STEEL DYNAMICS INC
Form 10-Q
May 11, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

OR

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

Commission File Number 0-21719

Steel Dynamics, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

As of May 5, 2009, Registrant had 182,187,461 outstanding shares of common stock.

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STEEL DYNAMICS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	March 31, 2009 (unaudited)	December 31, 2008
Assets		
Current assets		
Cash and equivalents	$ 16,067	$ 16,233
Accounts receivable, net	335,715	453,011
Accounts receivable-related parties	26,124	49,921
Inventories, net	833,074	1,023,235
Deferred income taxes	26,631	23,562
Income taxes receivable	93,475	86,321
Other current assets	35,725	57,632
Total current assets	1,366,811	1,709,915
Property, plant and equipment, net	2,108,657	2,072,857
Restricted cash	16,217	18,515
Intangible assets, net	551,489	614,786
Goodwill	812,161	770,438
Other assets	70,744	67,066
Total assets	$ 4,926,079	$ 5,253,577
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 239,355	$ 259,742
Accounts payable-related parties	4,559	3,651
Accrued expenses	91,547	148,627
Accrued interest	58,191	30,874
Accrued payroll and benefits	39,492	34,303
Accrued profit sharing	56	62,561
Senior secured revolving credit facility, due 2012	231,000	366,000
Current maturities of long-term debt	65,450	65,223
Total current liabilities	729,650	970,981
Long-term debt		
Senior secured term A loan, due 2012	487,700	503,800
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	500,000
Other long-term debt	30,314	15,361
	2,218,014	2,219,161
Deferred income taxes	373,712	365,496
Other liabilities	65,759	65,626
Commitments and contingencies		

Stockholders equity		
Common stock voting, $.0025 par value; 900,000,000 shares authorized; 218,771,002 and 218,733,363 shares issued; and 182,130,997 and 181,820,012 shares outstanding, as of March 31, 2009 and December 31, 2008, respectively	545	545
Treasury stock, at cost; 36,640,005 and 36,913,351 shares, as of March 31, 2009 and December 31, 2008, respectively	(734,083)	(737,319)
Additional paid-in capital	544,971	541,686
Other accumulated comprehensive loss	(1,073)	(1,411)
Retained earnings	1,714,310	1,820,385
Total Steel Dynamics, Inc. stockholders equity	1,524,670	1,623,886
Noncontrolling interests	14,274	8,427
Total stockholders equity	1,538,944	1,632,313
Total liabilities and stockholders equity	$ 4,926,079	$ 5,253,577

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended March 31, 2009	2008
Net sales		
Unrelated parties	$ 787,810	$ 1,814,083
Related parties	26,840	88,122
Total net sales	814,650	1,902,205
Costs of goods sold	855,277	1,554,896
Gross profit (loss)	(40,627)	347,309
Selling, general and administrative expenses	57,320	64,865
Profit sharing	(42)	18,507
Amortization of intangible assets	15,698	11,530
Total selling, general and administrative expenses	72,976	94,902
Operating income (loss)	(113,603)	252,407
Interest expense, net capitalized interest	36,251	29,807
Other income, net	(748)	(7,806)
Income (loss) before income taxes	(149,106)	230,406
Income taxes (benefit)	(59,332)	87,374
Net income (loss)	(89,774)	143,032
Net income (loss) attributable to noncontrolling interests	(1,912)	475
Net income (loss) attributable to Steel Dynamics, Inc.	$ (87,862)	$ 142,557
Basic earnings (loss) per share attributable to Steel Dynamics, Inc. stockholders	$ (.48)	$ .75
Weighted average common shares outstanding	182,000	189,039
Diluted earnings (loss) per share attributable to Steel Dynamics, Inc. stockholders, including the effect of assumed conversions when dilutive	$ (.48)	$ .72
Weighted average common shares and share equivalents outstanding	182,000	199,317
Dividends declared per share	$ .10	$ .10

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Operating activities		
Net income (loss) attributable to Steel Dynamics, Inc.	$ (87,862)	$ 142,557
Adjustments to reconcile net income (loss) attributable to Steel Dynamics, Inc. to net cash provided by operating activities		
Depreciation and amortization	56,963	53,212
Equity-based compensation	8,579	3,929
Deferred income taxes	7,695	(973)
(Gain) loss on disposal of property, plant and equipment	(272)	14
Noncontrolling interests	(1,912)	475
Changes in certain assets and liabilities		
Accounts receivable	141,093	(185,793)
Inventories	193,097	9,575
Other assets	17,825	2,633
Accounts payable	(34,054)	114,515
Income taxes payable	(4,107)	72,608
Accrued expenses	(82,350)	844
Net cash provided by operating activities	214,695	213,596
Investing activities		
Purchases of property, plant and equipment	(74,338)	(93,764)
Purchases of securities		(20,373)
Other investing activities	(3,223)	1,329
Net cash used in investing activities	(77,561)	(112,808)
Financing activities		
Issuance of current and long-term debt	237,059	218,000
Repayment of current and long-term debt	(358,666)	(233,214)
Debt issuance costs	(453)	(1,946)
Issuance of common stock (net of expenses) and proceeds from exercise of stock options, including related tax effect	(2,058)	7,177
Purchase of treasury stock		(46,128)
Contribution from noncontrolling investor	5,000	
Dividends paid	(18,182)	(14,274)
Net cash used in financing activities	(137,300)	(70,385)
Increase (decrease) in cash and equivalents	(166)	30,403
Cash and equivalents at beginning of period	16,233	28,486
Cash and equivalents at end of period	$ 16,067	$ 58,889
Supplemental disclosure information:		
Cash paid for interest	$ 11,984	$ 11,385
Cash paid for federal and state income taxes, net of refunds	$ (55,430)	$ 1,387

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Description of the Business, Significant Accounting Policies, and Recent Accounting Pronouncements

Description of the Business

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

Steel Operations. Steel operations include the company s Flat Roll Division, Structural and Rail Division, Engineered Bar Products Division, Roanoke Bar Division, Steel of West Virginia (SWVA) and The Techs operations. These operations consist of mini-mills, producing steel from steel scrap, using electric arc furnaces, continuous casting, automated rolling mills, and downstream finishing facilities. The company s steel operations sell directly to end users and service centers. These products are used in numerous industry sectors, including the automotive, construction, commercial, transportation and industrial machinery markets. Steel operations accounted for approximately 59% and 58% of the company s net sales during the three-month periods ended March 31, 2009 and 2008, respectively.

Metals Recycling and Ferrous Resources Operations. Metals recycling and ferrous resources operations primarily are composed of the company s steel scrap procurement and processing locations, operated through the company s wholly-owned subsidiary, OmniSource Corporation (OmniSource), as well as Iron Dynamics (IDI), the company s iron-substitute production facility. In addition, the impact related to the construction of the Mesabi Nugget iron-making facility and future mining operations in Hoyt Lakes, Minnesota is also included in this segment. Metals recycling and ferrous resources operations accounted for approximately 33% and 37% of the company s net sales during the three-month periods ended March 31, 2009 and 2008, respectively.

Steel Fabrication Operations. Steel fabrication operations represent the company s New Millennium Building Systems plants located throughout the eastern United States. Revenues from these plants are generated from the fabrication of trusses, girders, steel joists and steel decking used within the non-residential construction industry. Steel fabrication operations accounted for approximately 7% and 4% of the company s net sales during the three-month periods ended March 31, 2009 and 2008, respectively.

Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of SDI, together with its subsidiaries, after elimination of significant intercompany accounts and transactions. Noncontrolling interest represents the minority shareholders proportionate share in the equity or income of the company s consolidated subsidiaries.

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

In the opinion of management, these financial statements reflect all normal recurring adjustments necessary for a fair presentation of the interim period results. These financial statements and notes should be read in conjunction with the audited financial statements and notes thereto included in the company s Annual Report on Form 10-K for the year ended December 31, 2008.

Uncertain Tax Positions. The company files income tax returns in the U.S. federal jurisdiction and in various state jurisdictions. The state of Indiana completed its examination of the calendar years 2000 through 2005 in the third quarter of 2008. The company paid additional taxes of $20.7 million as a result of the examinations. This amount was recorded as an unrecognized tax benefit when the company adopted Financial Accounting Standards Board (FASB) Interpretation 48 (FIN 48) on January 1, 2007. It is reasonably possible that the amount of unrecognized tax benefits could change in the next twelve months as a result of state income tax audits. Based on current audits in process, the payment of additional taxes could be in an amount from zero to $2.0 million during 2009, primarily related to state nexus issues. With few exceptions, the company is no longer subject to federal, state and local income tax examinations by tax authorities for years ended before 2005.

Included in the amount of unrecognized tax benefits at March 31, 2009, are potential benefits of $37.1 million that, if recognized, would affect the company s effective tax rate. The company recognizes interest and penalties related to its tax contingencies on a net-of-tax basis in income tax expense. During the three months ended March 31, 2009, the company recognized interest of $329,000, net of tax, and benefits of $29,000. At March 31, 2009, the company had $7.5 million accrued for the payment of interest and penalties.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Net income (loss) attributable to Steel Dynamics, Inc.	$ (87,862)	$ 142,557
Unrealized loss on available-for-sale securities, net of tax		(1,761)
Unrealized gain on interest rate swap, net of tax	338	
Comprehensive income (loss) attributable to Steel Dynamics, Inc.	$ (87,524)	$ 140,796

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

	March 31, 2009	December 31, 2008
Unrealized loss on interest rate swap	$ (1,745)	$ (2,294)
Tax effect	672	883
Total other accumulated comprehensive loss	$ (1,073)	$ (1,411)

Recent Accounting Pronouncements.

On January 1, 2009, the company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, (SFAS 157) as it relates to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on at least an annual basis. SFAS 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America (GAAP), and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements and are to be applied prospectively with limited exceptions. The adoption of SFAS 157, as it relates to nonfinancial assets and nonfinancial liabilities, had no impact on the company s financial statements for the three months ended March 31, 2009. The provisions of SFAS 157 will be applied at such time a fair value measurement of a nonfinancial asset or nonfinancial liability is required, which may result in a fair value that is materially different than would have been calculated prior to the adoption of SFAS 157.

On January 1, 2009, the company adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*, (SFAS 161). SFAS 161 requires enhanced disclosures about an entity s derivative and hedging activities, including (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS 133), and (iii) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. Other than the required disclosures, the adoption of SFAS 161 had no impact on the company s financial statements.

On January 1, 2009, the company adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*, (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard defines a noncontrolling interest, previously called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. SFAS 160 requires, among other items, that a noncontrolling interest be included in the consolidated balance sheets within equity separate from the parent s equity; consolidated net income to be reported at amounts inclusive of both the parent s and noncontrolling interest s shares and, separately, the amounts of consolidated net income attributable to the parent and noncontrolling interest all on the consolidated statements of income; and if a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be measured at fair value and a gain or loss be recognized in net income based on such fair value. The presentation and disclosure requirements of SFAS 160 were applied retrospectively. The adoption of SFAS 160 did not have a material impact on the company s financial statements.

On January 1, 2009, the company adopted SFAS No. 141 (revised 2007), *Business Combinations*, (SFAS 141(R)), which replaces SFAS No. 141, *Business Combinations*, (SFAS 141) but retains the fundamental requirements in SFAS 141, including that the purchase method be used for all business combinations and for an acquirer to be identified for each business combination. This standard defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control instead of the date that the consideration is transferred. SFAS 141(R) requires an acquirer in a business combination, including business combinations achieved in stages (step acquisition), to recognize the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. It also requires the recognition of assets acquired and liabilities assumed arising from certain contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. Additionally, SFAS 141(R) requires acquisition-related costs to be expensed in the period in which the costs are incurred and the services are received instead of including such costs as part of the acquisition price. The adoption of SFAS 141(R) had no impact on the company s financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

On January 1, 2009, the company adopted Financial Accounting Standards Board (FASB) Staff Position (FSP) No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*, (SFAS 142) in order to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other GAAP. The adoption of FSP FAS 142-3 had no impact on the company s financial statements.

On January 1, 2009, the company adopted FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, (FSP EITF 03-6-1). FSP EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The adoption of FSP EITF 03-6-1 had no impact on the company s financial statements.

The company adopted FSP 107-1, *Disclosures About Fair Value of Financial Instruments,* as of March 31, 2009. FSP 107-1 requires disclosures about fair value of all financial instruments for interim reporting periods. The applicable disclosures are included in Note 8 to the company s financial statements included in this filing. The adoption of FSP 107-1 had no impact on the company s financial statements.

Note 2. Acquisition.

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

The company purchased Recycle South to expand its metals recycling business. Recycle South provides a significant presence in the southeastern United States through its 22 locations within 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, in the metals recycling and ferrous resources reporting segment.

The purchase price of $376.3 million for the remaining 75% equity interest in Recycle South, combined with the 25% interest owned pursuant to the OmniSource acquisition, results in an aggregate purchase price of $501.8 million. During the first quarter of 2009, the company adjusted the initial purchase price allocation to reflect additional refinement in valuation of the acquisition. The following allocation of the purchase price is still preliminary, and 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):

	December 31, 2008	Adjustments	March 31, 2009
Current assets	$ 213,513	$	$ 213,513
Property, plant & equipment	94,484	4,919	99,403
Intangible assets	155,000	(48,000)	107,000
Goodwill	272,355	42,880	315,235
Other assets	5,406		5,406
Total assets acquired	740,758	(201)	740,557
Current liabilities, excluding debt	94,015	(201)	93,814
Debt	144,947		144,947
Total liabilities assumed	238,962	(201)	238,761
Net assets acquired	$ 501,796	$	$ 501,796

Preliminary goodwill and intangible assets of $315.2 million and $107.0 million, respectively, were recorded as a result of the acquisition. The goodwill is deductible for tax purposes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	Amount	Useful Life
Customer relationships	$ 21,000	20 years
Scrap generator relationships	57,000	20 years
Trademarks	16,000	3 years
Covenants not to compete	13,000	5 years
	$ 107,000	

The company utilizes an accelerated amortization methodology for customer and scrap generator relationships in order to follow the pattern in which the economic benefits of the intangible assets are anticipated to be consumed. Finite-lived trademarks and covenants not to compete are amortized using a straight line methodology. The related aggregate amortization expense recognized for the three-month period ended March 31, 2009 was $7.3 million. The estimated intangible asset amortization expense related to the total acquisition of Recycle South for the next five years and thereafter follows (in thousands):

2009 (including January 1 to March 31)	$	18,367
2010		14,883
2011		11,361
2012		9,394
2013		7,277
Thereafter		41,714
Total	$	102,996

Unaudited Pro Forma Information. The following unaudited pro forma information is presented below as if the acquisition of Recycle South (effective on June 9, 2008) had occurred as of January 1, 2008 (in thousands, except per share amounts):

		Three Months Ended March 31, 2008
Net sales	$	2,071,091
Net income attributable to Steel Dynamics, Inc.		149,752
Basic earnings per share attributable to Steel Dynamics, Inc. stockholders	$	.78
Diluted earnings per share attributable to Steel Dynamics, Inc. stockholders		.74

The information presented above is for information purposes only and is not necessarily indicative of the actual results that could have occurred had the acquisition been consummated at January 1, 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-month period ended March 31, 2008, The actual results of Recycle South for the three-month period ended March 31, 2009 are included in the consolidated results of the company.

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.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED

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

	Three Months Ended March 31, 2009			2008		
	Net Loss (Numerator)	Shares (Denominator)	Per Share Amount	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share	$ (87,862)	182,000	$ (.48)	$ 142,557	189,039	$ .75
Dilutive stock option effect					1,516	
Convertible subordinated 4.0% notes				212	8,762	
Diluted earnings per share	$ (87,862)	182,000	$ (.48)	$ 142,769	199,317	$ .72

As of March 31, 2009, all of the company s convertible subordinated 4.0% notes have been converted. Options to purchase 2.1 million shares were anti-dilutive at March 31, 2009. No options were excluded at March 31, 2008.

Note 4. Inventories

Inventories are stated at lower of cost or market. Cost is determined principally on a first-in, first-out basis. The inventories at March 31, 2009 reflect a lower of cost or market reserve of $83.3 million. The Company recorded lower of cost or market adjustments of $36.6 million to certain inventories at December 31, 2008. Inventory consisted of the following, of which all ferrous materials residing at both the steel and metals recycling operations are included in raw materials (in thousands):

	March 31, 2009	December 31, 2008
Raw materials	$ 380,652	$ 554,815
Supplies	235,952	224,710
Work-in-progress	43,289	57,489
Finished goods	173,181	186,221
Total inventories, net	$ 833,074	$ 1,023,235

Note 5. Long-Term Debt

Senior Secured Credit Facility

The company s senior secured credit agreement contains financial covenants and other covenants that limit or restrict the company s ability to make capital expenditures; incur indebtedness; permit liens on property; enter into transactions with affiliates; make restricted payments or investments; enter into mergers, acquisitions or consolidations; conduct asset sales; pay dividends or distributions and enter into other specified transactions and activities. The company s ability to borrow funds within the terms of the revolver is dependent upon its continued compliance with its financial covenants and other covenants contained in the senior secured credit agreement. The financial covenants state that the company must maintain at all times an interest coverage ratio of not less than 2.00:1.00 and must maintain a total debt to consolidated last-twelve-months trailing EBITDA (earnings before interest, taxes, depreciation, amortization, and certain other non-cash transaction adjustments as defined in the credit agreement) ratio of not more than 5.00:1.00. If the total debt to EBITDA ratio exceeds 3.50:1.00, then the ability of the company to make restricted payments as defined in the credit agreement (which includes cash dividends to stockholders and share purchases, among other things), is limited to $25 million per quarter.

The company was in compliance with these covenants at March 31, 2009, with an interest coverage ratio of 5.41 and total debt to EBITDA ratio of 2.81. However, based on the current economic environment and the company s outlook, the company believes it may be in violation of its financial covenants during 2009, which if not resolved, could also constitute a cross default under other debt instruments. The company is considering a number of alternatives to address this situation, including but not limited to obtaining a waiver from its bank group. The company may incur additional costs related to these alternatives.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 6. Changes in Stockholders Equity

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

		Stockholders of Steel Dynamics, Inc.					
	Total	**Common Stock**	**Additional Paid-In Capital**	**Retained Earnings**	**Other Accumulated Comprehensive Income (Loss)**	**Treasury Stock**	**Noncontrolling Interests**
Balances at January 1, 2009	$ 1,632,313	$ 545	$ 541,686	$ 1,820,385	$ (1,411)	$ (737,319)	$ 8,427
Issuance of common stock (net of expenses) and proceeds from exercise of stock options, including related tax effect	(2,058)		(2,058)				
Dividends declared	(18,213)			(18,213)			
Contributions from noncontrolling investor	5,000						5,000
Tax adjustment to noncontrolling interest	2,759						2,759
Equity-based compensation	8,579		5,343			3,236	
Comprehensive income and net loss attributable to Steel Dynamics, Inc.	(89,436)			(87,862)	338		(1,912)
Balances at March 31, 2009	$ 1,538,944	$ 545	$ 544,971	$ 1,714,310	$ (1,073)	$ (734,083)	$ 14,274

Note 7. Derivative Financial Instruments

Financial Accounting Standards Board Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (FAS 133) requires companies to recognize all of their derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge or a cash flow hedge.

The company is exposed to certain risks relating to its ongoing business operations. The primary risks mitigated by using derivative instruments by the company are commodity margin risk, interest rate risk, and foreign currency exchange rate risk. Forward contracts on various commodities are entered into to manage the price risk associated with forecasted purchases and sales of non-ferrous materials from the company s metals recycling and ferrous resources operations. Interest rate swaps are entered into to manage interest rate risk associated with the company s fixed and floating-rate borrowings. Forward exchange contracts on various foreign currencies are entered into to manage the foreign currency exchange rate risk as necessary.

In accordance with FAS 133, the company designated its interest rate swap as a cash flow hedge of floating-rate borrowings. Forward contracts on various commodities and forward exchange contracts on various foreign currencies are not designated as hedging instruments.

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

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STEEL DYNAMICS, INC.

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Commodity futures contracts. The following summarizes the company s commodity futures contract commitments as of March 31, 2009 (MT represents metric tons and Lbs represents pounds):

Commodity	Long/Short	Total	
Aluminum	Long	10,425	MT
Aluminum	Short	9,600	MT
Copper	Long	14,413	MT
Copper	Short	5,803	MT
Nickel	Long	138	MT
Nickel	Short	954	MT
Silver	Short	1,029	Lbs

The following summarizes the location and amounts of the fair values and gains related to derivatives included in the company s financial statements as of March 31, 2009 and December 31, 2008, and for the three-month periods ended March 31, 2009 and 2008 (in thousands):

	Location in Consolidated Balance Sheets	Fair Value March 31, 2009	Fair Value December 31, 2008
Commodity futures net liability	Accrued expenses	$ 18,816	$ 38,371
Interest rate swap liability	Accrued expenses	1,745	2,294
	Location in Consolidated Statements of Operations	**Gain for Period Ended March 31, 2009**	**Gain for Period Ended March 31, 2008**
Commodity futures contracts	Costs of goods sold	$ 19,555	$ 7,400
Interest rate swap	Other comprehensive income	549	

Note 8. Fair Value Measurements

FASB Statement No. 157 (FAS 157), *Fair Value Measurements*, 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. 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.

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

	March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Commodity futures financial assets	$ 8,970	$	$ 8,970	$
Interest rate swap	$ 1,745	$	$ 1,745	$
Commodity futures	27,786		27,786	
Financial liabilities	$ 29,531	$	$ 29,531	$

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	December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Commodity futures financial assets	$ 15,866	$	$ 15,866	$
Interest rate swap	$ 2,294	$	$ 2,294	$
Commodity futures	54,237		54,237	
Financial liabilities	$ 56,531	$	$ 56,531	$

The fair value of long-term debt, including current maturities, was approximately $2.0 billion and $2.1 billion at March 31, 2009, and December 31, 2008, respectively.

Note 9. Commitments and Contingencies

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

On September 17, 2008, Steel Dynamics, Inc. was served with a class action antitrust complaint alleging violations of Section 1 of the Sherman Act, brought by Standard Iron Works of Scranton, Pennsylvania, against Steel Dynamics and eight other steel manufacturing companies. The Complaint, filed in the United States District Court for the Northern District of Illinois in Chicago, alleges that the defendants conspired to fix, raise, maintain and stabilize the price at which steel products were sold in the United States by artificially restricting the supply of such steel products. Six additional lawsuits, each of them materially similar to the original, have also been filed in the same federal court, each of them likewise seeking similar class certification. All but one of the Complaints purport to be brought on behalf of a class consisting of all purchasers of steel products directly from the defendants between January 1, 2005 and the present. The other Complaint purports to be brought on behalf of a class consisting of all indirect purchasers of steel products from the defendants within the same time period. All Complaints seek treble damages and costs, including reasonable attorney fees, pre- and post-judgment interest and injunctive relief. On January 2, 2009, the defendants in these cases filed a Joint Motion to Dismiss all of the lawsuits. On January 30, 2009, the plaintiffs filed their response to the Motion to Dismiss, and on February 20, 2009, the defendants filed their reply. Although the company believes that the lawsuits are without merit and plans to aggressively defend these actions, the company cannot presently predict the outcome of this litigation or make any judgment with respect to its potential exposure, if any.

On March 18, 2009, Steel Dynamics, Inc., together with its Chairman and Chief Executive Officer, Keith E. Busse, and John Bates, a member of its board of directors, were served with a complaint, captioned Panasuk v. Steel Dynamics, Inc., et al., Civil Action No. 1109cv0066, filed in the United States District Court for the Northern District of Indiana, Fort Wayne Division, and purporting to represent a class of purchasers of Steel

Dynamics common stock between January 26, 2009 and March 11, 2009. The complaint alleges securities fraud in connection with the company s issuance of certain earnings guidance and seeks damages in an unspecified amount. The company believes that the complaint is without merit and will appropriately defend its interests.

Note 10. Segment Information

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

The company s operations are primarily organized and managed by operating segment. Operating segment performance and resource allocations are primarily based on operating results before income taxes. The accounting policies of the reportable segments are consistent with those described in Note 1 to the financial statements. Refer to the company s Annual Report on Form 10-K for the year ended December 31, 2008, for more information related to the company s segment reporting. Inter-segment sales and any related profits are eliminated in consolidation. The company s segment results for the three-month periods ended March 31 are as follows (in thousands):

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2009	**Steel Operations**	**Metals Recycling / Ferrous Resources**	**Steel Fabrication Operations**	**Other**	**Eliminations**	**Consolidated**
Net Sales						
External	$ 488,140	$ 222,399	$ 60,785	$ 11,107	$	$ 782,431
External Non-U.S.	16,902	15,307		10		32,219
Other segments	22,072	58,702	22	1,057	(81,853)	
	527,114	296,408	60,807	12,174	(81,853)	814,650
Operating income (loss)	(68,914)	(24,466)	3,000	(13,546)(1)	(9,677)(2)	(113,603)
Income (loss) before income taxes	(85,900)	(34,189)	1,354	(19,367)	(11,004)	(149,106)
Depreciation and amortization	24,692	29,808	1,757	706		56,963
Capital expenditures	31,088	43,664	(466)	52		74,338
As of March 31, 2009						
Assets	2,303,344	2,099,817	180,322	505,615(3)	(163,019)(4)	4,926,079
Liabilities	199,811	184,708	10,706	3,132,625(5)	(140,715)(6)	3,387,135

Footnotes related to March 31, 2009 segment results (in millions):

(1)	Corporate SG&A	$ 11.4
	Other expenses	2.1
		$ 13.5
(2)	Margin impact from inter-company sales	$ (9.7)
(3)	Deferred tax asset	$ 313.7
	Income taxes receivable	92.6
	Debt issuance costs	18.0
	Other	81.3
		$ 505.6
(4)	Elimination of inter-company receivables	$ (20.0)
	Deferred taxes elimination	(112.8)
	Other	(30.2)
		$ (163.0)
(5)	Debt	$ 2,483.1
	Deferred taxes	493.6
	Other	155.9
		$ 3,132.6
(6)	Deferred taxes elimination	$ (111.0)

Intercompany debt		(26.4)
Other		(3.3)
	$	(140.7)

For the three months ended March 31, 2008	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication Operations	Other	Eliminations	Consolidated
Net Sales						
External	$ 1,135,817	$ 566,181	$ 78,457	$ 33,608	$	$ 1,814,063
External Non-U.S.	47,512	40,578		52		88,142
Other segments	73,473	197,005	66	367	(270,911)	
	1,256,802	803,764	78,523	34,027	(270,911)	1,902,205
Operating income (loss)	234,557	47,176	3,644	(24,674)	(8,296)	252,407
Income (loss) before income taxes	220,113	46,041	2,248	(29,700)	(8,296)	230,406
Depreciation and amortization	33,992	16,820	1,835	565		53,212
Capital expenditures	64,372	22,273	5,237	1,882		93,764
As of March 31, 2008						
Assets	2,661,670	1,764,120	221,521	308,314	(134,013)	4,821,612
Liabilities	392,461	317,812	12,678	2,596,919	(114,315)	3,205,555

Note 11. Condensed Consolidating Information

Certain 100%-owned subsidiaries of SDI have fully and unconditionally guaranteed all of the indebtedness relating to the issuance of the company s senior notes due 2012, 2015, and 2016. Following are the company s condensed consolidating financial statements, including the guarantors, which present the financial position, results of operations and cash flows of (i) SDI (in each case, reflecting investments in its consolidated subsidiaries under the equity method of accounting), (ii) the guarantor subsidiaries of SDI, (iii) the non-guarantor subsidiaries of SDI, and (iv) the eliminations necessary to arrive at the information for the company on a consolidated basis. The following statements should be read in conjunction with the accompanying consolidated financial statements and the company s Annual Report on Form 10-K for the year ended December 31, 2008.

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Condensed Consolidating Balance Sheets (in thousands)

	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
As of March 31, 2009					
Cash and equivalents	$ 609	$ 14,414	$ 1,044	$	$ 16,067
Accounts receivable, net	148,206	439,392	5,605	(231,364)	361,839
Inventories, net	494,628	309,999	20,627	7,820	833,074
Other current assets	164,785	23,621	316	(32,891)	155,831
Total current assets	808,228	787,426	27,592	(256,435)	1,366,811
Property, plant and equipment, net	1,190,594	747,607	170,456		2,108,657
Intangible assets, net		551,489			551,489
Goodwill		812,161			812,161
Other assets, including investments in subs	2,797,868	287,650	9,139	(3,007,696)	86,961
Total assets	$ 4,796,690	$ 3,186,333	$ 207,187	$ (3,264,131)	$ 4,926,079
Accounts payable	$ 106,739	$ 129,645	$ 27,535	$ (20,005)	$ 243,914
Accrued expenses	110,637	123,868	915	(46,134)	189,286
Current maturities of long-term debt	296,179	271	14,907	(14,907)	296,450
Total current liabilities	513,555	253,784	43,357	(81,046)	729,650
Long-term debt	2,202,892	63	48,620	(33,561)	2,218,014
Other liabilities	367,929	2,344,584	8,067	(2,281,109)	439,471
Common stock	545	19,753	7,833	(27,586)	545
Treasury stock	(734,083)				(734,083)
Additional paid-in capital	544,971	117,753	105,000	(222,753)	544,971
Other accumulated comprehensive loss	(1,073)				(1,073)
Retained earnings	1,901,954	450,396	(19,964)	(618,076)	1,714,310
Total Steel Dynamics, Inc. stockholders equity	1,712,314	587,902	92,869	(868,415)	1,524,670
Noncontrolling interests			14,274		14,274
Total stockholders equity	1,712,314	587,902	107,143	(868,415)	1,538,944
Total liabilities and stockholders equity	$ 4,796,690	$ 3,186,333	$ 207,187	$ (3,264,131)	$ 4,926,079

	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
As of December 31, 2008					
Cash and equivalents	$ 1,389	$ 11,514	$ 3,330	$	$ 16,233
Accounts receivable, net	266,709	461,366	8,410	(233,553)	502,932
Inventories	612,731	369,412	23,408	17,684	1,023,235
Other current assets	126,969	46,949	351	(6,754)	167,515
Total current assets	1,007,798	889,241	35,499	(222,623)	1,709,915
Property, plant and equipment, net	1,186,317	751,904	134,636		2,072,857
Intangible assets, net		614,786			614,786
Goodwill		770,438			770,438

Other assets, including investments in subs	2,480,319	259,610	8,922	(2,663,270)	85,581
Total assets	$ 4,674,434	$ 3,285,979	$ 179,057	$ (2,885,893)	$ 5,253,577
Accounts payable	$ 119,969	$ 124,009	$ 43,322	$ (23,907)	$ 263,393
Accrued expenses	165,547	155,962	3,910	(49,054)	276,365
Current maturities of long-term debt	431,172	51	14,906	(14,906)	431,223
Total current liabilities	716,688	280,022	62,138	(87,867)	970,981
Long-term debt	2,219,085	76	6,703	(6,703)	2,219,161
Other liabilities	353,294	2,424,175	12,600	(2,350,521)	431,122
Common stock	545	19,753	7,833	(27,586)	