

STEEL DYNAMICS INC  
Form 10-Q  
August 07, 2013  
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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, 2013

OR

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

Commission File Number 0-21719

**Steel Dynamics, Inc.**

(Exact name of registrant as specified in its charter)

**Indiana**

(State or other jurisdiction of incorporation or organization)

**35-1929476**

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

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

46804  
(Zip Code)

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

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

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

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

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

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

As of July 31, 2013, Registrant had 220,795,089 outstanding shares of common stock.

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STEEL DYNAMICS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2013 (unaudited)	December 31, 2012
<b>Assets</b>		
<b>Current assets</b>		
Cash and equivalents	\$ 243,753	\$ 375,917
Investments in short-term commercial paper		31,520
Accounts receivable, net	725,105	599,499
Accounts receivable-related parties	48,022	42,864
Inventories	1,168,499	1,202,507
Deferred income taxes	23,682	23,449
Other current assets	33,028	20,469
Total current assets	2,242,089	2,296,225
<b>Property, plant and equipment, net</b>	2,232,852	2,231,198
<b>Restricted cash</b>	23,231	27,749
<b>Intangible assets, net</b>	401,104	416,635
<b>Goodwill</b>	735,281	738,542
<b>Other assets</b>	101,353	105,067
<b>Total assets</b>	\$ 5,735,910	\$ 5,815,416
<b>Liabilities and Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 355,678	\$ 344,953
Accounts payable-related parties	8,652	15,144
Income taxes payable	2,862	16,941
Accrued payroll and benefits	65,698	85,802
Accrued interest	32,509	35,306
Accrued expenses	80,209	81,900
Current maturities of long-term debt	324,241	29,631
Total current liabilities	869,849	609,677
<b>Long-term debt</b>		
Term note	233,750	247,500
Senior notes	1,500,000	1,600,000
Convertible senior notes		287,496
Other long-term debt	40,493	37,610
Total long-term debt	1,774,243	2,172,606
<b>Deferred income taxes</b>	556,023	537,304
<b>Other liabilities</b>	20,324	19,173
<b>Commitments and contingencies</b>		
<b>Redeemable noncontrolling interests</b>	104,734	98,814
<b>Equity</b>		
Common stock voting, \$.0025 par value; 900,000,000 shares authorized; 256,630,645 and 255,592,901 shares issued; and 220,665,831 and 219,522,655 shares outstanding, as of	640	637

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June 30, 2013 and December 31, 2012, respectively

Treasury stock, at cost; 35,964,814 and 36,070,246 shares, as of June 30, 2013 and December 31, 2012, respectively	(718,373)	(720,479)
Additional paid-in capital	1,050,470	1,037,687
Retained earnings	2,116,262	2,087,620
Total Steel Dynamics, Inc. equity	2,448,999	2,405,465
Noncontrolling interests	(38,262)	(27,623)
<b>Total equity</b>	2,410,737	2,377,842
<b>Total liabilities and equity</b>	\$ 5,735,910	\$ 5,815,416

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net sales				
Unrelated parties	\$ 1,735,420	\$ 1,830,117	\$ 3,463,821	\$ 3,735,192
Related parties	65,920	79,686	133,215	156,651
<b>Total net sales</b>	<b>1,801,340</b>	<b>1,909,803</b>	<b>3,597,036</b>	<b>3,891,843</b>
Costs of goods sold	1,653,648	1,727,667	3,273,080	3,508,443
<b>Gross profit</b>	<b>147,692</b>	<b>182,136</b>	<b>323,956</b>	<b>383,400</b>
Selling, general and administrative expenses	65,356	61,235	130,618	125,619
Profit sharing	4,779	8,211	11,422	16,283
Amortization of intangible assets	8,051	8,991	16,178	17,983
Impairment charges	308		308	
<b>Total selling, general and administrative expenses</b>	<b>78,494</b>	<b>78,437</b>	<b>158,526</b>	<b>159,885</b>
<b>Operating income</b>	<b>69,198</b>	<b>103,699</b>	<b>165,430</b>	<b>223,515</b>
Interest expense, net of capitalized interest	31,465	41,106	66,094	82,218
Other expense (income), net	(1,246)	(1,892)	(2,292)	8,356
<b>Income before income taxes</b>	<b>38,979</b>	<b>64,485</b>	<b>101,628</b>	<b>132,941</b>
Income taxes	15,706	25,180	37,103	51,859
<b>Net income</b>	<b>23,273</b>	<b>39,305</b>	<b>64,525</b>	<b>81,082</b>
Net loss attributable to noncontrolling interests	5,685	5,167	12,648	9,065
<b>Net income attributable to Steel Dynamics, Inc.</b>	<b>\$ 28,958</b>	<b>\$ 44,472</b>	<b>\$ 77,173</b>	<b>\$ 90,147</b>
<b>Basic earnings per share attributable to Steel Dynamics, Inc. stockholders</b>	<b>\$ 0.13</b>	<b>\$ 0.20</b>	<b>\$ 0.35</b>	<b>\$ 0.41</b>
Weighted average common shares outstanding	220,471	219,104	220,233	219,050
<b>Diluted earnings per share attributable to Steel Dynamics, Inc. stockholders, including the effect of assumed conversions when dilutive</b>	<b>\$ 0.13</b>	<b>\$ 0.20</b>	<b>\$ 0.34</b>	<b>\$ 0.40</b>
Weighted average common shares and share equivalents outstanding	221,736	236,208	238,246	236,367
<b>Dividends declared per share</b>	<b>\$ 0.11</b>	<b>\$ 0.10</b>	<b>\$ 0.22</b>	<b>\$ 0.20</b>

See notes to consolidated financial statements.



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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Operating activities:</b>				
Net income	\$ 23,273	\$ 39,305	\$ 64,525	\$ 81,082
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	56,826	55,502	113,887	111,074
Equity-based compensation	2,344	2,602	7,097	8,725
Impairment charges	308		308	
Deferred income taxes	10,812	10,634	21,747	19,831
(Gain) loss on disposal of property, plant and equipment	588	326	(795)	(413)
Changes in certain assets and liabilities:				
Accounts receivable	(19,826)	73,734	(130,764)	12,914
Inventories	1,660	18,787	34,008	(36,303)
Other assets	6,783	(393)	10,141	2,567
Accounts payable	(46,370)	(60,837)	(7,382)	(25,935)
Income taxes receivable/payable	(23,304)	(26,468)	(26,326)	(9,076)
Accrued expenses and liabilities	19,621	(12,590)	(24,021)	(42,446)
Net cash provided by operating activities	32,715	100,602	62,425	122,020
<b>Investing activities:</b>				
Purchases of property, plant and equipment	(49,236)	(54,789)	(94,582)	(100,344)
Proceeds from maturity of short-term commercial paper		54,984	31,520	74,832
Other investing activities	863	678	3,277	(21,034)
Net cash provided by (used in) investing activities	(48,373)	873	(59,785)	(46,546)
<b>Financing activities:</b>				
Issuance of current and long-term debt	32		409,293	289,969
Repayment of current and long-term debt	(202,312)	(21,896)	(508,003)	(305,344)
Debt issuance costs	(195)		(6,192)	(2,188)
Proceeds from exercise of stock options, including related tax effect	2,977	341	10,591	1,438
Contributions from noncontrolling investors, net	5,286	5,117	5,697	14,623
Dividends paid	(24,238)	(21,908)	(46,190)	(43,795)
Net cash used in financing activities	(218,450)	(38,346)	(134,804)	(45,297)
Increase (decrease) in cash and equivalents	(234,108)	63,129	(132,164)	30,177
Cash and equivalents at beginning of period	477,861	357,809	375,917	390,761
<b>Cash and equivalents at end of period</b>	<b>\$ 243,753</b>	<b>\$ 420,938</b>	<b>\$ 243,753</b>	<b>\$ 420,938</b>

**Supplemental disclosure information:**



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Cash paid for interest	\$	17,583	\$	62,807	\$	67,315	\$	81,560
Cash paid for federal and state income taxes, net	\$	27,360	\$	41,302	\$	38,525	\$	40,347

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

**Description of the Business**

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

**Steel Operations.** Steel operations include the company's Flat Roll Division, Structural and Rail Division, Engineered Bar Products Division, Roanoke Bar Division, Steel of West Virginia (SWVA) and The Techs operations. These operations consist of mini-mills, producing steel from steel scrap, using electric arc furnaces, continuous casting, automated rolling mills, and downstream finishing facilities. The company's steel operations sell directly to end users and service centers. These products are used in numerous industry sectors, including the automotive, construction, commercial, transportation and industrial machinery markets. Steel operations accounted for approximately 61% and 63% of the company's external net sales during the three-month periods ended June 30, 2013 and 2012, respectively, and 60% and 62% of the company's external net sales during the six-month periods ended June 30, 2013 and 2012, respectively.

**Metals Recycling and Ferrous Resources Operations.** Metals recycling and ferrous resources operations include OmniSource Corporation (OmniSource), the company's metals recycling, steel scrap procurement, and processing locations, and our two ironmaking initiatives: Iron Dynamics (IDI), a liquid pig iron production facility; and our Minnesota iron operations, an iron nugget production facility and operations to supply the nugget facility with its primary raw material, iron concentrate. Metals recycling and ferrous resources operations accounted for approximately 33% and 31% of the company's external net sales during the three-month periods ended June 30, 2013 and 2012, respectively, and 34% and 33% of the company's external net sales during the six-month periods ended June 30, 2013 and 2012, respectively.

**Steel Fabrication Operations.** Steel fabrication operations include the company's New Millennium Building Systems plants located throughout the United States and Northern Mexico. Revenues from these plants are generated from the fabrication of trusses, girders, steel joists and steel decking used within the non-residential construction industry. Steel fabrication operations accounted for approximately 6% and 5% of the company's external net sales during the three-month periods ended June 30, 2013 and 2012, respectively, and 6% and 4% of the company's external net sales during the six-month periods ended June 30, 2013 and 2012, respectively.

**Significant Accounting Policies**

**Principles of Consolidation.** The consolidated financial statements include the accounts of SDI, together with its wholly and majority-owned or controlled subsidiaries, after elimination of significant intercompany accounts and transactions. Noncontrolling interests represent the

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

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

In the opinion of management, these financial statements reflect all normal recurring adjustments necessary for a fair presentation of the interim period results. These financial statements and notes should be read in conjunction with the audited financial statements and notes thereto included in the company's Annual Report on Form 10-K for the year ended December 31, 2012.

**Goodwill.** The company's goodwill is allocated to the following reporting units at June 30, 2013, and December 31, 2012, (in thousands):

	June 30, 2013	December 31, 2012
OmniSource Metals Recycling/Ferrous Resources Segment	\$ 561,532	\$ 564,793
The Techs Steel Segment	142,783	142,783
Roanoke Bar Division Steel Segment	29,041	29,041
New Millennium Building Systems Fabrication Segment	1,925	1,925
	\$ 735,281	\$ 738,542

OmniSource goodwill decreased \$3.3 million from December 31, 2012 to June 30, 2013, in recognition of the 2013 tax benefit related to the amortization of the component of OmniSource tax-deductible goodwill in excess of book goodwill.

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 2. Earnings Per Share**

Basic earnings per share is based on the weighted average shares of common stock outstanding during the period. Diluted earnings per share assumes the weighted average dilutive effect of common share equivalents outstanding during the period applied to the company's basic earnings per share. Common share equivalents represent potentially dilutive stock options, restricted and deferred stock units, restricted shares, and dilutive shares related to the company's 5.125% convertible senior notes. Common share equivalents are excluded from the computation in periods in which they have an anti-dilutive effect. Options to purchase 2.5 million and 6.6 million shares were anti-dilutive at June 30, 2013 and 2012, respectively. The computation of diluted earnings per share for the three month period ended June 30, 2013 did not include the after-tax equivalent of interest of \$2.4 million for the company's 5.125% senior convertible notes, due 2014 and the related weighted average equivalent of 16.7 million shares, as the result would have been anti-dilutive.

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

	Three Months Ended June 30,					
	Net Income (Numerator)	2013 Shares (Denominator)	Per Share Amount	Net Income (Numerator)	2012 Shares (Denominator)	Per Share Amount
Basic earnings per share	\$ 28,958	220,471	\$ 0.13	\$ 44,472	219,104	\$ 0.20
Dilutive common share equivalents		1,265			722	
5.125% convertible senior notes, net of tax				2,358	16,382	
Diluted earnings per share	\$ 28,958	221,736	\$ 0.13	\$ 46,830	236,208	\$ 0.20

	Six Months Ended June 30,					
	Net Income (Numerator)	2013 Shares (Denominator)	Per Share Amount	Net Income (Numerator)	2012 Shares (Denominator)	Per Share Amount
Basic earnings per share	\$ 77,173	220,233	\$ 0.35	\$ 90,147	219,050	\$ 0.41
Dilutive common share equivalents		1,363			935	
5.125% convertible senior notes, net of tax	4,716	16,650		4,716	16,382	
Diluted earnings per share	\$ 81,889	238,246	\$ 0.34	\$ 94,863	236,367	\$ 0.40

**Note 3. Inventories**

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Inventories are stated at lower of cost or market. Cost is determined using a weighted average method for scrap, and a first-in, first-out basis for all other inventories. Inventories consisted of the following (in thousands):

	June 30, 2013	December 31, 2012
Raw materials	\$ 558,355	\$ 594,388
Supplies	279,147	278,494
Work-in-progress	89,156	82,934
Finished goods	241,841	246,691
Total inventories	\$ 1,168,499	\$ 1,202,507

### Note 4. Debt

On March 26, 2013, the company issued \$400.0 million of 5 1/4% Senior Notes due 2023 (2023 Notes). Interest on the 2023 Notes is due semiannually on April 15 and October 15, with the first payment due on October 15, 2013. The 2023 Notes are redeemable at any time after April 15, 2018. The redemption price (expressed as a percentage of principal amount) is 102.625% during the period April 15, 2018 to April 14, 2019; 101.750% during the period April 15, 2019 to April 14, 2020; 100.875% during the period April 15, 2020 to April 14, 2021; and 100% on and after April 15, 2021, plus accrued interest to the redemption date. In addition, at any time before April 15, 2016, the company may redeem up to 35% of the principal amount of the 2023 Notes with the net cash proceeds from one or more sales of the company's common stock at a redemption price (expressed as a percentage of principal amount) of 105.250%, plus accrued interest to the redemption date. The 2023 Notes are unsecured and rank pari passu with all existing and future senior unsubordinated unsecured indebtedness and senior in right of payment to all subordinated indebtedness.

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 4. Debt (Continued)**

A portion of the proceeds from the issuance of the 2023 Notes was used to fund the March 26, 2013 purchase of \$301.7 million (plus accrued interest) of the company's 6¾% Senior Notes due 2015 (2015 Notes) pursuant to a tender offer. On April 9, 2013, the company used the remaining proceeds from the issuance of the 2023 Notes, along with available cash, to repay the remaining outstanding 2015 Notes due at a price of 100% of the principal amount of \$198.3 million (plus accrued interest). As a result of the tender offer to purchase the 2015 Notes in March and the early payoff of the remaining balance of the 2015 Notes in April, the company recorded expenses related to tender premiums, unamortized debt issuance costs write-off, and tender expenses of \$600,000 and \$2.6 million, which is reflected in other expenses in the consolidated statement of income for the three and six-month periods ended June 30, 2013.

**Note 5. Changes in Equity**

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

	Stockholders of Steel Dynamics, Inc.						Redeemable Noncontrolling Interests
	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Noncontrolling Interests	Total Equity	
<b>Balances at January 1, 2013</b>	\$ 637	\$ 1,037,687	\$ 2,087,620	\$ (720,479)	\$ (27,623)	\$ 2,377,842	\$ 98,814
Proceeds from the exercise of stock options, including related tax effect	3	10,588				10,591	
Dividends declared			(48,511)			(48,511)	
Equity-based compensation and issuance of restricted stock		4,427	(20)	2,106		6,513	
Acquisition of noncontrolling interest		(2,232)			2,232		
Contributions from noncontrolling investors					126	126	5,920
Distributions to noncontrolling investors					(349)	(349)	
Net income (loss)			77,173		(12,648)	64,525	
<b>Balances at June 30, 2013</b>	\$ 640	\$ 1,050,470	\$ 2,116,262	\$ (718,373)	\$ (38,262)	\$ 2,410,737	\$ 104,734

**Note 6. Derivative Financial Instruments**

The company is exposed to certain risks relating to its ongoing business operations. The company utilizes derivative instruments to mitigate interest rate risk, foreign currency exchange rate risk, and commodity margin risk. Interest rate swaps may be entered into to manage interest rate risk associated with the company's fixed and floating-rate borrowings. Forward exchange contracts on various foreign currencies may be entered into to manage foreign currency exchange rate risk as necessary. No interest rate swaps or significant forward exchange contracts on foreign currency existed for the periods presented. The company routinely enters into forward exchange traded futures and option contracts to manage the price risk associated with nonferrous metals inventory as well as purchases and sales of nonferrous metals (specifically aluminum, copper, nickel and silver). The company offsets fair value amounts recognized for derivative instruments executed with the same counterparty under master netting agreements. The company began to designate certain of its nonferrous metals, forward exchange futures contracts as fair value hedges of inventory and firm sales commitments in January 2013.

*Commodity Futures Contracts.* If the company is long on futures contracts, it means the company has more futures contracts purchased than futures contracts sold for the underlying commodity. If the company is short on futures contracts, it means the company has more futures contracts sold than futures contracts purchased for the underlying commodity. The following summarizes the company's futures contract commitments as of June 30, 2013 (MT represents metric tons and Lbs represents pounds):

<b>Commodity Futures</b>	<b>Long/Short</b>	<b>Total</b>	
Aluminum	Long	1,925	MT
Aluminum	Short	1,750	MT
Copper	Long	5,232	MT
Copper	Short	5,699	MT
Silver	Long	343	Lbs
Silver	Short	686	Lbs

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

The following summarizes the location and amounts of the fair values and gains or losses related to derivatives included in the company's financial statements as of June 30, 2013, and December 31, 2012, and for the three and six-month periods ended June 30, 2013 and 2012 (in thousands):

	Balance sheet location	Asset Derivatives		Liability Derivatives	
		June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
<i>Derivative instruments designated as fair value hedges -</i>					
Commodity futures	Other current assets	\$ 1,747		\$ 1,577	
<i>Derivative instruments not designated as hedges -</i>					
Commodity futures	Other current assets	\$ 1,714	\$ 4,024	\$ 595	\$ 1,854
Total derivative instruments		\$ 3,461	\$ 4,024	\$ 2,172	\$ 1,854

	Location of gain (loss) recognized in income on derivatives	Amount of gain (loss) recognized in income on derivatives for the three months ended		Hedged items in fair value hedge relationships	Location of gain (loss) recognized in income on related hedged item	Amount of gain (loss) recognized in income on related hedged items for the three months ended	
		June 30, 2013	June 30, 2012			June 30, 2013	June 30, 2012
<i>Derivatives in fair value hedging relationships -</i>							
Commodity futures	Costs of goods sold	\$ (654)		Firm commitments	Costs of goods sold	\$ 1,297	
				Inventory	Costs of goods sold	(2,014)	
						\$ (717)	
<i>Derivatives not designated as hedging instruments -</i>							
Commodity futures	Costs of goods sold	\$ 6,621	\$ 5,893				

Location of gain	Amount of gain (loss) recognized in income on	Hedged items	Location of gain (loss)	Amount of gain (loss) recognized in income on
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	(loss) recognized in income on derivatives	derivatives for the six months ended		in fair value hedge relationships	recognized in income on related hedged item	related hedged items for the six months ended	
		June 30, 2013	June 30, 2012			June 30, 2013	June 30, 2012
<i>Derivatives in fair value hedging relationships -</i>							
<i>Commodity</i>							
futures	Costs of goods sold	\$ 7,392		Firm commitments	Costs of goods sold	\$ 2,613	
				Inventory	Costs of goods sold	(8,822)	
						\$ (6,209)	
<i>Derivatives not designated as hedging instruments -</i>							
<i>Commodity</i>							
futures	Costs of goods sold	\$ 6,629	\$ 2,275				

Derivatives accounted for as fair value hedges had ineffectiveness resulting in a loss of \$108,000 during the three-month period ended June 30, 2013, and a gain of \$113,000 during the six-month period ended June 30, 2013; and a loss excluded from hedge effectiveness testing of \$1.2 million that increased costs of goods sold during the three-month period ended June 30, 2013, and a gain of \$1.1 million that reduced costs of goods sold during the six-month period ended June 30, 2013.

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 7. Fair Value Measurements**

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

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

The following table sets forth financial assets and liabilities measured at fair value in the consolidated balance sheets and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of June 30, 2013, and December 31, 2012 (in thousands):

				Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Total				
<b>June 30, 2013</b>						
Commodity futures	financial assets	\$	3,461	\$	\$	3,461
Commodity futures	financial liabilities		2,172			2,172
<b>December 31, 2012</b>						
Investments in short-term commercial paper		\$	31,520	\$	\$	31,520
Commodity futures	financial assets		4,024			4,024
Commodity futures	financial liabilities		1,854			1,854

The carrying amounts of financial instruments including cash and equivalents approximate fair value. The fair values of short-term commercial paper and commodity futures and options contracts are estimated by the use of quoted market prices, estimates obtained from brokers, and other appropriate valuation techniques based on references available. The fair value of long-term debt, including current maturities, as determined by quoted market prices (Level 2), was approximately \$2.2 billion and \$2.3 billion (with a corresponding carrying amount in the consolidated balance sheets of \$2.1 billion and \$2.2 billion) at June 30, 2013 and December 31, 2012, respectively.

**Note 8. Commitments and Contingencies**

The company is involved in various routine litigation matters, including administrative proceedings, regulatory proceedings, governmental investigations, environmental matters, and commercial and construction contract disputes, none of which are expected to have a material impact on our financial condition, results of operations, or liquidity.

The company is involved, along with eight other steel manufacturing companies, in a class action antitrust complaint filed in federal court in Chicago, Illinois in September 2008, which alleges a conspiracy to fix, raise, maintain and stabilize the price at which steel products were sold in the United States starting in 2005, by artificially restricting the supply of such steel products. All but one of the Complaints were brought on behalf of a purported class consisting of all direct purchasers of steel products between January 1, 2005, and the present. The other Complaint was brought on behalf of a purported class consisting of all indirect purchasers of steel products within the same time period. In addition, in December 2010, we and the other co-defendants were served with a substantially similar complaint in the Circuit Court of Cocke County, Tennessee, purporting to be on behalf of indirect purchasers of steel products in Tennessee. That case has been removed to the federal court in Chicago that is hearing the main complaint. All Complaints seek treble damages and costs, including reasonable attorney fees, pre- and post-judgment interest and injunctive relief. In January 2009, Steel Dynamics and the other defendants filed a Joint Motion to Dismiss all of the direct purchaser lawsuits, but this motion was denied in June 2009. Following a period of preliminary discovery relating to class certification matters, Plaintiffs filed their Motion for Class Certification in May 2012, and on February 28, 2013, Defendants filed their Joint Memorandum in Opposition to Plaintiffs' Motion for Class Certification, together with joint motions to exclude the expert opinions of both of Plaintiffs' two retained experts. Additional briefing is anticipated on all issues related to the pending motions. Due to the uncertain nature of litigation, we cannot presently determine the ultimate outcome of this litigation. However, we have determined, based on the information available at this time, that there is not presently a reasonable possibility (as that term is defined in ASC 450-20-20), that the outcome of these legal proceedings would have a material impact on our financial condition, results of operations, or liquidity.

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

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 9. Segment Information**

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

The company's operations are primarily organized and managed by operating segment. Operating segment performance and resource allocations are primarily based on operating results before income taxes. The accounting policies of the reportable segments are consistent with those described in Note 1 to the financial statements. Intra-segment and intra-company sales and any related profits are eliminated in consolidation. Refer to the company's Annual Report on Form 10-K for the year ended December 31, 2012, for more information related to the company's segment reporting. The company's segment results for the three and six-month periods ended June 30, 2013 and 2012 are as follows (in thousands):

For the three months ended June 30, 2013	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication Operations	Other	Eliminations	Consolidated
<b>Net Sales</b>						
External	\$ 1,038,868	\$ 538,599	\$ 103,595	\$ 20,828	\$	\$ 1,701,890
External Non-U.S.	52,148	46,893		409		99,450
Other segments	52,897	275,666	564	6,885	(336,012)	
	1,143,913	861,158	104,159	28,122	(336,012)	1,801,340
Operating income (loss)	85,545	(7,251)	2,330	(14,434)(1)	3,008(2)	69,198
Income (loss) before income taxes	71,732	(14,439)	800	(22,122)	3,008	38,979
Depreciation and amortization	26,496	26,704	2,179	1,498	(51)	56,826
Capital expenditures	34,533	13,545	822	336		49,236
<b>As of June 30, 2013</b>						
Assets	2,582,168	2,490,215	261,556	604,195(3)	(202,224)(4)	5,735,910
Liabilities	512,634	522,306	16,136	2,362,721(5)	(193,358)(6)	3,220,439

Footnotes related to the three months ended June 30, 2013 segment results (in millions):

(1) Corporate SG&A	\$	(9.1)	(2) Gross profit increase from intra-company sales	\$	3.0
Company-wide equity-based compensation		(2.0)			
Profit sharing		(3.2)			

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Other, net		(0.1)		
	Total	\$	(14.4)	
(3) Cash and equivalents	\$	218.2	(4) Elimination of intra-company receivables	\$ (40.2)
Deferred income taxes		23.6	Elimination of intra-company debt	(154.2)
Property, plant and equipment, net		73.7	Other	(7.8)
Debt issuance costs, net		29.3	Total	\$ (202.2)
Intra-company debt		154.2		
Other		105.2		
	Total	\$	604.2	
(5) Accounts payable	\$	43.5	(6) Elimination of intra-company payables	\$ (40.5)
Income taxes payable		2.9	Elimination of intra-company debt	(154.2)
Accrued interest		32.3	Other	1.3
Debt		2,045.3	Total	\$ (193.4)
Deferred income taxes		205.1		
Other		33.6		
	Total	\$	2,362.7	

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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

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

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

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Deferred income taxes	213.0
Other	81.5
Total \$	2,699.7

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

For the six months ended June 30, 2013	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication Operations	Other	Eliminations	Consolidated
<b>Net Sales</b>						
External	\$ 2,050,063	\$ 1,096,210	\$ 197,392	\$ 40,199	\$	\$ 3,383,864
External Non-U.S.	102,265	110,410		497		213,172
Other segments	113,945	552,030	1,142	12,280	(679,397)	
	2,266,273	1,758,650	198,534	52,976	(679,397)	3,597,036
Operating income (loss)	204,846	(17,075)	3,860	(30,873)(1)	4,672(2)	165,430
Income (loss) before income taxes	176,739	(32,293)	724	(48,214)	4,672	101,628
Depreciation and amortization	52,883	53,840	4,236	3,030	(102)	113,887
Capital expenditures	59,259	32,614	1,703	1,006		94,582

Footnotes related to the six months ended June 30, 2013 segment results (in millions):

(1) Corporate SG&A	\$ (17.1)	(2) Gross profit increase from intra-company sales	\$ 4.7
Company-wide equity-based compensation	(5.2)		
Profit sharing	(9.1)		
Other, net	0.5		
Total	\$ (30.9)		

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

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



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(1) Corporate SG&A	\$	(14.8)	(2) Gross profit reduction from intra-company sales	\$	(1.2)
Company-wide equity-based compensation		(5.7)			
Profit sharing		(12.4)			
Other, net		1.4			
	Total \$	(31.5)			

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 10. Condensed Consolidating Information**

Certain 100%-owned subsidiaries of SDI have fully and unconditionally guaranteed all of the indebtedness relating to the issuance of the company's senior notes due 2014, 2019, 2020, 2022 and 2023. 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 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, 2012.

*Condensed Consolidating Balance Sheets (in thousands)*

As of June 30, 2013	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Cash and equivalents	\$ 213,717	\$ 14,726	\$ 15,310	\$	\$ 243,753
Investments in short-term commercial paper					
Accounts receivable, net	328,445	847,046	43,406	(445,770)	773,127
Inventories	610,160	470,759	90,197	(2,617)	1,168,499
Other current assets	63,513	6,012	5,860	(18,675)	56,710
Total current assets	1,215,835	1,338,543	154,773	(467,062)	2,242,089
Property, plant and equipment, net	1,029,669	649,739	555,965	(2,521)	2,232,852
Intangible assets, net		401,104			401,104
Goodwill		735,281			735,281
Other assets, including investments in subs	2,672,022	25,627	8,516	(2,581,581)	124,584
Total assets	\$ 4,917,526	\$ 3,150,294	\$ 719,254	\$ (3,051,164)	\$ 5,735,910
Accounts payable	\$ 143,874	\$ 208,660	\$ 79,910	\$ (68,114)	\$ 364,330
Accrued expenses	111,890	96,622	8,741	(35,975)	181,278
Current maturities of long-term debt	308,628	300	41,163	(25,850)	324,241
Total current liabilities	564,392	305,582	129,814	(129,939)	869,849
Long-term debt	1,739,453		196,806	(162,016)	1,774,243
Other liabilities	164,682	1,999,617	51,957	(1,639,909)	576,347
Redeemable noncontrolling interests			104,734		104,734
Common stock	640	33,896	18,121	(52,017)	640
Treasury stock	(718,373)				(718,373)
Additional paid-in-capital	1,050,470	117,737	502,450	(620,187)	1,050,470
Retained earnings (deficit)	2,116,262	693,462	(246,366)	(447,096)	2,116,262
Total Steel Dynamics, Inc. equity	2,448,999	845,095	274,205	(1,119,300)	2,448,999

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Noncontrolling interests				(38,262)		(38,262)
Total equity	2,448,999	845,095	235,943	(1,119,300)	2,410,737	
Total liabilities and equity	\$ 4,917,526	\$ 3,150,294	\$ 719,254	\$ (3,051,164)	\$ 5,735,910	

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

As of December 31, 2012	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Cash and equivalents	\$ 322,707	\$ 41,675	\$ 11,535	\$	\$ 375,917
Investments in short-term commercial paper	31,520				31,520
Accounts receivable, net	277,428	772,868	11,293	(419,226)	642,363
Inventories	564,882	536,331	107,422	(6,128)	1,202,507
Other current assets	51,268	7,253	4,006	(18,609)	43,918
Total current assets	1,247,805	1,358,127	134,256	(443,963)	2,296,225
Property, plant and equipment, net	1,017,587	664,332	551,903	(2,624)	2,231,198
Intangible assets, net		416,635			416,635
Goodwill		738,542			738,542
Other assets, including investments in subs	2,768,360	30,862	9,189	(2,675,595)	132,816
Total assets	\$ 5,033,752	\$ 3,208,498	\$ 695,348	\$ (3,122,182)	\$ 5,815,416
Accounts payable	\$ 150,191	\$ 219,415	\$ 56,472	\$ (65,981)	\$ 360,097
Accrued expenses	144,719	98,484	9,877	(33,131)	219,949
Current maturities of long-term debt	14,237	300	52,595	(37,501)	29,631
Total current liabilities	309,147	318,199	118,944	(136,613)	609,677
Long-term debt	2,140,958		169,223	(137,575)	2,172,606
Other liabilities	178,182	2,087,957	41,581	(1,751,243)	556,477
Redeemable noncontrolling interests			98,814		98,814
Common stock	637	33,896	18,121	(52,017)	637
Treasury stock	(720,479)				(720,479)
Additional paid-in-capital	1,037,687	117,737	476,677	(594,414)	1,037,687
Retained earnings (deficit)	2,087,620	650,709	(200,389)	(450,320)	2,087,620
Total Steel Dynamics, Inc. equity	2,405,465	802,342	294,409	(1,096,751)	2,405,465
Noncontrolling interests			(27,623)		(27,623)
Total equity	2,405,465	802,342	266,786	(1,096,751)	2,377,842
Total liabilities and equity	\$ 5,033,752	\$ 3,208,498	\$ 695,348	\$ (3,122,182)	\$ 5,815,416

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

<b>For the three months ended, June 30, 2013</b>	<b>Parent</b>	<b>Guarantors</b>	<b>Combined Non-Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated</b>
Net sales	\$ 836,805	\$ 1,998,513	\$ 88,039	\$ (1,122,017)	\$ 1,801,340
Costs of goods sold	753,761	1,900,497	107,814	(1,108,424)	1,653,648
Gross profit (loss)	83,044	98,016	(19,775)	(13,593)	147,692
Selling, general and administrative	24,916	54,764	2,673	(3,859)	78,494
Operating income (loss)	58,128	43,252	(22,448)	(9,734)	69,198
Interest expense, net of capitalized interest	20,148	10,751	1,789	(1,223)	31,465
Other (income) expense, net	(1,533)	214	(1,149)	1,222	(1,246)
Income (loss) before income taxes and equity in net loss of subsidiaries	39,513	32,287	(23,088)	(9,733)	38,979
Income taxes (benefit)	5,621	12,214	1,382	(3,511)	15,706
	33,892	20,073	(24,470)	(6,222)	23,273
Equity in net loss of subsidiaries	(4,934)			4,934	
Net loss attributable to noncontrolling interests			5,685		5,685
Net income (loss) attributable to Steel Dynamics, Inc.	\$ 28,958	\$ 20,073	\$ (18,785)	\$ (1,288)	\$ 28,958

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



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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

For the six months ended, June 30, 2013	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net sales	\$ 1,664,006	\$ 4,014,000	\$ 154,409	\$ (2,235,379)	\$ 3,597,036
Costs of goods sold	1,460,148	3,814,555	203,755	(2,205,378)	3,273,080
Gross profit (loss)	203,858	199,445	(49,346)	(30,001)	323,956
Selling, general and administrative	53,602	108,756	4,811	(8,643)	158,526
Operating income (loss)	150,256	90,689	(54,157)	(21,358)	165,430
Interest expense, net of capitalized interest	42,194	22,790	3,490	(2,380)	66,094
Other (income) expense, net	(2,353)	14	(2,332)	2,379	(2,292)
Income (loss) before income taxes and equity in net loss of subsidiaries	110,415	67,885	(55,315)	(21,357)	101,628
Income taxes (benefit)	17,015	25,133	2,081	(7,126)	37,103
	93,400	42,752	(57,396)	(14,231)	64,525
Equity in net loss of subsidiaries	(16,227)			16,227	
Net loss attributable to noncontrolling interests			12,648		12,648
Net income (loss) attributable to Steel Dynamics, Inc.	\$ 77,173	\$ 42,752	\$ (44,748)	\$ 1,996	\$ 77,173

For the six months ended, June 30, 2012	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net sales	\$ 1,839,984	\$ 4,489,392	\$ 82,857	\$ (2,520,390)	\$ 3,891,843
Costs of goods sold	1,590,153	4,283,057	119,957	(2,484,724)	3,508,443
Gross profit (loss)	249,831	206,335	(37,100)	(35,666)	383,400
Selling, general and administrative	52,269	107,490	6,908	(6,782)	159,885
Operating income (loss)	197,562	98,845	(44,008)	(28,884)	223,515
Interest expense, net of capitalized interest	54,430	27,211	3,449	(2,872)	82,218
Other (income) expense, net	8,074	(870)	(1,721)	2,873	8,356
Income (loss) before income taxes and equity in net loss of subsidiaries	135,058	72,504	(45,736)	(28,885)	132,941
Income taxes (benefit)	34,580	27,686	371	(10,778)	51,859
	100,478	44,818	(46,107)	(18,107)	81,082
Equity in net loss of subsidiaries	(10,331)			10,331	
Net loss attributable to noncontrolling interests			9,065		9,065
Net income (loss) attributable to Steel Dynamics, Inc.	\$ 90,147	\$ 44,818	\$ (37,042)	\$ (7,776)	\$ 90,147

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

<b>For the six months ended, June 30, 2013</b>	<b>Parent</b>	<b>Guarantors</b>	<b>Combined Non-Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated</b>
Net cash provided by (used in) operating activities	\$ (6,011)	\$ 98,049	\$ (39,730)	\$ 10,117	\$ 62,425
Net cash used in investing activities	(62,083)	(24,118)	(9,484)	35,900	(59,785)
Net cash provided by (used in) financing activities	(40,896)	(100,880)	52,989	(46,017)	(134,804)
Increase (decrease) in cash and equivalents	(108,990)	(26,949)	3,775		(132,164)
Cash and equivalents at beginning of period	322,707	41,675	11,535		375,917
Cash and equivalents at end of period	\$ 213,717	\$ 14,726	\$ 15,310	\$	\$ 243,753

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



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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 the steel and recycled metals markets, our revenues, costs of purchased materials, future profitability and earnings, and the operation of new or existing facilities. These statements are intended to be made as forward-looking, subject to many risks and uncertainties, within the safe harbor protections of the Private Securities Litigation Reform Act of 1995. Some factors that could cause such forward-looking statements to turn out differently than anticipated include: (1) the effects of a recurrent slowing in industrial demand; (2) changes in economic conditions, either generally or in any of the steel or scrap-consuming sectors which affect demand for our products, including the strength of the non-residential and residential construction, automotive, appliance, and other steel-consuming industries; (3) fluctuations in the cost of key raw materials (including steel scrap, iron units, and energy costs) and our ability to pass-on any cost increases; (4) the impact of domestic and foreign import price competition; (5) risks and uncertainties involving product and/or technology development; and (6) occurrences of unexpected plant outages or equipment failures.

More specifically, we refer you to the sections titled *Special Note Regarding Forward-Looking Statements* and *Risk Factors* in our annual report on Form 10-K for the year ended December 31, 2012, as well as in other reports which we file with the Securities and Exchange Commission, for a more detailed discussion of some of the many factors, variable risks and uncertainties that could cause actual results to differ materially from those we may have expected or anticipated. These reports are available publicly on the SEC web site, [www.sec.gov](http://www.sec.gov), and on our web site, [www.steeldynamics.com](http://www.steeldynamics.com). Forward-looking or predictive statements we make are based upon information and assumptions, concerning our businesses and the environments in which they operate, which we consider reasonable as of the date on which these statements are made. Due to the foregoing risks and uncertainties however, as well as, matters beyond our control which can affect forward-looking statements, you are cautioned not to place undue reliance on these predictive statements, which speak only as of the date of this report. We undertake no duty to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

**Operating Statement Classifications**

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

**Costs of Goods Sold.** Our costs of goods sold represent all direct and indirect costs associated with the manufacture of our products. The principal elements of these costs are scrap and scrap substitutes (which represent the most significant single component of our consolidated costs of goods sold), steel, direct and indirect labor and related benefits, alloys, zinc, transportation and freight, repairs and maintenance, utilities (most notably electricity and natural gas), and depreciation.

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

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

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

Table of Contents**Overview**

Net income was \$29.0 million, or \$0.13 per diluted share, during the second quarter of 2013, compared with net income of \$44.5 million, or \$0.20 per diluted share, during the second quarter of 2012, and net income of \$48.2 million, or \$0.21 per diluted share, during the first quarter of 2013. Our net sales decreased \$108.5 million, or 6%, to \$1.8 billion in the second quarter of 2013 versus the second quarter of 2012, while net sales increased \$5.6 million, or less than 1%, versus the first quarter of 2013. Our gross profit percentage was 8% during the second quarter of 2013 as compared to 10% for both the second quarter of 2012 and the first quarter of 2013.

Second quarter 2013 external steel shipments decreased 1% as compared to the second quarter of 2012 (with total sheet products shipments increasing 2% and long products shipments decreasing 3%), and external ferrous scrap shipments decreased 4% and external nonferrous scrap shipments decreased 3%. Conversely, steel fabrication external shipments increased 10% in the second quarter of 2013 compared to the same period in 2012. Operating income decreased 33% to \$69.2 million in the second quarter 2013, as compared to the same period in 2012, due primarily to reduced operating income from our steel operations as product pricing decreased more than raw material costs.

Comparing the second quarter of 2013 to the first quarter of 2013, external steel shipments increased 4% while external ferrous scrap shipments were flat, and external nonferrous scrap shipments decreased 10%. Steel fabrication continued its trend of increasing external shipments, showing an 11% sequential-quarter gain. Consolidated quarterly operating income decreased 28% sequentially, due primarily to lower steel metal spreads, as decreased steel prices more than offset slightly increased volume. Modest growth in the overall construction market continued in the second quarter of 2013 and supported improved shipments for our fabrication operations.

**Segment Operating Results 2013 vs. 2012 (dollars in thousands)**

	Three Months Ended June 30, %			First Quarter	Sequential Quarter %	Six Months Ended June 30, %		
	2013	Change	2012	2013	Change	2013	Change	2012
Net sales:								
Steel	\$ 1,143,913	(9)%	\$ 1,260,223	\$ 1,122,360	2%	\$ 2,266,273	(9)%	\$ 2,494,702
Metals recycling and ferrous resources								
	861,158	(6)%	920,456	897,492	(4)%	1,758,650	(13)%	2,031,576
Steel fabrication	104,159	9%	95,767	94,375	10%	198,534	16%	170,663
Other	28,122	38%	20,391	24,854	13%	52,976	19%	44,480
	2,137,352		2,296,837	2,139,081		4,276,433		4,741,421
Intra-company	(336,012)		(387,034)	(343,385)		(679,397)		(849,578)
Consolidated	\$ 1,801,340	(6)%	\$ 1,909,803	\$ 1,795,696	%	\$ 3,597,036	(8)%	\$ 3,891,843
Operating income (loss):								
Steel	\$ 85,545	(37)%	\$ 136,597	\$ 119,301	(28)%	\$ 204,846	(25)%	\$ 273,905
Metals recycling and ferrous resources								
	(7,251)	63%	(19,371)	(9,824)	26%	(17,075)	(12)%	(15,208)

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Steel fabrication	2,330	1,107%	193	1,530	52%	3,860	256%	(2,475)
Other	(14,434)	2%	(14,673)	(16,439)	12%	(30,873)	2%	(31,535)
	66,190	(36)%	102,746	94,568	(30)%	160,758	(28)%	224,687
Eliminations	3,008		953	1,664		4,672		(1,172)
Consolidated \$	69,198	(33)% \$	103,699 \$	96,232	(28)% \$	165,430	(26)% \$	223,515

Steel Operations

**Steel Operations.** Steel operations consist of our five electric-arc furnace mini-mills, producing steel from steel scrap, utilizing continuous casting, automated rolling mills, and various downstream finishing facilities, including The Techs operations. Collectively, our steel operations sell directly to end users and service centers. These products are used in numerous industry sectors, including the automotive, construction, commercial, transportation, agriculture and industrial machinery markets. In the second quarter of 2013 and 2012, our steel operations accounted for 61% and 63% of our external net sales, respectively. Operating income for the steel segment decreased \$51.1 million, or 37%, to \$85.5 million in the second quarter of 2013, compared to the same period of 2012. While segment shipments were flat, gross margin, and thus operating income, decreased 33% primarily due to a \$76 decrease in average segment selling prices per ton shipped versus only a \$41 per ton decrease in the average cost of ferrous scrap consumed in the second quarter of 2013, as compared to the second quarter of 2012. Continued domestic oversupply, combined with increased import activity, has caused selling values to decrease more than raw material costs, resulting in compressed metal spreads and margins.

Operating income for the steel segment decreased \$69.1 million, or 25%, to \$204.8 million in the first half of 2013, compared to the same period of 2012. Gross margin, and correspondingly operating income, decreased 22% primarily due to a \$82 decrease in average segment selling prices per ton shipped versus only a \$54 per ton decrease in average ferrous scrap cost melted in the first half of 2013, as compared to the first half of 2012.

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	Three Months Ended June 30,		First Quarter 2013		Six Months Ended June 30,		2012	
	2013	2012	2013	2012	2013	2012	2013	2012
Flat Roll Division	720,582	706,944	704,290	704,290	1,424,872	1,365,449		
The Techs	179,217	171,437	151,137	151,137	330,354	316,052		
Sheet products	899,799	878,381	855,427	855,427	1,755,226	1,681,501	59%	57%
Structural and Rail Division	286,974	252,524	280,897	280,897	567,871	513,530		
Engineered Bar Products Division	123,919	166,208	112,821	112,821	236,740	323,697		
Roanoke Bar Division	134,001	149,010	139,950	139,950	273,951	300,306		
Steel of West Virginia	77,975	74,456	80,707	80,707	158,682	151,668		
Long products	622,869	642,198	614,375	614,375	1,237,244	1,289,201	41%	43%
Total shipments	1,522,668	1,520,579	1,469,802	1,469,802	2,992,470	2,970,702		
Intra-segment shipments	(35,031)	(29,560)	(32,090)	(32,090)	(67,121)	(57,617)	(2)%	(2)%
Segment shipments	1,487,637	1,491,019	1,437,712	1,437,712	2,925,349	2,913,085		
Intra-company shipments	(91,257)	(77,315)	(93,280)	(93,280)	(184,537)	(143,434)	(6)%	(5)%
External shipments	1,396,380	1,413,704	1,344,432	1,344,432	2,740,812	2,769,651		

**Sheet Products.** Our Flat Roll Division sells a broad range of sheet steel products, such as hot rolled, cold rolled and coated steel products, including a large variety of specialty products such as light gauge hot rolled, galvanized, Galvalume® and painted products. The Techs operations, comprised of three galvanizing lines, also sells specialized galvanized sheet steels used in non-automotive applications.

**Long Products.** Our Structural and Rail Division sells structural steel beams and pilings to the construction market, as well as standard-grade rail to the railroad industry. Our Engineered Bar Products Division primarily sells engineered, special-bar-quality and merchant bar quality rounds, and round-cornered squares. Our Roanoke Bar Division primarily sells merchant steel products, including angles, plain rounds, flats and channels. Steel of West Virginia primarily sells merchant beams, channels and specialty structural steel sections.

Net sales for the steel segment decreased \$116.3 million, or 9%, in the second quarter of 2013 when compared to the second quarter of 2012, as segment shipments were flat but average selling prices decreased 9%, or \$76 per ton. There was also a shift in sales mix as sheet product shipments increased 2%, and long product shipments decreased 3% as the increases in rail and other structural steel products were more than offset by decreases in special-bar-quality and merchant steel products. Net sales for the steel segment decreased \$228.4 million, or 9%, in the first half of 2013 when compared to the first half of 2012, as segment shipments increased modestly, but selling prices decreased 10%, or \$82 per ton.



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Metallic raw materials used in our electric arc furnaces represent our single most significant manufacturing cost. Our metallic raw material cost per net ton consumed in our steel operations decreased \$41 in the second quarter of 2013, compared with the second quarter of 2012. During the second quarter of 2013 and 2012, respectively, our metallic raw material costs represented 64% and 67% of our steel operations manufacturing costs, excluding the operations of The Techs, which purchases, rather than produces, the steel it further processes. Our metallic raw material cost per net ton consumed in our steel operations decreased \$54 in the first half of 2013 compared with the first half of 2012, and represented 65% and 68%, respectively, of our steel operations manufacturing costs, excluding the operations of The Techs.

**Metals Recycling and Ferrous Resources Operations**

**Metals Recycling and Ferrous Resources Operations.** This operating segment primarily includes our metals recycling operations (OmniSource); our liquid pig iron production facility, Iron Dynamics (IDI); and our Minnesota iron operations. Our metals recycling and ferrous resources operations segment accounted for 33% and 31% of our external net sales in the second quarter of 2013 and 2012, respectively. Operating loss for the metals recycling and ferrous resources operations segment decreased \$12.1 million compared to the second quarter of 2012, due primarily to increased metal spreads in metals recycling which more than offset decreases in ferrous and nonferrous volumes. Operating income for metals recycling increased \$12.2 million in the first half of 2013 to \$29.8 million compared to the first half of 2012.

**Metals Recycling and Ferrous Resources Operations Shipments**

	Three Months Ended		First Quarter 2013	Six Months Ended	
	2013	June 30, 2012		2013	June 30, 2012
<b>Ferrous metal (gross tons)</b>					
Total	1,334,390	1,486,222	1,342,929	2,677,319	3,069,062
Intra-segment	(1,237)	(2,007)	(1,969)	(3,206)	(2,920)
Segment shipments	1,333,153	1,484,215	1,340,960	2,674,113	3,066,142
Intra-company	(547,031)	(664,661)	(551,921)	(1,098,952)	(1,427,515)
External shipments	786,122	819,554	789,039	1,575,161	1,638,627
<b>Nonferrous metals (thousands of pounds)</b>					
Total and segment shipments	254,495	258,932	279,656	534,151	550,568
Intra-company	(6,737)	(4,598)	(3,529)	(10,266)	(6,556)
External shipments	247,758	254,334	276,127	523,885	544,012
Mesabi Nugget (metric tons)	44,454	33,840	59,685	104,139	80,070
Iron Dynamics (metric tons)					
intra-company	66,285	59,103	64,685	130,970	115,731

**Metals Recycling.** Our metals recycling operations represent our metals sourcing and processing operations and are the most significant source of net sales in this segment. These operations sell ferrous metals to steel mills and foundries, and nonferrous metals, such as copper, brass, aluminum and stainless steel to, among others, ingot manufacturers, copper refineries and mills, smelters, and specialty mills. Our metals recycling operations represented 92% and 95% of this segment's net sales during the second quarter of 2013 and 2012, respectively.

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During the second quarter of 2013, metals recycling recorded sales of \$794.8 million on shipments of 1.3 million gross tons of ferrous metals and 254.5 million pounds of nonferrous metals, compared with sales of \$876.7 million on shipments of 1.5 million gross tons of ferrous and 258.9 million pounds of nonferrous metals during the same period in 2012. During the second quarter of 2013 and 2012, the metals recycling operations provided approximately 39% and 52%, respectively, of the steel scrap purchased by our steel mills. This represented 41% and 45% of the metals recycling operations' ferrous shipments for the second quarter of 2013 and 2012, respectively. Sales prices of ferrous metals decreased 5% in the second quarter of 2013 versus the same period in 2012, while nonferrous sales prices increased 6% for the same periods. During the first half of 2013, metals recycling recorded sales of \$1.6 billion on shipments of 2.7 million gross tons of ferrous metals and 534.2 million pounds of nonferrous metals, compared with sales of \$1.9 billion on shipments of 3.1 million gross tons of ferrous metals and 550.6 million pounds of nonferrous metals during the same period in 2012. Sales prices of ferrous metals decreased 12% in the first half of 2013 versus the same period in 2012, while nonferrous sales prices increased 3% for the same periods.

Operating income for metals recycling increased \$11.5 million in the second quarter of 2013 to \$10.3 million compared to the second quarter of 2012 despite decreased volumes, due to a 22% increase in ferrous metal margins and decreased operating expenses.

Operating income for metals recycling increased \$12.2 million in the first half of 2013, to \$29.8 million, compared to the first half of 2012. The impact of decreased volumes in both ferrous and nonferrous metals in the first half of 2013 as compared to the first half of 2012, were offset by increases in metal spreads of both ferrous and nonferrous metals during the same periods and reduced operating expenses.



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**Ferrous Resources.** Our ferrous resources operations consist of our two ironmaking initiatives: Iron Dynamics and our Minnesota iron operations. IDI primarily produces liquid pig iron, which is used as a scrap substitute raw material exclusively at our Flat Roll Division. Our Minnesota iron operations consists of Mesabi Nugget, (owned 81% by us); our future potential iron mining operations which is currently in the permitting process, Mesabi Mining; and, our iron tailings operations, Mining Resources (owned 80% by us). The construction of the Mesabi Nugget facility was completed in 2009, and initial production of iron nuggets commenced January 2010. Since that time, we have continued to refine this pioneering production process and changed equipment configurations to increase production, improve quality, and increase plant availability. A planned six-week outage in the fall of 2012 was used to complete the groundwork necessary for the implementation of further improvements which were made in the second quarter of 2013 during a planned outage of approximately a month. These modifications are expected to improve production volume. The facility's designed annual production capacity is 500,000 metric tons. In the second quarter of 2013 and 2012, Mesabi Nugget produced 44,000 metric tons and 37,000 metric tons of iron-nuggets, respectively, for use by our own steel mills. Our iron tailings operation, Mining Resources, started operations in September of 2012 and expects to be at full capacity by the end of 2013. This operation provides iron ore tailings to be concentrated for use by Mesabi Nugget as low-cost iron concentrate in the nugget production process. This is critical to our Minnesota operations as we will be able to benefit from the use of lower-cost iron concentrate rather than much higher priced third-party material. Losses from our Minnesota iron operations reduced our net income in the second quarter of 2013 by approximately \$9.3 million, \$1.6 million less than in the second quarter of 2012. For the first half of 2013, losses from our Minnesota iron operations reduced our net income by approximately \$23.2 million, compared with \$20.6 million in the first half of 2012.

<b>Steel Fabrication Operations</b>
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Our steel fabrication operations represent the company's New Millennium Building Systems plants located throughout the United States and Northern Mexico. Revenues from these plants are generated from the fabrication of trusses, girders, steel joists and steel decking used within the non-residential construction industry. Steel fabrication operations accounted for 6% and 5% of our external net sales during the second quarter of 2013 and 2012, respectively. The segment achieved operating income of \$2.3 million in the second quarter of 2013, compared to \$193,000 in the second quarter of 2012. Modest selling price decreases were more than offset by higher sales volumes and improved metal margins. The segment had operating income of \$3.9 million in the first half of 2013, compared to a loss of \$2.5 million in the first half of 2012. The 256% increase in operating income is due to 19% increases in sales volume and metal spread.

Net sales for the segment increased \$8.4 million, or 9%, in the second quarter of 2013 compared to the second quarter of 2012, as volumes increased 11%. However, the segment's average selling price per ton shipped decreased \$23, or 2%, during the same period. Increased second quarter 2013 shipments were the result of continued modest improvement in the non-residential construction market and market share gains. Net sales for the segment increased \$27.9 million, or 16%, in the first half of 2013 compared to the first half of 2012, as volumes increased 19%.

The purchase of various steel products is the largest single cost of production for our steel fabrication operations. During the second quarter of 2013 and 2012, the cost of steel products purchased represented 77% and 84% of the total cost of manufacturing for our steel fabrication operations, respectively; while the average cost of steel consumed decreased in the second quarter of 2013, as compared to the same period in 2012, by \$111 per ton. During the first half of 2013 and 2012, the cost of steel products purchased represented 77% and 81% of the total cost of manufacturing, respectively; while the average cost of steel consumed decreased to date in 2013, as compared to the same period in 2012, by \$87 per ton.



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**Second Quarter Consolidated Results 2013 vs. 2012**

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses (including profit sharing and amortization of intangible assets) were \$78.2 million during the second quarter of 2013, as compared to \$78.4 million during the second quarter of 2012. Our selling, general and administrative expenses represented 4% of our total net sales during both the second quarter of 2013 and 2012.

**Interest Expense, net of Capitalized Interest.** During the second quarter of 2013, gross interest expense decreased \$8.8 million to \$32.5 million, and capitalized interest increased \$802,000, to \$1.0 million, when compared to the same period in 2012. The interest capitalized during these periods relates to construction activities at our various operating segments. The decrease in gross interest expense is due to refinancing activities that reduced outstanding debt by \$175 million during the third quarter of 2012 and \$100 million during April 2013 and decreased the interest rate on \$1.2 billion of senior notes that were refinanced.

**Other Expense (Income), net.** Other income was \$1.2 million during the second quarter of 2013, as compared to \$1.9 million during the same period in 2012.

**Income Taxes.** During the second quarter of 2013, our income tax expense was \$15.7 million with an effective tax rate of 40.3%, as compared to \$25.2 million with an effective tax rate of 39.0%, during the same period in 2012. The higher effective tax rate in the second quarter of 2013 is due to the impact on the effective tax rate of higher proportional noncontrolling interest losses in the second quarter of 2013, as compared to the same period in 2012.

**First Six Months Consolidated Results 2013 vs. 2012**

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses (including profit sharing and amortization of intangible assets) were \$158.2 million during the first six months of 2013, as compared to \$159.9 million during the first six months of 2012, a decrease of \$1.7 million, or nearly 1%. Our selling, general and administrative expenses represented 4% of our total net sales during both the first six months of 2013 and 2012. The decrease in our selling, general and administrative expenses during the first six months of 2013 as compared to the same period in 2012 was due primarily to decreased profit sharing, consistent with the lower levels of profitability in the first six months of 2013.

**Interest Expense, net of Capitalized Interest.** During the first six months of 2013, gross interest expense decreased \$14.8 million to \$67.9 million, and capitalized interest increased \$1.3 million, to \$1.8 million, when compared to the same period in 2012. The interest capitalized during these periods relates to construction activities at our various operating segments. The decrease in gross interest expense is due to refinancing activities that reduced outstanding debt by \$175 million during the third quarter of 2012 and \$100 million during April 2013 and decreased the interest rate on \$1.2 billion of senior notes that were refinanced.

**Other Expense (Income), net.** Other income was \$2.3 million during the first six months of 2013, as compared to other expense of \$8.4 million during the same period in 2012. We recorded charges of \$13.9 million in the first six months of 2012 related to the partial tender of our 73/8%

Senior Notes, while we recorded charges of \$2.6 million in the first six months of 2013 related to the partial tender and early repayment of the remaining amount of our 63/4% Senior Notes.

**Income Taxes.** During the first six months of 2013, our income tax expense was \$37.1 million with an effective tax rate of 36.5%, as compared to \$51.9 million with an effective tax rate of 39.0% during the same period in 2012. The lower effective tax rate in the first six months of 2013 is due to a favorable adjustment related to 2012 research and development tax credits that were enacted into the tax code in January 2013.

### **Liquidity and Capital Resources**

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

**Working Capital.** Trade receivables increased \$130.8 million during the first half of 2013 related to increased sales in the second quarter of 2013, when compared to the fourth quarter of 2012, as days sales outstanding remained consistent. Total inventories decreased \$34.0 million, or 3%, to \$1.2 billion. Our raw materials, primarily steel scrap inventories, decreased by approximately \$36.0 million during the first half of 2013, with scrap volumes increasing by 110,000 gross tons (16%), and costs per gross ton decreasing 20%. Our work-in-process and finished goods inventories increased \$1.4 million, with volumes increasing by 29,000 tons (almost 7%). Our trade payables and general accruals decreased \$34.4 million, or 6%, during the first half of 2013, as 2012 profit sharing and bonus amounts were paid in the first quarter of 2013, and estimated tax payments were made in the second quarter of 2013.

**Capital Investments.** During the first half of 2013, we invested \$94.6 million in property, plant and equipment, of which over half related to announced growth or expansion projects at three of our steel mills and OmniSource. We estimate total capital expenditures for 2013 to be in the range of \$200 million.

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**Capital Resources and Long-term Debt.** On March 26, 2013, we issued \$400.0 million of 5 1/4% Senior Notes due 2023 (2023 Notes). Interest on the 2023 Notes is due semiannually on April 15 and October 15, with the first payment due on October 15, 2013. The 2023 Notes are redeemable at any time after April 15, 2018. The redemption price (expressed as a percentage of principal amount) is 102.625% during the period April 15, 2018 to April 14, 2019; 101.750% during the period April 15, 2019 to April 14, 2020; 100.875% during the period April 15, 2020 to April 14, 2021; and 100% on and after April 15, 2021, plus accrued interest to the redemption date. In addition, at any time before April 15, 2016, we may redeem up to 35% of the principal amount of the 2023 Notes with the net cash proceeds from one or more sales of our common stock at a redemption price (expressed as a percentage of principal amount) of 105.250%, plus accrued interest to the redemption date. The 2023 Notes are unsecured and rank pari passu with all existing and future senior unsubordinated unsecured indebtedness and senior in right of payment to all subordinated indebtedness.

A portion of the proceeds from the issuance of the 2023 Notes was used to fund the March 26, 2013 purchase of \$301.7 million (plus accrued interest) of our 6 3/4% Senior Notes due 2015 (2015 Notes) pursuant to a tender offer. On April 9, 2013, we used the remaining proceeds from the issuance of the 2023 Notes, along with available cash, to repay the remaining outstanding 2015 Notes due at a price of 100% of the principal amount of \$198.3 million (plus accrued interest). As a result of this refinancing activity, our overall outstanding debt decreased \$100.0 million, we further extended and laddered our debt maturities, and we reduced our overall effective interest rate.

During the first half of 2013, our total outstanding debt decreased \$103.8 million to \$2.1 billion. As a result, our total long-term debt to capitalization ratio, representing our long-term debt, including current maturities, divided by the sum of our long-term debt, redeemable noncontrolling interests, and our total stockholders' equity, decreased to 45.5% at June 30, 2013, from 47.3% at December 31, 2012.

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

The outstanding balance on the Revolver must be the lesser of \$1.1 billion less other applicable commitments such as letters of credit and other secured debt, as defined within the Facility or the sum of 85% of our eligible accounts receivable and 65% of our eligible inventories, less other applicable commitments. At June 30, 2013, we had \$1.1 billion of availability on the Revolver, \$14.0 million of outstanding letters of credit and other obligations which reduce availability, and no outstanding borrowings.

The Facility contains financial covenants and other covenants that limit or restrict our ability to make capital expenditures; incur indebtedness; permit liens on property; enter into transactions with affiliates; make restricted payments or investments; enter into mergers, acquisitions or consolidations; conduct asset sales; pay dividends or distributions and enter into other specified transactions and activities. Our ability to borrow funds within the terms of the Revolver is dependent upon our continued compliance with the financial and other covenants.

The financial covenants under our Facility state that we must maintain an interest coverage ratio of not less than 2.50:1.00. Our interest coverage ratio is calculated by dividing our last-twelve trailing months (LTM) consolidated adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, and certain other non-cash transactions as allowed in our Facility) by our LTM gross interest expense. In addition, a net debt (as defined in the Facility) to consolidated LTM adjusted EBITDA ratio (leverage ratio) of not more than 5.00:1.00 must be maintained. If the leverage ratio exceeds 3.50:1.00 at any time, our ability to make restricted payments as defined in the credit agreement (which includes cash dividends to stockholders and share purchases, among other things), is limited. At June 30, 2013, our interest coverage ratio and net debt leverage ratio were 4.22:1.00 and 3.21:1.00, respectively. We were therefore in compliance with these covenants at June 30, 2013, and we

anticipate we will continue to be in compliance during the remainder of the year.

**Cash Dividends.** We declared cash dividends of \$48.5 million, or \$0.22 per common share (\$0.11 per common share each quarter), during the first half of 2013, a 10% increase over the \$0.20 per common share, or \$43.8 million, dividends declared during the first half of 2012. We paid cash dividends of \$46.2 million and \$43.8 million during the first half of 2013 and 2012, respectively. Our board of directors approves the payment of dividends on a quarterly basis. During the remainder of 2013, we anticipate maintaining our current level of quarterly dividends; however, the determination to pay cash dividends in the future will be at the discretion of our board of directors, after taking into account various factors, including our financial condition, results of operations, outstanding indebtedness, current and anticipated cash needs and growth plans. In addition, the terms of our senior secured revolving credit agreement and the indenture relating to our senior notes may restrict the amount of cash dividends we can pay.

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

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**Other Matters**

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

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

**Critical Accounting Policies and Estimates**

No material changes have occurred to the indicated critical accounting policies and estimates as disclosed in our 2012 Annual Report on Form 10-K.

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

**Interest Rate Risk**

In the normal course of business, we are exposed to interest rate changes. Our objectives in managing exposure to interest rate changes are to limit the impact of these rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we primarily use interest rate swaps to manage net exposure to interest rate changes related to our portfolio of borrowings. We did not have any interest rate swaps during the periods ended June 30, 2013 or 2012.

**Commodity Risk**

In the normal course of business we are exposed to the market risk and price fluctuations related to the sale of steel products and to the purchase of raw materials used in our operations, such as metallic raw materials, electricity, natural gas, iron concentrate, fuel and zinc. Our risk strategy associated with product sales has generally been to obtain competitive prices for our products and to allow operating results to reflect market price movements dictated by supply and demand.

Our risk strategy associated with the purchase of raw materials utilized within our operations has generally been to make some commitments with suppliers relating to future expected requirements for certain commodities such as electricity, natural gas and its transportation, fuel, zinc, and iron concentrate. Certain commitments contain provisions which require us to take or pay for specified quantities without regard to actual usage for periods of up to 33 months for physical commodity requirements and for up to 9 years for commodity transportation requirements. We also purchase electricity consumed at our Flat Roll Division pursuant to a contract which extends through December 2013. The contract designates 160 hours annually as interruptible service and establishes an agreed fixed-rate energy charge per Mill/kWh consumed for each year through the expiration of the agreement. At June 30, 2013, 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, 2012. We utilized such take or pay requirements during the past three years under these contracts. We believe that production requirements will be such that consumption of the products or services purchased under these commitments will occur in the normal production process.

In our metals recycling operations we have certain fixed price contracts with various customers and suppliers for future delivery of nonferrous metals. Our risk strategy has been to enter into base metal financial contracts with the goal to protect the profit margin, within certain parameters, that was contemplated when we entered into the transaction with the customer or supplier. At June 30, 2013, we had a cumulative unrealized gain associated with these financial contracts of \$1.3 million, substantially all of which have a settlement date within the next twelve months. We believe the customer and supplier contracts associated with the financial contracts will be fully consummated.

**ITEM 4. CONTROLS AND PROCEDURES**



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(a) ***Evaluation of Disclosure Controls and Procedures.*** Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2013. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of June 30, 2013, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective.

(b) ***Changes in Internal Controls Over Financial Reporting.*** No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended June 30, 2013 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**

We are involved in various routine litigation matters, including administrative proceedings, regulatory proceedings, governmental investigations, environmental matters, and commercial and construction contract disputes.

We are also involved, along with eight other steel manufacturing companies, in a class action antitrust complaint filed in federal court in Chicago, Illinois in September 2008, which alleges a conspiracy to fix, raise, maintain and stabilize the price at which steel products were sold in the United States starting in 2005, by artificially restricting the supply of such steel products. All but one of the Complaints were brought on behalf of a purported class consisting of all direct purchasers of steel products between January 1, 2005, and the present. The other Complaint was brought on behalf of a purported class consisting of all indirect purchasers of steel products within the same time period. In addition, in December 2010, we and the other co-defendants were served with a substantially similar complaint in the Circuit Court of Cocke County, Tennessee, purporting to be on behalf of indirect purchasers of steel products in Tennessee. That case has been removed to the federal court in Chicago that is hearing the main complaint. All Complaints seek treble damages and costs, including reasonable attorney fees, pre- and post-judgment interest and injunctive relief. In January 2009, Steel Dynamics and the other defendants filed a Joint Motion to Dismiss all of the direct purchaser lawsuits, but this motion was denied in June 2009. Following a period of preliminary discovery relating to class certification matters, Plaintiffs filed their Motion for Class Certification in May 2012, and on February 28, 2013, Defendants filed their Joint Memorandum in Opposition to Plaintiffs Motion for Class Certification, together with joint motions to exclude the expert opinions of both of Plaintiffs two retained experts. Additional briefing is anticipated on all issues related to the pending motions. Due to the uncertain nature of litigation, we cannot presently determine the ultimate outcome of this litigation.

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

**ITEM 1A. RISK FACTORS**

No material changes have occurred to the indicated risk factors as disclosed in our 2012 Annual Report on Form 10-K.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

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

**ITEM 5. OTHER INFORMATION**

None.

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**ITEM 6. EXHIBITS**

**Executive Officer Certifications**

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

**Other**

- 95\* Mine Safety Disclosures.

**XBRL Documents**

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

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\* Filed concurrently herewith

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SIGNATURE

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

August 7, 2013

STEEL DYNAMICS, INC.

By:

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