

STEEL DYNAMICS INC
Form 10-Q/A
March 09, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q/A

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the period ended June 30, 2004

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number 0-21719

Steel Dynamics, Inc.

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of incorporation or
organization)

35-1929476

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

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

(Address of principal executive offices)

46804

(Zip Code)

Registrant's telephone number, including area code: (260) 459-3553

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of August 4, 2004, Registrant had 49,615,159 outstanding shares of Common Stock.

[Back to Contents](#)**STEEL DYNAMICS, INC.****Table of Contents**

Explanatory Note

The purpose of this amendment on Form 10-Q/A to the Quarterly Report on Form 10-Q of Steel Dynamics, Inc. for the quarter ended June 30, 2004, is to provide revised forms of certification on Exhibits 31.1 and 31.2, to conform to the format prescribed by Item 601(b)(31) of Regulation S-K, as well as to revise the form of Item 4, subsection (b) regarding "Changes in Internal Controls" (no changes). These changes constitute only format revisions.

No attempt has been made in this Form 10-Q/A to modify or update any financial information or other disclosures presented in the original report on Form 10-Q, nor does this Form 10-Q/A reflect events occurring after the filing of the original Form 10-Q or modify or update those disclosures, including exhibits to the Form 10-Q. Information described herein reflects the disclosures made at the time of the original filing of the Form 10-Q on August 9, 2004. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the filing of the original Form 10-Q, including any amendments to those filings.

PART I. Financial Information

| | | |
|----------------------------|---|-------------|
| Item | | |
| 1 | Consolidated Financial Information: | |
| | | <u>Page</u> |
| | <u>Consolidated Balance Sheets as of June 30, 2004 (unaudited) and December 31, 2003</u> | <u>1</u> |
| | <u>Consolidated Statements of Income for the three and six month periods ended June 30, 2004 and 2003 (unaudited)</u> | <u>2</u> |
| | <u>Consolidated Statements of Cash Flows for the three and six month periods ended June 30, 2004 and 2003 (unaudited)</u> | <u>3</u> |
| | <u>Notes to Consolidated Financial Statements</u> | <u>4</u> |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>10</u> |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures about Market Risk</u> | <u>12</u> |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | <u>13</u> |
| PART II. Other Information | | |
| <u>Item 1.</u> | <u>Legal Proceedings</u> | <u>13</u> |
| <u>Item 4.</u> | <u>Submission of Matters to a Vote of Security Holders</u> | <u>13</u> |
| <u>Item 6.</u> | <u>Exhibits and Reports on Form 8-K</u> | <u>14</u> |
| | <u>Signature</u> | <u>15</u> |

[Back to Contents](#)

STEEL DYNAMICS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

| | June 30, 2004 | December 31, 2003 |
|---|--------------------------|------------------------------|
| | (unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and equivalents | \$ 38,441 | \$ 65,430 |
| Accounts receivable, net | 171,034 | 100,933 |
| Accounts receivable-related parties | 28,120 | 25,090 |
| Inventories | 280,170 | 184,496 |
| Deferred taxes | 12,563 | 23,217 |
| Other current assets | 18,105 | 8,769 |
| | <hr/> | <hr/> |
| Total current assets | 548,433 | 407,935 |
| Property, plant and equipment, net | 1,018,005 | 1,001,116 |
| Restricted cash | 4,215 | 2,636 |
| Other assets | 33,301 | 36,752 |
| | <hr/> | <hr/> |
| Total assets | \$ 1,603,594 | \$ 1,448,439 |
| | <hr/> | <hr/> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 120,961 | \$ 42,698 |
| Accounts payable-related parties | □ | 36,628 |
| Accrued interest | 14,862 | 11,312 |
| Other accrued expenses | 57,722 | 46,678 |
| Current maturities of long-term debt | 5,000 | 15,988 |
| | <hr/> | <hr/> |
| Total current liabilities | 198,545 | 153,304 |
| Long-term debt including unamortized bond premium of \$7,991 and \$8,834 as of June 30 2004 and December 31 2003 respectively | 563,287 | 591,586 |
| Deferred taxes | 137,647 | 115,703 |
| Minority interest | 1,823 | 613 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock voting, \$.01 par value; 100,000,000 shares authorized; 51,824,065 and 51,011,839 shares issued; and 49,446,939 and 48,645,246 shares outstanding as of June 30 2004 and December 31 2003 respectively | 517 | 509 |
| Treasury stock at cost; 2,377,126 and 2,366,593 shares at June 30 2004 and December 31 2003 respectively | (28,908) | (28,670) |
| Additional paid-in capital | 376,945 | 362,328 |
| Retained earnings | 356,508 | 257,254 |
| Other accumulated comprehensive loss | (2,410) | (4,188) |

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q/A

| | | |
|--|---------------------|---------------------|
| Total stockholders' equity | <u>702,652</u> | <u>587,233</u> |
| Total liabilities and stockholders' equity | <u>\$ 1,603,954</u> | <u>\$ 1,448,439</u> |

See notes to consolidated financial statements

[Back to Contents](#)

STEEL DYNAMICS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|-------------|-------------------------|-------------|
| | June 30, | | June 30, | |
| | 2004 | 2003 | 2004 | 2003 |
| Net sales: | | | | |
| Unrelated parties | \$ 474,317 | \$ 187,342 | \$ 809,983 | \$ 389,488 |
| Related parties | 51,340 | 31,290 | 99,819 | 64,648 |
| Total net sales | 525,657 | 218,632 | 909,802 | 454,136 |
| Cost of goods sold | 382,459 | 186,724 | 685,014 | 372,693 |
| Gross profit | 143,198 | 31,908 | 224,788 | 81,443 |
| Selling, general and administrative expenses | 28,082 | 14,682 | 51,132 | 29,657 |
| Operating income | 115,116 | 17,226 | 173,656 | 51,786 |
| Interest expense | 10,592 | 8,938 | 20,096 | 18,104 |
| Other income | (3,143) | (399) | (5,246) | (250) |
| Income before income taxes | 107,667 | 8,687 | 158,806 | 33,932 |
| Income taxes | 40,375 | 3,257 | 59,552 | 12,724 |
| Net income | \$ 67,292 | \$ 5,430 | \$ 99,254 | \$ 21,208 |
| Basic earnings per share | \$ 1.36 | \$.11 | \$ 2.02 | \$.45 |
| Weighted average common shares outstanding | 49,340 | 47,650 | 49,143 | 47,625 |
| Diluted earnings per share, including effect of assumed conversions | \$ 1.20 | \$.11 | \$ 1.78 | \$.44 |
| Weighted average common shares and share equivalents outstanding | 56,545 | 47,853 | 56,379 | 47,820 |

See notes to consolidated financial statements.

[Back to Contents](#)

STEEL DYNAMICS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

| | Three Months Ended June 30, | | Six Months ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Operating activities: | | | | |
| Net income | \$ 67,292 | \$ 5,430 | \$ 99,254 | \$ 21,208 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 23,629 | 16,643 | 42,408 | 32,919 |
| Deferred income taxes | 20,930 | 6,186 | 32,598 | 11,430 |
| Loss on disposal of property, plant and equipment | 31 | □ | 175 | 59 |
| Minority interest | 562 | 24 | 1,211 | (627) |
| Changes in certain assets and liabilities: | | | | |
| Accounts receivable | (34,558) | 9,706 | (73,131) | 6,240 |
| Inventories | (44,181) | (5,740) | (95,674) | (20,220) |
| Other assets | (2,360) | (2,549) | (10,764) | (1,855) |
| Accounts payable | (7,628) | (450) | 41,635 | 15,680 |
| Accrued expenses | 19,700 | 4,427 | 16,370 | (6,490) |
| Net cash provided by operating activities | 43,417 | 33,677 | 54,082 | 58,344 |
| Investing activities: | | | | |
| Purchases of property, plant and equipment | (30,755) | (23,670) | (54,660) | (61,105) |
| Other investing activities | □ | 8 | □ | (8,283) |
| Net cash used in investing activities | (30,755) | (23,662) | (54,660) | (69,388) |
| Financing activities: | | | | |
| Issuance of long-term debt | 134,182 | 26,768 | 164,121 | 48,480 |
| Repayments of long-term debt | (169,749) | (28,482) | (203,408) | (49,900) |
| Issuance of common stock, net of expenses and proceeds and tax benefits from exercise of stock options | 4,539 | 663 | 14,625 | 1,670 |
| Purchase of treasury stock | □ | □ | (238) | (176) |
| Debt issuance costs | (1,487) | (277) | (1,511) | (1,320) |
| Net cash used in financing activities | (32,515) | (1,328) | (26,411) | (1,246) |
| Increase (decrease) in cash and equivalents | (19,853) | 8,687 | (26,989) | (12,290) |
| Cash and equivalents at beginning of period | 58,294 | 3,241 | 65,430 | 24,218 |
| Cash and equivalents at end of period | \$ 38,441 | \$ 11,928 | \$ 38,441 | \$ 11,928 |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid for interest | \$ 5,420 | \$ 7,052 | \$ 20,345 | \$ 22,684 |
| Cash paid for federal and state income taxes | \$ 11,850 | \$ 6,860 | \$ 11,927 | \$ 7,474 |

See notes to consolidated financial statements.

[Back to Contents](#)**STEEL DYNAMICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 1. Summary of Accounting Policies**

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

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; valuation allowances for trade receivables, inventories and deferred income tax assets; potential environmental liabilities, litigation claims and settlements. Actual results may differ from these estimates and assumptions.

In the opinion of management, these financial statements reflect all normal recurring adjustments necessary for a fair presentation of the interim period results. These financial statements and notes should be read in conjunction with the audited financial statements included in the company's Annual Report on Form 10-K for the year ended December 31, 2003.

Stock-Based Compensation. At June 30, 2004, the company had three incentive stock option plans and accounted for these plans under the recognition and measurement principles of Accounting Standards Board APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under APB 25, no stock-based employee compensation cost related to the incentive stock option plans is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of FAS 123 to its stock-based employee compensation for the three and six-month periods ended June 30 (in thousands, except per share data):

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|-------------|-------------------------|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income, as reported | \$ 67,292 | \$ 5,430 | \$ 99,254 | \$ 21,208 |
| Stock-based employee compensation expense, using the fair value based method, net of related tax effect | (714) | (544) | (1,430) | (1,127) |
| Net income, pro forma | \$ 66,578 | \$ 4,886 | \$ 97,824 | \$ 20,081 |
| Basic earnings per share: | | | | |
| As reported | \$ 1.36 | \$.11 | \$ 2.02 | \$.45 |
| Pro forma | 1.35 | .10 | 1.99 | .42 |
| Diluted earnings per share: | | | | |
| As reported | \$ 1.20 | \$.11 | \$ 1.78 | \$.44 |
| Pro forma | 1.19 | .10 | 1.76 | .42 |

Note 2. Earnings Per Share

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

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q/A

are excluded from the computation in periods in which they have an anti-dilutive effect.

The following table presents a reconciliation of the numerators and the denominators of the company's basic and diluted earnings per share computations for net income for the three and six-month periods ended June 30 (in thousands, except per share data):

| | Three Months Ended | | | | | |
|--------------------------------------|---------------------------------------|---------------------------------|-----------------------------|---------------------------------------|---------------------------------|-----------------------------|
| | 2004 | | | 2003 | | |
| | Net Income (Numerator) | Shares (Denominator) | Per Share Amount | Net Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic earnings per share | \$ 67,292 | \$ 49,340 | \$ 1.36 | \$ 5,430 | \$ 47,650 | \$ 0.11 |
| Dilutive stock option effect | □ | 442 | | □ | 203 | |
| Convertible subordinated debt effect | 683 | 6,763 | | □ | □ | |
| Diluted earnings per share | <u>\$ 67,975</u> | <u>\$ 56,545</u> | \$ 1.20 | <u>\$ 5,430</u> | <u>\$ 47,853</u> | \$ 0.11 |

[Back to Contents](#)

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six Months Ended

| | 2004 | | | 2003 | | |
|--------------------------------------|------------------------------|-------------------------|---------------------|------------------------------|-------------------------|---------------------|
| | Net Income (Numerator) | Shares (Denominator) | Per Share Amount | Net Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic earnings per share | \$ 99,254 | \$ 49,143 | \$ 2.02 | \$ 21,208 | \$ 47,625 | \$.45 |
| Dilutive stock option effect | □ | 473 | | □ | 195 | |
| Convertible subordinated debt effect | 1,328 | 6,763 | | □ | □ | |
| Diluted earnings per share | \$ 100,582 | \$ 56,379 | \$ 1.78 | \$ 21,208 | \$ 47,820 | \$.44 |

The following table presents the common share equivalents that were excluded from the company's diluted earnings per share calculation because they were anti-dilutive or not convertible at June 30 (in thousands):

| | 2004 | 2003 |
|-----------------------------------|------|-------|
| Stock options | 39 | 1,158 |
| Convertible subordinated debt | □ | 6,763 |
| Excluded common share equivalents | 39 | 7,921 |

Note 3. Comprehensive Income

The following table presents the company's components of comprehensive income, net of related tax, for the three and six-months ended June 30 (in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------|------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income available to common shareholders | \$ 67,292 | \$ 5,430 | \$ 99,254 | \$ 21,208 |
| Unrealized gain on derivative instruments | 1,176 | 590 | 1,823 | 975 |
| Unrealized gain (loss) on available-for-sale securities | (345) | 114 | (45) | 57 |
| Comprehensive income | \$ 68,123 | \$ 6,134 | \$ 101,032 | \$ 22,240 |
| Hedge ineffectiveness gain | \$ □ | \$ 257 | \$ 275 | \$ □ |

Note 4. Inventories

Inventories are stated at lower of cost (principally standard cost which approximates actual cost on a first-in, first-out basis) or market. Inventory consisted of the following (in thousands):

| June 30, 2004 | December 31, 2003 |
|------------------|----------------------|
| | |

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q/A

| | | |
|-------------------|------------|------------|
| Raw materials | \$ 110,419 | \$ 46,347 |
| Supplies | 69,797 | 60,420 |
| Work-in-progress | 30,061 | 15,996 |
| Finished goods | 69,893 | 61,733 |
| | <hr/> | <hr/> |
| Total inventories | \$ 280,170 | \$ 184,496 |
| | <hr/> | <hr/> |

Note 5. Segment Information

The company has two reportable segments: steel operations and steel scrap substitute operations. The steel operations segment includes the company's Flat Roll Division, Structural and Rail Division, and Bar Products Division. The Flat Roll Division sells a broad range of hot-rolled, cold-rolled and coated steel products, including a large variety of specialty products such as thinner gauge hot-rolled products, galvanized products, and painted products. The Flat Roll Division sells directly to end-users and service centers located primarily in the Midwestern United States and these products are used in numerous industry sectors, including the automotive, construction and commercial industries.

The Structural and Rail Division produces and sells structural steel beams, pilings, and other steel components directly to end-users and steel service centers to be used primarily in the construction, transportation and industrial machinery markets. This facility is also designed to produce and sell a variety of standard and premium-grade rail for the railroad industry. The company completed standard rail production trials in the second quarter and anticipates beginning rail shipments during the second half of 2004.

On December 29, 2003, the company's Bar Products Division began commissioning and successfully produced certain SBQ and MBQ rounds. The company continues to increase its SBQ and MBQ product offerings and anticipates the addition of angles, flats and channels during the third quarter. The facility's anticipated annual production capacity is between 500,000 and 600,000 tons. The Bar Products Division markets its products directly to end-users and to service centers for the construction, transportation and industrial machinery markets.

[Back to Contents](#)

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Steel Scrap Substitute Operations. Steel scrap substitute operations include the revenues and expenses associated with the company's wholly owned subsidiary, Iron Dynamics. From the time operations were halted in 2001 through the fourth quarter of 2002, the costs incurred at IDI were composed of those expenses required to maintain the facility and further evaluate the project and its related benefits. During the fourth quarter of 2002, IDI successfully completed certain operating trials utilizing a modified production process. This process may significantly reduce the eventual per-unit cost of liquid pig iron production. Throughout 2003, the company invested \$13.3 million for capital expenditures required to implement this modified production process, and Iron Dynamics restarted operations mid-November 2003. Since restart, the Flat Roll Division has successfully used these iron briquettes as a part of its metallic raw material inputs. During the first half of 2004, IDI produced 83,700 tonnes of hot briquetted iron and after restarting the submerged arc furnace in the second quarter produced 6,400 tonnes of liquid pig iron.

Revenues included in the category "All Other" are from two subsidiary operations that are below the quantitative thresholds required for reportable segments. These revenues are from the fabrication of trusses, girders, steel joists and steel decking for the non-residential construction industry; from the further processing, or slitting, and sale of certain steel products; and from the resale of certain secondary and excess steel products. In addition, "All Other" also includes certain unallocated corporate accounts, such as the company's senior secured credit facilities, senior unsecured notes, convertible subordinated notes and certain other investments.

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. Intersegment sales and any related profits are eliminated in consolidation. The external net sales of the company's steel operations include sales to non-U.S. companies of \$10.5 million and \$12.4 million for the three months ended June 30, 2004 and 2003, respectively, and \$21.4 million and \$52.7 million for the six months ended June 30, 2004 and 2003, respectively. The company's segment results for the three months ended March 31 are as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|-------------------------|--------------------|------------|------------------|------------|
| | 2004 | 2003 | 2004 | 2003 |
| Steel Operations | | | | |
| Net sales | | | | |
| External | \$ 489,853 | \$ 199,264 | \$ 842,636 | \$ 415,838 |
| Other segments | 22,980 | 10,375 | 43,265 | 22,804 |
| Operating income | 127,434 | 22,262 | 192,351 | 63,303 |
| Assets | 1,338,748 | 1,100,426 | 1,338,748 | 1,100,426 |

Steel Scrap Substitute Operations

| | | | | |
|----------------|----------|---------|-----------|---------|
| Net sales | | | | |
| External | \$ 9,656 | \$ 2 | \$ 16,549 | \$ 2 |
| Other segments | | | | |
| Operating loss | (3,357) | (2,294) | (6,041) | (4,388) |
| Assets | 161,102 | 152,114 | 161,102 | 152,114 |

All Other

| | | | | |
|----------------|-----------|-----------|-----------|-----------|
| Net sales | | | | |
| External | \$ 35,804 | \$ 19,368 | \$ 67,166 | \$ 38,298 |
| Other segments | 292 | 139 | 645 | 256 |
| Operating loss | (8,092) | (3,372) | (10,954) | (8,113) |
| Assets | 195,364 | 161,038 | 195,364 | 161,038 |

Eliminations

| | | | | |
|-------------------------|----|----------|----|-----------|
| Net sales | | | | |
| External | \$ | □ | \$ | □ |
| Other segments | | (32,928) | | (10,514) |
| Operating income (loss) | | (869) | | 630 |
| Assets | | (91,260) | | (102,448) |
| | | | | (60,459) |
| | | | | (23,062) |
| | | | | (1,700) |
| | | | | 984 |
| | | | | (102,448) |

Consolidated

| | | | | | | | | |
|------------------|----|-----------|----|-----------|----|-----------|----|-----------|
| Net sales | \$ | 525,657 | \$ | 218,632 | \$ | 909,802 | \$ | 454,136 |
| Operating income | | 115,116 | | 17,226 | | 173,656 | | 51,786 |
| Assets | | 1,603,954 | | 1,311,130 | | 1,603,954 | | 1,311,130 |

Note 6. Short-Term Bond Transaction

During the first quarter of 2004, the company entered into a transaction relating to the short-sale of \$66.0 million of U.S. Treasury Securities. The transaction was intended to address interest rate exposure and generate capital gains. As a result of this transaction, the company recorded short-term capital gains of \$3.2 million, interest income of \$175,000 and interest expense of \$3.5 million during the six-months ended June 30, 2004. The company has an obligation to repurchase, on or before November 12, 2004, \$66.0 million of U.S. Treasury Securities that had a market value of \$68.4 million at June 30, 2004. The company has placed the proceeds of \$73.0 million from the short sale into an interest-bearing collateral account to provide for this repurchase. At June 30, 2004, the net obligation of this transaction was \$202,000, which included net accrued interest payable of \$4.8 million.

[Back to Contents](#)

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Condensed Consolidating Information

Certain 100%-owned subsidiaries of SDI have fully and unconditionally guaranteed all of the indebtedness relating to the issuance of \$300.0 million of senior notes due March 2009. Following are condensed consolidating financial statements of the company, including the guarantors. The following condensed consolidating financial statements present the financial position, results of operations and cash flows of (i) SDI (in each case, reflecting investments in its consolidated subsidiaries under the equity method of accounting), (ii) the guarantor subsidiaries of SDI, (iii) the non-guarantor subsidiaries of SDI, and (iv) the eliminations necessary to arrive at the information for the company on a consolidated basis. The condensed consolidating financial statements should be read in conjunction with the accompanying consolidated financial statements of the company and the company's Annual Report on Form 10-K for the year ended December 31, 2003.

Condensed Consolidating Balance Sheets (in thousands)

As of June 30, 2004

| | Parent | Guarantors | Combined non-guarantors | Consolidating adjustments | Total consolidated |
|---|---------------------|-------------------|----------------------------|------------------------------|-----------------------|
| Cash | \$ 32,514 | \$ 577 | \$ 5,350 | \$ □ | \$ 38,441 |
| Accounts receivable | 166,006 | 158,768 | 23,233 | (148,853) | 199,154 |
| Inventories | 222,819 | 36,417 | 21,203 | (269) | 280,170 |
| Other current assets | 28,876 | 864 | 1,117 | (189) | 30,668 |
| Total current assets | 450,215 | 196,626 | 50,903 | (149,311) | 548,433 |
| Property, plant and equipment, net | 735,678 | 131,887 | 150,558 | (118) | 1,018,005 |
| Other assets | 360,975 | 90,531 | 143 | (414,133) | 37,516 |
| Total assets | \$ 1,546,868 | \$ 419,044 | \$ 201,604 | \$ (563,562) | \$ 1,603,954 |
| Accounts payable | \$ 102,749 | \$ 21,534 | \$ 18,043 | \$ (21,365) | \$ 120,961 |
| Accrued expenses | 61,433 | 5,034 | 6,816 | (699) | 72,584 |
| Current maturities of long-term debt | 2,924 | □ | 2,097 | (21) | 5,000 |
| Total current liabilities | 167,106 | 26,568 | 26,956 | (22,085) | 198,545 |
| Other liabilities | 104,845 | 142,206 | 10,949 | (120,353) | 137,647 |
| Long-term debt | 562,417 | □ | 1,032 | (162) | 563,287 |
| Minority interest | □ | □ | □ | 1,823 | 1,823 |
| Common stock | 517 | 89,426 | 202,184 | (291,610) | 517 |
| Treasury stock | (28,908) | □ | □ | □ | (28,908) |
| Additional paid in capital | 376,945 | 116,868 | □ | (116,868) | 376,945 |
| Retained earnings | 366,373 | 43,976 | (39,534) | (14,307) | 356,508 |
| Other accumulated comprehensive loss | (2,427) | □ | 17 | □ | (2,410) |
| Total stockholders' equity | 712,500 | 250,270 | 162,667 | (422,785) | 702,652 |
| Total liabilities and stockholders' equity | \$ 1,546,868 | \$ 419,044 | \$ 201,604 | \$ (563,562) | \$ 1,603,954 |

As of December 31, 2003

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q/A

| | <u>Parent</u> | <u>Guarantors</u> | <u>Combined non-guarantors</u> | <u>Consolidating adjustments</u> | <u>Total consolidated</u> |
|---|---------------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Cash | \$ 64,008 | \$ 496 | \$ 926 | \$ □ | \$ 65,430 |
| Accounts receivable | 123,315 | 119,785 | 13,037 | (130,114) | 126,023 |
| Inventories | 164,024 | 2,579 | 18,397 | (504) | 184,496 |
| Other current assets | 32,938 | 68 | 168 | (1,188) | 31,986 |
| Total current assets | 384,285 | 122,928 | 32,528 | (131,806) | 407,935 |
| Property, plant and equipment, net | 755,707 | 96,757 | 148,769 | (117) | 1,001,116 |
| Other assets | 260,538 | 36,855 | 262 | (258,267) | 39,388 |
| Total assets | \$ 1,400,530 | \$ 256,540 | \$ 181,559 | \$ (390,190) | \$ 1,448,439 |
| Accounts payable | \$ 64,069 | \$ 15,618 | \$ 11,025 | \$ (11,386) | \$ 79,326 |
| Accrued expenses | 52,365 | 1,699 | 5,046 | (1,120) | 57,990 |
| Current maturities of long-term debt | 11,765 | □ | 4,243 | (20) | 15,988 |
| Total current liabilities | 128,199 | 17,317 | 20,314 | (12,526) | 153,304 |
| Other liabilities | 108,680 | 73,310 | (13,587) | (52,700) | 115,703 |
| Long-term debt | 575,608 | □ | 24,826 | (8,848) | 591,586 |
| Minority interest | 28 | □ | □ | 585 | 613 |
| Common stock | 509 | 46,482 | 189,735 | (236,217) | 509 |
| Treasury stock | (28,670) | □ | □ | □ | (28,670) |
| Additional paid in capital | 362,328 | 116,868 | □ | (116,868) | 362,328 |
| Retained earnings | 257,919 | 2,563 | (39,612) | 36,384 | 257,254 |
| Other accumulated comprehensive loss | (4,071) | □ | (117) | □ | (4,188) |
| Total stockholders' equity | 588,015 | 165,913 | 150,006 | (316,701) | 587,233 |
| Total liabilities and stockholders' equity | \$ 1,400,530 | \$ 256,540 | \$ 181,559 | \$ (390,190) | \$ 1,448,439 |

[Back to Contents](#)**STEEL DYNAMICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***Condensed Consolidating Statements of Income (in thousands)*

For the Three Months Ended, June 30, 2004

| | Parent | Guarantors | Combined non-guarantors | Consolidating adjustments | Total consolidated |
|--|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net sales | \$ 471,903 | \$ 512,833 | \$ 45,752 | \$ (504,831) | \$ 525,657 |
| Cost of goods sold | 337,053 | 500,539 | 42,413 | (497,546) | 382,459 |
| Gross profit (loss) | 134,850 | 12,294 | 3,339 | (7,285) | 143,198 |
| Selling, general and administrative | 21,547 | 3,806 | 2,840 | (111) | 28,082 |
| Operating income (loss) | 113,303 | 8,488 | 499 | (7,174) | 115,116 |
| Interest expense | 9,989 | 4 | 427 | □ | 10,592 |
| Other (income) expense | 27,862 | (30,865) | □ | (140) | (3,143) |
| Income (loss) before income taxes and equity in net loss of subsidiaries | 75,452 | 39,349 | 72 | (7,206) | 107,667 |
| Income taxes | 29,062 | 14,004 | 27 | (2,718) | 40,375 |
| Equity in net income of subsidiaries | 46,390 | 25,345 | 45 | (4,488) | 67,292 |
| | 25,390 | □ | □ | (25,390) | □ |
| Net income (loss) | \$ 71,780 | \$ 25,345 | \$ 45 | \$ (29,878) | \$ 67,292 |

For the Three Months Ended, June 30, 2003

| | Parent | Guarantors | Combined non-guarantors | Consolidating adjustments | Total consolidated |
|--|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net sales | \$ 209,640 | \$ □ | \$ 19,506 | \$ (10,514) | \$ 218,632 |
| Cost of goods sold | 177,905 | □ | 19,911 | (11,092) | 186,724 |
| Gross profit (loss) | 31,735 | □ | (405) | 578 | 31,908 |
| Selling, general and administrative | 11,480 | 949 | 2,305 | (52) | 14,682 |
| Operating income (loss) | 20,255 | (949) | (2,710) | 630 | 17,226 |
| Interest expense | 8,981 | (287) | 430 | (186) | 8,938 |
| Other (income) expense | 12,353 | (12,967) | (1) | 216 | (399) |
| Income (loss) before income taxes and equity in net loss of subsidiaries | (1,079) | 12,305 | (3,139) | 600 | 8,687 |
| Income taxes | 130 | 4,304 | (1,177) | □ | 3,257 |
| Equity in net income of subsidiaries | (1,209) | 8,001 | (1,962) | 600 | 5,430 |
| | 6,040 | □ | □ | (6,040) | □ |
| Net income (loss) | \$ 4,831 | \$ 8,001 | \$ (1,962) | \$ (5,440) | \$ 5,430 |

[Back to Contents](#)**STEEL DYNAMICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**For the Six Months Ended,
June 30, 2004

| | <u>Parent</u> | <u>Guarantor</u> | <u>Combined non-guarantors</u> | <u>Consolidating adjustments</u> | <u>Total consolidated</u> |
|---|---------------|------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net sales | \$ 836,004 | \$ 885,901 | \$ 84,360 | \$ (896,463) | \$ 909,802 |
| Cost of goods sold | 620,233 | 868,514 | 77,663 | (881,396) | 685,014 |
| Gross profit | 215,771 | 17,387 | 6,697 | (15,067) | 224,788 |
| Selling, general and administrative | 38,430 | 7,268 | 5,702 | (268) | 51,132 |
| Operating income (loss) | 177,341 | 10,119 | 995 | (14,799) | 173,656 |
| Interest expense | 19,872 | (629) | 843 | 10 | 20,096 |
| Other (income) expense | 48,147 | (53,444) | (2) | 53 | (5,246) |
| Income (loss) before income taxes and Equity in net loss of subsidiaries | 109,322 | 64,192 | 154 | (14,862) | 158,806 |
| Income taxes | 42,377 | 22,779 | 58 | (5,662) | 59,552 |
| Equity in net income of subsidiaries | 66,945 | 41,413 | 96 | (9,200) | 99,254 |
| | 41,509 | □ | □ | (41,509) | □ |
| Net income (loss) | \$ 108,454 | \$ 41,413 | \$ 96 | \$ (50,709) | \$ 99,254 |

For the Six Months Ended,
June 30, 2003

| | <u>Parent</u> | <u>Guarantor</u> | <u>Combined non-guarantors</u> | <u>Consolidating adjustments</u> | <u>Total consolidated</u> |
|---|---------------|------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net sales | \$ 438,643 | \$ □ | \$ 38,555 | \$ (23,062) | \$ 454,136 |
| Cost of goods sold | 356,745 | □ | 39,565 | (23,617) | 372,693 |
| Gross profit | 81,898 | □ | (1,010) | 555 | 81,443 |
| Selling, general and administrative | 24,215 | 1,455 | 4,416 | (429) | 29,657 |
| Operating income (loss) | 57,683 | (1,455) | (5,426) | 984 | 51,786 |
| Interest expense | 18,068 | (520) | 885 | (329) | 18,104 |
| Other (income) expense | 26,352 | (26,989) | (2) | 389 | (250) |
| Income (loss) before income taxes and Equity in net loss of subsidiaries | 13,263 | 26,054 | (6,309) | 924 | 33,932 |
| Income taxes | 5,966 | 9,124 | (2,366) | □ | 12,724 |
| Equity in net income of subsidiaries | 7,297 | 16,930 | (3,943) | 924 | 21,208 |
| | 12,988 | □ | □ | (12,988) | □ |
| Net income (loss) | \$ 20,285 | \$ 16,930 | \$ (3,943) | \$ (12,064) | \$ 21,208 |

Condensed Consolidating Statements of Cash Flows (in thousands)

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q/A

For the Six Months Ended,
June 30, 2004

| | <u>Parent</u> | <u>Guarantors</u> | <u>Combined non-guarantors</u> | <u>Total consolidated</u> |
|--|------------------|-------------------|------------------------------------|-------------------------------|
| Net cash provided by (used in) operations | \$ 112,333 | \$ (57,245) | \$ (1,006) | \$ 54,082 |
| Net cash used in investing activities | (12,677) | (36,511) | (5,472) | (54,660) |
| Net cash provided by (used in) in financing activities | (131,150) | 93,837 | 10,902 | (26,411) |
| Increase (decrease) in cash and equivalents | (31,495) | 82 | 4,424 | (26,989) |
| Cash and equivalents at beginning of year | 64,008 | 496 | 926 | 65,430 |
| Cash and equivalents at end of year | <u>\$ 32,514</u> | <u>\$ 577</u> | <u>\$ 5,350</u> | <u>\$ 38,441</u> |

For the Six Months Ended
June 30, 2003

| | <u>Parent</u> | <u>Guarantors</u> | <u>Combined non-guarantors</u> | <u>Total consolidated</u> |
|---|------------------|-------------------|------------------------------------|-------------------------------|
| Net cash provided by (used in) operations | \$ 61,420 | \$ (720) | \$ (2,356) | \$ 58,344 |
| Net cash used in investing activities | (55,626) | (8,463) | (5,299) | (69,388) |
| Net cash provided by (used in) financing activities | (17,789) | 9,162 | 7,381 | (1,246) |
| Decrease in cash and equivalents | (11,995) | (21) | (274) | (12,290) |
| Cash and equivalents at beginning of year | 22,530 | 282 | 1,406 | 24,218 |
| Cash and equivalents at end of year | <u>\$ 10,535</u> | <u>\$ 261</u> | <u>\$ 1,132</u> | <u>\$ 11,928</u> |

[Back to Contents](#)

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

Forward-Looking Statements

Statements made in this report that are not statements of historical fact are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Forward-looking statements include, without limitation, any statements that may project, indicate or imply future results, events, performance or achievements. We refer you, however, to the section denominated "Forward-Looking Statements" and "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2003, which we incorporate herein by reference, for a more detailed discussion of some of the many factors, variables, risks and uncertainties that could cause actual results to differ materially from those we may have expected or anticipated. We caution that any forward-looking statement reflects only our reasonable belief at the time the statement is made.

Income Statement Classifications

Net Sales. Our total net sales are a factor of net tons shipped, product mix and related pricing. Our net sales are determined by subtracting product returns, sales discounts, return allowances and claims from total sales. We charge premium prices for certain grades of steel, dimensions of product, or certain smaller volumes, based on our cost of production. We also charge marginally higher prices for our value-added products from our cold mill. These products include hot-rolled and cold-rolled galvanized products, cold-rolled products, and painted products.

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

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist of all costs associated with our sales, finance and accounting, materials and transportation, and administrative departments. These costs include labor and benefits, professional services, financing cost amortization, property taxes, profit-sharing expense and start-up costs associated with new projects.

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

Other (Income) Expense. Other income consists of interest income earned on our cash balances and any other non-operating income activity, including gains on certain short-term investments. Other expense consists of any non-operating costs.

Second Quarter 2004 vs. Second Quarter 2003 Operating Results

Net income was \$67.3 million or \$1.20 per diluted share during the second quarter of 2004, compared with \$5.4 million or \$.11 per diluted share during the second quarter of 2003. This increase in our net income during 2004 was due to increased selling values and increased shipping volumes.

Gross Profit. During the second quarter of 2004, our net sales increased \$307.0 million, or 140%, to \$525.7 million and our consolidated shipments increased 236,000 tons, or 36%, to 889,000 tons, compared with the second quarter of 2003. The increase in shipments was primarily due to increased shipments of 101,000 tons from our Structural and Rail Division, which started commercial operations mid-2002 and shipments of 82,000 tons from our Bar Products Division, which started commercial operations during the first quarter of 2004. Our second quarter 2004 average consolidated selling price increased \$256 per ton compared with the second quarter of 2003 and increased \$110 per ton compared with the first quarter of 2004. We continue to see signs of a strengthening US economy and we are experiencing a related increase in demand and product base-pricing; however, our increase in selling values during the first half of 2004 was also due in part to the steel industry's initiation of a surcharge mechanism, derived from an indexed scrap number, designed to pass some of the increased costs associated with rising metallic prices through to its customers.

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q/A

Our metallic raw material cost per net ton charged increased \$82 during the first half of 2004, of which \$16 per ton occurred during the second quarter. When compared to the first half of 2003, our metallic raw material cost per net ton charged increased \$98, or 81%. Our metallic raw material costs as a percentage of total cost of goods sold increased to 62%, a 12% increase from the first half of 2003. This increase in the cost of our primary raw material as a percentage of our total manufacturing costs necessitated the surcharge. We anticipate a further increase in our metallic raw material costs, specifically steel scrap, during the remainder of 2004. If these costs fall from historical highs, the surcharge will also decline and may eventually cease to be utilized in our product price determination.

We also expect to realize an increase in our product base-prices during the third quarter of 2004 as the US economy continues to strengthen and demand of steel products continues to increase. We believe this will result in a corresponding increase in our margins and, combined with an anticipated increase in our shipments due to the continued ramp-up of our Structural and Rail Division and the continued start-up of our Bar Products Division, would result in increased operating income.

[Back to Contents](#)

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$28.1 million during the second quarter of 2004, as compared to \$14.7 million during the same period in 2003, an increase of \$13.4 million, or 91%. This increase was attributed to increased profit sharing expense of \$5.3 million, due to our increased income before taxes and to our June 2004 refinancing which resulted in a write-off of previously capitalized financing costs in the amount of \$3.1 million. During the second quarter of 2004 and 2003, selling, general and administrative expenses represented approximately 5% and 7% of net sales, respectively.

Interest Expense. During the second quarter of 2004, gross interest expense increased 13% to \$12.0 million and capitalized interest decreased \$254,000 to \$1.4 million, as compared to the same period in 2003. Gross interest expense remained relatively flat during the first half of 2004. The interest capitalization that occurred during 2004 resulted from the interest required to be capitalized with respect to construction activities at our Bar Products Division and Structural and Rail Division. We anticipate gross interest expense and capitalized interest to continue to decrease slightly through the end of the year.

Other (Income) Expense. Other income was \$3.1 million during the second quarter of 2004, as compared to \$400,000 during 2003. During the first quarter of 2004 we entered into a short-term U.S. Treasury Bond transaction which is intended to address interest rate exposure and generate capital gains. During the second quarter of 2004, we recorded a \$1.9 million gain as a result of this transaction. We also recorded a \$1.0 million gain from the early extinguishment of certain debt associated with our Structural and Rail Division.

Income Taxes. During the second quarter of 2004, our income tax provision was \$40.4 million, as compared to \$3.3 million during the same period in 2003. Our effective income tax rate was 37.5% for both periods; however, if our profitability is sustained or increases during the second half of 2004, we may increase our effective income tax rate to 38%. This increase would be necessary due to an increase in state income taxes created by higher profitability.

First Half 2004 vs. First Half 2003 Operating Results

Net income was \$99.3 million or \$1.78 per diluted share during the first half of 2004, compared with \$21.2 million or \$.44 per diluted share during the first half of 2003. This increase in our net income during 2004 was due to increased selling values and increased shipping volumes.

Gross Profit. During the first half of 2004, our net sales increased \$455.7 million, or 100%, to \$909.8 million and our consolidated shipments increased 387,000 tons, or 30%, to 1.7 million tons, compared with the first half of 2003. The increase in shipments was primarily due to increased shipments of 232,000 tons from our Structural and Rail Division, which started commercial operations mid-2002 and shipments of 102,000 tons from our Bar Products Division, which started commercial operations during the first quarter of 2004. Our first half 2004 average consolidated selling price increased \$190 per ton, or 54%, compared with the first half of 2003. This is due in part to the previously discussed increase in base-prices resulting from strong demand, the surcharge mechanism and our shipping product mix becoming higher-value added with the addition of the Flat Roll Division's painted products and the continued ramp-up of our Bar Products Division.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$51.1 million during the first half of 2004, as compared to \$29.7 million during the same period in 2003, an increase of \$21.5 million, or 72%. This increase was attributed to increased profit sharing expense of \$6.4 million, due to our increased income before taxes and to our June 2004 refinancing which resulted in a write-off of previously capitalized financing costs in the amount of \$3.1 million. During the first half of 2004 and 2003, selling, general and administrative expenses represented approximately 6% and 7% of net sales, respectively.

Interest Expense. Interest expense remained relatively flat at \$20.1 million during the first half of 2004, as compared to \$18.1 million during the first half of 2003. During the first half of 2004, gross interest expense increased 12% to \$23.9 million and capitalized interest increased \$636,000 to \$3.8 million, as compared to the same period in 2003. The interest capitalization that occurred during the first half of 2004 resulted from the interest required to be capitalized with respect to construction activities at our Bar Products Division and Structural and Rail Division.

Other (Income) Expense. Other income was \$5.2 million during the first half of 2004, as compared to \$250,000 during the first half of 2003. During the first quarter of 2004 we entered into a short-term U.S. Treasury Bond transaction which is intended to address interest rate exposure and generate capital gains. During the first half of 2004, we recorded a \$3.3 million gain as a result of this transaction. We also recorded a \$1.0 million gain from the early extinguishment of certain debt associated with our Structural and Rail Division during the second quarter.

Income Taxes. During the first half of 2004, our income tax provision was \$59.6 million, as compared to \$12.7 million during the same period in 2003. Our effective tax rate was 37.5% for both periods.

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, equity, long-term borrowings, state and local grants and capital cost reimbursements.

[Back to Contents](#)

Working Capital. During the first half of 2004, our operational working capital position, representing our cash invested in trade receivables and inventories less trade payables and accruals increased \$112.6 million to \$285.8 million compared to December 31, 2003. Due to higher selling prices and increased sales volume, trade receivables increased \$73.1 million during the first half to \$199.2 million, of which \$197.1 million, or 99%, were less than 60 days past due. Our largest customer is an affiliated company, Heidtman Steel, which represented 14% and 20% of our outstanding trade receivables at June 30, 2004 and December 31, 2003, respectively. During the first half our inventories increased \$95.7 million to \$280.2 million, due primarily to the increased cost and volume of our metallic raw materials on-hand and to the start-up production of our Bar Products Division. Our trade payables increased \$41.6 million during the first half, a significant portion of which was associated with the amount we owed various vendors for metallic raw material purchases.

Capital Expenditures. We invested \$54.7 million in property, plant and equipment during the first half of 2004 related to our new divisions and improvement projects in our existing facilities. Approximately 67% of our capital investments were related to the continued conversion of our Bar Products Division. We believe these capital investments will increase our net sales and related cash flows as each project continues to develop.

Capital Resources. On June 30, 2004, we completed a refinancing of our senior secured credit facilities and entered into a new 4-year \$230 million senior secured revolving credit facility. A portion of the proceeds from the new revolver and cash on hand were used to prepay certain existing senior secured debt, including our term loan B facility of \$108 million. At June 30, 2004, with the completion of the refinancing, we increased our credit facility liquidity from approximately \$75 million to \$130 million. The proceeds from the revolver will be available for working capital and other general corporate purposes. As a result of this refinancing we wrote-off \$3.1 million of previously capitalized financing costs associated with the refinanced debt. Our ability to draw down the revolver is dependent upon our continued compliance with the financial covenants and other covenants contained in our senior secured credit agreement. We were in compliance with these covenants at June 30, 2004, and expect to remain in compliance during the next twelve months.

Our new senior secured credit agreement allows us to pay cash dividends dependent upon our continued compliance with the financial covenants and other covenants within the agreement. On July 14, 2004, our Board of Directors declared our first cash dividend. The dividend of \$0.075 (seven and one-half cents) per common share is payable August 13, 2004 to shareholders of record at the close of business on July 26, 2004. We estimate the aggregate dividend payment will be \$3.7 million.

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 regulation factors that are largely beyond our control. In addition, we cannot assure you that our operating results, cash flow and capital resources will be sufficient for repayment of our indebtedness in the future. We believe that based upon current levels of operations and anticipated growth, cash flow from operations, together with other available sources of funds, including additional borrowings under our senior secured credit agreement, will be adequate for the next twelve months for making required payments of principal and interest on our indebtedness and for funding anticipated capital expenditures and working capital requirements.

Other Matters

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk. In the normal course of business we are exposed to interest rate changes. Our objectives in managing exposure to interest rate changes are to limit the impact of these rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we primarily use interest rate swaps to

manage net exposure to interest rate changes related to our portfolio of borrowings. We generally maintain fixed rate debt as a percentage of our net debt between a minimum and maximum percentage. A portion of our debt has an interest component that resets on a periodic basis to reflect current market conditions. At June 30, 2004, no material changes had occurred related to our interest rate risk from the information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2003.

Commodity Risk. In the normal course of business we are exposed to the market risk and price fluctuations related to the sale of steel products and to the purchase of commodities used in our production process, such as metallic raw materials, electricity, natural gas and alloys. Our risk strategy associated with product sales has generally been to obtain competitive prices for our products and to allow operating results to reflect market price movements dictated by supply and demand. Our risk strategy associated with the purchase of commodities utilized within our production process has generally been to make certain commitments with suppliers relating to future expected requirements for such commodities. Certain of these commitments contain provisions which require us to [take or pay] for specified quantities without regard to actual usage for periods of up to 3 years. We believe that our production requirements will be such that consumption of the products or services purchased under these commitments will occur in the normal production process. At March 31, 2004, 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, 2003.

[Back to Contents](#)**ITEM 4. CONTROLS AND PROCEDURES**

(a) **Evaluation of Disclosure Controls and Procedures.** An evaluation was performed under the supervision and with the participation of registrant's management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of registrant's disclosure controls and procedures, as of the end of the period covered by this report. Based upon their evaluation, registrant's principal executive officer and principal financial officer have concluded that registrant's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective to ensure that information required to be disclosed by registrant in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) **Changes in Internal Control Over Financial Reporting.** During our most recent fiscal quarter, there was no change in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II**OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

On August 4, 2004 the Oakland County (Michigan) Circuit Court granted Steel Dynamics' motion to dismiss General Motors Corporation's complaint for breach of an alleged steel supply contract, which GM had filed on March 18, 2004 and which Steel Dynamics described in its March 25, 2004 press release and Form 8-K filed on the same date. The Court dismissed the complaint, with prejudice, for failure to state any legally sufficient claim, finding that a January 22, 2003 GM drafted letter to Steel Dynamics, upon which GM had relied in asserting the existence of a multi-year supply contract, lacked mutuality of obligation and did not constitute an enforceable agreement.

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

The Annual Meeting of Shareholders was held May 20, 2004. Proxies were solicited for the Annual Meeting in accordance with the requirements of The Securities Exchange Act 1935. At the Annual Meeting, the following occurred:

- With respect to Item 1 in our Proxy Statement (Election of Directors):

| Director | Shares Voted For | Shares Voted Against or Withheld |
|-----------------------|---------------------|---|
| Keith E. Busse | 45,252,340 | 2,102,563 |
| Mark D. Millett | 43,908,275 | 3,446,628 |
| Richard P. Teets, Jr. | 43,907,264 | 3,447,639 |
| John C. Bates | 44,362,433 | 2,992,470 |
| Paul B. Edgerley | 45,093,684 | 2,261,219 |
| Richard J. Freeland | 30,518,867 | 16,836,036 |
| Naoki Hidaka | 45,380,465 | 1,974,438 |
| James E. Kelley | 45,248,975 | 2,105,928 |
| Dr. Jürgen Kolb | 45,252,340 | 2,102,563 |
| Joseph D. Ruffolo | 45,250,537 | 2,104,366 |

- With respect to Item 2 in our Proxy Statement (Ratification of the Appointment of Independent Auditors), Ernst & Young LLP was approved as our independent auditors for the year 2004:

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q/A

| | |
|----------------------|------------|
| Shares Voted For | 44,804,733 |
| Shares Voted Against | 2,471,584 |
| Abstentions | 78,585 |

- With respect to Item 3 in our Proxy Statement (Approval of Employee Stock Purchase Plan), the Employee Stock Purchase Plan was approved:

| | |
|----------------------|------------|
| Shares Voted For | 36,633,960 |
| Shares Voted Against | 5,624,672 |
| Abstentions | 13,798 |

13

[Back to Contents](#)

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

- 31.1 Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Principal Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Chief Executive Officer Certification pursuant to 18 U.S.C. § 1350
- 32.2 Principal Financial Officer Certification pursuant to 18 U.S.C. § 1350

(b) Reports on Form 8-K:

We filed the following reports on Form 8-K during the three months ended June 30, 2004.

| Date of Filing | Description | Reported |
|----------------|---|--|
| April 15, 2004 | Item 12 <input type="checkbox"/> Disclosure of Results of Operations and Financial Condition <input type="checkbox"/> | Earnings press release for the quarter ended March 31, 2004 |
| April 6, 2004 | Item 9 <input type="checkbox"/> Regulation FD Disclosure <input type="checkbox"/> | Press release titled <input type="checkbox"/> Steel Dynamics Forecasts Strong 2004 Performance <input type="checkbox"/> |
| May 7, 2004 | Item 9 <input type="checkbox"/> Regulation FD Disclosure <input type="checkbox"/> | Press release titled <input type="checkbox"/> Steel Dynamics <input type="checkbox"/> Bar Products Mill Achieves Profitability in April <input type="checkbox"/> |
| May 10, 2004 | Item 5 <input type="checkbox"/> Other events and Regulation FD Disclosure <input type="checkbox"/> | Press release to disclose the limitation of share issuances for the Employee Stock Purchase Plan |
| May 20, 2004 | Item 9 <input type="checkbox"/> Regulation FD Disclosure <input type="checkbox"/> | Press release titled <input type="checkbox"/> Steel Dynamics Updates 2004 Outlook <input type="checkbox"/> |

Items 2, 3 and 5 of Part II are not applicable for this reporting period and have been omitted.

[Back to Contents](#)

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of Securities Exchange Act of 1934, Steel Dynamics, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 9, 2005

STEEL DYNAMICS, INC.

By: /s/ GARY E. HEASLEY

Gary E. Heasley

Chief Financial Officer

(Principal Financial and Accounting Officer and
Duly Authorized Officer)