

STEEL DYNAMICS INC  
Form 10-Q  
November 07, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2012**

**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, 2012, Registrant had 219, 243, 272, outstanding shares of common stock.

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STEEL DYNAMICS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2012 (unaudited)	December 31, 2011
<b>Assets</b>		
<b>Current assets</b>		
Cash and equivalents	\$ 287,120	\$ 390,761
Investments in short-term commercial paper		84,830
Accounts receivable, net	656,517	679,898
Accounts receivable-related parties	56,233	42,893
Inventories	1,209,079	1,199,584
Deferred income taxes	28,229	25,341
Income taxes receivable	939	16,722
Other current assets	24,107	15,229
Total current assets	2,262,224	2,455,258
<b>Property, plant and equipment, net</b>	2,213,703	2,193,745
<b>Restricted cash</b>	27,436	26,528
<b>Intangible assets, net</b>	425,034	450,893
<b>Goodwill</b>	740,192	745,066
<b>Other assets</b>	106,927	107,736
<b>Total assets</b>	\$ 5,775,516	\$ 5,979,226
<b>Liabilities and Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 364,380	\$ 414,240
Accounts payable-related parties	12,833	6,584
Income taxes payable	12,014	10,880
Accrued expenses	166,845	185,964
Accrued profit sharing	19,213	38,671
Current maturities of long-term debt	30,114	444,078
Total current liabilities	605,399	1,100,417
<b>Long-term debt</b>		
Term loan	250,938	
7 3/8% senior notes due 2012		261,250
5.125% convertible senior notes due 2014	287,496	287,500
6 3/4% senior notes due 2015	500,000	500,000
7 3/4% senior notes due 2016		500,000
6 1/8% senior notes due 2019	400,000	
7 5/8% senior notes due 2020	350,000	350,000
6 3/8% senior notes due 2022	350,000	
Other long-term debt	35,491	37,272
Total long-term debt	2,173,925	1,936,022
<b>Deferred income taxes</b>	544,800	489,915
<b>Other liabilities</b>	18,564	82,278

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**Commitments and contingencies**

<b>Redeemable noncontrolling interest</b>	93,774	70,694
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**Equity**

Common stock voting, \$.0025 par value; 900,000,000 shares authorized; 255,299,134 and 255,052,811 shares issued; and 219,228,888 and 218,873,720 shares outstanding, as of September 30, 2012 and December 31, 2011, respectively	636	636
Treasury stock, at cost; 36,070,246 and 36,179,091 shares, as of September 30, 2012 and December 31, 2011, respectively	(720,479)	(722,653)
Additional paid-in capital	1,033,857	1,026,157
Retained earnings	2,049,011	2,011,801
Total Steel Dynamics, Inc. equity	2,363,025	2,315,941
Noncontrolling interests	(23,971)	(16,041)
<b>Total equity</b>	2,339,054	2,299,900
<b>Total liabilities and equity</b>	\$ 5,775,516	\$ 5,979,226

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net sales				
Unrelated parties	\$ 1,624,561	\$ 1,976,296	\$ 5,359,753	\$ 5,922,243
Related parties	68,829	67,159	225,480	216,912
<b>Total net sales</b>	<b>1,693,390</b>	<b>2,043,455</b>	<b>5,585,233</b>	<b>6,139,155</b>
Costs of goods sold	1,536,989	1,844,212	5,045,432	5,367,772
<b>Gross profit</b>	<b>156,401</b>	<b>199,243</b>	<b>539,801</b>	<b>771,383</b>
Selling, general and administrative expenses	62,984	72,876	188,603	201,648
Profit sharing	3,954	7,428	20,237	37,085
Amortization of intangible assets	8,848	10,154	26,831	30,320
Impairment charges	7,894		7,894	
<b>Total selling, general and administrative expenses</b>	<b>83,680</b>	<b>90,458</b>	<b>243,565</b>	<b>269,053</b>
<b>Operating income</b>	<b>72,721</b>	<b>108,785</b>	<b>296,236</b>	<b>502,330</b>
Interest expense, net of capitalized interest	41,490	44,702	123,708	132,860
Other expense (income), net	24,010	(3,523)	32,366	(13,835)
<b>Income before income taxes</b>	<b>7,221</b>	<b>67,606</b>	<b>140,162</b>	<b>383,305</b>
Income taxes	1,116	27,749	52,975	143,392
<b>Net income</b>	<b>6,105</b>	<b>39,857</b>	<b>87,187</b>	<b>239,913</b>
Net loss attributable to noncontrolling interests	6,728	3,447	15,793	8,004
<b>Net income attributable to Steel Dynamics, Inc.</b>	<b>\$ 12,833</b>	<b>\$ 43,304</b>	<b>\$ 102,980</b>	<b>\$ 247,917</b>
<b>Basic earnings per share attributable to Steel Dynamics, Inc. stockholders</b>	<b>\$ .06</b>	<b>\$ .20</b>	<b>\$ .47</b>	<b>\$ 1.14</b>
Weighted average common shares outstanding	219,191	218,674	219,097	218,389
<b>Diluted earnings per share attributable to Steel Dynamics, Inc. stockholders, including the effect of assumed conversions when dilutive</b>	<b>\$ .06</b>	<b>\$ .19</b>	<b>\$ .47</b>	<b>\$ 1.08</b>
Weighted average common shares and share equivalents outstanding	220,044	235,759	236,536	236,083
<b>Dividends declared per share</b>	<b>\$ .10</b>	<b>\$ .10</b>	<b>\$ .30</b>	<b>\$ .30</b>

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Operating activities:</b>				
Net income	\$ 6,105	\$ 39,857	\$ 87,187	\$ 239,913
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	58,953	55,962	170,027	166,965
Equity-based compensation	738	3,833	9,463	11,355
Impairment charges	7,894		7,894	
Deferred income taxes	34,633	7,118	54,464	29,081
(Gain) loss on disposal of property, plant and equipment	(152)	3,701	(565)	3,797
Changes in certain assets and liabilities:				
Accounts receivable	2,690	33,533	15,604	(193,679)
Inventories	43,005	36,346	6,702	(44,787)
Other assets	(7,484)	1,632	(4,917)	7,329
Accounts payable	6,920	(4,375)	(19,015)	92,550
Income taxes receivable/payable	25,993	(5,911)	16,917	22,409
Accrued expenses and liabilities	(61,929)	50,767	(104,375)	57,464
Net cash provided by operating activities	117,366	222,463	239,386	392,397
<b>Investing activities:</b>				
Purchases of property, plant and equipment	(58,342)	(38,126)	(158,686)	(91,795)
Proceeds from maturity of short-term commercial paper	9,998		84,830	
Other investing activities	655	947	(20,379)	1,946
Net cash used in investing activities	(47,689)	(37,179)	(94,235)	(89,849)
<b>Financing activities:</b>				
Issuance of current and long-term debt	760,000	10,851	1,049,969	15,977
Repayment of current and long-term debt	(946,858)	(105)	(1,252,202)	(7,921)
Debt issuance costs	(11,625)	(6,884)	(13,813)	(6,884)
Proceeds from exercise of stock options, including related tax effect	583	402	2,021	13,267
Contributions from noncontrolling investors, net	16,320	11,320	30,943	13,207
Dividends paid	(21,915)	(21,865)	(65,710)	(60,013)
Net cash used in financing activities	(203,495)	(6,281)	(248,792)	(32,367)
Increase (decrease) in cash and equivalents	(133,818)	179,003	(103,641)	270,181
Cash and equivalents at beginning of period	420,938	277,691	390,761	186,513
<b>Cash and equivalents at end of period</b>	<b>\$ 287,120</b>	<b>\$ 456,694</b>	<b>\$ 287,120</b>	<b>\$ 456,694</b>
<b>Supplemental disclosure information:</b>				
Cash paid for interest	\$ 42,413	\$ 14,931	\$ 123,973	\$ 101,088



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Cash paid for federal and state income taxes, net	\$	3,629	\$	12,403	\$	43,976	\$	74,378
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See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

**Description of the Business**

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

**Steel Operations.** Steel operations include the company's Flat Roll Division, Structural and Rail Division, Engineered Bar Products Division, Roanoke Bar Division, Steel of West Virginia (SWVA) and The Techs operations. These operations consist of mini-mills, producing steel from steel scrap, using electric arc furnaces, continuous casting, automated rolling mills, and downstream finishing facilities. The company's steel operations sell directly to end users and service centers. These products are used in numerous industry sectors, including the automotive, construction, commercial, transportation and industrial machinery markets. Steel operations accounted for approximately 62% and 60% of the company's external net sales during the three-month periods ended September 30, 2012 and 2011, respectively, and 62% and 60% of the company's external net sales during the nine-month periods ended September 30, 2012 and 2011, 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 31% and 35% of the company's external net sales during the three-month periods ended September 30, 2012 and 2011, respectively, and 32% and 35% of the company's external net sales during the nine-month periods ended September 30, 2012 and 2011, 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 4% of the company's external net sales during the three-month periods ended September 30, 2012 and 2011, respectively, and 5% and 3% of the company's external net sales during the nine-month periods ended September 30, 2012 and 2011, 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, 2011.

**Property, Plant and Equipment.** In the third quarter of 2012, the company determined that it would terminate two small joint venture entities, which were not aligned with the company's long-term strategic focus. The decision to terminate these joint ventures triggered an assessment for impairment based on estimated realizable values, resulting in an impairment charge of \$7.9 million during the quarter. As these joint ventures are not reported within any of the company's reportable segments, reported segment results were not affected.

**Goodwill.** The company's goodwill is allocated to the following reporting units at September 30, 2012, and December 31, 2011, (in thousands):

	September 30, 2012	December 31, 2011
OmniSource Metals Recycling/Ferrous Resources Segment	\$ 566,443	\$ 571,317
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
	\$ 740,192	\$ 745,066

OmniSource goodwill decreased \$4.9 million from December 31, 2011 to September 30, 2012, in recognition of the 2012 tax benefit related to the amortization of the component of OmniSource tax-deductible goodwill in excess of book goodwill.

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 2. Earnings Per Share**

Basic earnings per share is based on the weighted average shares of common stock outstanding during the period. Diluted earnings per share assumes the weighted average dilutive effect of common share equivalents outstanding during the period applied to the company's basic earnings per share. Common share equivalents represent potentially dilutive stock options and restricted shares, and dilutive shares related to the company's 5.125% convertible senior notes, and are excluded from the computation in periods in which they have an anti-dilutive effect. Options to purchase 6.5 million and 5.8 million shares were anti-dilutive at September 30, 2012 and 2011, respectively. The computation of diluted earnings per share for the three months 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 (Numerator)	2012 Shares (Denominator)	Per Share Amount	Net Income (Numerator)	2011 Shares (Denominator)	Per Share Amount
Basic earnings per share	\$ 12,833	219,191	\$ .06	\$ 43,304	218,674	\$ .20
Dilutive stock option effect		853			703	
5.125% convertible senior notes, net of tax				2,358	16,382	
Diluted earnings per share	\$ 12,833	220,044	\$ .06	\$ 45,662	235,759	\$ .19
	Nine Months Ended September 30,					
	Net Income (Numerator)	2012 Shares (Denominator)	Per Share Amount	Net Income (Numerator)	2011 Shares (Denominator)	Per Share Amount
Basic earnings per share	\$ 102,980	219,097	\$ .47	\$ 247,917	218,389	\$ 1.14
Dilutive stock option effect		908			1,312	
5.125% convertible senior notes, net of tax	7,074	16,531		7,074	16,382	
Diluted earnings per share	\$ 110,054	236,536	\$ .47	\$ 254,991	236,083	\$ 1.08

**Note 3. Inventories**

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

	September 30, 2012		December 31, 2011
Raw materials	\$ 623,101	\$	609,150
Supplies	272,036		251,716
Work-in-progress	85,497		106,609
Finished goods	228,445		232,109
Total inventories	\$ 1,209,079	\$	1,199,584

**Note 4. Income Taxes**

The effective tax rate during the three months ended September 30, 2012 is 15.5%, which is below the 35.0% statutory tax rate. Certain tax positions were effectively settled during the three months ended September 30, 2012, resulting in a decrease in unrecognized tax benefits to \$47.6 million (including accrued interest and penalties) at September 30, 2012, and a corresponding income tax benefit being recorded during the three months ended September 30, 2012 for a portion of the decrease. This income tax benefit however was largely offset by an increase during the third quarter of 2012 in the estimated annual effective tax rate for 2012.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 5. Debt**

On January 11, 2012, the company expanded its senior secured credit facility by adding a \$275.0 million term loan that matures on September 30, 2016 (Term Loan). Quarterly principal payments under the Term Loan are required to be made in amounts ranging from 1.25% to 3.75% of the original principal amount, with the unpaid principal balance of approximately \$158.0 million due on the maturity date. The company used the net proceeds of the Term Loan, together with cash on hand, to fund the January 2012 purchase of \$279.7 million of the company's 7 3/8% Senior Notes due 2012 pursuant to a tender offer. As a result of the tender, the company recorded expenses of \$13.9 million in January 2012 related to the tender premium, unamortized debt issuance costs write-off, and tender expenses, which are reflected in other expenses in the consolidated statement of income for the nine-months ended September 30, 2012.

On August 16, 2012, the company issued \$400.0 million of 6 1/8% Senior Notes due 2019 (2019 Senior Notes) and \$350.0 million of 6 3/8% Senior Notes due 2022 (2022 Senior Notes) (together the Senior Notes). Interest on the Senior Notes will be paid semiannually on February 15 and August 15 of each year with the first payment on February 15, 2013. The Senior Notes are in equal right of payment with all existing and future senior unsecured indebtedness and senior in right of payment to all subordinated indebtedness. The 2019 Senior Notes contain provisions that allow the company to redeem the notes any time on or after August 15, 2016 at a redemption price of 103.063%, on or after August 15, 2017 at a redemption price of 101.531%, and on or after August 15, 2018 at 100.000%. The 2022 Senior Notes contain provisions that allow the company to redeem the notes any time on or after August 15, 2017 at a redemption price of 103.188%, on or after August 15, 2018 at a redemption price of 102.125%, on or after August 15, 2019 at a redemption price of 101.063%, and on or after August 15, 2020 at 100.000%. Before August 15, 2015, the company may redeem up to 35% of each of the 2019 Senior Notes and the 2022 Senior Notes at a redemption price of 106.125% or 106.375%, respectively, of their principal amount, using the proceeds from the sales of the company's common stock. At any time prior to August 15, 2016, in the case of the 2019 Senior Notes and August 15, 2017, in the case of the 2022 Senior Notes, the company may redeem some or all of the 2019 Senior Notes and 2022 Senior Notes, respectively, by paying a make-whole premium.

A portion of the proceeds from the issuance of the Senior Notes were used to fund the August 16, 2012 purchase of \$62.2 million (plus accrued interest) of the company's 7 3/8% Senior Notes due 2012, and \$410.5 million (plus accrued interest) of the company's 7 3/4% Senior Notes due 2016, pursuant to a tender offer. In addition, on August 31, 2012, the company redeemed the then remaining \$89.5 million (plus accrued interest) outstanding 7 3/4% Senior Notes due 2016. The remaining proceeds along with available cash were used for the September 28, 2012 extinguishment of the then remaining \$358.1 million (plus accrued interest through the November 1, 2012 maturity date) outstanding 7 3/8% Senior Notes due 2012.

As a result of the August 16, 2012 tender offer to purchase, August 31, 2012 redemption, and September 28, 2012 extinguishment each noted above, the company recorded expenses of \$26.3 million related to the tender and call premiums, loss on early extinguishment of debt, unamortized debt issuance costs write-off, and tender expenses, which are reflected in other expenses in the consolidated statement of income for the three and nine months ended September 30, 2012.

**Note 6. Changes in Equity**

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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 attributable to the noncontrolling interests (in thousands):

	Total Equity	Common Stock	Stockholders of Steel Dynamics, Inc.			Noncontrolling Interests
			Additional Paid-In Capital	Retained Earnings	Treasury Stock	
<b>Balances at January 1, 2012</b>	\$ 2,299,900	\$ 636	\$ 1,026,157	\$ 2,011,801	\$ (722,653)	\$ (16,041)
Proceeds from the exercise of stock options, including related tax effect	2,021		2,021			
Dividends declared	(65,746)			(65,746)		
Equity-based compensation and issuance of restricted stock	7,825		5,680	(24)	2,169	
Conversion of 5.125% convertible senior notes	4		(1)		5	
Contributions from noncontrolling investors	7,973					7,973
Distributions to noncontrolling investors	(110)					(110)
Net income (loss)	87,187			102,980		(15,793)
<b>Balances at September 30, 2012</b>	\$ 2,339,054	\$ 636	\$ 1,033,857	\$ 2,049,011	\$ (720,479)	\$ (23,971)

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 7. Derivative Financial Instruments**

The company is exposed to certain risks relating to its ongoing business operations. At times the company utilizes derivative instruments to mitigate commodity margin risk, interest rate risk, and foreign currency exchange rate risk. Forward and option contracts on various commodities are entered into to manage the price risk associated with forecasted purchases and sales of nonferrous metals (specifically aluminum, copper, nickel and silver) from the company's metals recycling operations. 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.

*Cash Flow Hedging Strategy.* For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings (e.g., in interest expense when the hedged transactions are interest cash flows associated with floating-rate borrowings). The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (i.e., the ineffectiveness portion), or hedge components excluded from the assessment of effectiveness, are recognized in the statement of income during the current period. No cash flow hedges existed for the periods presented.

*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 commodity option and futures contract commitments as of September 30, 2012 (MT represents metric tons and Lbs represents pounds):

Commodity Options	nickel	60	MT
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Commodity Futures	Long/Short	Total	
Aluminum	Long	5,575	MT
Aluminum	Short	5,600	MT
Copper	Long	10,444	MT
Copper	Short	28,406	MT
Nickel	Short	90	MT
Silver	Short	343	Lbs

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, 2012, and December 31, 2011, and for the three- and nine-month periods ended September 30, 2012 and 2011 (in thousands):



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				Fair Value	
				September 30, 2012	December 31, 2011
<b><u>Balance Sheets</u></b>					
Commodity futures and options	net liability	Accrued expenses	\$	7,487	\$ 1,219

				Gain (Loss) for Three Months Ended	
				September 30, 2012	September 30, 2011
<b><u>Statements of Income</u></b>					
Commodity futures and options		Costs of goods sold	\$	(9,085)	\$ 7,112

				Gain (Loss) for Nine Months Ended	
				September 30, 2012	September 30, 2011
<b><u>Statements of Income</u></b>					
Commodity futures and options		Costs of goods sold	\$	(6,810)	\$ 11,457

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 8. 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, 2012, and December 31, 2011 (in thousands):

		<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b><u>September 30, 2012</u></b>					
Commodity options	financial liabilities	\$ 35	\$	\$ 35	\$
Commodity futures	financial assets	2,357		2,357	
Commodity futures	financial liabilities	9,809		9,809	
<b><u>December 31, 2011</u></b>					
Investments in short-term commercial paper		\$ 84,830	\$	\$ 84,830	\$
Commodity futures	financial assets	3,159		3,159	
Commodity futures	financial liabilities	4,378		4,378	

The carrying amounts of financial instruments including cash and equivalents, accounts receivable and accounts payable approximate fair value, because of the relatively short maturity of these instruments. 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, was approximately

\$2.3 billion and \$2.5 billion (with a corresponding carrying amount in the consolidated balance sheets of \$2.2 billion and \$2.4 billion) at September 30, 2012 and December 31, 2011, respectively.

**Note 9. Commitments and Contingencies**

The company is involved, along with eight other steel manufacturing companies, in a class action antitrust complaint filed in federal court in Chicago, Illinois that 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 purport to be brought on behalf of a class consisting of all direct purchasers of steel products during the period of the alleged conspiracy. The other Complaint purports to be brought on behalf of a class consisting of all indirect purchasers of steel products within the same time period. All Complaints seek treble damages and costs, including reasonable attorney fees, pre- and post-judgment interest and injunctive relief. On January 2, 2009, Steel Dynamics and the other defendants filed a Joint Motion to Dismiss all of the direct purchaser lawsuits, but this motion was denied. The parties have been conducting discovery related primarily to class certification matters, and on May 24, 2012, Plaintiffs filed their Motion for Class Certification. A time frame for hearing this Motion has not yet been determined. Due to the uncertainties of litigation, the company cannot presently determine the ultimate outcome of this litigation. However, the company believes that, based on the information available to us at this time, 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 the company's 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, the company may in the future determine that a loss accrual is necessary. Although the company may make loss accruals, if and as warranted, any amounts that the company may accrue from time to time could vary significantly from the amounts the company actually pays, due to the inherent uncertainties and shortcomings of the estimation process, the uncertainties involved in litigation and other factors. Additionally, under such circumstances an adverse result could have a material effect on the company's financial condition, results of operations and liquidity.

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 10. Segment Information**

The company has three reportable segments: steel operations, metals recycling and ferrous resources operations, and steel fabrication operations. These operations are described in Note 1 to the financial statements. Revenues included in the category "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, 2011, 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, 2012 and 2011 are as follows (in thousands):

For the three months ended September 30, 2012	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication 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 income taxes	88,394	(24,829)	1,225	(53,678)	(3,891)	7,221
Depreciation and 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)
Impairment charges		(7.9)

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		Total	\$	(17.8)
(2)	Gross profit reduction from intra-company sales		\$	(3.9)
(3)	Cash and equivalents		\$	246.8
	Deferred income taxes			28.2
	Debt issuance costs, net			29.4
	Other			87.2
	Elimination of intra-company debt			(129.1)
		Total	\$	(182.0)
(5)	Accounts payable		\$	32.3
	Accrued interest			28.9
	Debt			2,156.2
	Other			18.5
	Elimination of intra-company debt			(129.1)
		Total	\$	(170.2)

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 10. Segment Information (continued)**

For the three months ended September 30, 2011	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication Operations	Other	Eliminations	Consolidated
<b>Net Sales</b>						
External	\$ 1,183,665	\$ 624,742	\$ 83,094	\$ 24,018	\$	\$ 1,915,519
External Non-U.S.	44,345	83,296		295		127,936
Other segments	49,854	351,219	16	3,033	(404,122)	
	1,277,864	1,059,257	83,110	27,346	(404,122)	2,043,455
Operating income (loss)	136,194	(3,388)	(246)	(28,437)(1)	4,662(2)	108,785
Income (loss) before income taxes	114,805	(14,697)	(2,139)	(35,025)	4,662	67,606
Depreciation and amortization	27,320	25,164	1,847	1,682	(51)	55,962
Capital expenditures	10,457	26,575	503	591		38,126
<b>As of September 30, 2011</b>						
Assets	2,629,873	2,557,147	234,452	757,275(3)	(175,266)(4)	6,003,481
Liabilities	488,476	531,827	16,820	2,785,613(5)	(166,285)(6)	3,656,451

Footnotes related to the three months ended September 30, 2011 segment results (in millions):

(1)	Corporate SG&A	\$	(19.1)
	Company-wide stock option expense		(3.6)
	Profit sharing		(5.5)
	Other, net		(0.2)
	Total	\$	(28.4)
(2)	Gross profit increase from intra-company sales	\$	4.7
(3)	Cash and equivalents	\$	391.5
	Income taxes receivable		24.5
	Deferred income taxes		21.6
	Property, plant and equipment, net		72.1
	Debt issuance costs		25.6
	Intra-company debt		130.6
	Other		91.4
	Total	\$	757.3
(4)	Elimination of intra-company receivables	\$	(30.6)
	Elimination of intra-company debt		(130.6)
	Other		(14.1)
	Total	\$	(175.3)

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(5)	Accounts payable		32.6
	Income taxes payable		15.0
	Accrued interest		61.8
	Accrued profit sharing		31.4
	Debt		2,342.0
	Deferred income taxes		221.0
	Other		81.8
		Total	\$ 2,785.6
(6)	Elimination of intra-company payables	\$	(35.9)
	Elimination of intra-company debt		(130.6)
	Other		0.2
		Total	\$ (166.3)

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 10. Segment Information (continued)**

For the nine months ended September 30, 2012	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication 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 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

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)

For the nine months ended September 30, 2011	Steel Operations	Metals Recycling / Ferrous Resources	Steel Fabrication Operations	Other	Eliminations	Consolidated
<b>Net Sales</b>						
External	\$ 3,551,626	\$ 1,944,928	\$ 197,112	\$ 75,260	\$	\$ 5,768,926
External Non-U.S.	138,723	230,954		552		370,229
Other segments	163,991	1,069,661	612	8,452	(1,242,716)	
	3,854,340	3,245,543	197,724	84,264	(1,242,716)	6,139,155
Operating income (loss)	543,117	39,987	(4,764)	(78,115)(1)	2,105(2)	502,330
Income (loss) before income taxes	480,296	8,033	(9,918)	(97,105)	1,999	383,305
Depreciation and amortization	82,164	75,784	4,969	4,201	(153)	166,965
Capital expenditures	28,891	58,458	1,454	2,992		91,795



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Footnotes related to the nine months ended September 30, 2011 segment results (in millions):

(1)	Corporate SG&A	\$	(38.4)
	Company-wide stock option expense		(11.0)
	Profit sharing		(30.6)
	Other, net		1.9
		Total \$	(78.1)
(2)	Gross profit increase from intra-company sales	\$	2.1

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 11. Condensed Consolidating Information**

Certain 100%-owned subsidiaries of SDI have fully and unconditionally guaranteed all of the indebtedness relating to the issuance of the company's senior notes due 2014, 2015, 2019, 2020, and 2022. Following are the company's condensed consolidating financial statements, including the guarantors, which present the financial position, results of operations and cash flows of (i) SDI (in each case, reflecting investments in its consolidated subsidiaries under the equity method of accounting), (ii) the guarantor subsidiaries of SDI, (iii) the non-guarantor subsidiaries of SDI, and (iv) the eliminations necessary to arrive at the information for the company on a consolidated basis. The following statements should be read in conjunction with the accompanying consolidated financial statements and the company's Annual Report on Form 10-K for the year ended December 31, 2011.

*Condensed Consolidating Balance Sheets (in thousands)*

As of September 30, 2012	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Cash and equivalents	\$ 242,963	\$ 26,990	\$ 17,167	\$	\$ 287,120
Accounts receivable, net	275,227	832,486	11,238	(406,201)	712,750
Inventories	607,567	499,059	109,038	(6,585)	1,209,079
Other current assets	57,564	13,384	3,778	(21,451)	53,275
Total current assets	1,183,321	1,371,919	141,221	(434,237)	2,262,224
Property, plant and equipment, net	1,020,336	654,436	541,605	(2,674)	2,213,703
Intangible assets, net		425,034			425,034
Goodwill		740,192			740,192
Other assets, including investments in subs	2,768,937	31,405	9,383	(2,675,362)	134,363
Total assets	\$ 4,972,594	\$ 3,222,986	\$ 692,209	\$ (3,112,273)	\$ 5,775,516
Accounts payable	\$ 125,105	\$ 245,287	\$ 75,072	\$ (68,251)	\$ 377,213
Other current liabilities	120,827	102,065	10,418	(35,238)	198,072
Current maturities of long-term debt	14,227	300	34,313	(18,726)	30,114
Total current liabilities	260,159	347,652	119,803	(122,215)	605,399
Long-term debt	2,144,521		173,260	(143,856)	2,173,925
Other long-term liabilities	204,889	2,104,391	38,512	(1,784,428)	563,364
Redeemable noncontrolling interest			93,774		93,774
Common stock	636	33,896	18,121	(52,017)	636
Treasury stock	(720,479)				(720,479)
Additional paid-in-capital	1,033,857	117,737	453,287	(571,024)	1,033,857
Retained earnings (deficit)	2,049,011	619,310	(180,577)	(438,733)	2,049,011
Total Steel Dynamics, Inc. equity	2,363,025	770,943	290,831	(1,061,774)	2,363,025
Noncontrolling interests			(23,971)		(23,971)
Total equity	2,363,025	770,943	266,860	(1,061,774)	2,339,054

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Total liabilities and equity	\$	4,972,594	\$	3,222,986	\$	692,209	\$	(3,112,273)	\$	5,775,516
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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 11. Condensed Consolidating Information (continued)**

As of December 31, 2011	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Cash and equivalents	\$ 301,073	\$ 58,699	\$ 30,989	\$	\$ 390,761
Investments in short-term commercial paper	84,830				84,830
Accounts receivable, net	319,995	726,192	8,971	(332,367)	722,791
Inventories	584,079	533,022	85,046	(2,563)	1,199,584
Other current assets	83,116	4,119	2,304	(32,247)	57,292
Total current assets	1,373,093	1,322,032	127,310	(367,177)	2,455,258
Property, plant and equipment, net	1,059,011	660,048	477,514	(2,828)	2,193,745
Intangible assets, net		450,893			450,893
Goodwill		745,066			745,066
Other assets, including investments in subs	2,791,718	33,507	9,853	(2,700,814)	134,264
Total assets	\$ 5,223,822	\$ 3,211,546	\$ 614,677	\$ (3,070,819)	\$ 5,979,226
Accounts payable	\$ 155,220	\$ 273,049	\$ 23,195	\$ (30,640)	\$ 420,824
Other current liabilities	157,868	98,498	10,012	(30,863)	235,515
Current maturities of long-term debt	439,199	300	53,551	(48,972)	444,078
Total current liabilities	752,287	371,847	86,758	(110,475)	1,100,417
Long-term debt	1,905,199		169,797	(138,974)	1,936,022
Other long-term liabilities	250,395	2,132,778	51,625	(1,862,605)	572,193
Redeemable noncontrolling interest			70,694		70,694
Common stock	636	33,896	18,121	(52,017)	636
Treasury stock	(722,653)				(722,653)
Additional paid-in-capital	1,026,157	117,737	347,151	(464,888)	1,026,157
Retained earnings (deficit)	2,011,801	555,288	(113,428)	(441,860)	2,011,801
Total Steel Dynamics, Inc. equity	2,315,941	706,921	251,844	(958,765)	2,315,941
Noncontrolling interests			(16,041)		(16,041)
Total equity	2,315,941	706,921	235,803	(958,765)	2,299,900
Total liabilities and equity	\$ 5,223,822	\$ 3,211,546	\$ 614,677	\$ (3,070,819)	\$ 5,979,226

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 11. Condensed Consolidating Information (continued)***Condensed Consolidating Statements of Operations (in thousands)*

<b>For the three months ended, September 30, 2012</b>	<b>Parent</b>	<b>Guarantors</b>	<b>Combined Non-Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total 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

<b>For the three months ended, September 30, 2011</b>	<b>Parent</b>	<b>Guarantors</b>	<b>Combined Non-Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated</b>
Net sales	\$ 932,793	\$ 2,309,239	\$ 45,407	\$ (1,243,984)	\$ 2,043,455
Costs of goods sold	809,684	2,194,687	60,673	(1,220,832)	1,844,212
Gross profit (loss)	123,109	114,552	(15,266)	(23,152)	199,243
Selling, general and administrative	37,678	53,755	2,475	(3,450)	90,458
Operating income (loss)	85,431	60,797	(17,741)	(19,702)	108,785
Interest expense, net of capitalized interest	26,163	18,237	2,343	(2,041)	44,702
Other (income) expense, net	(3,232)	(1,895)	(437)	2,041	(3,523)
Income (loss) before income taxes and equity in net income of subsidiaries	62,500	44,455	(19,647)	(19,702)	67,606
Income taxes (benefit)	19,524	16,023	(247)	(7,551)	27,749
	42,976	28,432	(19,400)	(12,151)	39,857
Equity in net income of subsidiaries	328			(328)	
Net loss attributable to noncontrolling interests			3,447		3,447
Net income (loss) attributable to Steel Dynamics, Inc.	\$ 43,304	\$ 28,432	\$ (15,953)	\$ (12,479)	\$ 43,304



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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 11. Condensed Consolidating Information (continued)**

<b>For the nine months ended, September 30, 2012</b>	<b>Parent</b>	<b>Guarantors</b>	<b>Combined Non-Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total 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

<b>For the nine months ended, September 30, 2011</b>	<b>Parent</b>	<b>Guarantors</b>	<b>Combined Non-Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated</b>
Net sales	\$ 2,798,097	\$ 6,955,744	\$ 143,872	\$ (3,758,558)	\$ 6,139,155
Costs of goods sold	2,293,661	6,599,291	184,424	(3,709,604)	5,367,772
Gross profit (loss)	504,436	356,453	(40,552)	(48,954)	771,383
Selling, general and administrative	109,870	163,742	6,545	(11,104)	269,053
Operating income (loss)	394,566	192,711	(47,097)	(37,850)	502,330
Interest expense, net of capitalized interest	77,984	53,763	7,070	(5,957)	132,860
Other (income) expense, net	(10,115)	(7,659)	(2,123)	6,062	(13,835)
Income (loss) before income taxes and equity in net income of subsidiaries	326,697	146,607	(52,044)	(37,955)	383,305
Income taxes (benefit)	103,264	54,695	(260)	(14,307)	143,392
	223,433	91,912	(51,784)	(23,648)	239,913
Equity in net income of subsidiaries	24,484			(24,484)	
Net loss attributable to noncontrolling interests			8,004		8,004
Net income (loss) attributable to Steel Dynamics, Inc.	\$ 247,917	\$ 91,912	\$ (43,780)	\$ (48,132)	\$ 247,917

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 11. Condensed Consolidating Information (continued)***Condensed Consolidating Statements of Cash Flows (in thousands)*

<b>For the nine months ended, September 30, 2012</b>	<b>Parent</b>	<b>Guarantors</b>	<b>Combined Non-Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated</b>
Net cash provided by (used in) operating activities	\$ 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

<b>For the nine months ended, September 30, 2011</b>	<b>Parent</b>	<b>Guarantors</b>	<b>Combined Non-Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated</b>
Net cash provided by (used in) operating activities	\$ 314,438	\$ 112,213	\$ (34,211)	\$ (43)	\$ 392,397
Net cash used in investing activities	(77,125)	(40,015)	(27,597)	54,888	(89,849)
Net cash provided by (used in) financing activities	(22,680)	(23,309)	68,467	(54,845)	(32,367)
Increase in cash and equivalents	214,633	48,889	6,659		270,181
Cash and equivalents at beginning of period	173,563	10,628	2,322		186,513
Cash and equivalents at end of period	\$ 388,196	\$ 59,517	\$ 8,981	\$	\$ 456,694



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

**Forward-Looking Statements**

This report contains some predictive statements about future events, including statements related to conditions in domestic and global economies, conditions in the steel and recycled metals marketplaces, our revenue, 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. Such predictive statements are not guarantees of future performance, and actual results could differ materially from our current expectations. Some factors that could cause such forward-looking statements to turn out differently than anticipated include: (1) the effects of a recurrent recession on 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, 2011, 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.

***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, including premiums paid for refinancing activities.

Table of Contents**Overview**

Net income was \$12.8 million, or \$0.06 per diluted share, during the third quarter of 2012, compared with net income of \$43.3 million, or \$0.19 per diluted share, during the third quarter of 2011, and net income of \$44.5 million, or \$0.20 per diluted share, during the second quarter of 2012. Our net sales decreased \$350.1 million, or 17%, to \$1.7 billion in the third quarter of 2012 versus the third quarter of 2011, while net sales decreased \$216.4 million, or 11%, versus the second quarter of 2012. Our gross profit percentage was 9% during the third quarter of 2012 as compared to 10% for both the third quarter of 2011, and the second quarter of 2012.

Third quarter 2012 external steel shipments decreased 5% as compared to the third quarter of 2011 (with total sheet products shipments decreasing 7% and long products shipments decreasing 1%), and metals recycling external ferrous metals shipments decreased 9% and nonferrous external shipments decreased 10%. Conversely, steel fabrication external shipments increased 24% in the third quarter of 2012 compared to the same period in 2011. Operating income decreased 33% in the third quarter 2012, as compared to the same period in 2011, as steel sales volumes were down and gross margins were compressed, particularly in our steel operations long products divisions. The average external selling price per ton shipped for the company's steel operations decreased \$88 per ton in the third quarter of 2012, compared to the prior year third quarter, while the average ferrous scrap cost per ton melted decreased \$67 for the same comparative period.

Looking at the third quarter of 2012 as compared to the second quarter of 2012, steel operations and metals recycling ferrous external shipments decreased 8%, while metals recycling external nonferrous shipments decreased 5%. Conversely, steel fabrication continued its trend of increasing external shipments, showing a 3% sequential quarter gain. Consolidated quarterly operating income decreased 30% sequentially due primarily to decreased volume and margins within our steel operations. Despite lower volumes and selling values within our metals recycling operations, ferrous metal spreads expanded 23%, while nonferrous margins remained consistent in the third quarter of 2012 as compared to the same 2011 quarter. These factors caused overall metals recycling metal margins to increase 18% resulting in an \$11.5 million increase in metals recycling operating income in the third quarter of 2012, as compared to the second quarter of 2012.

**Segment Operating Results 2012 vs. 2011 (dollars in thousands)**

	Three Months Ended September 30, %			Second Quarter	Sequential Quarter %	Nine Months Ended September 30, %		
	2012	Change	2011	2012	Change	2012	Change	2011
Net sales:								
Steel	\$ 1,099,506	(14)%	\$ 1,277,864	\$ 1,260,223	(13)%	\$ 3,594,208	(7)%	\$ 3,854,340
Metals recycling and ferrous resources								
Steel fabrication	790,368	(25)%	1,059,257	920,456	(14)%	2,821,944	(13)%	3,245,543
Other	102,442	23%	83,110	95,767	7%	273,105	38%	197,724
	22,273	(19)%	27,346	20,390	9%	66,754	(21)%	84,264
	2,014,589		2,447,577	2,296,836		6,756,011		7,381,871
Intra-company	(321,199)		(404,122)	(387,033)		(1,170,778)		(1,242,716)
Consolidated	\$ 1,693,390	(17)%	\$ 2,043,455	\$ 1,909,803	(11)%	\$ 5,585,233	(9)%	\$ 6,139,155
Operating income (loss):								
Steel	\$ 106,927	(21)%	\$ 136,194	\$ 136,597	(22)%	\$ 380,832	(30)%	\$ 543,117
Metals recycling and ferrous resources								
	(15,697)	(363)%	(3,388)	(19,371)	19%	(30,905)	(177)%	39,987

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Steel fabrication	3,141	1,377%	(246)	193	1,527%	666	114%	(4,764)
Other	(17,759)	38%	(28,437)	(14,673)	(21)%	(49,294)	37%	(78,115)
	76,612	(26)%	104,123	102,746	(25)%	301,299	(40)%	500,225
Eliminations	(3,891)		4,662	953		(5,063)		2,105
Consolidated	\$ 72,721	(33)%	\$ 108,785	\$ 103,699	(30)%	\$ 296,236	(41)%	\$ 502,330

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## 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 quarters of 2012 and 2011, our steel operations accounted for 62% and 60%, respectively, of our external net sales. Operating income for the steel segment decreased \$29.3 million, or 21%, to \$106.9 million in the third quarter of 2012, compared to the third quarter of 2011, as total shipments decreased 4% and gross margin percentage, and correspondingly operating income percentage, compressed due to an \$85 decrease in average segment selling prices per ton shipped coupled with only a \$67 per ton decrease in average ferrous scrap cost melted in the third quarter of 2012, as compared to the third quarter of 2011. Operating income for the steel segment decreased \$162.3 million, or 30%, to \$380.8 million in the first nine months of 2012, compared to the first nine months of 2011. Gross margin percentage, and correspondingly operating income percentage, compressed due to a \$63 decrease in average segment selling prices per ton shipped while the average ferrous scrap cost melted in the first nine months of 2012 decreased only \$22 per ton compared to the same period in 2011.

**Steel Operations Shipments (net tons)**

	Three Months Ended September 30,		Second Quarter		Nine Months Ended September 30,			
	2012	2011	2012	2011	2012	2011	2012	2011
Flat Roll Division	638,776	701,212	706,944		2,004,225		2,091,505	
The Techs	167,982	166,417	171,437		484,034		554,044	
Sheet products	806,758	867,629	878,381	59%	2,488,259	58%	2,645,549	60%
Structural and Rail Division	255,533	224,514	252,524		769,063		628,543	
Engineered Bar Products Division	113,327	160,649	166,208		437,024		463,944	
Roanoke Bar Division	152,922	141,060	149,010		453,228		415,271	
Steel of West Virginia	76,481	76,487	74,456		228,149		223,425	
Long products	598,263	602,710	642,198	41%	1,887,464	42%	1,731,183	40%
Total shipments	1,405,021	1,470,339	1,520,579		4,375,723		4,376,732	
Intra-segment shipments	(34,594)	(29,952)	(29,560)	(2)%	(92,211)	(2)%	(102,265)	(2)%
Segment shipments	1,370,427	1,440,387	1,491,019		4,283,512		4,274,467	
Intra-company shipments	(71,195)	(71,165)	(77,315)	(5)%	(214,629)	(5)%	(224,235)	(5)%
External shipments	1,299,232	1,369,222	1,413,704		4,068,883		4,050,232	

**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. Sheet products represented 57% of total steel shipped tons in the third quarter of 2012, as compared to 59% in the third quarter of 2011.

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**Long Products.** Our Structural and Rail Division sells structural steel beams and pilings and is also designed to produce and sell a variety of standard and premium-grade rail for the railroad industry. Our Engineered Bar Products Division primarily sells special bar quality and merchant bar quality rounds and round-cornered squares. Our Roanoke Bar Division sells billets and 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 segment decreased in the third quarter of 2012 by \$178.4 million, or 14%, compared to the third quarter of 2011, as total steel segment shipments decreased 4% and steel segment selling prices per ton decreased 10%, or \$85 per ton. There was also a shift in mix with sheet products shipments decreasing 7% compared with long products, which experienced only a 1% volume decrease. This slight long products volume decrease is despite Engineered Bar Division's volumes decreasing 29%, as customers realigned inventories throughout the supply chain. Rail product shipments continue to show steady improvement, with the third quarter of 2012 shipments increasing 11% as compared to the third quarter of 2011.

Net sales for the segment decreased by \$260.1 million, or 7%, in the first nine months of 2012, compared to the same period in 2011. While selling volumes for our steel products was steady overall in the first nine months of 2012 compared to the first nine months of 2011, there was a shift in mix to long products from sheet products. Sheet products shipments decreased 6%, while long products increased 9% in the first nine months of 2012 compared to the same period in 2011. Our first nine months 2012 average steel operations segment selling price per ton shipped decreased \$63 compared with the first nine months of 2011, as the higher sheet selling prices seen in the first nine months of 2011 abated in the slower 2012 market.

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**Steel operations Average Selling Prices and Volumes**

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 \$67 in the third quarter 2012 compared with the third quarter of 2011. During the third quarter of 2012 and 2011, respectively, our metallic raw material costs represented 64% and 68% 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 \$22 the first nine months of 2012 compared with the first nine months of 2011, and represented 67% and 68%, respectively, of our steel operations manufacturing costs, excluding the operations of The Techs.

**Metals Recycling and Ferrous Resources Operations**

***Metals Recycling and Ferrous Resources Operations.*** This operating segment 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 31% of our external net sales in the third quarter of 2012 and 35% in the third quarter of 2011. Operating income for the metals recycling and ferrous resources operations segment decreased \$12.3 million in the third quarter of 2012 to a loss of \$15.7 million, compared to the third quarter of 2011, due primarily to increases in metals recycling operating income of \$6.0 million being more than offset by increased losses at our Minnesota iron operations and a decrease in operating income at our IDI facility, due to falling selling prices, which are based on a pig iron indexed price. Operating income for the metals recycling and ferrous resources operations segment decreased \$70.9 million in the first nine months of 2012 from \$40.0 million in 2011 to a loss of \$30.9 million for 2012. The decrease was primarily related to decreased sales volumes and metal margins for both ferrous and nonferrous metals in metals recycling operations, and increased losses at our Minnesota iron operations and decreased operating income at our IDI facility due to lower selling prices..

**Metals Recycling and Ferrous Resources Operations Shipments**

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	Three Months Ended September 30,		Second Quarter	Nine Months Ended September,	
	2012	2011	2012	2012	2011
<b>Ferrous metal (gross tons)</b>					
Total	1,339,853	1,483,122	1,486,222	4,408,915	4,565,141
Intra-segment	(7,320)	(3,594)	(2,007)	(10,240)	(8,786)
Segment shipments	1,332,533	1,479,528	1,484,215	4,398,675	4,556,355
Intra-company	(575,622)	(645,355)	(664,661)	(2,003,137)	(1,970,429)
External shipments	756,911	834,173	819,554	2,395,538	2,585,926
<b>Nonferrous metals (thousands of pounds)</b>					
Total	249,685	269,753	258,932	800,253	811,511
Intra-segment	(7,697)	(1,804)	(1,707)	(9,404)	(6,043)
Segment shipments	241,988	267,949	257,225	790,849	805,468
Intra-company	(779)		(2,891)	(5,628)	
External shipments	241,209	267,949	254,334	785,221	805,468
<b>Mesabi Nugget (metric tons)</b>					
intra-company	52,082	32,666	33,840	132,152	106,698
<b>Iron Dynamics (metric tons)</b>					
intra-company	53,548	61,034	59,103	169,279	182,031



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**Metals Recycling.** Our metals recycling operations, OmniSource, 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 93% and 95% of this segment's net sales during the third quarters of 2012 and 2011, respectively.

During the third quarter of 2012, metals recycling recorded sales of \$766.1 million on shipments of 1.3 million gross tons of ferrous metals and 249.7 million pounds of nonferrous metals, compared with sales of \$1.0 billion on shipments of 1.5 million gross tons of ferrous and 269.8 million pounds of nonferrous metals during the same period in 2011. During the third quarter of 2012 and 2011, the metals recycling operations provided approximately 52% and 53%, respectively, of the steel scrap purchased by our steel mills. This represented 43% and 44% of the metals recycling operations' ferrous shipments for the third quarter of 2012 and 2011, respectively. Sales prices of ferrous metals decreased 20% in the third quarter of 2012 versus the same period in 2011, while sales prices of nonferrous metals decreased 12% between the same periods. During the first nine months of 2012, metals recycling recorded sales of \$2.7 billion on shipments of 4.4 million gross tons of ferrous metals and 800.3 million pounds of nonferrous metals, compared with sales of \$3.1 billion on shipments of 4.6 million gross tons of ferrous and 811.5 million pounds of nonferrous metals during the same period in 2011. Sales prices of ferrous metals decreased 10% in first nine months of 2012 versus the same period in 2011, while sales prices of nonferrous metals decreased 13% between the same periods.

Operating income for metals recycling increased \$6.0 million in the third quarter of 2012 to \$10.3 million, compared to the third quarter of 2011 despite volume decreases, due primarily to improved ferrous metals margins, along with decreases in operating expenses. Ferrous scrap prices rose mid-quarter due to increased export activity and perceived inventory shortfall. Operating income for metals recycling decreased \$29.6 million in the first nine months of 2012 to \$27.9 million, compared to the first nine months of 2011, due primarily to decreased metals spreads for both ferrous (11%) and nonferrous (6%) metals and sales volumes decreases of 3% for ferrous and 1% for nonferrous. Decreased exports of ferrous scrap along with moderating domestic steel mill utilization rates resulted in selling prices declining more rapidly than inputs and thus metal margins have compressed during 2012 overall, negatively impacting operating income.

**Ferrous Resources.** Our ferrous resource operations consist of our two ironmaking initiatives: Iron Dynamics (IDI), a liquid pig iron production facility, and our Minnesota iron operations, consisting of an iron nugget production facility and planned operations to supply the nugget facility with its primary raw material, iron concentrate. IDI primarily produces liquid pig iron, which is used as a scrap substitute raw material input exclusively at our Flat Roll Division. Our Minnesota iron operations consists of Mesabi Nugget, (owned 81% by us); our planned future 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 then, we have continued to refine this pioneering production process and changed equipment configurations to increase production and plant availability. During a planned five week outage in April and May 2012, we made numerous equipment modifications to improve the percentage of time the plant is available to operate each month. After restarting, extended higher operating rates were achieved during periods of time between June and August which provided the opportunity to identify a number of key process optimization options necessary to increase both productivity and product quality. Beginning mid-September, we proceeded with a six week outage of the nugget facility in order to lay the groundwork necessary for the implementation of the improvements. We expect to recommence operations in November, with final equipment installation expected during the first half of 2013, at an estimated investment of \$25 million. In the third quarter of 2012 and 2011, Mesabi Nugget produced 52,000 and 33,000 metric tons of iron-nuggets, respectively, for use by our own steel mills. Mining Resources completed the construction and began the initial start-up phase of the iron tailings operation and produced and sold its first product late in the third quarter 2012. This operation will provide iron ore tailings to be concentrated for use by Mesabi Nugget as a low-cost iron concentrate to the nugget production process, replacing higher-priced concentrate from external sources. Production will continue to ramp up into 2013. Losses from our Minnesota iron operations reduced our net income in the third quarter of 2012 by approximately \$11 million, \$3 million more than in the third quarter of 2011, due primarily to the lower average selling prices in 2012. In the first nine months of 2012 and 2011, Mesabi Nugget produced 132,000 and 107,000 metric tons of iron-nuggets, respectively, for use by our own steel mills. Losses from our Minnesota iron operations reduced our net income in the first nine months of 2012 by approximately \$32 million, or \$9 million more than in the first nine months of 2011.

**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% and 4% of our external net sales during the third quarter of 2012 and 2011, respectively. The segment achieved operating income of \$3.1 million in the third quarter of 2012, compared to a \$246,000 loss in the third quarter of 2011. Modest selling price decreases were more than offset by higher selling volumes, improved metal margins, and reduced conversion costs per ton resulting from increased production levels in the third quarter of 2012 compared to the same period in 2011. The segment had operating income of \$666,000 in the first nine months of 2012, compared to a \$4.8 million loss in the first nine months of 2011. Again, selling price decreases were more than offset by higher selling volumes, improved metal margins, and reduced costs from increased production for the first nine months of 2012 compared to the same period in 2011.

Net sales for the segment increased by \$19.3 million, or 23%, in the third quarter of 2012 compared to the third quarter of 2011, as volumes increased 24% in the third quarter of 2012 when compared with the same period in 2011. However, our average steel fabrication operations selling price per ton shipped decreased \$9, or 1%, during the same period. Sales volume increases in the third quarter of 2012 compared to the third quarter of 2011 were the result of some modest improvement in the non-residential construction market, market share gains in existing markets, as well as our expansion into the western United States from the start-up of plants in Arkansas, Nevada and Northern Mexico. We anticipate continuing to expand our market presence and penetration in the western portion of the United States as we continue to

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ramp up our operations in that market. While we have seen increased order entry and sales volumes in 2012 versus 2011, the non-residential construction market continues to recover slowly. Net sales for the segment increased by \$75.4 million, or 38%, in the first nine months of 2012 compared to the first nine months of 2011, as volumes increased 40%. However, our average steel fabrication operations' selling price per ton shipped decreased \$14, or 1%, during first nine months of 2012 versus the same period in 2011. Sales volume increases in the first nine months of 2012 compared to the first nine months of 2011 were the result of some modest improvement in the non-residential construction market, and market share gains in existing markets, including our expansion into the western United States.

The purchase of various steel products is the largest single cost of production for our steel fabrication operations. During the third quarter of 2012 and 2011, the cost of steel products purchased represented 69% and 72% of the total cost of manufacturing for our steel fabrication operations, respectively; while the cost of steel decreased in the third quarter of 2012, as compared to the same period in 2011 by \$66 per ton. During the first nine months of 2012 and 2011, the cost of steel products purchased represented 71% of the total cost of manufacturing for our steel fabrication operations; while the cost of steel decreased in the first nine months of 2012, as compared to the same period in 2011 by \$20 per ton.

**Steel Fabrication Operations Average Selling Prices and Volumes**

**Third Quarter Consolidated Results 2012 vs. 2011**

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses (including profit sharing, amortization of intangible assets and impairment charges) were \$83.7 million during the third quarter of 2012, as compared to \$90.5 million during the third quarter of 2011, a decrease of \$6.8 million, or 7%. Excluding impairment charges, our selling, general and administrative expenses represented 4% of our total net sales during both the third quarter of 2012 and 2011. The decrease in our selling, general and administrative expenses during the third quarter of 2012 as compared to the same period 2011 was due primarily to decreased profit sharing and bonus expenses, consistent with

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the lower levels of profitability in the third quarter of 2012, as these items are directly linked to company profitability. The \$7.9 million of impairment charges during the quarter 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 strategic focus.

***Interest Expense, net of Capitalized Interest.*** During the third quarter of 2012, gross interest expense decreased \$3.3 million to \$41.8 million, and capitalized interest decreased by \$115,000 to \$353,000, when compared to the same period in 2011. The interest capitalization that occurred during these periods resulted from the interest required to be capitalized with respect to construction activities at our various operating segments. The decrease in gross interest expense in the third quarter of 2012 as compared to the third quarter of 2011 is due to a lower effective interest rate due to the first and third quarter 2012 refinancing of certain of our senior notes. We anticipate further reductions in gross interest expense as a result of the third quarter 2012 refinancing and overall debt reductions.

***Other Expense (Income), net.*** Other expense was \$24.0 million during the third quarter of 2012, as compared to income of \$3.5 million during the same period in 2011. The increased expense in the third quarter of 2012, compared to the same period in 2011 is due to the incurrence of \$26.3 million of non-operating charges related to our third quarter refinancing activities, which were primarily comprised of prepayment fees. During the third quarter of 2012, we recorded interest income of \$1.1 million, consistent with the same period in 2011.

***Income Taxes.*** During the third quarter of 2012, our income tax expense was \$1.1 million, as compared to \$27.7 million during the same period in 2011. Our effective income tax rate before noncontrolling interests was 15.5% and 41.0%, during the third quarter of 2012 and 2011, respectively. Certain tax positions were effectively settled during the three months ended September 30, 2012, resulting in a decrease in

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unrecognized tax benefits and a corresponding income tax benefit being recorded during the quarter. This income tax benefit however was largely offset by an increase during the third quarter in the estimated annual effective tax rate for 2012.

**First Nine Months Consolidated Results 2012 vs. 2011**

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses were \$243.6 million during the first nine months of 2012, as compared to \$269.1 million during the same period in 2011, a decrease of \$25.5 million, or 9%. During the first nine months of 2012 and 2011, selling, general and administrative expenses represented approximately 4% of net sales. The decrease in selling, general and administrative expenses during the first nine months of 2012, as compared to the first nine months of 2011, exclusive of the impairment charges in 2012, was due primarily to decreased profit sharing and bonus expenses, consistent with the lower levels of profitability in the first nine months of 2012, as these items are directly linked to company profitability.

***Interest Expense, net of Capitalized Interest.*** During the first nine months of 2012, gross interest expense decreased \$9.5 million, or 7%, to \$124.6 million, and capitalized interest decreased \$324,000, or 27%, to \$880,000, as compared to the same period in 2011. The decrease in gross interest expense for the first nine months of 2012, compared to the first nine months of 2011, is due to a lower effective interest rate resulting from the , 2012 refinancings discussed above.

***Other Expense (Income), net.*** Other expense was \$32.4 million during the first nine months of 2012, as compared to other income of \$13.8 million during the same period in 2011. We incurred non-operating charges of \$13.9 million during the first quarter of 2012 and \$26.3 million during the third quarter of 2012, related to the previously noted refinancing activities. Interest income was \$3.7 million for the first nine months of 2012 versus \$3.4 million in the same period in 2011.

***Income Taxes.*** During the first nine months of 2012, our income tax provision was \$53.0 million, as compared to \$143.4 million during the same period in 2011, and our effective income tax rates before noncontrolling interests were 37.8% and 37.4%, respectively. The higher rate in 2012 versus 2011 is due most notably to our inability to recognize any benefit from the research and development tax credits that have not yet been approved by Congress for 2012, and the impact of increased non-controlling interest losses in 2012 on the effective rate, offset by the impact of the previously noted reduction in unrecognized tax benefits during 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.

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**Working Capital.** Trade receivables decreased \$10.0 million during the first nine months of 2012 on lower sales. Total inventories increased \$9.5 million, or 1%, to \$1.2 billion during the first nine months of 2012. Our raw materials, primarily steel scrap inventories, increased by approximately \$14.0 million during the first nine months of 2012, with scrap volumes decreasing by 47,000 gross tons (6%), but pricing increasing 11%. Our work-in-process and finished goods inventories decreased \$24.8 million, with volumes decreasing by 16,000 net tons. Our trade payables and general accruals decreased \$82.2 million, or 13%, during the first nine months of 2012, as trade payables were lower due to the lower production levels, and 2011 profit sharing and bonus amounts were paid in the first quarter of 2012.

**Capital Investments.** During the first nine months of 2012, we invested \$158.7 million in property, plant and equipment, of which 46% related to the construction of our copper rod mill and iron tailings plants. We believe these capital investments will benefit our net sales and related cash flows as each project reaches completion and attains appropriate operational metrics. We estimate total capital expenditures for the fourth quarter of 2012 to be in the range of \$40 to \$60 million.

**Capital Resources and Long-term Debt.** During the first nine months of 2012, our total outstanding debt decreased \$176.1 million to \$2.2 billion due primarily to the 2012 refinancings discussed above. Similarly, 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 interest, and our total stockholders' equity, decreased to 47.5% at September 30, 2012, as compared to 50.1% at December 31, 2011.

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, 2012, we had \$1.1 billion of availability on the Revolver, \$14.2 million of outstanding letters of credit and other obligations which reduce availability, and there were no borrowings outstanding.

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,

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acquisitions or consolidations; conduct asset sales; pay dividends or distributions and enter into other specified transactions and activities. Our ability to borrow funds within the terms of the revolver is dependent upon our continued compliance with the financial and other covenants.

The financial covenants under our Facility state that we must maintain an interest coverage ratio of not less than 2.50:1.00. Our interest coverage ratio is calculated by dividing our last-twelve trailing months (LTM) consolidated adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, and certain other non-cash transactions as allowed in our Facility) by our LTM gross interest expense. In addition, a net debt (as defined in the Facility) to consolidated LTM adjusted EBITDA ratio (leverage ratio) of not more than 5.00:1.00 must be maintained. If the net debt to EBITDA 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, 2012, our interest coverage ratio and net debt leverage ratio were 3.83:1.00 and 3.11:1.00, respectively. We were therefore in compliance with these covenants at September 30, 2012, and we anticipate we will remain in compliance during 2012.

In January 2012, we expanded our Facility by adding a \$275.0 million term loan that matures on September 30, 2016 (Term Loan). Quarterly principal payments under the Term Loan are required to be made in amounts ranging from 1.25% to 3.75% of the original principal amount, with the unpaid principal balance of approximately \$158.0 million due on the maturity date. We used the net proceeds of the Term Loan, together with cash on hand, to fund the January 2012 purchase of \$279.7 million of our 7<sup>3</sup>/<sub>8</sub>% Senior Notes, due 2012 pursuant to a tender offer for up to \$350 million of the 7<sup>3</sup>/<sub>8</sub>% Senior Notes.

As a result of the refinancing activity in the third quarter of 2012 noted below, we reduced amounts outstanding under our senior notes by \$170.0 million, reduced our overall effective interest rate, and extended our debt maturities.

On August 16, 2012, we issued \$400.0 million of 6<sup>1</sup>/<sub>8</sub>% Senior Notes due 2019 (2019 Senior Notes) and \$350.0 million of 6<sup>3</sup>/<sub>8</sub>% Senior Notes due 2022 (2022 Senior Notes) (together the Senior Notes). Interest on the Senior Notes will be paid semiannually on February 15 and August 15 of each year with the first payment on February 15, 2013. The Senior Notes are in equal right of payment with all existing and future senior unsecured indebtedness and senior in right of payment to all subordinated indebtedness. The 2019 Senior Notes contain provisions that allow us to redeem the notes any time on or after August 15, 2016 at a redemption price of 103.063%, on or after August 15, 2017 at a redemption price of 101.531%, and on or after August 15, 2018 at 100.000%. The 2022 Senior Notes contain provisions that allow us to redeem the notes any time on or after August 15, 2017 at a redemption price of 103.188%, on or after August 15, 2018 at a redemption price of 102.125%, on or after August 15, 2019 at a redemption price of 101.063%, and on or after August 15, 2020 at 100.000%. Before August 15, 2015, we may redeem up to 35% of each of the 2019 Senior Notes and the 2022 Senior Notes at a redemption price of 106.125% or 106.375%, respectively, of their principal amount, using the proceeds from the sales of our common stock. At any time prior to August 15, 2016, in the case of the 2019 Senior Notes and August 15, 2017, in the case of the 2022 Senior Notes, we may redeem some or all of the 2019 Senior Notes and 2022 Senior Notes, respectively, by paying a make-whole premium.

A portion of the proceeds from the issuance of the Senior Notes were used to fund the August 16, 2012 purchase of \$62.2 million (plus accrued interest) of our 7<sup>3</sup>/<sub>8</sub>% Senior Notes due 2012, and \$410.5 million (plus accrued interest) of our 7<sup>3</sup>/<sub>4</sub>% Senior Notes due 2016, pursuant to a tender offer. In addition, on August 31, 2012 we redeemed the then remaining \$89.5 million (plus accrued interest) outstanding 7<sup>3</sup>/<sub>4</sub>% Senior Notes due 2016. The remaining proceeds along with available cash were used for the September 28, 2012 extinguishment of the then remaining \$358.1 million (plus accrued interest through the November 1, 2012 maturity date) outstanding 7<sup>3</sup>/<sub>8</sub>% Senior Notes, due 2012.

**Cash Dividends.** We declared cash dividends of \$65.7 million, or \$0.30 per common share (\$0.10 per common share each quarter), during the first nine months of 2012 and \$65.6 million, or \$0.30 per common share, during the first nine months of 2011. We paid cash dividends of \$65.7

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million and \$60.0 million during the first nine months of 2012 and 2011, respectively. Our board of directors, along with executive management, approves the payment of dividends on a quarterly basis. During the remainder of 2012, we anticipate maintaining our current level of quarterly dividends; however, the determination to pay cash dividends in the future will be at the discretion of our board of directors, after taking into account various factors, including our financial condition, results of operations, outstanding indebtedness, current and anticipated cash needs and growth plans. In addition, the terms of our senior secured revolving credit agreement and the indenture relating to our senior notes may restrict the amount of cash dividends we can pay.

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



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**Other Matters**

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

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

**Critical Accounting Policies and Estimates**

No material changes have occurred to the indicated critical accounting policies and estimates as disclosed in our 2011 Annual Report on Form 10-K.

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

**Interest Rate Risk**

In the normal course of business, we are exposed to interest rate changes. Our objectives in managing exposure to interest rate changes are to limit the impact of these rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we primarily use interest rate swaps to manage net exposure to interest rate changes related to our portfolio of borrowings. We did not have any interest rate swaps during the periods ended September 30, 2012 or 2011.

**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 36 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 was recently extended through December 2014. 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, 2012, 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, 2011. 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, 2012, we had a cumulative unrealized loss associated with these financial contracts of \$7,487,000, 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, 2012. 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, 2012, 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, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The company as well as its various subsidiaries, is from time to time involved in various lawsuits and/or governmental claims in the ordinary course of business. None of these lawsuits or claims at the present time, singly or in the aggregate, except as disclosed below, is material.

We are involved, along with eight other steel manufacturing companies, in a class action antitrust complaint filed in federal court in Chicago, Illinois that 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 purport to be brought on behalf of a class consisting of all direct purchasers of steel products during the period of the alleged conspiracy. The other Complaint purports to be brought on behalf of a class consisting of all indirect purchasers of steel products within the same time period. All Complaints seek treble damages and costs, including reasonable attorney fees, pre- and post-judgment interest and injunctive relief. On January 2, 2009, Steel Dynamics and the other defendants filed a Joint Motion to Dismiss all of the direct purchaser lawsuits, but this motion was denied. The parties have been conducting discovery related primarily to class certification matters, and on May 24, 2012, Plaintiffs filed their Motion for Class Certification. A time frame for hearing this Motion has not yet been determined. Due to the uncertainties of litigation, we cannot presently determine the ultimate outcome of this litigation. However, we believe that, based on the information available to us at this time, 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 the inherent uncertainties and shortcomings of the estimation process, the uncertainties involved in litigation and other factors. Additionally, under such circumstances 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 2011 Annual Report on Form 10-K.

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

None.

**ITEM 3.           DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4.           MINE SAFETY DISCLOSURES**

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

**ITEM 5.           OTHER INFORMATION**

None.

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**ITEM 6. EXHIBITS**

**Executive Officer Certifications**

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

**Other**

- 95\* Mine Safety Disclosures.

**XBRL Documents**

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

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\* Filed concurrently herewith

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SIGNATURE

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

November 7, 2012

STEEL DYNAMICS, INC.

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