxes        | 339,507   | 148,939   | 569,438   | 313,719   |
| Depreciation and amortization     | 47,582    | 32,978    | 100,794   | 62,244    |
| Assets                            | 6,043,589 | 2,575,886 | 6,043,589 | 2,575,886 |
| Liabilities                       | 4,056,037 | 1,391,731 | 4,056,037 | 1,391,731 |
| Capital expenditures              | 101,225   | 101,981   | 194,989   | 155,910   |

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 9. Condensed Consolidating Information**

Certain 100%-owned subsidiaries of SDI have fully and unconditionally guaranteed all of the indebtedness relating to the issuance of the \$700 million senior notes due 2012, \$500 million senior notes due 2015, and \$500 million senior notes due 2016. Following are condensed consolidating financial statements of the company, including the guarantors. The following statements 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, 2007.

*Condensed Consolidating Balance Sheets (in thousands)*

| As of June 30, 2008                        | Parent       | Guarantors   | Combined<br>Non-Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|--|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Cash and equivalents                       | \$ 30,855    | \$ 82,070    | \$ 2,480                   | \$                           | \$ 115,405            |
| Accounts receivable, net                   | 473,921      | 1,094,934    | 14,367                     | (348,612)                    | 1,234,610             |
| Inventories                                | 614,192      | 576,121      | 29,128                     | (17,801)                     | 1,201,640             |
| Other current assets                       | 58,354       | 22,669       | 599                        | (5,739)                      | 75,883                |
| Total current assets                       | 1,177,322    | 1,775,794    | 46,574                     | (372,152)                    | 2,627,538             |
| Property, plant and equipment, net         | 1,143,607    | 700,632      | 72,164                     |                              | 1,916,403             |
| Other assets                               | 2,888,193    | 1,101,392    | 7,004                      | (2,496,941)                  | 1,499,648             |
| Total assets                               | \$ 5,209,122 | \$ 3,577,818 | \$ 125,742                 | \$ (2,869,093)               | \$ 6,043,589          |
| Accounts payable                           | \$ 437,478   | \$ 461,200   | \$ 30,560                  | \$ (156,966)                 | \$ 772,272            |
| Accrued expenses                           | 199,471      | 173,492      | 2,305                      | (18,839)                     | 356,429               |
| Current maturities of long-term debt       | 266,133      | 675          | 12,807                     | (12,807)                     | 266,808               |
| Total current liabilities                  | 903,082      | 635,367      | 45,672                     | (188,612)                    | 1,395,509             |
| Other liabilities                          | 255,652      | 2,371,321    | 22,682                     | (2,271,216)                  | 378,439               |
| Long-term debt                             | 2,267,884    | 1,901        | 5,673                      | (5,673)                      | 2,269,785             |
| Minority interest                          |              |              |                            | 12,304                       | 12,304                |
| Common stock                               | 544          | 19,753       | 7,748                      | (27,501)                     | 544                   |
| Treasury stock                             | (348,303)    |              |                            |                              | (348,303)             |
| Additional paid-in capital                 | 583,756      | 117,753      | 46,404                     | (164,157)                    | 583,756               |
| Other accumulated comprehensive income     | 5,011        |              |                            |                              | 5,011                 |
| Retained earnings                          | 1,541,496    | 431,723      | (2,437)                    | (224,238)                    | 1,746,544             |
| Total stockholders' equity                 | 1,782,504    | 569,229      | 51,715                     | (415,896)                    | 1,987,552             |
| Total liabilities and stockholders' equity | \$ 5,209,122 | \$ 3,577,818 | \$ 125,742                 | \$ (2,869,093)               | \$ 6,043,589          |

Combined                      Consolidating                      Total

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| As of December 31, 2007                   | Parent       | Guarantors   | Non-Guarantors | Adjustments    | Consolidated |
|---|--------------|--------------|----------------|----------------|--------------|
| Cash and equivalents                      | \$ 6,327     | \$ 20,096    | \$ 2,063       | \$             | \$ 28,486    |
| Accounts receivable, net                  | 299,940      | 631,410      | 7,810          | (225,037)      | 714,123      |
| Inventories                               | 546,079      | 344,106      | 15,392         | (1,179)        | 904,398      |
| Other current assets                      | 39,433       | 14,075       | 423            | (4,709)        | 49,222       |
| Total current assets                      | 891,779      | 1,009,687    | 25,688         | (230,925)      | 1,696,229    |
| Property, plant and equipment, net        | 1,088,815    | 489,949      | 73,333         |                | 1,652,097    |
| Other assets                              | 2,161,734    | 1,224,289    | 15,648         | (2,230,544)    | 1,171,127    |
| Total assets                              | \$ 4,142,328 | \$ 2,723,925 | \$ 114,669     | \$ (2,461,469) | \$ 4,519,453 |
| Accounts payable                          | \$ 154,047   | \$ 263,458   | \$ 16,045      | \$ (54,701)    | \$ 378,849   |
| Accrued expenses                          | 161,577      | 74,925       | 111            | (6,098)        | 230,515      |
| Current maturities of long-term debt      | 294,720      | 442          | 9,807          | (9,807)        | 295,162      |
| Total current liabilities                 | 610,344      | 338,825      | 25,963         | (70,606)       | 904,526      |
| Other liabilities                         | 298,828      | 2,002,988    | 53,673         | (2,015,479)    | 340,010      |
| Long-term debt                            | 1,734,557    | 126          | 4,637          | (4,637)        | 1,734,683    |
| Minority interest                         |              |              |                | 11,038         | 11,038       |
| Common stock                              | 542          | 19,753       | 7,748          | (27,501)       | 542          |
| Treasury stock                            | (457,368)    |              |                |                | (457,368)    |
| Additional paid-in capital                | 553,805      | 117,753      | 25,823         | (143,576)      | 553,805      |
| Other accumulated comprehensive income    | 21           |              |                |                | 21           |
| Retained earnings                         | 1,401,599    | 244,480      | (3,175)        | (210,708)      | 1,432,196    |
| Total stockholders equity                 | 1,498,599    | 381,986      | 30,396         | (381,785)      | 1,529,196    |
| Total liabilities and stockholders equity | \$ 4,142,328 | \$ 2,723,925 | \$ 114,669     | \$ (2,461,469) | \$ 4,519,453 |

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

*Condensed Consolidating Statements of Income (in thousands)*

| For the three months ended,<br>June 30, 2008                           | Parent    | Guarantors | Combined<br>Non-Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|--|-----------|------------|----------------------------|------------------------------|-----------------------|
| Net sales  | 1,142,874 | 2,792,637  | 44,396                     | (1,575,968)                  | 2,403,939             |
| Costs of goods sold  | 866,128   | 2,598,870  | 39,999                     | (1,580,713)                  | 1,924,284             |
| Gross profit   | 276,746   | 193,767    | 4,397                      | 4,745                        | 479,655               |
| Selling, general and administrative                                    | 68,821    | 55,524     | 2,957                      | (5,728)                      | 121,574               |
| Operating income   | 207,925   | 138,243    | 1,440                      | 10,473                       | 358,081               |
| Interest expense, net capitalized interest                             | 18,436    | 15,353     | 186                        | 1,500                        | 35,475                |
| Other (income) expense, net  | 73,116    | (90,170)   | (56)                       | 209                          | (16,901)              |
| Income before income taxes and equity in<br>net income of subsidiaries | 116,373   | 213,060    | 1,310                      | 8,764                        | 339,507               |
| Income taxes   | 44,222    | 78,141     | 509                        | 6,141                        | 129,013               |
|  | 72,151    | 134,919    | 801                        | 2,623                        | 210,494               |
| Equity in net income of subsidiaries                                   | 135,720   |            |                            | (135,720)                    |                       |
| Net income (loss)  | 207,871   | 134,919    | 801                        | (133,097)                    | 210,494               |

| For the three months ended,<br>June 30, 2007                                  | Parent     | Guarantors | Combined<br>Non-Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|------------|------------|----------------------------|------------------------------|-----------------------|
| Net sales   | \$ 700,196 | \$ 938,455 | \$ 16,434                  | \$ (743,837)                 | \$ 911,248            |
| Costs of goods sold   | 542,329    | 875,340    | 15,892                     | (738,895)                    | 694,666               |
| Gross profit  | 157,867    | 63,115     | 542                        | (4,942)                      | 216,582               |
| Selling, general and administrative   | 31,971     | 18,130     | 1,114                      | (2,293)                      | 48,922                |
| Operating income (loss)   | 125,896    | 44,985     | (572)                      | (2,649)                      | 167,660               |
| Interest expense, net capitalized interest                                    | 5,140      | 2,011      | 182                        | (135)                        | 7,198                 |
| Other (income) expense, net   | 60,759     | (49,387)   | (15)                       | 166                          | 11,523                |
| Income (loss) before income taxes and equity<br>in net income of subsidiaries | 59,997     | 92,361     | (739)                      | (2,680)                      | 148,939               |
| Income taxes  | 22,122     | 33,291     | (128)                      | (288)                        | 54,997                |
|   | 37,875     | 59,070     | (611)                      | (2,392)                      | 93,942                |
| Equity in net income of subsidiaries  | 58,459     |            |                            | (58,459)                     |                       |
| Net income (loss)   | \$ 96,334  | \$ 59,070  | \$ (611)                   | \$ (60,851)                  | \$ 93,942             |

| For the six months ended,<br>June 30, 2008                                    | Parent    | Guarantors | Combined<br>Non-Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|-----------|------------|----------------------------|------------------------------|-----------------------|
| Net sales   | 2,007,943 | 4,874,949  | 78,423                     | (2,655,171)                  | 4,306,144             |
| Costs of goods sold   | 1,528,142 | 4,522,739  | 71,173                     | (2,642,874)                  | 3,479,180             |
| Gross profit  | 479,801   | 352,210    | 7,250                      | (12,297)                     | 826,964               |
| Selling, general and administrative   | 118,161   | 103,277    | 5,082                      | (9,569)                      | 216,951               |
| Operating income (loss)   | 361,640   | 248,933    | 2,168                      | (2,728)                      | 610,013               |
| Interest expense, net capitalized interest                                    | 34,959    | 28,644     | 349                        | 1,330                        | 65,282                |
| Other (income) expense, net   | 131,511   | (156,430)  | (198)                      | 410                          | (24,707)              |
| Income (loss) before income taxes and<br>equity in net income of subsidiaries | 195,170   | 376,719    | 2,017                      | (4,468)                      | 569,438               |

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|                                      |         |         |       |           |         |
|--------------------------------------|---------|---------|-------|-----------|---------|
| Income taxes                         | 74,165  | 138,119 | 778   | 3,325     | 216,387 |
|                                      | 121,005 | 238,600 | 1,239 | (7,793)   | 353,051 |
| Equity in net income of subsidiaries | 239,839 |         |       | (239,839) |         |
| Net income (loss)                    | 360,844 | 238,600 | 1,239 | (247,632) | 353,051 |

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

| For the six months ended,<br>June 30, 2007                                    | Parent       | Guarantors   | Combined<br>Non-Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Net sales   | \$ 1,361,106 | \$ 1,742,071 | \$ 117,147                 | \$ (1,443,402)               | \$ 1,776,922          |
| Costs of goods sold   | 1,040,451    | 1,634,006    | 103,362                    | (1,433,882)                  | 1,343,937             |
| Gross profit  | 320,655      | 108,065      | 13,785                     | (9,520)                      | 432,985               |
| Selling, general and administrative   | 63,243       | 26,013       | 9,550                      | (4,791)                      | 94,015                |
| Operating income (loss)   | 257,412      | 82,052       | 4,235                      | (4,729)                      | 338,970               |
| Interest expense, net capitalized interest                                    | 10,371       | 3,209        | 1,129                      | (265)                        | 14,444                |
| Other (income) expense, net   | 107,443      | (96,925)     | (39)                       | 328                          | 10,807                |
| Income (loss) before income taxes and<br>equity in net income of subsidiaries | 139,598      | 175,768      | 3,145                      | (4,792)                      | 313,719               |
| Income taxes  | 52,256       | 63,235       | 1,483                      | 639                          | 117,613               |
|   | 87,342       | 112,533      | 1,662                      | (5,431)                      | 196,106               |
| Equity in net income of subsidiaries  | 114,195      |              |                            | (114,195)                    |                       |
| Net income (loss)   | \$ 201,537   | \$ 112,533   | \$ 1,662                   | \$ (119,626)                 | \$ 196,106            |

*Condensed Consolidating Statements of Cash Flow (in thousands)*

| For the six months ended,<br>June 30, 2008  | Parent    | Guarantors | Combined<br>Non-Guarantors | Total<br>Consolidated |
|---|-----------|------------|----------------------------|-----------------------|
| Net cash provided by operating activities   | 249,963   | 10,695     | 8,229                      | 268,887               |
| Net cash used in investing activities       | (339,044) | (95,697)   | (47,626)                   | (482,367)             |
| Net cash provided by financing activities   | 113,609   | 146,976    | 39,814                     | 300,399               |
| Increase in cash and equivalents            | 24,528    | 61,974     | 417                        | 86,919                |
| Cash and equivalents at beginning of period | 6,327     | 20,096     | 2,063                      | 28,486                |
| Cash and equivalents at end of period       | 30,855    | 82,070     | 2,480                      | 115,405               |

| For the six months ended,<br>June 30, 2007             | Parent      | Guarantors | Combined<br>Non-Guarantors | Total<br>Consolidated |
|--|-------------|------------|----------------------------|-----------------------|
| Net cash provided by (used in) operating activities    | \$ (82,305) | \$ 180,808 | \$ (335)                   | \$ 98,168             |
| Net cash used in investing activities                  | (118,199)   | (74,873)   | (1,219)                    | (194,291)             |
| Net cash provided by (used in) in financing activities | 188,237     | (110,495)  | 1,220                      | 78,962                |
| Decrease in cash and equivalents                       | (12,267)    | (4,560)    | (334)                      | (17,161)              |
| Cash and equivalents at beginning of period            | 15,571      | 12,610     | 1,192                      | 29,373                |
| Cash and equivalents at end of period                  | \$ 3,304    | \$ 8,050   | \$ 858                     | \$ 12,212             |

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

**Forward-Looking Statements**

This report contains some predictive statements about future events, including statements related to conditions in the steel marketplace, our revenue growth, costs of raw materials, future profitability and earnings, and the operation of new or existing facilities. These statements are intended to be made as forward-looking, subject to many risks and uncertainties within the safe harbor protections of the Private Securities Litigation Reform Act of 1995. Such predictive statements are not guarantees of future performance, and actual results could differ materially from our current expectations. Factors that could cause such predictive statements to turn out other than as anticipated or predicted include, among others: changes in economic conditions affecting steel consumption; increased foreign imports; increased price competition; difficulties in integrating acquired businesses; risks and uncertainties involving new products or new technologies; changes in the availability or cost of steel scrap or substitute materials; increases in energy costs; occurrence of unanticipated equipment failures and plant outages; labor unrest; and the effect of the elements on production or consumption.

In addition, we refer you to the sections denominated *Special Note Regarding Forward-Looking Statement* and *Risk Factors* in our Annual report on Form 10-K for the year ended December 31, 2007, as well as in other reports which we from time to time 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 on our knowledge of our businesses and the environment in which they operate as of the date on which the statements were made. Due to these risks and uncertainties, 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.

**Income Statement Classifications**

**Net Sales.** Net sales from our operations are a factor of net tons shipped, product mix and related pricing. We charge premium prices for certain grades of steel, product dimensions, certain smaller volumes, and for value-added processing or coating of the steel products. Except for the fabrication operations segment, we recognize revenues 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. The company's fabrication operations segment recognizes revenues from construction contracts using a percentage of completion methodology based on steel tons consumed to date as a percentage of estimated total steel tons required by each contract.

**Costs of Goods Sold.** Our costs of goods sold represent all direct and indirect costs associated with the manufacture of our products. The principal elements of these costs for our steel operations are steel scrap and ferrous resources, alloys, zinc, natural gas, argon, direct and indirect labor and related benefits, electricity, oxygen, electrodes, depreciation, materials, and freight. Our metallic raw materials represent the most significant cost component of our

consolidated costs of goods sold. The primary costs related to our metals recycling and ferrous resources operations is the cost of raw materials, freight costs, and processing expenses.

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

**Interest Expense, net Capitalized Interest.** Interest expense consists of interest associated with our senior credit facilities and other debt (described in the notes to our financial statements as set forth in our 2007 Annual Report on Form 10-K and as included in the notes to our financial statements herein), net of capitalized interest costs that are related to construction expenditures during the construction period of material capital projects.

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

#### **Acquisitions**

On June 24, 2008, we completed the acquisition of certain assets of bankrupt Sturgis Iron & Metal, an operator of scrap yards in Indiana, Michigan and Georgia. The assets were purchased for approximately \$42.2 million in cash through bankruptcy proceedings. The Sturgis Iron & Metal assets will be operated as a part of our wholly-owned subsidiary, OmniSource Corporation. The company purchased the assets to continue its expansion of its metals recycling operations and expects to begin operating certain of these acquired scrap yards during the second half of 2008.

On June 9, 2008, we completed the acquisition of Recycle South, LLC, one of the largest regional, privately-held, scrap metal recycling companies in the nation. Recycle South employs 600 people in 22 locations throughout North Carolina, South Carolina and Georgia. Pursuant to the agreement, OmniSource (our wholly-owned subsidiary), which already owned 25% of Recycle South, acquired the remaining outstanding stock, in a transaction valued at approximately \$376.3 million. Recycle South shareholders received 3,938,000 shares of Steel Dynamics common stock and \$236.6 million in cash, including transaction costs. In addition we assumed debt of approximately \$144.9 million, of which we repaid approximately \$142.8 million upon the closing of the transaction. Recycle South will operate as a wholly-owned subsidiary of

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OmniSource and will continue its focus on the ferrous and nonferrous scrap processing, brokerage, and industrial scrap management needs of its customers. Recycle South operations are included in our metals recycling and ferrous resources reporting segment.

The Techs and OmniSource acquisitions were effective July 1, 2007 and October 26, 2007, respectively; therefore, the results of these operations are not reflected in our first half 2007 results.

**Second Quarter Operating Results 2008 vs. 2007**

**Gross Profit.** Net income was \$210.5 million or \$1.05 per diluted share during the second quarter of 2008 compared with \$93.9 million or \$.48 per diluted share during the second quarter of 2007. When comparing the second quarter of 2008 with the second quarter of 2007, our net sales increased \$1.5 billion, or 164%, to \$2.4 billion. Our gross margin percentage was 20% during the second quarter of 2008 as compared to 24% for the second quarter of 2007 and as compared to 18% on a linked-quarter basis. Second quarter 2008 financial results include the operations from The Techs and OmniSource, which were purchased in the second half of 2007. These operations generally elicit lower gross margins as compared to our steel manufacturing facilities due to their product offerings or production process. The inclusion of these operations in our second quarter 2008 operating results was the primary driver of the decrease in our year-to-year gross margin percentage.

**Steel Operations**

|                                  | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           | First<br>Quarter<br>2008 |
|----------------------------------|--------------------------------|-----------|------------------------------|-----------|--------------------------|
|                                  | 2008                           | 2007      | 2008                         | 2007      |                          |
| Shipments (net tons)             |                                |           |                              |           |                          |
| Flat Roll Division               | 706,281                        | 579,490   | 1,391,601                    | 1,191,599 | 685,320                  |
| Structural and Rail Division     | 286,150                        | 309,601   | 585,837                      | 593,477   | 299,687                  |
| Engineered Bar Products Division | 145,085                        | 131,976   | 293,033                      | 274,335   | 147,948                  |
| Roanoke Bar Division             | 136,582                        | 140,399   | 287,950                      | 311,010   | 151,368                  |
| Steel of West Virginia           | 80,334                         | 70,946    | 156,058                      | 145,433   | 75,724                   |
| The Techs                        | 262,908                        |           | 524,919                      |           | 262,011                  |
| Total shipments                  | 1,617,340                      | 1,232,412 | 3,239,398                    | 2,515,854 | 1,622,058                |
| Intercompany                     | (124,128)                      | (117,026) | (254,813)                    | (237,923) | (130,685)                |
| External shipments               | 1,493,212                      | 1,115,386 | 2,984,585                    | 2,277,931 | 1,491,373                |

Steel operations accounted for 63% and 87% of our consolidated external net sales and 79% and 94% of our combined segment operating income (excluding All Other and Eliminations segments), during the second quarter of 2008 and 2007, respectively. Our steel operations second quarter 2008 average selling price per ton shipped increased \$315 per ton when compared to the second quarter of 2007 and \$229 per ton compared with the first quarter of 2008. Shipments increased 385,000 tons, or 31%, to 1.6 million tons, when comparing the second quarter of 2008 with same period in 2007. The increase in shipments was primarily due to increased shipments of 127,000 tons at our Flat Roll Division and to the inclusion of 263,000

tons from The Techs, which was newly acquired in July 2007. Demand for our structural steel and bar products has remained strong during the first part of 2008 and based on several factors, including current order entry activity, we anticipate this to remain the case for much of the year. In addition, the flat rolled steel markets have strengthened considerably during the year due to supply-side demand factors. The primary customers for flat rolled products are intermediary steel service centers. Service center inventory levels were at two-year lows at the end of 2007 and remain at lower relative levels during 2008 so far. This coupled with a lack of significant import activity has encouraged increased demand for flat rolled steels.

During the first six months of 2008, the volume of steel products imported into the United States decreased for certain products. We believe import volumes could remain at lower levels in the short term as a result of stronger global demand, a weak dollar, and high transportation costs; however, import activity is difficult to forecast. Currently, we anticipate an increase in our third quarter average selling values; however, we believe this increase in pricing may be partially offset by an expected increase in our costs of steel scrap consumed.

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**Steel Operations**

**Average Quarterly Selling Price**

Metallic raw materials used in our electric arc furnaces represent our most significant manufacturing cost. Our metallic raw material cost per net ton consumed increased \$181 during the second quarter of 2008 as compared to the second quarter of 2007 and increased \$144 on a linked-quarter basis. During the second quarter of 2008 and 2007, respectively, our metallic raw material costs represented 57% and 61% of our total manufacturing costs in the steel operations segment, excluding the operations of The Techs. These costs represented 38% and 58% of our consolidated manufacturing costs during the second quarter of 2008 and 2007, respectively. This percentage decrease is due to the change in composition of our manufacturing cost structure due to the addition of OmniSource and The Techs during 2007. We anticipate our cost of steel scrap consumed to remain relatively level in the third quarter as a result of the current cost of commodities consumed and existing inventory levels.

**Steel Fabrication Operations**

Fabrication operations accounted for 4% and 10% of our consolidated external net sales and 1% and 4% of our combined segment operating income (excluding All Other and Eliminations segments), during the second quarter of 2008 and 2007, respectively. Revenues from our five plants are generated from the fabrication of trusses, girders, steel joists and steel decking used within the non-residential construction industry. Shipments increased approximately 7,000 tons to approximately 76,000 tons during the second quarter of 2008 compared to the second quarter of 2007. However, the average selling value decreased \$40 per ton to \$1,227 compared with the second quarter of 2007. In addition, the cost of steel used in the production process (the segment's largest single cost of production) increased during the second quarter, resulting in decreased margins for this segment of our business. We are currently experiencing weakened demand for the products provided by our fabrication operations due to the general continued decline in non-residential construction fostered in part by the tightening credit markets coupled with the weakened U.S. economy.

**Fabrication Operations**

**Average Quarterly Selling Price**

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

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           | First<br>Quarter<br>2008 |
|---|--------------------------------|-----------|------------------------------|-----------|--------------------------|
|   | 2008                           | 2007      | 2008                         | 2007      |                          |
| <b>Metals Recycling and Ferrous Resources</b> |                                |           |                              |           |                          |
| Shipments (net tons)                          |                                |           |                              |           |                          |
| Ferrous                                       | 1,506,902                      | 116,000   | 2,898,284                    | 150,841   | 1,391,382                |
| Scrap substitute                              | 66,727                         | 60,846    | 134,721                      | 124,239   | 67,994                   |
| Total shipments                               | 1,573,629                      | 176,846   | 3,033,005                    | 275,080   | 1,459,376                |
| Intercompany                                  | (720,844)                      | (153,779) | (1,252,730)                  | (256,193) | (531,886)                |
| External shipments                            | 852,785                        | 23,067    | 1,780,275                    | 18,887    | 927,490                  |
| Non-ferrous (pounds)                          |                                |           |                              |           |                          |
|   | 254,147,156                    |           | 492,935,090                  |           | 238,787,934              |

Metals recycling and ferrous resources operations accounted for 31% and 2% of our consolidated external net sales and 19% and 2% of our combined segment operating income (excluding All Other and Eliminations segments), during the second quarter of 2008 and 2007, respectively. Our steel scrap operations primarily engage in the brokerage, collection and processing of ferrous and non-ferrous metals for resale to steel companies, brokers and other metals processors. We acquired OmniSource in October 2007; therefore, our second quarter 2008 results are significantly higher than our results for the same period in 2007. During the second quarter of 2008, the metals recycling and ferrous resources segment recorded shipments of 1.6 million tons of ferrous and scrap substitute materials, in addition to approximately 254 million pounds of non-ferrous material.

The results of the metals recycling and ferrous resources operations include the consolidated results of Recycle South beginning June 9, 2008.

Given the increase in global demand for commodity products, including ferrous and non-ferrous materials, in addition to our believed decrease in the availability of domestic ferrous materials due the decrease in industrial generation of ferrous scrap, we are currently experiencing a tightening of availability and therefore increase in costs for ferrous materials. The industry is experiencing record high levels of exporting of ferrous materials and record level pricing. A portion of our non-ferrous sales are within the Asian markets. We anticipate relatively level ferrous material costs throughout the third quarter of 2008.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$121.6 million during the second quarter of 2008, as compared to \$48.9 million during the same period in 2007, an increase of \$72.7 million. During the second quarter of 2008 and 2007 our selling, general and administrative expenses, including profit sharing and amortization expense, represented 5% of our total net sales. The additional total costs in selling, general and administrative expenses in the second quarter of 2008 compared to the second quarter of 2007 primarily relate to additional costs related to the newly acquired operations of The Techs (acquired July 2007) and OmniSource (acquired October 2007).

We also had additional costs related to the amortization of certain intangible assets related to the above acquisitions. During the second quarter of 2008 and 2007, respectively, we recorded amortization of intangible assets of \$8.1 million and \$3.4 million, respectively. We anticipate

amortization of intangibles to be approximately \$10.4 million per quarter for the remainder of 2008.

**Interest Expense, net Capitalized Interest.** During the second quarter of 2008, gross interest expense increased \$31.8 million to \$41.0 million and capitalized interest increased \$3.6 million to \$5.5 million when compared to the same period in 2007. The increase in gross interest expense for the second quarter of 2008 compared to the second quarter of 2007 is a result of increased borrowings for, among other things, acquisitions and capital outlays for our expansion projects. Our effective interest rate was 6.6% and 7.7% during the second quarter of 2008 and 2007, respectively. The interest capitalization that occurred during these periods resulted from the interest required to be capitalized with respect to construction activities primarily at our Flat Roll and Structural and Rail divisions. We currently anticipate gross interest expense to increase somewhat during the remainder of 2008 as we have issued \$500 million of 7¾ % senior notes during April 2008.

**Other Income, net Other Expense.** Other income, net other expense was \$16.9 million during the second quarter of 2008 as compared to net expense of \$11.5 million during the same period in 2007. During 2008, other income of \$14.9 million was attributable to earnings from investments in scrap procurement and processing entities which were accounted for under the equity method of accounting. As of the date of its acquisition, Recycle South will no longer be included in these earnings. During 2007, other income was offset by \$7.1 million of expense related to the call premium associated with the redemption of our 9 ½% notes and the termination of a related fixed-to-floating interest rate swap which resulted in a \$5.0 million loss on hedging activities.

**Income Taxes.** During the second quarter of 2008, our income tax provision was \$129.0 million as compared to \$55.0 million during the same period in 2007. Our effective income tax rate was 38.0% and 36.9% during the second quarters of 2008 and 2007, respectively.

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We file income tax returns in the U.S. federal jurisdiction as well as income tax returns in various state jurisdictions. The Internal Revenue Service (IRS) completed an examination of our federal income tax returns for 1997 through 2001 in the third quarter of 2007. The final examination adjustments did not result in a material change to our financial position or results of operations. We are currently under examination by the state of Indiana for calendar years 2000 through 2005. It is reasonably possible that the amount of unrecognized tax benefits could change in the next twelve months as a result of this audit or other state income tax audits. Based on the current audits in process, the payment of taxes as a result of audit settlements could be in an amount from zero to \$20.1 million by the end of 2008, primarily related to the deductibility of intercompany royalty and related interest payments. With few exceptions, and as noted for the state of Indiana, we are no longer subject to federal, state and local income tax examinations by tax authorities for years ended before 2004.

Included in the balance of unrecognized tax benefits at June 30, 2008 are potential benefits of \$29.7 million that, if recognized, would affect the effective tax rate. We recognize interest and penalties related to our tax contingencies on a net-of-tax basis in income tax expense. During the six-month period ended June 30, 2008, we recognized interest of \$434,000, net of tax, and penalties of \$107,000. At June 30, 2008, we had \$6.5 million accrued for the payment of interest and penalties.

**First Half Operating Results 2008 vs. 2007**

Net income was \$353.1 million or \$1.77 per diluted share during the first half of 2008, compared with \$196.1 million or \$.98 per diluted share during the first half of 2007.

**Gross Profit.** During the first half of 2008, our net sales increased \$2.5 billion, or 142%, to \$4.3 billion, and our consolidated shipments increased 2.8 million tons, or 111%, to 5.3 million tons, compared with the first half of 2007. The increase in shipments was due primarily to the inclusion of The Techs, acquired in July 2007, and OmniSource, acquired in October 2007. Our gross margin percentage was 19% during the first half of 2008 as compared to 24% during the first half of 2007. First half 2008 financial results include the operations from The Techs and OmniSource. These operations generally elicit lower gross margins as compared to our steel manufacturing facilities due to their product offerings or production process. The inclusion of these operations in our 2008 operating results was the primary driver of the decrease in our year-to-year gross margin percentage.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$217.0 million during the first half of 2008, as compared to \$94.0 million during the same period in 2007, an increase of \$122.9 million, or 131%. During both the first half of 2008 and 2007, selling, general and administrative expenses represented approximately 5% of net sales. The additional total costs in selling, general and administrative expenses in the first half of 2008 compared to the first half of 2007 primarily relate to additional costs related to the newly acquired operations of The Techs and OmniSource.

**Interest Expense, net Capitalized Interest.** During the first half of 2008, gross interest expense increased \$58.1 million, or 327%, to \$75.8 million and capitalized interest increased \$7.2 million to \$10.5 million as compared to the same period in 2007. The increase in gross interest expense for the first half of 2008 compared to the first half of 2007 is a result

of increased borrowings for, among other things, acquisitions, company stock repurchases, and capital outlays for our expansion projects. The interest capitalization that occurred during these periods primarily resulted from the interest required to be capitalized with respect to construction activities at our Flat Roll and Structural and Rail divisions.

**Other Income, net Other Expense.** Other income, net other expense was \$24.7 million during the first half of 2008, as compared to net expense of \$10.8 million during the same period in 2007. During 2008, other income of \$21.6 million was attributable to earnings from investments in scrap procurement and processing entities which were accounted for under the equity method of accounting. As of the date of its acquisition, Recycle South will no longer be included in these earnings. During 2007, other income was offset by \$7.1 million of expense related to the call premium associated with the redemption of our 9 ½% notes and the termination of a related fixed-to-floating interest rate swap which resulted in a \$5.0 million loss on hedging activities.

**Income Taxes.** During the first half of 2008, our income tax provision was \$216.4 million, as compared to \$117.6 million during the same period in 2007. During the first half of 2008 and 2007 our effective income tax rates were 38.0% and 37.5%, respectively.

#### **Liquidity and Capital Resources**

Our business is capital intensive and requires substantial expenditures for, among other things, the purchase and maintenance of equipment used in our 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. Historically, we have met these liquidity requirements with cash provided by operations, equity offerings, long-term borrowings, and state and local grants.

**Working Capital.** During the first half of 2008, our operational working capital position, representing our cash invested in trade receivables and inventories less trade payables and accruals, increased \$298.4 million to \$1.3 billion compared to December 31, 2007. Trade receivables increased \$520.5 million or 73% during the first half of 2008 to \$1.2 billion, of which approximately 97% were current or less than 60 days past due. Of this increase in trade receivables, \$123.0 million was the result of the acquisition of Recycle South. Our largest customer is an affiliated company, Heidtman Steel, which represented 6% of our outstanding trade receivables at June 30, 2008 and December 31, 2007.

Our trade payables and general accruals increased \$490.7 million, or 93%, during the first half of 2008. Of this increase in trade payables and general accruals, \$46.9 million was the result of the acquisition of Recycle South. The dollar value of our raw materials, primarily steel scrap inventories, increased by approximately \$195.4 million in comparing the second quarter of 2008 with the fourth quarter of 2007; likewise, the value of our finished goods inventory increased by approximately \$63.5 million over the same periods. During the first half of 2008 our

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total inventories increased \$297.2 million, or 33%, to \$1.2 billion. Of this increase in total inventories, \$76.7 million was the result of the acquisition of Recycle South.

**Capital Expenditures.** During the first half of 2008, we invested \$195.0 million in property, plant and equipment, of which \$69.1 million or 35% related to the addition of a second rolling mill and second caster at our Structural and Rail Division, approximately \$32.8 million related to OmniSource operations and approximately \$29.4 million related to construction at Mesabi Nugget, our planned iron manufacturing facility. The remaining capital expenditures represented improvement projects at our other facilities. We believe these capital investments will increase our net sales and related cash flows as each project develops.

**Capital Resources and Long term Debt.** During the first half of 2008, our total outstanding debt increased \$506.7 million to \$2.5 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 and our total stockholders' equity, was 56% and 57% at June 30, 2008 and December 31, 2007, respectively. At June 30, 2008, there were outstanding borrowings of \$201.0 million under our \$874 million senior secured revolver and \$600.4 million outstanding under our term A loan.

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 under the combined facilities is dependent upon our continued compliance with the financial covenants and other covenants contained in the senior secured credit agreement, as amended and restated.

During April 2008, we issued \$500 million of 7¾% senior notes due April 2016. The net proceeds were used to repay amounts outstanding under our senior secured revolving credit facility and for general corporate purposes.

During the first half of 2008, holders of our subordinated convertible 4% notes converted \$21.3 million of the notes to Steel Dynamics common stock, resulting in the issuance of 5.0 million shares of the company's treasury stock. As of June 30, 2008 there were 3.8 million shares still available for conversion pursuant to these notes.

**Common Stock Purchases.** During the first half of 2008, we purchased 2.0 million shares of our common stock in open market trades at an average purchase price of \$23.24 per share. As of June 30, 2008, 3.9 million shares remain authorized and available for purchase. On July 29, 2008, our board of directors authorized an increase of 5.0 million shares to our existing share repurchase program.

**Cash Dividends.** During the second quarter of 2008, our board of directors approved a \$0.10 per common share regular quarterly cash dividend. The dividend was payable to shareholders of record at the close of business on

June 30, 2008 and was paid on July 11, 2008. We anticipate continuing comparable quarterly cash dividends throughout 2008. 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.

**Two-for One Stock Split.** Our board of directors authorized a two-for-one stock split effective for shareholders of record at the close of business on March 19, 2008 with an increase in our authorized common shares from 200 million with a par value of \$.005 per common share to 400 million shares with a par value of \$.0025 per common share. All prior period share and per share amounts have been adjusted to reflect this stock split.

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

#### **Other Matters**

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

**Environmental and Other Contingencies.** We have incurred, and in the future will continue to incur, capital expenditures and operating expenses for matters relating to environmental control, remediation, monitoring, and compliance. We believe, apart from our dependence on environmental construction and operating permits for our existing and proposed manufacturing facilities, that compliance with current environmental laws and regulations is not likely to have a material adverse effect on our financial condition, results of operations, or liquidity; however, environmental laws and regulations are subject to change, and we may become subject to more stringent environmental laws and regulations in the future.

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



**Market 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 borrowings. We generally maintain fixed rate debt as a percentage of our net debt between a minimum and maximum percentage. A portion of our debt has an interest component that resets on a periodic basis to reflect current market conditions. At June 30, 2008, no material changes had occurred related to our interest rate risk from the information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007.

During April 2008, we issued \$500 million of 7¾% senior notes due April 2016. The net proceeds were used to repay amounts outstanding under our senior secured revolving credit facility and for general corporate purposes.

**Commodity Risk.** In the normal course of business we are exposed to the market risk and price fluctuations related to the sale of steel products and to the purchase of commodities used in our production process, such as metallic raw materials, electricity, natural gas, and alloys. Our risk strategy associated with product sales has generally been to obtain competitive prices for our products and to allow operating results to reflect market price movements dictated by supply and demand. Our risk strategy associated with the purchase of commodities utilized within our production process has generally been to make certain commitments with suppliers relating to future expected requirements for such commodities. Certain of these commitments contain provisions which require us to take or pay for specified quantities without regard to actual usage for periods of up to two years for physical commodity requirements and for up to 15 years for commodity transportation requirements.. Historically, we have fully utilized all such take or pay requirements, and we believe that our future production requirements will be such that consumption of the products or services purchased under these commitments will occur in the normal production process. At June 30, 2008, 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, 2007.

#### ITEM 4. CONTROLS AND PROCEDURES

(a) **Evaluation of Disclosure Controls and Procedures.** Our management, with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2008. The term disclosure controls and procedures, as we use that term and as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures that are designed to provide reasonable assurance that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Based on the evaluation of our disclosure controls and procedures as of June 30, 2008, our principal executive officer and our principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported to our management, including our principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

(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, 2008, 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.

Steel Dynamics, as well as its various subsidiaries, including OmniSource Corporation, is from time to time involved in various lawsuits and/or governmental claims in the ordinary course of business. None of such lawsuits or claims at the present time, singly or in the aggregate, except as disclosed below, is material.

On February 1, 2008, the company was served with a complaint by Prime Eagle Group Limited (Plaintiff), a corporation with its principal place of business in Thailand. The complaint alleges that the company, which performed certain consulting services for a management company formed to assist a Thailand-based steel company, Nakornthai Strip Mill Public Company, Limited (NSM) in its operational start-up in 1998, caused NSM's start-up efforts to fail by falsely and fraudulently expressing its opinion that there were certain equipment and design issues that needed to be addressed. The complaint alleges damages in excess of \$1.1 billion. The company believes that the allegations and claims set forth in the complaint are without merit and accordingly has not accrued a liability for this complaint. On April 30, 2008, the company filed a Motion to Dismiss the entire lawsuit.

Based upon current knowledge, including discussions with legal counsel, the company believes that the results of any threatened or pending litigation will not have a material effect on the company's financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS.

No material changes have occurred to the indicated risk factors as disclosed in our 2007 Annual Report on Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Following are the results of matters submitted to a vote of shareholders at the Steel Dynamics Annual Shareholders Meeting held

May 22, 2008.

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

| Director              | Shares Voted For | Shares Voted<br>Against or Withheld. |
|-----------------------|------------------|--------------------------------------|
| Keith E. Busse        | 145,053,924      | 16,971,192                           |
| Mark D. Millett       | 144,504,154      | 17,520,962                           |
| Richard P. Teets, Jr. | 144,483,681      | 17,541,434                           |
| John C. Bates         | 138,440,584      | 23,584,532                           |
| Dr. Frank D. Byrne    | 148,904,482      | 13,120,634                           |
| Paul B. Edgerley      | 159,941,311      | 2,083,804                            |
| Richard J. Freeland   | 148,805,765      | 13,219,350                           |
| Dr. Jürgen Kolb       | 154,068,037      | 7,957,078                            |
| James C. Marcuccilli  | 148,913,950      | 13,111,166                           |
| Daniel M. Rifkin      | 147,933,232      | 14,091,883                           |
| Joseph D. Ruffolo     | 150,194,446      | 11,830,669                           |

- With respect to Proposal No. 2 in our Proxy Statement (Approval of Ernst & Young LLP as Auditors for the Year 2008), Ernst & Young LLP was approved as our independent auditors for the year 2008:

|                      |             |
|----------------------|-------------|
| Shares Voted For     | 160,211,199 |
| Shares Voted Against | 1,791,411   |
| Abstentions          | 22,505      |

- With respect to Proposal No. 3 in our Proxy Statement (Approval of Steel Dynamics, Inc. 2008 Executive Incentive Compensation Plan):

|                      |             |
|----------------------|-------------|
| Shares Voted For     | 112,917,568 |
| Shares Voted Against | 17,071,888  |
| Abstentions          | 981,733     |

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- With respect to Proposal No. 4 in our Proxy Statement (Approval of an Amendment to our Amended and Restated Articles of Incorporation to Increase our Authorized Common Stock from 400,000,000 Shares to 900,000,000 Shares):

|                      |             |
|----------------------|-------------|
| Shares Voted For     | 117,229,019 |
| Shares Voted Against | 44,694,076  |
| Abstentions          | 102,019     |

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

**Executive Officer Certifications**

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

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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 8, 2008

STEEL DYNAMICS, INC.

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

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