STEEL DYNAMICS INC
Form 10-Q/A
March 09, 2005
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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 September 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	**35-1929476**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
6714 Pointe Inverness Way, Suite 200, Fort Wayne, IN	**46804**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (260) 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 November 2, 2004, Registrant had 49,881,377 outstanding shares of Common Stock.

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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 September 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 November 8, 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

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

	September 30, 2004	December 31, 2003
	(unaudited)	
ASSETS		
Current assets:		
Cash and equivalents	$ 159,674	$ 65,430
Accounts receivable, net	202,601	100,933
Accounts receivable-related parties	45,151	25,090
Inventories	285,790	184,496
Deferred taxes	8,883	23,217
Other current assets	15,383	8,769
Total current assets	717,482	407,935
Property, plant and equipment, net	1,014,698	1,001,116
Restricted cash	1,649	2,636
Other assets	31,184	36,752
Total assets	$ 1,765,013	$ 1,448,439
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 144,181	$ 42,698
Accounts payable-related parties	1,300	36,628
Accrued interest	10,888	11,312
Other accrued expenses	69,490	46,678
Current maturities of long-term debt	2,277	15,988
Total current liabilities	228,136	153,304
Long-term debt, including unamortized bond premium of $7,569 and $8,834, as of September 30, 2004 and December 31, 2003, respectively	548,724	591,586
Deferred taxes	168,775	115,703
Minority interest	2,274	613
Commitments and contingencies		
Stockholders equity:		
Common stock voting, $.01 par value; 100,000,000 shares authorized; 52,130,841 and 51,011,839 shares issued; and 49,769,186 and 48,645,246 shares outstanding, as of September 30, 2004 and December 31, 2003, respectively	520	509
Treasury stock, at cost; 2,361,655 and 2,366,593 shares, at September 30, 2004 and December 31, 2003, respectively	(28,719)	(28,670)
Additional paid-in capital	384,185	362,328
Retained earnings	462,671	257,254
Other accumulated comprehensive loss	(1,553)	(4,188)
Total stockholders equity	817,104	587,233
Total liabilities and stockholders equity	$ 1,765,013	$ 1,448,439

See notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Net sales:				
Unrelated parties	$ 562,552	$ 233,594	$ 1,372,535	$ 613,082
Related parties	72,189	30,358	172,008	95,006
Total net sales	634,741	253,952	1,544,543	708,088
Cost of goods sold	406,489	215,097	1,091,503	587,790
Gross profit	228,252	38,855	453,040	120,298
Selling, general and administrative expenses	34,992	16,010	86,124	45,667
Operating income	193,260	22,845	366,916	74,631
Interest expense	10,469	8,251	30,565	26,355
Other income	(458)	(112)	(5,704)	(362)
Income before income taxes	183,249	14,706	342,055	48,638
Income taxes	69,635	5,515	129,187	18,239
Net income	$ 113,614	$ 9,191	$ 212,868	$ 30,399
Basic earnings per share	$ 2.29	$ .19	$ 4.32	$ .64
Weighted average common shares outstanding	49,611	47,797	49,299	47,683
Diluted earnings per share, including effect of assumed conversions	$ 2.01	$ .19	$ 3.80	$ .63
Weighted average common shares and share equivalents outstanding	56,881	48,122	56,546	47,920
Dividends declared per share	$ .15	$	$ .15	$

See notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Operating activities:				
Net income	$ 113,614	$ 9,191	$ 212,868	$ 30,399
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	21,735	17,472	64,143	50,391
Deferred income taxes	34,272	9,491	66,871	20,921
Loss on disposal of property, plant and equipment	583		757	
Minority interest	451	86	1,661	(541)
Changes in certain assets and liabilities:				
Accounts receivable	(48,598)	(4,879)	(121,729)	1,361
Inventories	(5,620)	2,043	(101,294)	(18,177)
Other assets	6,612	(3,124)	(4,152)	(4,920)
Accounts payable	24,519	8,649	66,154	24,329
Accrued expenses	5,455	524	21,825	(5,966)
Net cash provided by operating activities	153,023	39,453	207,104	97,797
Investing activities:				
Purchases of property, plant and equipment	(18,211)	(28,883)	(72,872)	(89,988)
Other investing activities	55		55	(8,283)
Net cash used in investing activities	(18,156)	(28,883)	(72,817)	(98,271)
Financing activities:				
Issuance of long-term debt	162	11,343	164,284	59,823
Repayments of long-term debt	(17,450)	(14,588)	(220,857)	(64,488)
Issuance of common stock, net of expenses and proceeds and tax benefits from exercise of stock options	7,244	2,744	21,869	4,414
Issuance (purchase) of treasury stock	189		(49)	(176)
Dividends paid	(3,719)		(3,719)	
Debt issuance costs	(60)	(413)	(1,571)	(1,733)
Net cash used in financing activities	(13,634)	(914)	(40,043)	(2,160)
Increase (decrease) in cash and equivalents	121,233	9,656	94,244	(2,634)
Cash and equivalents at beginning of period	38,441	11,928	65,430	24,218
Cash and equivalents at end of period	$ 159,674	$ 21,584	$ 159,674	$ 21,584
Supplemental disclosure of cash flow information:				
Cash paid for interest	$ 15,545	$ 14,662	$ 35,890	$ 37,346
Cash paid for federal and state income taxes	$ 13,679	$	$ 25,638	$ 7,474

See notes to consolidated financial statements.

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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 September 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 the Financial Accounting Standards Board (FASB) Statement No. 123 to its stock-based employee compensation for the three and nine-month periods ended September 30 (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	2004	**2003**	**2004**	**2003**
Net income, as reported	$ 113,614	$ 9,191	$ 212,868	$ 30,399
Stock-based employee compensation expense, using the fair value based method, net of related tax effect	(944)	(559)	(2,373)	(1,686)
Net income, pro forma	$ 112,670	$ 8,632	$ 210,495	$ 28,713
Basic earnings per share:				
As reported	$ 2.29	$ .19	$ 4.32	$ .64
Pro forma	2.27	.18	4.27	.60
Diluted earnings per share:				
As reported	$ 2.01	$ .19	$ 3.80	$ .63
Pro forma	1.99	.18	3.76	.60

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 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 nine-month periods ended September 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	$ 113,614	49,611	$ 2.29	$ 9,191	47,797	$ .19
Dilutive stock option effect		507			325	
Convertible subordinated debt effect	671	6,763				
Diluted earnings per share	$ 114,285	56,881	$ 2.01	$ 9,191	48,122	$ .19

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STEEL DYNAMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Nine Months Ended					
	2004			2003		
	Net Income (Numerator)	Shares (Denominato)r	Per Share Amount	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share	$ 212,868	49,299	$ 4.32	$ 30,399	47,683	$ .64
Dilutive stock option effect		484			237	
Convertible subordinated debt effect	1,998	6,763				
Diluted earnings per share	$ 214,866	56,546	$ 3.80	$ 30,399	47,920	$ .63

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 September 30 (in thousands):

	2004	2003
Stock options		624
Convertible subordinated debt		6,763
Excluded common share equivalents		7,387

Note 3. Comprehensive Income

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

	Three Months Ended		Nine Months Ended	
	2004	2003	2004	2003
Net income available to common shareholders	$ 113,614	$ 9,191	$ 212,868	$ 30,399
Unrealized gain on derivative instruments	873	957	2,696	1,932
Unrealized gain (loss) on available-for-sale securities	(17)	195	(61)	252
Comprehensive income	$ 114,470	$ 10,343	$ 215,503	$ 32,583

Hedge ineffectiveness gain	$	$	$	$

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):

	September 30, 2004	December 31, 2003
Raw materials	$ 95,689	$ 46,347
Supplies	70,989	60,420
Work-in-progress	42,472	15,996
Finished goods	76,640	61,733
Total inventories	$ 285,790	$ 184,496

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 has completed standard rail production trials and anticipates beginning rail shipments for evaluation before the end 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 fourth 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.

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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 reduced the 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. During the first nine months of 2004, IDI produced 123,000 tonnes of hot briquetted iron and after restarting the submerged arc furnace in June produced 19,200 tonnes of liquid pig iron during the third quarter.

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 $30.3 million and $7.4 million for the three months ended September 30, 2004 and 2003, respectively, and $36.6 million and $60.1 million for the nine months ended September 30, 2004 and 2003, respectively. The company s segment results for the three and nine months ended September 30 are as follows (in thousands):

	Three Months Ended		**Nine Months Ended**	
	2004	**2003**	**2004**	**2003**
Steel Operations				
Net sales				
External	$ 592,814	$ 231,276	$ 1,435,449	$ 647,114
Other segments	28,837	14,374	72,103	37,179
Operating income	208,451	24,536	400,802	87,839
Assets	1,360,037	1,106,122	1,360,037	1,106,122
Steel Scrap Substitute Operations				
Net sales				
External	$	$	$	$
Other segments	10,745	9	27,294	11
Operating loss	(3,347)	(2,951)	(9,388)	(7,339)
Assets	166,288	157,486	166,288	157,486
All Other				
Net sales				
External	$ 41,927	$ 22,676	$ 109,094	$ 60,974
Other segments	192	252	836	508
Operating income (loss)	(10,537)	1,655	(21,491)	(6,458)
Assets	1,739,791	182,289	1,739,791	182,289
Eliminations				
Net sales				
External	$	$	$	$
Other segments	(39,774)	(14,635)	(100,233)	(37,698)
Operating income (loss)	(1,307)	(395)	(3,007)	589
Assets	(1,501,103)	(105,581)	(1,501,103)	(105,581)
Consolidated				
Net sales	$ 634,741	$ 253,952	$ 1,544,543	$ 708,088
Operating income	193,260	22,845	366,916	74,631
Assets	1,765,013	1,340,316	1,765,013	1,340,316

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 $4.9 million, interest income of $333,000 and interest expense of $5.4 million during the nine-months ended September 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 $66.8 million at September 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 September 30, 2004, the net obligation of this transaction was $195,000, which included net accrued interest payable of $6.7 million.

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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 September 30, 2004	Parent	Guarantors	Combined non-guarantors	Consolidating adjustments	Total consolidated
Cash	$ 154,460	$ 595	$ 4,619	$	$ 159,674
Accounts receivable	190,347	162,967	26,905	(132,467)	247,752
Inventories	207,039	51,946	27,693	(888)	285,790
Other current assets	23,102	295	1,047	(178)	24,266
Total current assets	574,948	215,803	60,264	(133,533)	717,482
Property, plant and equipment, net	724,090	135,468	155,257	(117)	1,014,698
Other assets	392,163	85,320	5	(444,655)	32,833
Total assets	$ 1,691,201	$ 436,591	$ 215,526	$ (578,305)	$ 1,765,013
Accounts payable	$ 120,767	$ 25,351	$ 11,926	$ (12,563)	$ 145,481
Accrued expenses	66,396	6,503	8,504	(1,025)	80,378
Current maturities of long-term debt	1,607		693	(23)	2,277
Total current liabilities	188,770	31,854	21,123	(13,611)	228,136
Other liabilities	125,721	164,261	29,666	(150,873)	168,775
Long-term debt	547,896		982	(154)	548,724
Minority interest				2,274	2,274
Common stock	520	89,426	202,184	(291,610)	520
Treasury stock	(28,719)				(28,719)
Additional paid in capital	384,185	116,868		(116,868)	384,185
Retained earnings	474,381	34,182	(38,429)	(7,463)	462,671
Other accumulated comprehensive loss	(1,553)				(1,553)
Total stockholders equity	828,814	240,476	163,755	(415,941)	817,104
Total liabilities and stockholders equity	$ 1,691,201	$ 436,591	$ 215,526	$ (578,306)	$ 1,765,013

As of December 31, 2003	Parent	Guarantors	Combined non-guarantors	Consolidating adjustments	Total consolidated
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

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STEEL DYNAMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidating Statements of Income (in thousands)

For the Three Months Ended, September 30, 2004

	Parent	Guarantors	Combined non-guarantors	Consolidating adjustments	Total consolidated
Net sales	$ 552,976	$ 621,651	$ 52,865	$ (592,751)	$ 634,741
Cost of goods sold	353,881	608,348	47,666	(603,406)	406,489
Gross profit	199,095	13,303	5,199	10,655	228,252
Selling, general and administrative	28,210	4,486	3,097	(801)	34,992
Operating income	170,885	8,817	2,102	11,456	193,260
Interest expense	9,354	742	378	(5)	10,469
Other (income) expense	37,153	(37,597)	(58)	44	(458)
Income before income taxes and equity in net loss of subsidiaries	124,378	45,672	1,782	11,417	183,249
Income taxes	48,118	16,265	677	4,575	69,635
	76,260	29,407	1,105	6,842	113,614
Equity in net income of subsidiaries	30,511			(30,511)	
Net income (loss)	$ 106,771	$ 29,407	$ 1,105	$ (23,669)	$ 113,614

For the Three Months Ended, September 30, 2003

	Parent	Guarantors	Combined non-guarantors	Consolidating adjustments	Total consolidated
Net sales	$ 245,650	$	$ 22,938	$ (14,636)	$ 253,952
Cost of good sold	206,871		22,600	(14,374)	215,097
Gross profit (loss)	38,779		338	(262)	38,855
Selling, general and administration	11,702	1,821	2,354	133	16,010
Operating income (loss)	27,077	(1,821)	(2,016)	(395)	22,845
Interest expense	8,362	(333)	395	(173)	8,251
Other (income) expense	14,942	(15,237)	(20)	203	(112)
Income (loss) before income taxes and equity in net loss of subsidiaries	3,773	13,749	(2,391)	(425)	14,706
Income taxes	1,621	4,790	(896)		5,515
	2,152	8,959	(1,495)	(425)	9,191
Equity in net income of subsidiaries	7,464			(7,464)	
Net income (loss)	$ 9,616	$ 8,959	$ (1,495)	$ (7,889)	$ 9,191

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STEEL DYNAMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended,
September 30, 2004

	Parent	Guarantor	Combined non-guarantors	Consolidating adjustments	Total consolidated
Net sales	$ 1,388,980	$ 1,507,552	$ 137,225	$ (1,489,214)	$ 1,544,543
Cost of goods sold	974,114	1,476,862	125,329	(1,484,802)	1,091,503
Gross profit (loss)	414,866	30,690	11,896	(4,412)	453,040
Selling, general and administrative	66,640	11,754	8,799	(1,069)	86,124
Operating income (loss)	348,226	18,936	3,097	(3,343)	366,916
Interest expense	29,226	113	1,221	5	30,565
Other (income) expense	85,300	(91,041)	(60)	97	(5,704)
Income (loss) before income taxes and Equity in net loss of subsidiaries	233,700	109,864	1,936	(3,445)	342,055
Income taxes	90,495	39,044	735	(1,087)	129,187
	143,205	70,820	1,201	(2,358)	212,868
Equity in net income of subsidiaries	72,020			(72,020)	
Net income (loss)	$ 215,225	$ 70,820	$ 1,201	$ (74,378)	$ 212,868

For the Nine Months Ended,
September 30, 2003

	Parent	Guarantor	Combined non-guarantors	Consolidating adjustments	Total consolidated
Net sales	$ 684,293	$	$ 61,493	$ (37,698)	$ 708,088
Cost of good sold	563,616		62,165	(37,991)	587,790
Gross profit (loss)	120,677		(672)	293	120,298
Selling, general and administration	35,917	3,276	6,770	(296)	45,667
Operating income (loss)	84,760	(3,276)	(7,442)	589	74,631
Interest expense	26,430	(853)	1,280	(502)	26,355
Other (income) expense	41,294	(42,226)	(22)	592	(362)
Income (loss) before income taxes and equity in net loss of subsidiaries	17,036	39,803	(8,700)	499	48,638
Income taxes	7,587	13,914	(3,262)		18,239
	9,449	25,889	(5,438)	499	30,399
Equity in net income of subsidiaries	20,451			(20,451)	

Net income (loss)	$ 29,900	$ 25,889	$ (5,438)	$ (19,952)	$ 30,399

Condensed Consolidating Statements of Cash Flows (in thousands)

For the Nine Months Ended,
September 30, 2004

	Parent	Guarantor	Combined non-guarantors	Total consolidated
Net cash provided by (used in) operations	$ 235,589	$ (17,489)	$ (10,996)	$ 207,104
Net cash used in investing activities	(18,367)	(41,716)	(12,734)	(72,817)
Net cash provided by (used in) in financing activities	(126,770)	59,304	27,423	(40,043)
Increase (decrease) in cash and equivalents	90,452	99	3,693	94,244
Cash and equivalents at beginning of year	64,008	496	926	65,430
Cash and equivalents at end of period	$ 154,460	$ 595	$ 4,619	$ 159,674

For the Nine Months Ended,
September 30, 2003

	Parent	Guarantor	Combined non-guarantors	Total consolidated
Net cash provided by (used in) operations	$ 94,474	$ 5,700	$ (2,377)	$ 97,797
Net cash used in investing activities	(69,865)	(17,433)	(10,973)	(98,271)
Net cash provided by (used in) financing activities	(26,222)	11,778	12,284	(2,160)
Increase (decrease) in cash and cash equivalents	(1,613)	45	(1,066)	(2,634)
Cash and cash equivalents at beginning of year	22,530	282	1,406	24,218
Cash and cash equivalents at end of period	$ 20,917	$ 327	$ 340	$ 21,584

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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. These products include hot-rolled and cold-rolled galvanized products, cold-rolled products, and painted products from our Flat Roll Division and certain special bar quality products from our Bar Products Division.

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.

Third Quarter 2004 vs. Third Quarter 2003 Operating Results

Net income was $113.6 million or $2.01 per diluted share during the third quarter of 2004, compared with $9.2 million or $.19 per diluted share during the third 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 third quarter of 2004, our net sales increased $380.8 million, or 150%, to $634.7 million and our consolidated shipments increased 154,000 tons, or 21%, to 898,000 tons, compared with the third quarter of 2003. The increase in consolidated shipments was primarily due to increased shipments to external customers of 105,000 tons from our Bar Products Division, which started commercial operations during the first quarter of 2004. Our third quarter 2004 average consolidated selling price increased $365 per ton compared with the third quarter of 2003 and increased $115 per ton compared with the second quarter of 2004. We continue to see signs of a strengthening US economy and we experienced a related increase in demand and product base-pricing during the third quarter of 2004; however, our increase in selling values during that time was also due in part to the steel industry s January 2004 initiation of a surcharge mechanism, derived from an indexed scrap number and designed to pass some of the increased costs associated with rising metallic prices through to its customers.

Our metallic raw material cost per net ton charged increased $23 during the third quarter of 2004 and increased $122 when compared to the same period of 2003. Our third quarter metallic raw material costs as a percentage of total cost of goods sold increased to 68%, a 16% increase compared to 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 are also experiencing some softening in our product base-pricing, specifically within the flat-rolled markets. The fourth quarter market dynamics are traditionally weaker within the steel industry and our customer inventories are somewhat high for this end-of-year time-frame as well. The previously mentioned increase in raw material pricing coupled with a slight decrease in our product base-prices will somewhat decrease our fourth quarter margins when compared to the record margins achieved 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 Bar Products Division, would result in strong 2005 financial results.

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Selling, General and Administrative Expenses. Selling, general and administrative expenses were $35.0 million during the third quarter of 2004, as compared to $16.0 million during the same period in 2003, an increase of $19.0 million, or 119%. This increase was attributed to increased profit sharing expense of $10.8 million, which resulted from increased pretax earnings and an increase from 5% to 6% during the third quarter in the amount of pretax earnings allocated to our profit sharing pool. During the third quarter of both 2004 and 2003, selling, general and administrative expenses represented 6% of net sales.

Interest Expense. During the third quarter of 2004, gross interest expense increased 17% to $12.1 million and capitalized interest decreased $496,000 to $1.6 million, as compared to the same period in 2003. 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 through the end of the year.

Other (Income) Expense. Other income was $458,000 during the third quarter of 2004, as compared to $112,000 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 third quarter of 2004, we recorded a $1.6 million gain as a result of this transaction.

Income Taxes. During the third quarter of 2004, our income tax provision was $69.6 million, as compared to $5.5 million during the same period in 2003. We increased our effective income tax rate from 37.5% to 38% during the third quarter of 2004. This increase was necessary due to an increase in state income tax rates created by our higher profitability during 2004.

First Nine Months 2004 vs. First Nine Months 2003 Operating Results

Net income was $212.9 million or $3.80 per diluted share during the first nine months of 2004, compared with $30.4 million or $.63 per diluted share during the first nine months 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 nine months of 2004, our net sales increased $836.5 million, or 118%, to $1.5 billion and our consolidated shipments increased 541,000 tons, or 26%, to 2.6 million tons, compared with the first nine months of 2003. The increase in consolidated shipments was primarily due to increased shipments to external customers of 284,000 tons from our Structural and Rail Division, which started commercial operations mid-2002 and 207,000 tons from our Bar Products Division, which started commercial operations during the first quarter of 2004. Our first nine months 2004 average consolidated selling price increased $251 per ton, or 73%, compared with the first nine months 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.

Our metallic raw material cost per net ton charged increased $107 during the first nine months of 2004 when compared to the same period of 2003. Our first nine months metallic raw material costs as a percentage of total cost of goods sold increased to 66%, a 14% increase compared to the same period in 2003.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $86.1 million during the first nine months of 2004, as compared to $45.7 million during the same period in 2003, an increase of $40.4 million, or 89%. This increase was attributed to increased revenues, increased profit sharing expense of $17.2 million 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 nine months of both 2004 and 2003, selling, general and administrative expenses represented 6% of net sales.

Interest Expense. Interest expense increased 16% to $30.6 million during the first nine months of 2004, as compared to $26.4 million during the same period in 2003. During the first nine months of 2004, gross interest expense increased 14% to $36.0 million and capitalized interest increased $140,000 to $5.4 million, as compared to the same period in 2003. 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.

Other (Income) Expense. Other income was $5.7 million during the first nine months of 2004, as compared to $362,000 during the first nine months 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 nine months of 2004, we recorded gains of $4.9 million 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 nine months of 2004, our income tax provision was $129.2 million, as compared to $18.2 million during the same period in 2003. Our effective income tax rate was 37.5% throughout 2003 and for the first half of 2004. We increased our rate to 38% effective July 1, 2004 due to increased profitability in 2004.

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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.

Working Capital. During the first nine months of 2004, our operational working capital position, representing our cash invested in trade receivables and inventories less trade payables and accruals increased $134.5 million to $307.7 million compared to December 31, 2003. Due to higher selling prices and increased sales volume, trade receivables increased $121.7 million during the first nine months to $247.8 million, of which $250.9 million, or 99%, were less than 60 days past due. Our largest customer is an affiliated company, Heidtman Steel, which represented 18% and 20% of our outstanding trade receivables at September 30, 2004 and December 31, 2003, respectively. During the first nine months our inventories increased $101.3 million to $285.8 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 $66.2 million during the first nine months, a significant portion of which was associated with the amount we owed various vendors for metallic raw material purchases.

Capital Expenditures. We invested $72.9 million in property, plant and equipment during the first nine months of 2004 related to our new divisions and improvement projects in our existing facilities. Approximately 57% 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. At September 30, 2004 we had $100.0 million outstanding under this credit facility; however, we repaid the $100.0 million during October and the facility is currently undrawn. Due to increasing interest rates, on October 6, 2004 we entered into a forward rate agreement to fix the LIBOR margin from September 15, 2004 to March 15, 2005 associated with our $200.0 million fixed to floating interest rate swap associated with our senior unsecured 9½% notes. 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 September 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. During September our Board of Directors declared our second cash dividend. The dividend of $.075 (seven and one-half cents) per common share was paid on October 12, 2004 to shareholders of record at the close of business on September 30, 2004. The aggregate dividend payment was $3.7 million. On October 26, 2004 we announced an increase in our dividend per common share from $.075 to $.10 for shareholders of record on December 31, 2004. We estimate this payment to be approximately $5.0 million. On October 26, 2004 we also announced our Board of Directors approved the repurchase of up to 5 million shares of our common stock to be made from time to time based upon the market price of our stock, the nature of other investment opportunities present, our cash flows from operations, and general economic conditions. We terminated our existing share repurchase plan and amended our senior secured credit facility as a result of this approval.

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

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an interest component that resets on a periodic basis to reflect current market conditions. At September 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 September 30, 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.

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. General Motors has appealed this decision.

ITEM 6. EXHIBITS

10.01	Credit Agreement relating to our $230 million senior secured revolving credit facility, dated June 30, 2004 among Steel Dynamics, Inc. as Borrower, certain designated Initial Lenders, General Electric Capital Corporation as Collateral and Administrative Agent, Morgan Stanley Senior Funding, Inc., as Lead Arranger and Syndication Agent, and Harris Trust and Savings Bank and National City Bank as Documentation Agents, and others.
10.01a	First Amendment to Credit Agreement dated October 26, 2004, relating to the Credit Agreement described at Exhibit 10.01.
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

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

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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)**