

STEEL DYNAMICS INC  
Form 10-Q  
November 08, 2013  
[Table of Contents](#)

**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 September 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 October 31, 2013, Registrant had 221,984,201 outstanding shares of common stock.

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Table of Contents

STEEL DYNAMICS, INC.

Table of Contents

|  | <b>Page</b> |
|--|-------------|
| <b>PART I. Financial Information</b>   |             |
| <b>Item 1. Financial Statements:</b>   |             |
| <u>Consolidated Balance Sheets as of September 30, 2013 (unaudited) and December 31, 2012</u>                                    | 1           |
| <u>Consolidated Statements of Income for the three- and nine-month periods ended September 30, 2013 and 2012 (unaudited)</u>     | 2           |
| <u>Consolidated Statements of Cash Flows for the three- and nine-month periods ended September 30, 2013 and 2012 (unaudited)</u> | 3           |
| <u>Notes to Consolidated Financial Statements (unaudited)</u>  | 4           |
| <b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>                             | 17          |
| <b>Item 3. Quantitative and Qualitative Disclosures about Market Risk</b>  | 26          |
| <b>Item 4. Controls and Procedures</b>   | 26          |
| <b><u>PART II. Other Information</u></b>   |             |
| <b>Item 1. Legal Proceedings</b>   | 27          |
| <b>Item 1A. Risk Factors</b>   | 27          |
| <b>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</b>   | 27          |
| <b>Item 3. Defaults Upon Senior Securities</b>   | 27          |
| <b>Item 4. Mine Safety Disclosures</b>   | 27          |
| <b>Item 5. Other Information</b>   | 27          |
| <b>Item 6. Exhibits</b>  | 28          |
| <u>Signatures</u>  | 29          |

---

Table of Contents

## STEEL DYNAMICS, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

|   | September 30,<br>2013<br>(unaudited) | December 31,<br>2012 |
|---|--------------------------------------|----------------------|
| <b>Assets</b>   |                                      |                      |
| <b>Current assets</b>   |                                      |                      |
| Cash and equivalents  | \$ 370,056                           | \$ 375,917           |
| Investments in short-term commercial paper  |                                      | 31,520               |
| Accounts receivable, net  | 722,867                              | 599,499              |
| Accounts receivable-related parties   | 50,006                               | 42,864               |
| Inventories   | 1,192,032                            | 1,202,507            |
| Deferred income taxes   | 25,228                               | 23,449               |
| Other current assets  | 25,126                               | 20,469               |
| Total current assets  | 2,385,315                            | 2,296,225            |
| <b>Property, plant and equipment, net</b>   | 2,241,067                            | 2,231,198            |
| <b>Restricted cash</b>  | 23,016                               | 27,749               |
| <b>Intangible assets, net</b>   | 393,531                              | 416,635              |
| <b>Goodwill</b>   | 733,650                              | 738,542              |
| <b>Other assets</b>   | 97,726                               | 105,067              |
| <b>Total assets</b>   | \$ 5,874,305                         | \$ 5,815,416         |
| <b>Liabilities and Equity</b>   |                                      |                      |
| <b>Current liabilities</b>  |                                      |                      |
| Accounts payable  | \$ 411,201                           | \$ 344,953           |
| Accounts payable-related parties  | 15,205                               | 15,144               |
| Income taxes payable  | 7,649                                | 16,941               |
| Accrued payroll and benefits  | 79,589                               | 85,802               |
| Accrued interest  | 23,060                               | 35,306               |
| Accrued expenses  | 82,157                               | 81,900               |
| Current maturities of long-term debt  | 335,341                              | 29,631               |
| Total current liabilities   | 954,202                              | 609,677              |
| <b>Long-term debt</b>   |                                      |                      |
| Term note   | 226,875                              | 247,500              |
| Senior notes  | 1,500,000                            | 1,600,000            |
| Convertible senior notes  |                                      | 287,496              |
| Other long-term debt  | 46,744                               | 37,610               |
| Total long-term debt  | 1,773,619                            | 2,172,606            |
| <b>Deferred income taxes</b>  | 565,798                              | 537,304              |
| <b>Other liabilities</b>  | 22,898                               | 19,173               |
| <b>Commitments and contingencies</b>  |                                      |                      |
| <b>Redeemable noncontrolling interests</b>  | 110,054                              | 98,814               |
| <b>Equity</b>   |                                      |                      |
| Common stock voting, \$.0025 par value; 900,000,000 shares authorized; 257,314,197 and 255,592,901 shares issued; and 221,349,383 and 219,522,655 shares outstanding, as of | 641                                  | 637                  |

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September 30, 2013 and December 31, 2012, respectively

|   |                     |                     |
|---|---------------------|---------------------|
| Treasury stock, at cost; 35,964,814 and 36,070,246 shares, as of September 30, 2013 and December 31, 2012, respectively | (718,373)           | (720,479)           |
| Additional paid-in capital  | 1,060,780           | 1,037,687           |
| Retained earnings   | 2,149,389           | 2,087,620           |
| Total Steel Dynamics, Inc. equity   | 2,492,437           | 2,405,465           |
| Noncontrolling interests  | (44,703)            | (27,623)            |
| <b>Total equity</b>   | <b>2,447,734</b>    | <b>2,377,842</b>    |
| <b>Total liabilities and equity</b>   | <b>\$ 5,874,305</b> | <b>\$ 5,815,416</b> |

See notes to consolidated financial statements.

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Table of Contents

STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

|  | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |                   |
|--|-------------------------------------|------------------|------------------------------------|-------------------|
|  | 2013                                | 2012             | 2013                               | 2012              |
| Net sales  |                                     |                  |                                    |                   |
| Unrelated parties  | \$ 1,838,464                        | \$ 1,624,561     | \$ 5,302,285                       | \$ 5,359,753      |
| Related parties  | 73,274                              | 68,829           | 206,489                            | 225,480           |
| <b>Total net sales</b>   | <b>1,911,738</b>                    | <b>1,693,390</b> | <b>5,508,774</b>                   | <b>5,585,233</b>  |
| Costs of goods sold  | 1,714,546                           | 1,536,989        | 4,987,626                          | 5,045,432         |
| <b>Gross profit</b>  | <b>197,192</b>                      | <b>156,401</b>   | <b>521,148</b>                     | <b>539,801</b>    |
| Selling, general and administrative expenses   | 67,553                              | 62,984           | 198,171                            | 188,603           |
| Profit sharing   | 8,469                               | 3,954            | 19,891                             | 20,237            |
| Amortization of intangible assets  | 7,897                               | 8,848            | 24,075                             | 26,831            |
| Impairment charges   |                                     | 7,894            | 308                                | 7,894             |
| <b>Total selling, general and administrative expenses</b>  | <b>83,919</b>                       | <b>83,680</b>    | <b>242,445</b>                     | <b>243,565</b>    |
| <b>Operating income</b>  | <b>113,273</b>                      | <b>72,721</b>    | <b>278,703</b>                     | <b>296,236</b>    |
| Interest expense, net of capitalized interest  | 30,970                              | 41,490           | 97,064                             | 123,708           |
| Other expense (income), net  | (1,852)                             | 24,010           | (4,144)                            | 32,366            |
| <b>Income before income taxes</b>  | <b>84,155</b>                       | <b>7,221</b>     | <b>185,783</b>                     | <b>140,162</b>    |
| Income taxes   | 33,065                              | 1,116            | 70,168                             | 52,975            |
| <b>Net income</b>  | <b>51,090</b>                       | <b>6,105</b>     | <b>115,615</b>                     | <b>87,187</b>     |
| Net loss attributable to noncontrolling interests  | 6,396                               | 6,728            | 19,044                             | 15,793            |
| <b>Net income attributable to Steel Dynamics, Inc.</b>   | <b>\$ 57,486</b>                    | <b>\$ 12,833</b> | <b>\$ 134,659</b>                  | <b>\$ 102,980</b> |
| <b>Basic earnings per share attributable to Steel Dynamics, Inc. stockholders</b>  | <b>\$ 0.26</b>                      | <b>\$ 0.06</b>   | <b>\$ 0.61</b>                     | <b>\$ 0.47</b>    |
| Weighted average common shares outstanding   | 220,926                             | 219,191          | 220,464                            | 219,097           |
| <b>Diluted earnings per share attributable to Steel Dynamics, Inc. stockholders, including the effect of assumed conversions when dilutive</b> | <b>\$ 0.25</b>                      | <b>\$ 0.06</b>   | <b>\$ 0.59</b>                     | <b>\$ 0.47</b>    |
| Weighted average common shares and share equivalents outstanding   | 239,001                             | 220,044          | 238,497                            | 236,536           |
| <b>Dividends declared per share</b>  | <b>\$ 0.11</b>                      | <b>\$ 0.10</b>   | <b>\$ 0.33</b>                     | <b>\$ 0.30</b>    |

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See notes to consolidated financial statements.

Table of Contents

## STEEL DYNAMICS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

|   | Three Months Ended<br>September 30, |                   | Nine Months Ended<br>September 30, |                   |
|---|-------------------------------------|-------------------|------------------------------------|-------------------|
|   | 2013                                | 2012              | 2013                               | 2012              |
| <b>Operating activities:</b>  |                                     |                   |                                    |                   |
| Net income  | \$ 51,090                           | \$ 6,105          | \$ 115,615                         | \$ 87,187         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                     |                   |                                    |                   |
| Depreciation and amortization   | 58,202                              | 58,953            | 172,089                            | 170,027           |
| Equity-based compensation   | 2,515                               | 738               | 9,612                              | 9,463             |
| Impairment charges  |                                     | 7,894             | 308                                | 7,894             |
| Deferred income taxes   | 9,861                               | 34,633            | 31,608                             | 54,464            |
| (Gain) loss on disposal of property, plant and equipment                          | 1,739                               | (152)             | 944                                | (565)             |
| Changes in certain assets and liabilities:  |                                     |                   |                                    |                   |
| Accounts receivable   | 254                                 | 2,690             | (130,510)                          | 15,604            |
| Inventories   | (23,648)                            | 43,005            | 10,360                             | 6,702             |
| Other assets  | (1,727)                             | (7,484)           | 8,414                              | (4,917)           |
| Accounts payable  | 59,801                              | 6,920             | 52,419                             | (19,015)          |
| Income taxes receivable/payable   | 16,354                              | 25,993            | (9,972)                            | 16,917            |
| Accrued expenses and liabilities  | 8,825                               | (61,929)          | (15,196)                           | (104,375)         |
| Net cash provided by operating activities   | 183,266                             | 117,366           | 245,691                            | 239,386           |
| <b>Investing activities:</b>  |                                     |                   |                                    |                   |
| Purchases of property, plant and equipment  | (52,162)                            | (58,342)          | (146,744)                          | (158,686)         |
| Proceeds from maturity of short-term commercial paper                             |                                     | 9,998             | 31,520                             | 84,830            |
| Other investing activities  | 844                                 | 655               | 4,121                              | (20,379)          |
| Net cash used in investing activities   | (51,318)                            | (47,689)          | (111,103)                          | (94,235)          |
| <b>Financing activities:</b>  |                                     |                   |                                    |                   |
| Issuance of current and long-term debt  | 9,526                               | 760,000           | 418,819                            | 1,049,969         |
| Repayment of current and long-term debt   | (4,097)                             | (946,858)         | (512,100)                          | (1,252,202)       |
| Debt issuance costs   |                                     | (11,625)          | (6,192)                            | (13,813)          |
| Proceeds from exercise of stock options, including related tax effect             | 7,925                               | 583               | 18,516                             | 2,021             |
| Contributions from noncontrolling investors, net                                  | 5,275                               | 16,320            | 10,972                             | 30,943            |
| Dividends paid  | (24,274)                            | (21,915)          | (70,464)                           | (65,710)          |
| Net cash used in financing activities   | (5,645)                             | (203,495)         | (140,449)                          | (248,792)         |
| Increase (decrease) in cash and equivalents                                       | 126,303                             | (133,818)         | (5,861)                            | (103,641)         |
| Cash and equivalents at beginning of period                                       | 243,753                             | 420,938           | 375,917                            | 390,761           |
| <b>Cash and equivalents at end of period</b>                                      | <b>\$ 370,056</b>                   | <b>\$ 287,120</b> | <b>\$ 370,056</b>                  | <b>\$ 287,120</b> |
| <b>Supplemental disclosure information:</b>                                       |                                     |                   |                                    |                   |
| Cash paid for interest  | \$ 40,075                           | \$ 42,413         | \$ 107,390                         | \$ 123,973        |
| Cash paid for federal and state income taxes, net                                 | \$ 3,022                            | \$ 3,629          | \$ 41,547                          | \$ 43,976         |



See notes to consolidated financial statements.

Table of Contents

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 62% of the company's external net sales during the three-month periods ended September 30, 2013 and 2012, respectively, and 60% and 62% of the company's external net sales during the nine-month periods ended September 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 32% and 31% of the company's external net sales during the three-month periods ended September 30, 2013 and 2012, respectively, and 33% and 32% of the company's external net sales during the nine-month periods ended September 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 6% of the company's external net sales during the three-month periods ended September 30, 2013 and 2012, respectively, and 6% and 5% of the company's external net sales during the nine-month periods ended September 30, 2013 and 2012, respectively.

**Significant Accounting Policies**

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**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 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 September 30, 2013, and December 31, 2012, (in thousands):

|   | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| OmniSource Metals Recycling/Ferrous Resources Segment | \$ 559,901            | \$ 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                |
|   | \$ 733,650            | \$ 738,542           |

OmniSource goodwill decreased \$4.9 million from December 31, 2012 to September 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.

Table of Contents

## 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 2.4 million and 6.5 million shares were anti-dilutive at September 30, 2013 and 2012, respectively. The computation of diluted earnings per share for the three-month period ended September 30, 2012 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 16.6 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 September 30, |                                 |                     |                           |                                 |                     |
|--|----------------------------------|---------------------------------|---------------------|---------------------------|---------------------------------|---------------------|
|  | Net Income<br>(Numerator)        | 2013<br>Shares<br>(Denominator) | Per Share<br>Amount | Net Income<br>(Numerator) | 2012<br>Shares<br>(Denominator) | Per Share<br>Amount |
| Basic earnings per share                       | \$ 57,486                        | 220,926                         | \$ 0.26             | \$ 12,833                 | 219,191                         | \$ 0.06             |
| Dilutive common share<br>equivalents           |                                  | 1,366                           |                     |                           | 853                             |                     |
| 5.125% convertible senior<br>notes, net of tax | 2,358                            | 16,709                          |                     |                           |                                 |                     |
| Diluted earnings per share                     | \$ 59,844                        | 239,001                         | \$ 0.25             | \$ 12,833                 | 220,044                         | \$ 0.06             |

|  | Nine Months Ended September 30, |                                 |                     |                           |                                 |                     |
|--|---------------------------------|---------------------------------|---------------------|---------------------------|---------------------------------|---------------------|
|  | Net Income<br>(Numerator)       | 2013<br>Shares<br>(Denominator) | Per Share<br>Amount | Net Income<br>(Numerator) | 2012<br>Shares<br>(Denominator) | Per Share<br>Amount |
| Basic earnings per share                       | \$ 134,659                      | 220,464                         | \$ 0.61             | \$ 102,980                | 219,097                         | \$ 0.47             |
| Dilutive common share<br>equivalents           |                                 | 1,363                           |                     |                           | 908                             |                     |
| 5.125% convertible senior<br>notes, net of tax | 7,074                           | 16,670                          |                     | 7,074                     | 16,531                          |                     |
| Diluted earnings per share                     | \$ 141,733                      | 238,497                         | \$ 0.59             | \$ 110,054                | 236,536                         | \$ 0.47             |

**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):

|                   | September 30,<br>2013 | December 31,<br>2012 |
|-------------------|-----------------------|----------------------|
| Raw materials     | \$ 583,335            | \$ 594,388           |
| Supplies          | 280,841               | 278,494              |
| Work-in-progress  | 97,508                | 82,934               |
| Finished goods    | 230,348               | 246,691              |
| Total inventories | \$ 1,192,032          | \$ 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.

Table of Contents

## 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 \$2.6 million, which is reflected in other expenses in the consolidated statement of income for the nine-month period ended September 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                  |
|---|--------------------------------------|----------------------------------|----------------------|-------------------|-----------------------------|-----------------|-----------------------------|
|   | Common<br>Stock                      | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Noncontrolling<br>Interests | Total<br>Equity | Noncontrolling<br>Interests |
| <b>Balances at</b>  |                                      |                                  |                      |                   |                             |                 |                             |
| <b>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 | 4                                    | 18,512                           |                      |                   |                             | 18,516          |                             |
| Dividends declared  |                                      |                                  | (72,860)             |                   |                             | (72,860)        |                             |
| Equity-based compensation and issuance of restricted stock                |                                      | 6,813                            | (30)                 | 2,106             |                             | 8,889           |                             |
| Acquisition of noncontrolling interest                                    |                                      | (2,232)                          |                      |                   | 2,232                       |                 |                             |
| Contributions from noncontrolling investors                               |                                      |                                  |                      |                   | 126                         | 126             | 11,240                      |
| Distributions to noncontrolling investors                                 |                                      |                                  |                      |                   | (394)                       | (394)           |                             |
| Net income (loss)   | \$ 641                               | \$ 1,060,780                     | \$ 2,149,389         | \$ (718,373)      | \$ (44,703)                 | \$ 2,447,734    | \$ 110,054                  |

**Balances at  
September 30, 2013**

**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 September 30, 2013 (MT represents metric tons and Lbs represents pounds):

| <b>Commodity Futures</b> | <b>Long/Short</b> | <b>Total</b> |     |
|--------------------------|-------------------|--------------|-----|
| Aluminum                 | Long              | 2,300        | MT  |
| Aluminum                 | Short             | 2,225        | MT  |
| Copper                   | Long              | 2,710        | MT  |
| Copper                   | Short             | 8,448        | MT  |
| Silver                   | Short             | 686          | Lbs |

Table of Contents

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 September 30, 2013, and December 31, 2012, and for the three and nine-month periods ended September 30, 2013 and 2012 (in thousands):

|   | Balance sheet location | Asset Derivatives<br>Fair Value |                   | Liability Derivatives<br>Fair Value |                   |  |
|---|------------------------|---------------------------------|-------------------|-------------------------------------|-------------------|--|
|   |                        | September 30,<br>2013           | December 31, 2012 | September 30,<br>2013               | December 31, 2012 |  |
| <i>Derivative instruments designated as fair value hedges -</i> |                        |                                 |                   |                                     |                   |  |
| Commodity futures   | Other current assets   | \$ 413                          |                   | \$ 660                              |                   |  |
| <i>Derivative instruments not designated as hedges -</i>        |                        |                                 |                   |                                     |                   |  |
| Commodity futures   | Other current assets   | \$ 285                          | \$ 4,024          | \$ 625                              | \$ 1,854          |  |
| Total derivative instruments                                    |                        | \$ 698                          | \$ 4,024          | \$ 1,285                            | \$ 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 |  |
|--|---|--|--------------------|--------------------|--|---|---|--|
|  |   | September 30, 2013   | September 30, 2012 | September 30, 2013 |  |   | September 30, 2012  |  |
| <i>Derivatives in fair value hedging relationships -</i>   |   |  |                    |                    |  |   |   |  |
| Commodity futures  | Costs of goods sold   | \$ 381   |                    | Firm commitments   | Costs of goods sold                            | \$ (1,736)  |   |  |
|  |   |  |                    | Inventory          | Costs of goods sold                            | 364   |   |  |
|  |   |  |                    |                    |  | \$ (1,372)  |   |  |
| <i>Derivatives not designated as hedging instruments -</i> |   |  |                    |                    |  |   |   |  |
| Commodity futures  | Costs of goods sold   | \$ (2,836)   | \$ (9,085)         |                    |  |   |   |  |

|  | Location of gain | Amount of gain (loss) recognized in income on derivatives for the nine months ended |  | Hedged items | Location of gain (loss) | Amount of gain (loss) recognized in income on related hedged items for the nine months ended |  |
|--|------------------|---|--|--------------|-------------------------|--|--|
|--|------------------|---|--|--------------|-------------------------|--|--|



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|  | (loss) recognized in<br>income on derivatives | September 30,<br>2013 | September 30,<br>2012 | in fair value hedge<br>relationships | recognized in income on<br>related hedged item | September 30,<br>2013 | September 30,<br>2012 |
|--|---|-----------------------|-----------------------|--------------------------------------|--|-----------------------|-----------------------|
| <i>Derivatives in<br/>fair value<br/>hedging<br/>relationships -</i>   |   |                       |                       |                                      |  |                       |                       |
| <i>Commodity</i>   |   |                       |                       |                                      |  |                       |                       |
| futures  | Costs of goods sold                           | \$ 7,773              |                       | Firm commitments                     | Costs of goods sold                            | \$ 877                |                       |
|  |   |                       |                       | Inventory                            | Costs of goods sold                            | (8,458)               |                       |
|  |   |                       |                       |                                      |  | \$ (7,581)            |                       |
| <i>Derivatives not<br/>designated as<br/>hedging<br/>instruments -</i> |   |                       |                       |                                      |  |                       |                       |
| <i>Commodity</i>   |   |                       |                       |                                      |  |                       |                       |
| futures  | Costs of goods sold                           | \$ 3,793              | \$ (6,810)            |                                      |  |                       |                       |

Derivatives accounted for as fair value hedges had ineffectiveness resulting in losses of \$312,000 and \$199,000 during the three- and nine-month periods ended September 30, 2013, respectively; and a loss excluded from hedge effectiveness testing of \$678,000 that increased costs of goods sold during the three-month period ended September 30, 2013, and a gain of \$392,000 that reduced costs of goods sold during the nine-month period ended September 30, 2013.

Table of Contents

## 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 September 30, 2013, and December 31, 2012 (in thousands):

|  |                       | Total     | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|-----------------------|-----------|--|---|--|
| <b>September 30, 2013</b>                  |                       |           |  |   |  |
| Commodity futures                          | financial assets      | \$ 698    | \$   | \$ 698  | \$   |
| Commodity futures                          | financial liabilities | 1,285     |  | 1,285   |  |
| <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 September 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. On October 15, 2013, Plaintiffs submitted their Reply papers, together with responses to Defendants' Daubert motions. 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.

Table of Contents

## 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 nine-month periods ended September 30, 2013 and 2012 are as follows (in thousands):

| For the three months ended<br>September 30, 2013 | Steel Operations | Metals Recycling /<br>Ferrous Resources | Steel Fabrication<br>Operations | Other        | Eliminations | Consolidated |
|--|------------------|---|---------------------------------|--------------|--------------|--------------|
| <b>Net Sales</b>                                 |                  |   |                                 |              |              |              |
| External   | \$ 1,102,048     | \$ 557,765                              | \$ 119,134                      | \$ 24,593    | \$           | \$ 1,803,540 |
| External Non-U.S.                                | 60,381           | 47,616                                  |                                 | 201          |              | 108,198      |
| Other segments                                   | 54,537           | 313,113                                 | 134                             | 7,918        | (375,702)    |              |
|  | 1,216,966        | 918,494                                 | 119,268                         | 32,712       | (375,702)    | 1,911,738    |
| Operating income (loss)                          | 146,564          | (17,135)                                | 3,265                           | (17,274)(1)  | (2,147)(2)   | 113,273      |
| Income (loss) before income<br>taxes             | 133,041          | (24,567)                                | 1,751                           | (23,922)     | (2,148)      | 84,155       |
| Depreciation and amortization                    | 26,815           | 27,713                                  | 2,219                           | 1,506        | (51)         | 58,202       |
| Capital expenditures                             | 33,985           | 17,385                                  | 297                             | 495          |              | 52,162       |
| <b>As of September 30, 2013</b>                  |                  |   |                                 |              |              |              |
| Assets   | 2,581,798        | 2,530,979                               | 272,786                         | 699,244(3)   | (210,502)(4) | 5,874,305    |
| Liabilities                                      | 533,966          | 593,674                                 | 22,908                          | 2,366,273(5) | (200,304)(6) | 3,316,517    |

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

|  |    |       |
|--|----|-------|
| (1) Corporate SG&A                     | \$ | (9.2) |
| Company-wide equity-based compensation |    | (2.1) |
| Profit sharing                         |    | (7.4) |

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|            |          |        |
|------------|----------|--------|
| Other, net |          | 1.4    |
|            | Total \$ | (17.3) |

|   |    |       |
|---|----|-------|
| (2) Gross profit reduction from intra-company sales | \$ | (2.1) |
|---|----|-------|

|                                    |          |       |
|------------------------------------|----------|-------|
| (3) Cash and equivalents           | \$       | 325.8 |
| Deferred income taxes              |          | 25.2  |
| Property, plant and equipment, net |          | 72.9  |
| Debt issuance costs, net           |          | 27.7  |
| Intra-company debt                 |          | 153.6 |
| Other                              |          | 94.0  |
|                                    | Total \$ | 699.2 |

|  |          |         |
|--|----------|---------|
| (4) Elimination of intra-company receivables | \$       | (46.9)  |
| Elimination of intra-company debt            |          | (153.6) |
| Other  |          | (10.0)  |
|  | Total \$ | (210.5) |

|                       |          |         |
|-----------------------|----------|---------|
| (5) Accounts payable  | \$       | 43.1    |
| Income taxes payable  |          | 7.7     |
| Accrued interest      |          | 22.9    |
| Debt                  |          | 2,041.8 |
| Deferred income taxes |          | 204.6   |
| Other                 |          | 46.2    |
|                       | Total \$ | 2,366.3 |

|   |          |         |
|---|----------|---------|
| (6) Elimination of intra-company payables | \$       | (47.3)  |
| Elimination of intra-company debt         |          | (153.6) |
| Other                                     |          | 0.6     |
|   | Total \$ | (200.3) |

Table of Contents

## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| For the three months ended<br>September 30, 2012 | Steel Operations | Metals Recycling /<br>Ferrous Resources | Steel Fabrication<br>Operations | Other        | Eliminations | Consolidated |
|--|------------------|---|---------------------------------|--------------|--------------|--------------|
| <b>Net Sales</b>                                 |                  |   |                                 |              |              |              |
| External   | \$ 985,524       | \$ 475,547                              | \$ 102,401                      | \$ 17,156    | \$           | \$ 1,580,628 |
| External Non-U.S.                                | 65,825           | 46,684                                  |                                 | 253          |              | 112,762      |
| Other segments                                   | 48,157           | 268,137                                 | 41                              | 4,864        | (321,199)    |              |
|  | 1,099,506        | 790,368                                 | 102,442                         | 22,273       | (321,199)    | 1,693,390    |
| Operating income (loss)                          | 106,927          | (15,697)                                | 3,141                           | (17,759)(1)  | (3,891)(2)   | 72,721       |
| Income (loss) before<br>income taxes             | 88,394           | (24,829)                                | 1,225                           | (53,678)     | (3,891)      | 7,221        |
| Depreciation and<br>amortization                 | 25,937           | 26,449                                  | 2,100                           | 4,518        | (51)         | 58,953       |
| Capital expenditures                             | 14,625           | 42,370                                  | 1,005                           | 342          |              | 58,342       |
| <b>As of September 30, 2012</b>                  |                  |   |                                 |              |              |              |
| Assets   | 2,523,616        | 2,586,568                               | 249,988                         | 597,297(3)   | (181,953)(4) | 5,775,516    |
| Liabilities                                      | 482,348          | 507,367                                 | 18,143                          | 2,505,036(5) | (170,206)(6) | 3,342,688    |

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

|                    |           |               |
|--------------------|-----------|---------------|
| (1) Corporate SG&A | \$        | (7.6)         |
| Profit sharing     |           | (2.9)         |
| Impairment charges |           | (7.9)         |
| Other, net         |           | 0.6           |
| <b>Total</b>       | <b>\$</b> | <b>(17.8)</b> |

|   |    |       |
|---|----|-------|
| (2) Gross profit reduction from intra-company sales | \$ | (3.9) |
|---|----|-------|

|                                    |           |              |
|------------------------------------|-----------|--------------|
| (3) Cash and equivalents           | \$        | 246.8        |
| Income taxes receivable            |           | 0.9          |
| Deferred income taxes              |           | 28.2         |
| Property, plant and equipment, net |           | 75.7         |
| Debt issuance costs, net           |           | 29.4         |
| Intra-company debt                 |           | 129.1        |
| Other                              |           | 87.2         |
| <b>Total</b>                       | <b>\$</b> | <b>597.3</b> |

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|  |          |         |
|--|----------|---------|
| (4) Elimination of intra-company receivables | \$       | (35.8)  |
| Elimination of intra-company debt            |          | (129.1) |
| Other  |          | (17.1)  |
|  | Total \$ | (182.0) |

|                        |          |         |
|------------------------|----------|---------|
| (5) Accounts payable   | \$       | 32.3    |
| Income taxes payable   |          | 12.7    |
| Accrued interest       |          | 28.9    |
| Accrued profit sharing |          | 15.5    |
| Debt                   |          | 2,156.2 |
| Deferred income taxes  |          | 240.9   |
| Other                  |          | 18.5    |
|                        | Total \$ | 2,505.0 |

|   |          |         |
|---|----------|---------|
| (6) Elimination of intra-company payables | \$       | (39.0)  |
| Elimination of intra-company debt         |          | (129.1) |
| Other                                     |          | (2.1)   |
|   | Total \$ | (170.2) |

Table of Contents

## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| For the nine months ended<br>September 30, 2013 | Steel Operations | Metals Recycling /<br>Ferrous Resources | Steel Fabrication<br>Operations | Other       | Eliminations | Consolidated |
|---|------------------|---|---------------------------------|-------------|--------------|--------------|
| <b>Net Sales</b>                                |                  |   |                                 |             |              |              |
| External  | \$ 3,152,111     | \$ 1,653,975                            | \$ 316,526                      | \$ 64,792   | \$           | \$ 5,187,404 |
| External Non-U.S.                               | 162,646          | 158,026                                 |                                 | 698         |              | 321,370      |
| Other segments                                  | 168,482          | 865,143                                 | 1,276                           | 20,198      | (1,055,099)  |              |
|   | 3,483,239        | 2,677,144                               | 317,802                         | 85,688      | (1,055,099)  | 5,508,774    |
| Operating income (loss)                         | 351,410          | (34,210)                                | 7,125                           | (48,147)(1) | 2,525(2)     | 278,703      |
| Income (loss) before income<br>taxes            | 309,780          | (56,860)                                | 2,475                           | (72,136)    | 2,524        | 185,783      |
| Depreciation and amortization                   | 79,698           | 81,553                                  | 6,455                           | 4,536       | (153)        | 172,089      |
| Capital expenditures                            | 93,244           | 49,999                                  | 2,000                           | 1,501       |              | 146,744      |

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

|  |           |               |
|--|-----------|---------------|
| (1) Corporate SG&A                     | \$        | (26.3)        |
| Company-wide equity-based compensation |           | (7.3)         |
| Profit sharing                         |           | (16.5)        |
| Other, net                             |           | 2.0           |
| <b>Total</b>                           | <b>\$</b> | <b>(48.1)</b> |

|  |    |     |
|--|----|-----|
| (2) Gross profit increase from intra-company sales | \$ | 2.5 |
|--|----|-----|

| For the nine months ended<br>September 30, 2012 | Steel Operations | Metals Recycling /<br>Ferrous Resources | Steel Fabrication<br>Operations | Other       | Eliminations | Consolidated |
|---|------------------|---|---------------------------------|-------------|--------------|--------------|
| <b>Net Sales</b>                                |                  |   |                                 |             |              |              |
| External  | \$ 3,279,344     | \$ 1,643,522                            | \$ 273,060                      | \$ 54,071   | \$           | \$ 5,249,997 |
| External Non-U.S.                               | 166,025          | 168,818                                 |                                 | 393         |              | 335,236      |
| Other segments                                  | 148,839          | 1,009,604                               | 45                              | 12,290      | (1,170,778)  |              |
|   | 3,594,208        | 2,821,944                               | 273,105                         | 66,754      | (1,170,778)  | 5,585,233    |
| Operating income (loss)                         | 380,832          | (30,905)                                | 666                             | (49,294)(1) | (5,063)(2)   | 296,236      |
| Income (loss) before income<br>taxes            | 325,521          | (57,932)                                | (4,408)                         | (117,956)   | (5,063)      | 140,162      |
| Depreciation and amortization                   | 78,405           | 78,114                                  | 6,007                           | 7,654       | (153)        | 170,027      |
| Capital expenditures                            | 26,848           | 127,133                                 | 3,502                           | 1,203       |              | 158,686      |



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

|                                   |          |        |
|-----------------------------------|----------|--------|
| (1) Corporate SG&A                | \$       | (22.4) |
| Company-wide stock option expense |          | (5.7)  |
| Profit sharing                    |          | (15.3) |
| Impairment charges                |          | (7.9)  |
| Other, net                        |          | 2.0    |
|                                   | Total \$ | (49.3) |

|   |    |       |
|---|----|-------|
| (2) Gross profit reduction from intra-company sales | \$ | (5.1) |
|---|----|-------|

Table of Contents

## 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 September 30, 2013                    | Parent       | Guarantors   | Combined<br>Non-Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Cash and equivalents                        | \$ 322,212   | \$ 37,710    | \$ 10,134                  | \$                           | \$ 370,056            |
| Investments in short-term commercial paper  |              |              |                            |                              |                       |
| Accounts receivable, net                    | 311,333      | 900,928      | 35,210                     | (474,598)                    | 772,873               |
| Inventories                                 | 622,008      | 471,537      | 102,803                    | (4,316)                      | 1,192,032             |
| Other current assets                        | 57,805       | 7,301        | 3,987                      | (18,739)                     | 50,354                |
| Total current assets                        | 1,313,358    | 1,417,476    | 152,134                    | (497,653)                    | 2,385,315             |
| Property, plant and equipment, net          | 1,042,112    | 634,552      | 566,873                    | (2,470)                      | 2,241,067             |
| Intangible assets, net                      |              | 393,531      |                            |                              | 393,531               |
| Goodwill                                    |              | 733,650      |                            |                              | 733,650               |
| Other assets, including investments in subs | 2,621,656    | 25,367       | 8,266                      | (2,534,547)                  | 120,742               |
| Total assets                                | \$ 4,977,126 | \$ 3,204,576 | \$ 727,273                 | \$ (3,034,670)               | \$ 5,874,305          |
| Accounts payable                            | \$ 155,868   | \$ 257,009   | \$ 83,830                  | \$ (70,301)                  | \$ 426,406            |
| Accrued expenses                            | 119,919      | 105,444      | 10,014                     | (42,922)                     | 192,455               |
| Current maturities of long-term debt        | 312,076      | 300          | 46,060                     | (23,095)                     | 335,341               |
| Total current liabilities                   | 587,863      | 362,753      | 139,904                    | (136,318)                    | 954,202               |
| Long-term debt                              | 1,732,445    |              | 202,825                    | (161,651)                    | 1,773,619             |
| Other liabilities                           | 164,381      | 1,968,990    | 44,567                     | (1,589,242)                  | 588,696               |
| Redeemable noncontrolling interests         |              |              | 110,054                    |                              | 110,054               |
| Common stock                                | 641          | 33,896       | 18,121                     | (52,017)                     | 641                   |
| Treasury stock                              | (718,373)    |              |                            |                              | (718,373)             |
| Additional paid-in-capital                  | 1,060,780    | 117,737      | 525,230                    | (642,967)                    | 1,060,780             |
| Retained earnings (deficit)                 | 2,149,389    | 721,200      | (268,725)                  | (452,475)                    | 2,149,389             |
| Total Steel Dynamics, Inc. equity           | 2,492,437    | 872,833      | 274,626                    | (1,147,459)                  | 2,492,437             |
| Noncontrolling interests                    |              |              | (44,703)                   |                              | (44,703)              |
| Total equity                                | 2,492,437    | 872,833      | 229,923                    | (1,147,459)                  | 2,447,734             |

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|                              |    |           |    |           |    |         |    |             |    |           |
|------------------------------|----|-----------|----|-----------|----|---------|----|-------------|----|-----------|
| Total liabilities and equity | \$ | 4,977,126 | \$ | 3,204,576 | \$ | 727,273 | \$ | (3,034,670) | \$ | 5,874,305 |
|------------------------------|----|-----------|----|-----------|----|---------|----|-------------|----|-----------|

Table of Contents

## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| As of December 31, 2012                       | Parent       | Guarantors   | Combined<br>Non-Guarantors | Consolidating<br>Adjustments | Total<br>Consolidated |
|---|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Cash and equivalents                          | \$ 322,707   | \$ 41,675    | \$ 11,535                  | \$                           | \$ 375,917            |
| Investments in short-term commercial<br>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          |

Table of Contents

## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| <b>For the three months ended,<br/>September 30, 2013</b>                | <b>Parent</b> | <b>Guarantors</b> | <b>Combined<br/>Non-Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total<br/>Consolidated</b> |
|--|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net sales  | \$ 902,280    | \$ 2,136,327      | \$ 91,198                          | \$ (1,218,067)                       | \$ 1,911,738                  |
| Costs of goods sold  | 760,589       | 2,025,470         | 114,408                            | (1,185,921)                          | 1,714,546                     |
| Gross profit (loss)  | 141,691       | 110,857           | (23,210)                           | (32,146)                             | 197,192                       |
| Selling, general and administrative                                      | 30,073        | 55,348            | 2,622                              | (4,124)                              | 83,919                        |
| Operating income (loss)  | 111,618       | 55,509            | (25,832)                           | (28,022)                             | 113,273                       |
| Interest expense, net of capitalized interest                            | 19,733        | 10,561            | 1,915                              | (1,239)                              | 30,970                        |
| Other (income) expense, net  | (2,423)       | 631               | (1,301)                            | 1,241                                | (1,852)                       |
| Income (loss) before income taxes and equity in net loss of subsidiaries | 94,308        | 44,317            | (26,446)                           | (28,024)                             | 84,155                        |
| Income taxes (benefit)   | 24,930        | 16,579            | 2,004                              | (10,448)                             | 33,065                        |
|  | 69,378        | 27,738            | (28,450)                           | (17,576)                             | 51,090                        |
| Equity in net loss of subsidiaries                                       | (11,892)      |                   |                                    | 11,892                               |                               |
| Net loss attributable to noncontrolling interests                        |               |                   | 6,396                              |                                      | 6,396                         |
| Net income (loss) attributable to Steel Dynamics, Inc.                   | \$ 57,486     | \$ 27,738         | \$ (22,054)                        | \$ (5,684)                           | \$ 57,486                     |

| <b>For the three months ended,<br/>September 30, 2012</b>                  | <b>Parent</b> | <b>Guarantors</b> | <b>Combined<br/>Non-Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total<br/>Consolidated</b> |
|--|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net sales  | \$ 785,168    | \$ 1,918,774      | \$ 48,167                          | \$ (1,058,719)                       | \$ 1,693,390                  |
| Costs of goods sold  | 685,074       | 1,823,447         | 69,520                             | (1,041,052)                          | 1,536,989                     |
| Gross profit (loss)  | 100,094       | 95,327            | (21,353)                           | (17,667)                             | 156,401                       |
| Selling, general and administrative  | 19,927        | 53,023            | 14,032                             | (3,302)                              | 83,680                        |
| Operating income (loss)  | 80,167        | 42,304            | (35,385)                           | (14,365)                             | 72,721                        |
| Interest expense, net of capitalized interest                              | 27,153        | 13,997            | 1,619                              | (1,279)                              | 41,490                        |
| Other (income) expense, net  | 23,345        | 434               | (1,046)                            | 1,277                                | 24,010                        |
| Income (loss) before income taxes and equity in net income of subsidiaries | 29,669        | 27,873            | (35,958)                           | (14,363)                             | 7,221                         |
| Income taxes (benefit)   | (2,771)       | 8,668             | 73                                 | (4,854)                              | 1,116                         |
|  | 32,440        | 19,205            | (36,031)                           | (9,509)                              | 6,105                         |
| Equity in net loss of subsidiaries   | (19,607)      |                   |                                    | 19,607                               |                               |
| Net loss attributable to noncontrolling interests                          |               |                   | 6,728                              |                                      | 6,728                         |
| Net income (loss) attributable to Steel Dynamics, Inc.                     | \$ 12,833     | \$ 19,205         | \$ (29,303)                        | \$ 10,098                            | \$ 12,833                     |



Table of Contents

## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| <b>For the nine months ended,<br/>September 30, 2013</b>                 | <b>Parent</b> | <b>Guarantors</b> | <b>Combined<br/>Non-Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total<br/>Consolidated</b> |
|--|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net sales  | \$ 2,566,286  | \$ 6,150,327      | \$ 245,607                         | \$ (3,453,446)                       | \$ 5,508,774                  |
| Costs of goods sold  | 2,220,737     | 5,840,025         | 318,163                            | (3,391,299)                          | 4,987,626                     |
| Gross profit (loss)  | 345,549       | 310,302           | (72,556)                           | (62,147)                             | 521,148                       |
| Selling, general and administrative                                      | 83,675        | 164,104           | 7,433                              | (12,767)                             | 242,445                       |
| Operating income (loss)  | 261,874       | 146,198           | (79,989)                           | (49,380)                             | 278,703                       |
| Interest expense, net of capitalized interest                            | 61,927        | 33,351            | 5,405                              | (3,619)                              | 97,064                        |
| Other (income) expense, net  | (4,776)       | 645               | (3,633)                            | 3,620                                | (4,144)                       |
| Income (loss) before income taxes and equity in net loss of subsidiaries | 204,723       | 112,202           | (81,761)                           | (49,381)                             | 185,783                       |
| Income taxes (benefit)   | 41,945        | 41,712            | 4,085                              | (17,574)                             | 70,168                        |
|  | 162,778       | 70,490            | (85,846)                           | (31,807)                             | 115,615                       |
| Equity in net loss of subsidiaries                                       | (28,119)      |                   |                                    | 28,119                               |                               |
| Net loss attributable to noncontrolling interests                        |               |                   | 19,044                             |                                      | 19,044                        |
| Net income (loss) attributable to Steel Dynamics, Inc.                   | \$ 134,659    | \$ 70,490         | \$ (66,802)                        | \$ (3,688)                           | \$ 134,659                    |

| <b>For the nine months ended,<br/>September 30, 2012</b>                   | <b>Parent</b> | <b>Guarantors</b> | <b>Combined<br/>Non-Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total<br/>Consolidated</b> |
|--|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net sales  | \$ 2,625,152  | \$ 6,408,166      | \$ 131,024                         | \$ (3,579,109)                       | \$ 5,585,233                  |
| Costs of goods sold  | 2,275,227     | 6,106,504         | 189,477                            | (3,525,776)                          | 5,045,432                     |
| Gross profit (loss)  | 349,925       | 301,662           | (58,453)                           | (53,333)                             | 539,801                       |
| Selling, general and administrative  | 72,196        | 160,513           | 20,940                             | (10,084)                             | 243,565                       |
| Operating income (loss)  | 277,729       | 141,149           | (79,393)                           | (43,249)                             | 296,236                       |
| Interest expense, net of capitalized interest                              | 81,583        | 41,208            | 5,068                              | (4,151)                              | 123,708                       |
| Other (income) expense, net  | 31,419        | (436)             | (2,767)                            | 4,150                                | 32,366                        |
| Income (loss) before income taxes and equity in net income of subsidiaries | 164,727       | 100,377           | (81,694)                           | (43,248)                             | 140,162                       |
| Income taxes (benefit)   | 31,809        | 36,354            | 444                                | (15,632)                             | 52,975                        |
|  | 132,918       | 64,023            | (82,138)                           | (27,616)                             | 87,187                        |
| Equity in net loss of subsidiaries   | (29,938)      |                   |                                    | 29,938                               |                               |
| Net loss attributable to noncontrolling interests                          |               |                   | 15,793                             |                                      | 15,793                        |
| Net income (loss) attributable to Steel Dynamics, Inc.                     | \$ 102,980    | \$ 64,023         | \$ (66,345)                        | \$ 2,322                             | \$ 102,980                    |

Table of Contents

## 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 nine months ended,<br/>September 30, 2013</b> | <b>Parent</b> | <b>Guarantors</b> | <b>Combined<br/>Non-Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total<br/>Consolidated</b> |
|--|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net cash provided by (used in) operating activities      | \$ 126,404    | \$ 164,383        | \$ (56,636)                        | \$ 11,540                            | \$ 245,691                    |
| Net cash used in investing activities                    | (115,979)     | (28,654)          | (20,230)                           | 53,760                               | (111,103)                     |
| Net cash provided by (used in) financing activities      | (10,920)      | (139,694)         | 75,465                             | (65,300)                             | (140,449)                     |
| Decrease in cash and equivalents                         | (495)         | (3,965)           | (1,401)                            |                                      | (5,861)                       |
| Cash and equivalents at beginning of period              | 322,707       | 41,675            | 11,535                             |                                      | 375,917                       |
| Cash and equivalents at end of period                    | \$ 322,212    | \$ 37,710         | \$ 10,134                          | \$                                   | \$ 370,056                    |

| <b>For the nine months ended,<br/>September 30, 2012</b> | <b>Parent</b> | <b>Guarantors</b> | <b>Combined<br/>Non-Guarantors</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total<br/>Consolidated</b> |
|--|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net cash provided by (used in) operating activities      | \$ 145,121    | \$ 128,705        | \$ (39,928)                        | \$ 5,488                             | \$ 239,386                    |
| Net cash used in investing activities                    | (19,249)      | (74,342)          | (81,123)                           | 80,479                               | (94,235)                      |
| Net cash provided by (used in) financing activities      | (183,982)     | (86,072)          | 107,229                            | (85,967)                             | (248,792)                     |
| Decrease in cash and equivalents                         | (58,110)      | (31,709)          | (13,822)                           |                                      | (103,641)                     |
| Cash and equivalents at beginning of period              | 301,073       | 58,699            | 30,989                             |                                      | 390,761                       |
| Cash and equivalents at end of period                    | \$ 242,963    | \$ 26,990         | \$ 17,167                          | \$                                   | \$ 287,120                    |



Table of Contents

**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 \$57.5 million, or \$0.25 per diluted share, during the third quarter of 2013, compared with net income of \$12.8 million, or \$0.06 per diluted share, during the third quarter of 2012, and net income of \$29.0 million, or \$0.13 per diluted share, during the second quarter of 2013. Our net sales increased \$218.3 million, or 13%, to \$1.9 billion in the third quarter of 2013 versus the third quarter of 2012, while net sales increased \$110.4 million, or 6%, versus the second quarter of 2013. Our gross profit percentage was 10% for the third quarter of 2013 as compared to 9% for the third quarter of 2012 and 8% for the second quarter of 2013.

Third quarter 2013 external steel shipments increased 13% as compared to the third quarter of 2012 (with total sheet products shipments increasing 14% and long products shipments increasing 12%), and external ferrous scrap shipments increased 4% and external nonferrous scrap shipments increased 7%. Additionally, steel fabrication external shipments increased 27% in the third quarter of 2013 compared to the same period in 2012. Operating income increased 56% to \$113.3 million in the third quarter 2013, as compared to the same period in 2012, due primarily to increased operating income from our steel operations due to higher steel sales volumes and improved gross margins.

Comparing the third quarter of 2013 to the second quarter of 2013, external steel shipments increased 5% while external ferrous and nonferrous scrap shipments increased 1% and 5%, respectively. Steel fabrication continued its trend of increasing external shipments, showing an 18% sequential-quarter gain. Consolidated quarterly operating income increased 64% sequentially, due primarily to increased volume in our steel operations segment coupled with higher steel sheet metal spreads resulting from increased steel sheet selling prices.

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

|   |    |           |      |    |           |    |           |        |    |             |       |    |             |
|---|----|-----------|------|----|-----------|----|-----------|--------|----|-------------|-------|----|-------------|
| <b>Net sales:</b>                             |    |           |      |    |           |    |           |        |    |             |       |    |             |
| Steel   | \$ | 1,216,966 | 11%  | \$ | 1,099,506 | \$ | 1,143,913 | 6%     | \$ | 3,483,239   | (3)%  | \$ | 3,594,208   |
| <b>Metals recycling and ferrous resources</b> |    |           |      |    |           |    |           |        |    |             |       |    |             |
|   |    | 918,494   | 16%  |    | 790,368   |    | 861,158   | 7%     |    | 2,677,144   | (5)%  |    | 2,821,944   |
| Steel fabrication                             |    | 119,268   | 16%  |    | 102,442   |    | 104,159   | 15%    |    | 317,802     | 16%   |    | 273,105     |
| Other   |    | 32,712    | 47%  |    | 22,273    |    | 28,122    | 16%    |    | 85,688      | 28%   |    | 66,754      |
|   |    | 2,287,440 |      |    | 2,014,589 |    | 2,137,352 |        |    | 6,563,873   |       |    | 6,756,011   |
| Intra-company                                 |    | (375,702) |      |    | (321,199) |    | (336,012) |        |    | (1,055,099) |       |    | (1,170,778) |
| Consolidated                                  | \$ | 1,911,738 | 13%  | \$ | 1,693,390 | \$ | 1,801,340 | 6%     | \$ | 5,508,774   | (1)%  | \$ | 5,585,233   |
| <b>Operating income (loss):</b>               |    |           |      |    |           |    |           |        |    |             |       |    |             |
| Steel   | \$ | 146,564   | 37%  | \$ | 106,927   | \$ | 85,545    | 71%    | \$ | 351,410     | (8)%  | \$ | 380,832     |
| <b>Metals recycling and ferrous resources</b> |    |           |      |    |           |    |           |        |    |             |       |    |             |
|   |    | (17,135)  | (9)% |    | (15,697)  |    | (7,251)   | (136)% |    | (34,210)    | (11)% |    | (30,905)    |
| Steel fabrication                             |    | 3,265     | 4%   |    | 3,141     |    | 2,330     | 40%    |    | 7,125       | 970%  |    | 666         |

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|                 |          |     |           |           |       |            |      |            |
|-----------------|----------|-----|-----------|-----------|-------|------------|------|------------|
| Other           | (17,274) | 3%  | (17,759)  | (14,434)  | (20)% | (48,147)   | 2%   | (49,294)   |
|                 | 115,420  | 51% | 76,612    | 66,190    | 74%   | 276,178    | (8)% | 301,299    |
| Eliminations    | (2,147)  |     | (3,891)   | 3,008     |       | 2,525      |      | (5,063)    |
| Consolidated \$ | 113,273  | 56% | \$ 72,721 | \$ 69,198 | 64%   | \$ 278,703 | (6)% | \$ 296,236 |

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 third quarter of 2013 and 2012, our steel operations accounted for 61% and 62% of our external net sales, respectively. Operating income for the steel segment increased \$39.6 million, or 37%, to \$146.6 million in the third quarter of 2013, compared to the same period of 2012. The increase in operating income is primarily due to a 13% increase in segment shipments and improved gross margins. Decreased metal spreads, caused by average segment selling prices per ton shipped decreasing \$18 versus only a \$3 per ton decrease in the average cost of ferrous scrap consumed, were more than offset by cost compression derived in part from increased production volumes. Continued domestic oversupply caused selling values to decrease more than raw material costs, resulting in the compressed metal spreads.

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### Table of Contents

Operating income for the steel segment decreased \$29.4 million, or 8%, to \$351.4 million in the first nine months of 2013, compared to the same period of 2012. Despite a more than 4% increase in steel segment shipments, gross margin and correspondingly operating income, decreased 6%, primarily due to a \$61 decrease in average segment selling prices per ton shipped versus only a \$38 per ton decrease in average ferrous scrap cost melted in the first nine months of 2013, as compared to the first nine months of 2012.

### Steel Operations Shipments (tons)

|                                     | Three Months Ended<br>September 30, |           | Second<br>Quarter |           | Nine Months Ended<br>September 30, |      |           |      |           |      |
|-------------------------------------|-------------------------------------|-----------|-------------------|-----------|------------------------------------|------|-----------|------|-----------|------|
|                                     | 2013                                | 2012      | 2013              | 2013      | 2013                               | 2012 |           |      |           |      |
| Flat Roll Division                  | 740,279                             | 638,776   | 720,582           | 2,165,151 | 2,004,225                          |      |           |      |           |      |
| The Techs                           | 176,713                             | 167,982   | 179,217           | 507,067   | 484,034                            |      |           |      |           |      |
| Sheet products                      | 916,992                             | 58%       | 806,758           | 57%       | 899,799                            | 59%  | 2,672,218 | 58%  | 2,488,259 | 57%  |
| Structural and Rail Division        | 315,808                             | 255,533   | 286,974           | 883,679   | 769,063                            |      |           |      |           |      |
| Engineered Bar Products<br>Division | 127,788                             | 113,327   | 123,919           | 364,528   | 437,024                            |      |           |      |           |      |
| Roanoke Bar Division                | 144,323                             | 152,922   | 134,001           | 418,274   | 453,228                            |      |           |      |           |      |
| Steel of West Virginia              | 80,214                              | 76,481    | 77,975            | 238,896   | 228,149                            |      |           |      |           |      |
| Long products                       | 668,133                             | 42%       | 598,263           | 43%       | 622,869                            | 41%  | 1,905,377 | 42%  | 1,887,464 | 43%  |
| Total shipments                     | 1,585,125                           | 1,405,021 | 1,522,668         | 4,577,595 | 4,375,723                          |      |           |      |           |      |
| Intra-segment shipments             | (33,778)                            | (2)%      | (34,594)          | (2)%      | (35,031)                           | (2)% | (100,899) | (2)% | (92,211)  | (2)% |
| Segment shipments                   | 1,551,347                           | 1,370,427 | 1,487,637         | 4,476,696 | 4,283,512                          |      |           |      |           |      |
| Intra-company shipments             | (87,480)                            | (6)%      | (71,195)          | (5)%      | (91,257)                           | (6)% | (272,017) | (6)% | (214,629) | (5)% |
| External shipments                  | 1,463,867                           | 1,299,232 | 1,396,380         | 4,204,679 | 4,068,883                          |      |           |      |           |      |

**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 increased \$117.5 million, or 11%, in the third quarter of 2013 when compared to the third quarter of 2012, as a 13% increase in segment shipments more than offset a 2%, or \$18 per ton, decrease in average selling prices. Increased shipments were somewhat consistent between sheet and long product, as sheet products shipments increased 14%, and long product shipments increased 12%, with the most notable increase in structural steel. Net sales for the steel segment decreased \$111.0 million, or 3%, in the first nine months of 2013 when compared to the first nine months of 2012, as an almost 5% increase in segment shipments was offset by selling price decreases of more than 7%, or \$61 per ton.



Table of Contents

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 \$3 in the third quarter of 2013, compared with the third quarter of 2012. During the third quarter of 2013 and 2012, respectively, our metallic raw material costs represented 65% and 64% 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 \$38 in the first nine months of 2013 compared with the first nine months of 2012, and represented 65% of our steel operations manufacturing costs, excluding the operations of The Techs, in each nine-month period.

**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 32% and 31% of our external net sales in the third quarter of 2013 and 2012, respectively. Operating loss for the metals recycling and ferrous resources operations segment increased \$1.4 million compared to the third quarter of 2012, due primarily to decreased ferrous metal spreads in metals recycling which more than offset increases in ferrous and nonferrous selling volumes. Operating loss for metals recycling and ferrous resources operations segment decreased \$3.3 million in the first nine months of 2013 to \$34.2 million compared to the first nine months of 2012.

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

|  | Three Months Ended<br>September 30, |           | Second<br>Quarter | Nine Months Ended<br>September 30, |             |
|--|-------------------------------------|-----------|-------------------|------------------------------------|-------------|
|  | 2013                                | 2012      | 2013              | 2013                               | 2012        |
| <b>Ferrous metal (gross tons)</b>              |                                     |           |                   |                                    |             |
| Total  | 1,472,418                           | 1,339,853 | 1,334,390         | 4,149,737                          | 4,408,915   |
| Intra-segment                                  | (899)                               | (7,320)   | (1,237)           | (4,105)                            | (10,240)    |
| Segment shipments                              | 1,471,519                           | 1,332,533 | 1,333,153         | 4,145,632                          | 4,398,675   |
| Intra-company                                  | (681,346)                           | (575,622) | (547,031)         | (1,780,298)                        | (2,003,137) |
| External shipments                             | 790,173                             | 756,911   | 786,122           | 2,365,334                          | 2,395,538   |
| <b>Nonferrous metals (thousands of pounds)</b> |                                     |           |                   |                                    |             |
| Total and segment shipments                    | 263,467                             | 249,685   | 254,495           | 797,618                            | 800,253     |
| Intra-company                                  | (4,446)                             | (8,476)   | (6,737)           | (14,712)                           | (15,032)    |
| External shipments                             | 259,021                             | 241,209   | 247,758           | 782,906                            | 785,221     |
| Mesabi Nugget (metric tons)                    | 52,234                              | 52,082    | 44,454            | 156,373                            | 132,152     |
| <b>Iron Dynamics (metric tons)</b>             |                                     |           |                   |                                    |             |
| intra-company                                  | 66,674                              | 53,548    | 66,285            | 197,644                            | 169,279     |

**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 91% and 93% of this segment's net sales during the third quarter of 2013 and 2012, respectively.

During the third quarter of 2013, metals recycling recorded sales of \$848.0 million on shipments of 1.5 million gross tons of ferrous metals and 263.5 million pounds of nonferrous metals, compared with sales of \$766.1 million on shipments of 1.3 million gross tons of ferrous and 249.7 million pounds of nonferrous metals during the same period in 2012. During the third quarter of 2013 and 2012, the metals recycling operations provided approximately 49% and 52%, respectively, of the steel scrap purchased by our steel mills. This represented 46% and 43% of the metals recycling operations' ferrous shipments for the third quarter of 2013 and 2012, respectively. Sales prices of ferrous metals increased 7% in the third quarter of 2013 versus the same period in 2012, while nonferrous sales prices decreased 4% for the same periods. During the first nine months of 2013, metals recycling recorded sales of \$2.5 billion on shipments of 4.1 million gross tons of ferrous metals and 797.6 million pounds of nonferrous metals, compared with sales of \$2.7 billion on shipments of 4.4 million gross tons of ferrous metals and 800.3 million pounds of nonferrous metals during the same period in 2012. Sales prices of ferrous metals decreased 7% in the first nine months of 2013 versus the same period in 2012, while nonferrous sales prices increased 1% for the same periods.

Operating income for metals recycling decreased \$4.6 million in the third quarter of 2013 to \$5.7 million compared to the third quarter of 2012 despite increased volumes, due primarily to a 20% decrease in ferrous metal margins.

Operating income for metals recycling increased \$7.6 million in the first nine months of 2013, to \$35.5 million, compared to the first nine months of 2012. The impact of decreased volumes in both ferrous (6%) and nonferrous (.3%) metals in the first nine months of 2013 as compared to the first nine months of 2012, were offset by modest increases in metal spreads of both ferrous and nonferrous metals and reduced operating expenses during the same periods.



**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 lasting approximately one month. These modifications improved production rates as expected, however product yield declined. Having achieved near-term production targets, we are now focused on reducing the overall cost of production while improving product yield. In the third quarter of 2013 and 2012, Mesabi Nugget produced 52,000 metric tons of iron-nuggets for use by our own steel mills. Our iron tailings operation, Mining Resources, started operations in September of 2012 and is operating at expected capacity levels to meet the needs of the Nugget facility. 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 are able to benefit from the use of lower-cost iron concentrate rather than higher priced third-party material. Mesabi Nugget is currently solely utilizing this internal source iron concentrate in its production process. Losses from our Minnesota iron operations reduced our net income in the third quarter of 2013 by approximately \$10.6 million, \$800,000 less than in the third quarter of 2012. For the first nine months of 2013, losses from our Minnesota iron operations reduced our net income by approximately \$33.7 million, compared with \$31.9 million in the first nine months of 2012.

Table of Contents

**Steel Fabrication Operations**

Our steel fabrication operations represent the company's New Millennium Building Systems plants located throughout the United States and Northern Mexico. Revenues from these plants are generated from the fabrication of trusses, girders, steel joists and steel decking used within the non-residential construction industry. Steel fabrication operations accounted for 6% of our external net sales during the third quarter of 2013 and 2012. The segment achieved operating income of \$3.3 million in the third quarter of 2013, compared to \$3.1 million in the third quarter of 2012. A 27% increase in sales volumes was offset by an 8% decrease in selling prices, resulting in slightly improved operating income. The segment had operating income of \$7.1 million in the first nine months of 2013, compared to \$666,000 in the first nine months of 2012. The significant increase in operating income is due to a 22% increase in sales volumes and increased metal spreads, as the reduction in steel raw material costs surpassed the drop in selling prices.

Net sales for the segment increased \$16.8 million, or 16%, in the third quarter of 2013 compared to the third quarter of 2012, as volumes increased 27%. However, the segment's average selling price per ton shipped decreased \$104, or 8%, during the same period. Increased third quarter 2013 shipments were the result of continued improvement in the non-residential construction market and market share gains. Net sales for the segment increased \$44.7 million, or 16%, in the first nine months of 2013 compared to the first nine months of 2012, as volumes increased 22%, offset by a 4% decrease in selling prices.

The purchase of various steel products is the largest single cost of production for our steel fabrication operations. During the third quarter of 2013 and 2012, the cost of steel products purchased represented 76% and 69% of the total cost of manufacturing for our steel fabrication operations, respectively. The average cost of steel consumed decreased in the third quarter of 2013, as compared to the same period in 2012, by \$96 per ton. During the first nine months 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 in the first nine months of 2013, as compared to the same period in 2012, by \$91 per ton.



Table of Contents

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

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses (including profit sharing, amortization of intangible assets and non-cash impairment charges) were \$83.9 million during the third quarter of 2013, as compared to \$83.7 million during the third quarter of 2012, which included \$7.9 million of non-cash impairment charges related to the third quarter 2012 decision to terminate two small joint venture entities (not within a reportable segment) which were not aligned with our long-term focus. Excluding impairment charges, our selling, general and administrative expenses represented 4% of our total net sales during both the third quarter of 2013 and 2012. The increase in selling, general and administrative expenses, excluding non-cash impairment charges, in the third quarter of 2013 as compared to the third quarter of 2012 is due primarily to increased profit sharing expenses, consistent with the increases in profitability during the third quarter of 2013.

***Interest Expense, net of Capitalized Interest.*** During the third quarter of 2013, gross interest expense decreased \$9.5 million to \$32.3 million, and capitalized interest increased \$990,000, to \$1.3 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 effective interest rate on \$1.2 billion of senior notes that were refinanced.

***Other Expense (Income), net.*** Other income was \$1.9 million during the third quarter of 2013, as compared to \$24.0 million of other expense during the same period in 2012. The third quarter 2012 other expense includes \$26.3 million of non-operating charges related to our third quarter 2012 refinancing activities, which were primarily comprised of prepayment fees.

***Income Taxes.*** During the third quarter of 2013, our income tax expense was \$33.1 million with an effective tax rate of 39.3%, as compared to \$1.1 million with an effective tax rate of 15.5%, during the same period in 2012. The lower effective tax rate in the third quarter of 2012 was due to the effective settlement of certain tax positions during the quarter which resulted in a decrease in unrecognized tax benefits and a corresponding income tax benefit. This benefit was partially offset by an increase in the estimated annual effective rate for 2012 during the third quarter.

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

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses (including profit sharing, amortization of intangible assets and non-cash impairment charges) were \$242.4 million during the first nine months of 2013, as compared to \$243.6 million during the first nine months of 2012, a decrease of \$1.1 million. Excluding non-cash impairment charges (\$7.9 million in the first nine months of 2012), our selling, general and administrative expenses represented 4% of our total net sales during both the first nine months of 2013 and 2012.

***Interest Expense, net of Capitalized Interest.*** During the first nine months of 2013, gross interest expense decreased \$24.4 million to \$100.2 million, and capitalized interest increased \$2.3 million, to \$3.2 million, when compared to the same period in 2012. The interest capitalized during these periods relates to longer-term construction activities at our various operating segments, which have increased in 2013 as compared to 2012. The decrease in gross interest expense is due to refinancing activities that reduced outstanding debt by \$175 million during the second 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 \$4.1 million during the first nine months of 2013, as compared to other expense of \$32.4 million during the same period in 2012. We recorded non-operating charges of \$40.3 million in the first nine months of 2012 related to our first and third quarter 2012 refinancing activities; while we recorded \$2.6 million of non-operating charges in the in the first nine months of 2013 related to our 2013 refinancing activities.

**Income Taxes.** During the first nine months of 2013, our income tax expense was \$70.2 million with an effective tax rate of 37.8%, as compared to \$53.0 million with an effective tax rate of 37.8% during the same period in 2012.

### **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 \$130.5 million during the first nine months of 2013 related to increased sales in the third quarter of 2013, when compared to the fourth quarter of 2012, as days sales outstanding remained consistent. Total inventories decreased \$10.5 million, or 1%, to \$1.2 billion. Our raw materials, primarily steel scrap inventories, decreased by approximately \$11.1 million during the first nine months of 2013, with scrap volume increases being more than offset by decreased unit costs. Our trade payables and accrued expenses increased \$38.8 million, or 7%, during the first nine months of 2013, primarily the result of a 19% increase in trade payables due to increased production and sales volumes in the third quarter of 2013, offset by decreases in accrued interest from the lower levels of debt and reduced interest rates.

Table of Contents

**Capital Investments.** During the first nine months of 2013, we invested \$146.7 million in property, plant and equipment, of which over half related to announced growth or expansion projects at three of our steel mills and at our metals recycling operations. We estimate total capital expenditures for 2013 to be in the range of \$200 million.

**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 nine months of 2013, our total outstanding debt decreased \$93.3 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 45.2% at September 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 September 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.

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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 September 30, 2013, our interest coverage ratio and net debt leverage ratio were 4.94:1.00 and 2.76:1.00, respectively. We were therefore in compliance with these covenants at September 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 \$72.9 million, or \$0.33 per common share (\$0.11 per common share each quarter), during the first nine months of 2013, a 10% increase over the \$0.30 per common share, or \$65.7 million, dividends declared during the first nine months of 2012. We paid cash dividends of \$70.5 million and \$65.7 million during the first nine months 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 is 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.

Table of Contents

**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.



Table of Contents

**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 September 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 September 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 September 30, 2013, we had a cumulative unrealized loss associated with these financial contracts of \$587,000, substantially all of which have a settlement date within the next twelve months. We believe the customer and supplier contracts associated with the financial contracts will be fully consummated.

**ITEM 4. CONTROLS AND PROCEDURES**

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(a) ***Evaluation of Disclosure Controls and Procedures.*** Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 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 September 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 September 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

**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. On October 15, 2013, Plaintiffs submitted their Reply papers, together with responses to Defendants Daubert motions. 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.

Table of Contents

**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

Table of Contents

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.

November 8, 2013

STEEL DYNAMICS, INC.

By:

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