

STEEL DYNAMICS INC
Form 10-Q
November 10, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

OR

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

Commission File Number 0-21719

Steel Dynamics, Inc.

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of incorporation or organization)

35-1929476

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

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

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

46804
(Zip Code)

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

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

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

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

(Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of October 31, 2014, Registrant had 240,415,834 outstanding shares of common stock.

Table of Contents

STEEL DYNAMICS, INC.

Table of Contents

| | Page |
|--|-------------|
| PART I. Financial Information | |
| Item 1. Financial Statements: | |
| <u>Consolidated Balance Sheets as of September 30, 2014 (unaudited) and December 31, 2013</u> | 1 |
| <u>Consolidated Statements of Income for the three- and nine-month periods ended September 30, 2014 and 2013 (unaudited)</u> | 2 |
| <u>Consolidated Statements of Cash Flows for the three- and nine-month periods ended September 30, 2014 and 2013 (unaudited)</u> | 3 |
| <u>Notes to Consolidated Financial Statements (unaudited)</u> | 4 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 19 |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 27 |
| Item 4. <u>Controls and Procedures</u> | 27 |
| <u>PART II. Other Information</u> | |
| Item 1. <u>Legal Proceedings</u> | 28 |
| Item 1A. <u>Risk Factors</u> | 28 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 28 |
| Item 3. <u>Defaults Upon Senior Securities</u> | 28 |
| Item 4. <u>Mine Safety Disclosures</u> | 28 |
| Item 5. <u>Other Information</u> | 28 |
| Item 6. <u>Exhibits</u> | 29 |
| <u>Signatures</u> | 30 |

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Table of Contents

STEEL DYNAMICS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

| | September 30, 2014 (unaudited) | December 31, 2013 |
|---|--------------------------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and equivalents | \$ 159,591 | \$ 395,156 |
| Accounts receivable, net | 1,013,503 | 664,208 |
| Accounts receivable-related parties | 45,165 | 56,392 |
| Inventories | 1,664,212 | 1,314,747 |
| Deferred income taxes | 18,402 | 17,964 |
| Other current assets | 29,263 | 25,167 |
| Total current assets | 2,930,136 | 2,473,634 |
| Property, plant and equipment, net | 3,420,654 | 2,226,134 |
| Restricted cash | 18,257 | 23,827 |
| Intangible assets, net | 406,318 | 386,159 |
| Goodwill | 727,128 | 731,996 |
| Other assets | 75,790 | 91,256 |
| Total assets | \$ 7,578,283 | \$ 5,933,006 |
| Liabilities and Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 621,579 | \$ 404,605 |
| Accounts payable-related parties | 18,542 | 10,327 |
| Income taxes payable | 26,949 | 4,023 |
| Accrued payroll and benefits | 107,484 | 93,432 |
| Accrued interest | 21,277 | 31,363 |
| Accrued expenses | 113,851 | 89,884 |
| Current maturities of long-term debt | 131,858 | 341,544 |
| Total current liabilities | 1,041,540 | 975,178 |
| Long-term debt | | |
| Senior term loan | 189,062 | 220,000 |
| Senior notes | 2,700,000 | 1,500,000 |
| Other long-term debt | 40,932 | 46,045 |
| Total long-term debt | 2,929,994 | 1,766,045 |
| Deferred income taxes | 543,838 | 556,038 |
| Other liabilities | 24,922 | 23,376 |
| Commitments and contingencies | | |
| Redeemable noncontrolling interests | 126,340 | 116,514 |
| Equity | | |
| Common stock voting, \$.0025 par value; 900,000,000 shares authorized; 260,332,348 and 258,840,350 shares issued; and 240,365,196 and 222,867,408 shares outstanding, as of | 649 | 645 |

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

September 30, 2014 and December 31, 2013, respectively

| | | |
|---|--------------|--------------|
| Treasury stock, at cost; 19,967,152 and 35,972,942 shares, as of September 30, 2014 and December 31, 2013, respectively | (398,818) | (718,529) |
| Additional paid-in capital | 1,075,593 | 1,085,694 |
| Retained earnings | 2,300,660 | 2,179,513 |
| Total Steel Dynamics, Inc. equity | 2,978,084 | 2,547,323 |
| Noncontrolling interests | (66,435) | (51,468) |
| Total equity | 2,911,649 | 2,495,855 |
| Total liabilities and equity | \$ 7,578,283 | \$ 5,933,006 |

See notes to consolidated financial statements.

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Table of Contents

STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------------|------------------------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net sales | | | | |
| Unrelated parties | \$ 2,276,747 | \$ 1,838,464 | \$ 6,030,408 | \$ 5,302,285 |
| Related parties | 62,269 | 73,274 | 208,451 | 206,489 |
| Total net sales | 2,339,016 | 1,911,738 | 6,238,859 | 5,508,774 |
| Costs of goods sold | 2,050,504 | 1,714,546 | 5,564,272 | 4,987,626 |
| Gross profit | 288,512 | 197,192 | 674,587 | 521,148 |
| Selling, general and administrative expenses | 80,240 | 67,553 | 223,745 | 198,171 |
| Profit sharing | 12,865 | 8,469 | 28,729 | 19,891 |
| Amortization of intangible assets | 6,764 | 7,897 | 20,633 | 24,075 |
| Impairment charges | | | | 308 |
| Total selling, general and administrative expenses | 99,869 | 83,919 | 273,107 | 242,445 |
| Operating income | 188,643 | 113,273 | 401,480 | 278,703 |
| Interest expense, net of capitalized interest | 31,904 | 30,970 | 92,523 | 97,064 |
| Other expense (income), net | 22,072 | (1,852) | 19,687 | (4,144) |
| Income before income taxes | 134,667 | 84,155 | 289,270 | 185,783 |
| Income taxes | 47,010 | 33,065 | 101,574 | 70,168 |
| Net income | 87,657 | 51,090 | 187,696 | 115,615 |
| Net loss attributable to noncontrolling interests | 3,516 | 6,396 | 14,359 | 19,044 |
| Net income attributable to Steel Dynamics, Inc. | \$ 91,173 | \$ 57,486 | \$ 202,055 | \$ 134,659 |
| Basic earnings per share attributable to Steel Dynamics, Inc. stockholders | \$ 0.38 | \$ 0.26 | \$ 0.88 | \$ 0.61 |
| Weighted average common shares outstanding | 240,087 | 220,926 | 229,772 | 220,464 |
| Diluted earnings per share attributable to Steel Dynamics, Inc. stockholders, including the effect of assumed conversions when dilutive | \$ 0.38 | \$ 0.25 | \$ 0.85 | \$ 0.59 |
| Weighted average common shares and share equivalents outstanding | 242,244 | 239,001 | 241,895 | 238,497 |
| Dividends declared per share | \$ 0.115 | \$ 0.110 | \$ 0.345 | \$ 0.330 |

See notes to consolidated financial statements.

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Table of Contents

STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-------------------|------------------------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Operating activities: | | | | |
| Net income | \$ 87,657 | \$ 51,090 | \$ 187,696 | \$ 115,615 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 65,957 | 58,202 | 181,966 | 172,089 |
| Equity-based compensation | 5,104 | 2,515 | 15,572 | 9,612 |
| Impairment charges | | | | 308 |
| Deferred income taxes | (3,417) | 9,861 | (7,788) | 31,608 |
| (Gain) loss on disposal of property, plant and equipment | (662) | 1,739 | 5,435 | 944 |
| Changes in certain assets and liabilities: | | | | |
| Accounts receivable | 30,955 | 254 | (157,691) | (130,510) |
| Inventories | 27,212 | (23,648) | 21,088 | 10,360 |
| Other assets | (4,928) | (1,727) | 2,776 | 8,414 |
| Accounts payable | 9,690 | 59,801 | 28,116 | 52,419 |
| Income taxes receivable/payable | 8,062 | 16,354 | 22,491 | (9,972) |
| Accrued expenses and liabilities | 23,594 | 8,825 | (1,670) | (15,196) |
| Net cash provided by operating activities | 249,224 | 183,266 | 297,991 | 245,691 |
| Investing activities: | | | | |
| Purchases of property, plant and equipment | (24,531) | (52,162) | (82,906) | (146,744) |
| Acquisition of business, net of cash acquired | (1,647,463) | | (1,647,463) | |
| Proceeds from maturity of short-term commercial paper | | | | 31,520 |
| Other investing activities | 2,959 | 844 | 34,157 | 4,121 |
| Net cash used in investing activities | (1,669,035) | (51,318) | (1,696,212) | (111,103) |
| Financing activities: | | | | |
| Issuance of current and long-term debt | 1,394,497 | 9,526 | 1,501,895 | 418,819 |
| Repayment of current and long-term debt | (138,533) | (4,097) | (271,191) | (512,100) |
| Debt issuance costs | (18,020) | | (18,020) | (6,192) |
| Exercise of stock options proceeds, including related tax impact | 11,576 | 7,925 | 22,997 | 18,516 |
| Contributions from noncontrolling investors, net | (52) | 5,275 | 4,712 | 10,972 |
| Dividends paid | (27,556) | (24,274) | (77,737) | (70,464) |
| Net cash provided by (used in) financing activities | 1,221,912 | (5,645) | 1,162,656 | (140,449) |
| Increase (decrease) in cash and equivalents | (197,899) | 126,303 | (235,565) | (5,861) |
| Cash and equivalents at beginning of period | 357,490 | 243,753 | 395,156 | 375,917 |
| Cash and equivalents at end of period | \$ 159,591 | \$ 370,056 | \$ 159,591 | \$ 370,056 |
| Supplemental disclosure information: | | | | |
| Cash paid for interest | \$ 40,022 | \$ 40,075 | \$ 100,523 | \$ 107,390 |
| Cash paid for federal and state income taxes, net | \$ 41,267 | \$ 3,022 | \$ 86,418 | \$ 41,547 |

See notes to consolidated financial statements.

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Description of the Business and Significant Accounting Policies

Description of the Business

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

Steel Operations. Steel operations include the company's Butler Flat Roll Division, Columbus Flat Roll Division (acquired September 16, 2014), The Techs galvanizing lines, Structural and Rail Division, Engineered Bar Products Division, Roanoke Bar Division and Steel of West Virginia. These operations consist of mini-mills, producing steel from steel scrap, using electric arc furnaces, continuous casting, automated rolling mills, and downstream finishing facilities. Steel operations accounted for 62% and 61% of the company's external net sales during the three-month periods ended September 30, 2014 and 2013, respectively, and 61% and 60% of the company's external net sales during the nine-month periods ended September 30, 2014 and 2013, respectively.

Metals Recycling and Ferrous Resources Operations. Metals recycling and ferrous resources operations primarily include OmniSource Corporation, the company's metals recycling, steel scrap procurement, and processing locations, and our two ironmaking initiatives: Iron Dynamics, a liquid pig iron production facility; and our Minnesota iron operations, an iron nugget production facility and operations to supply the nugget facility with its primary raw material, iron concentrate. Metals recycling and ferrous resources operations accounted for 29% and 32% of the company's external net sales during the three-month periods ended September 30, 2014 and 2013, respectively, and 30% and 33% of the company's external net sales during the nine-month periods ended September 30, 2014 and 2013, respectively.

Steel Fabrication Operations. Steel fabrication operations include the company's six New Millennium Building Systems joist and deck plants located throughout the United States and Northern Mexico. Revenues from these plants are generated from the fabrication of trusses, girders, steel joists and steel decking used within the non-residential construction industry. Steel fabrication operations accounted for approximately 8% and 6% of the company's external net sales during the three-month periods ended September 30, 2014 and 2013, respectively, and 7% and 6% of the company's external net sales during the nine-month periods ended September 30, 2014 and 2013, respectively.

Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of SDI, together with its wholly and majority-owned or controlled subsidiaries, after elimination of significant intercompany accounts and transactions. Noncontrolling interests represent the noncontrolling owner's proportionate share in the equity, income, or losses of the company's majority-owned or controlled consolidated

subsidiaries.

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

In the opinion of management, these financial statements reflect all normal recurring adjustments necessary for a fair presentation of the interim period results. These financial statements and notes should be read in conjunction with the audited financial statements and notes thereto included in the company's Annual Report on Form 10-K for the year ended December 31, 2013.

Goodwill. The company's goodwill is allocated to the following reporting units at September 30, 2014, and December 31, 2013, (in thousands):

| | September 30, 2014 | December 31, 2013 |
|---|-----------------------|----------------------|
| OmniSource Metals Recycling/Ferrous Resources Segment | \$ 553,379 | \$ 558,247 |
| The Techs Steel Segment | 142,783 | 142,783 |
| Roanoke Bar Division Steel Segment | 29,041 | 29,041 |
| New Millennium Building Systems Fabrication Segment | 1,925 | 1,925 |
| | \$ 727,128 | \$ 731,996 |

OmniSource goodwill decreased \$4.9 million from December 31, 2013 to September 30, 2014, in recognition of the 2014 tax benefit related to the amortization of the component of OmniSource tax-deductible goodwill in excess of book goodwill.

Additional goodwill, if any, allocated to Columbus may be determined after the accounting for the Columbus acquisition is completed (see Note 2).

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Description of the Business and Significant Accounting Policies (continued)

Recently Issued Accounting Standards.

In May 2014, the FASB issued guidance codified in ASC 606, *Revenue Recognition – Revenue from Contracts with Customers*, which amends the guidance in former ASC 605, Revenue Recognition. The company is currently evaluating the impact of the provisions of ASC 606.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40: Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern)*, effective for annual and interim periods ending after December 15, 2016. ASU 2014-15 requires management to evaluate whether there are conditions or events, considered in aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued. There are required disclosures if substantial doubt is identified including documentation of principal conditions or events that raised substantial doubt about the entity’s ability to continue as a going concern (before consideration of management’s plans), management’s evaluation of the significance of those conditions or events in relation to the entity’s ability to meet its obligations, and management’s plans that alleviated substantial doubt about the entity’s ability to continue as a going concern. This ASU is not expected to have any impact on our overall results of operations, financial position or cash flows.

Note 2. Acquisition

On September 16, 2014, the company completed its acquisition of 100% of Severstal Columbus, LLC (Columbus), on a debt-free basis, for a purchase price of \$1.625 billion, with additional working capital adjustments of \$35.3 million. The Columbus acquisition was funded through the issuance of \$1.2 billion in Senior Notes (See Note 5), borrowings under the company’s senior secured credit facility, and available cash. The company purchased Columbus to significantly expand and diversify its steel operating base with the addition of 3.4 million tons of hot roll steel production capacity diversified with respect to width, gauge, and strength when compared to the capabilities of our Butler Flat Roll Division. Located in northeast Mississippi, Columbus is one of the newest and most technologically advanced sheet steel mini-mills in North America, with access to the high-growth oil country tubular goods (OCTG) and automotive markets. Additionally, Columbus is advantageously located to serve the growing markets in the southern U.S. and Mexico, providing the company with geographic diversification and growth opportunities. Columbus’ operating results have been reflected in the company’s financial statements since September 16, 2014, the effective date of the acquisition, in the steel operations reporting segment. Columbus reported revenues of \$126.5 million and \$13.5 million pretax income during the September 16 to September 30, 2014 period, before giving effect to \$14.5 million of purchase accounting related cost of goods sold expenses associated with the estimated step-up in inventory and fixed assets. In conjunction with the acquisition, the company recognized \$25.0 million of acquisition and related costs that are included in other expenses in the consolidated income statements for the three- and nine-month periods ended September 30, 2014.

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

The aggregate purchase price was preliminarily allocated to the opening balance sheet of Columbus as of the September 16, 2014 acquisition date. The following initial allocation of the purchase price (in thousands) is preliminary. The accounting for the acquisition has not yet been completed because we have not finalized the valuations of the acquired assets, assumed liabilities and identifiable intangible assets, including goodwill, if any.

| | | |
|--------------------------------------|-----------|------------------|
| Current assets, net of cash acquired | \$ | 551,255 |
| Property, plant & equipment | | 1,298,065 |
| Intangible assets | | 40,000 |
| Other assets | | 3,682 |
| Total assets acquired | | 1,893,002 |
| Liabilities assumed | | 232,735 |
| Net assets acquired | \$ | 1,660,267 |

We provisionally assigned \$40.0 million of intangible assets to customer relationships with an assigned ten-year life. The company plans to utilize an accelerated amortization methodology to follow the pattern in which the economic benefits of the intangible assets are anticipated to be consumed. However, the expected life and specific amortization method is subject to finalization of the company's valuation process.

Unaudited Pro Forma Results

Columbus' operating results have been reflected in the company's financial statements since the effective date of the acquisition, September 16, 2014. The following unaudited pro forma information is presented below as if the Columbus acquisition was completed as of January 1, 2013, (in thousands, except per share amounts):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|--------------|---------------------------------|--------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net Sales | \$ 2,853,272 | \$ 2,408,316 | \$ 7,838,681 | \$ 6,855,029 |
| Net Income attributable to Steel Dynamics, Inc. | \$ 137,516 | \$ 57,948 | \$ 299,681 | \$ 84,118 |

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 2. Acquisition (continued)

The information presented is for information purposes only and is not necessarily indicative of the actual results that would have occurred had the acquisition been consummated at the beginning of the respective period, nor are they necessarily indicative of future operating results of the combined companies under the ownership and management of the company. The 2014 and 2013 pro forma results reflect Columbus operations for the three- and nine-month periods ended September 30, 2014 and 2013. As the unaudited pro forma information is presented as if the merger had occurred on January 1, 2013, the gross margin reduction related to the estimated step-up in inventory of \$17.7 million and acquisition and related costs of \$25.0 million is reflected in the first quarter of 2013. Therefore, the effect of these items is included in the nine-month period ended September 30, 2013 unaudited pro forma results presented above, but not in the nine-month period ended September 30, 2014, or either of the three-month periods.

Note 3. Earnings Per Share

Basic earnings per share is based on the weighted average shares of common stock outstanding during the period. Diluted earnings per share assumes the weighted average dilutive effect of common share equivalents outstanding during the period applied to the company's basic earnings per share. Common share equivalents represent potentially dilutive stock options, restricted stock units, deferred stock units, and dilutive shares related to the company's 5.125% Convertible Senior Notes, which matured on June 15, 2014 and were dilutive through then; and are excluded from the computation in periods in which they have an anti-dilutive effect. No options to purchase shares were anti-dilutive at September 30, 2014, while options to purchase 2.4 million shares were anti-dilutive at September 30, 2013.

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

| | Three Months Ended September 30, | | | | | |
|--|----------------------------------|---------------------------------|---------------------|---------------------------|---------------------------------|---------------------|
| | Net Income (Numerator) | 2014 Shares (Denominator) | Per Share Amount | Net Income (Numerator) | 2013 Shares (Denominator) | Per Share Amount |
| Basic earnings per share | \$ 91,173 | 240,087 | \$ 0.38 | \$ 57,486 | 220,926 | \$ 0.26 |
| Dilutive common share equivalents | | 2,157 | | | 1,366 | |
| 5.125% Convertible Senior Notes, net of tax | | | | 2,358 | 16,709 | |
| Diluted earnings per share | \$ 91,173 | 242,244 | \$ 0.38 | \$ 59,844 | 239,001 | \$ 0.25 |

| | | Nine Months Ended September 30, | | | |
|--|--|---------------------------------|--|------|--|
| | | 2014 | | 2013 | |

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

| | Net Income (Numerator) | Shares (Denominator) | Per Share Amount | Net Income (Numerator) | Shares (Denominator) | Per Share Amount |
|--|---------------------------|-------------------------|---------------------|---------------------------|-------------------------|---------------------|
| Basic earnings per share | \$ 202,055 | 229,772 | \$ 0.88 | \$ 134,659 | 220,464 | \$ 0.61 |
| Dilutive common share equivalents | | 1,852 | | | 1,363 | |
| 5.125% Convertible Senior Notes, net of tax | 4,327 | 10,271 | | 7,074 | 16,670 | |
| Diluted earnings per share | \$ 206,382 | 241,895 | \$ 0.85 | \$ 141,733 | 238,497 | \$ 0.59 |

Note 4. Inventories

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

| | September 30, 2014 | December 31, 2013 |
|-------------------|-----------------------|----------------------|
| Raw materials | \$ 766,209 | \$ 660,384 |
| Supplies | 365,504 | 293,533 |
| Work in progress | 148,712 | 84,710 |
| Finished goods | 383,787 | 276,120 |
| Total inventories | \$ 1,664,212 | \$ 1,314,747 |

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 5. Debt

On September 9, 2014, the company issued \$700.0 million of 5.125% Senior Notes due 2021 (2021 Senior Notes) and \$500.0 million of 5.500% Senior Notes due 2024 (2024 Senior Notes), combined the Senior Notes. The proceeds from the issuance of the Senior Notes, along with cash on hand and borrowings under the company's senior secured credit facility were used to fund the September 16, 2014 acquisition of Columbus. Interest on the Senior Notes is due semiannually on October 1 and April 1, with the first payment due on April 1, 2015. The Senior Notes are unsecured and rank pari passu with all existing and future senior unsubordinated unsecured indebtedness and senior in right of payment to all subordinated indebtedness.

- The 2021 Senior Notes are redeemable at any time on and after October 1, 2017. The redemption price (expressed as a percentage of principal amount) is 102.563% during the period October 1, 2017 to September 30, 2018; 101.281% during the period October 1, 2018 to September 30, 2019; and 100% on and after October 1, 2019; each plus accrued interest to, but excluding, the redemption date. In addition, at any time prior to October 1, 2017, the company may redeem up to 35% of the principal amount of the 2021 Senior Notes at the redemption price of 105.125% of its principal amount plus accrued interest to, but excluding, the redemption date, with the net cash proceeds from one or more sales of the company's common stock. At any time prior to October 1, 2017, the company may redeem some or all of the 2021 Senior Notes by paying a make-whole premium plus accrued interest to, but excluding, the redemption date.

- The 2024 Senior Notes are redeemable at any time on and after October 1, 2019. The redemption price (expressed as a percentage of principal amount) is 102.750% during the period October 1, 2019 to September 30, 2020; 101.833% during the period October 1, 2020 to September 30, 2021; 100.917% during the period October 1, 2021 to September 30, 2022; and 100% on and after October 1, 2022; each plus accrued interest to, but excluding, the redemption date. In addition, at any time prior to October 1, 2017, the company may redeem up to 35% of the principal amount of the 2024 Senior Notes at the redemption price of 105.500 of its principal amount plus accrued interest to, but excluding, the redemption date, with the net cash proceeds from one or more sales of the company's common stock. At any time prior to October 1, 2019, the company may redeem some or all of the 2024 Senior Notes by paying a make-whole premium plus accrued interest to, but excluding, the redemption date.

Holders of \$271.8 million principal amount of the company's 5.125% Convertible Senior Notes due June 15, 2014 (the Notes) exercised their option to convert the Notes into shares of common stock by the close of business on June 12, 2014, the conversion election deadline. The conversion rate provided under the terms of the Notes was 58.4731 shares of common stock per \$1,000 principal amount of Notes, equivalent to a conversion price of approximately \$17.10 per share of common stock, resulting in the company issuing a total of 15,893,457 shares of common stock from treasury shares upon conversion of the Notes. The remaining \$15.7 million of the outstanding Notes was paid in cash on June 16, 2014.

Note 6. Changes in Equity

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

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

| | Stockholders of Steel Dynamics, Inc. | | | | | | | Redeemable |
|---|--------------------------------------|----------------------------------|----------------------|-------------------|-----------------------------|-----------------|--|-----------------------------|
| | Common Stock | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Noncontrolling Interests | Total Equity | | Noncontrolling Interests |
| Balances at January 1, 2014 | \$ 645 | \$ 1,085,694 | \$ 2,179,513 | \$ (718,529) | \$ (51,468) | \$ 2,495,855 | | \$ 116,514 |
| Proceeds from the exercise of stock options, including related tax effect | 4 | 23,075 | | | | 23,079 | | |
| Dividends declared | | | (80,863) | | | (80,863) | | |
| Conversion of 5.125% Convertible Senior Notes | | (45,650) | | 317,451 | | 271,801 | | |
| Equity-based compensation and issuance of restricted stock | | 12,474 | (45) | 2,260 | | 14,689 | | |
| Contributions from noncontrolling investors | | | | | 97 | 97 | | 9,826 |
| Distributions to noncontrolling investors | | | | | (705) | (705) | | |
| Net income (loss) | | | 202,055 | | (14,359) | 187,696 | | |
| Balances at September 30, 2014 | \$ 649 | \$ 1,075,593 | \$ 2,300,660 | \$ (398,818) | \$ (66,435) | \$ 2,911,649 | | \$ 126,340 |

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 7. Derivative Financial Instruments

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

Commodity Futures Contracts. If the company is long on a futures contract, it means the company has more futures contracts purchased than futures contracts sold for the underlying commodity. If the company is short on a futures contract, it means the company has more futures contracts sold than futures contracts purchased for the underlying commodity. The following summarizes the company's futures contract commitments as of September 30, 2014 (MT represents metric tons and Lbs represents pounds):

| Commodity Futures | Long/Short | Total | |
|-------------------|------------|--------|-----|
| Aluminum | Long | 3,300 | MT |
| Aluminum | Short | 3,975 | MT |
| Copper | Long | 6,226 | MT |
| Copper | Short | 18,296 | MT |
| Silver | Short | 343 | Lbs |

The following summarizes the location and amounts of the fair values reported on the company's balance sheets as of September 30, 2014, and December 31, 2013, and gains and losses related to derivatives included in the company's statement of income for the three- and nine-month periods ended September 30, 2014 and 2013 (in thousands):

| | Balance sheet location | Asset Derivatives Fair Value | | Liability Derivatives Fair Value | |
|---|------------------------|---------------------------------|-------------------|-------------------------------------|-------------------|
| | | September 30, 2014 | December 31, 2013 | September 30, 2014 | December 31, 2013 |
| <i>Derivative instruments designated as fair value hedges -</i> | | | | | |
| Commodity futures | Other current assets | \$ 3,373 | \$ 658 | \$ 528 | \$ 1,886 |

Derivative instruments not designated as hedges -

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

| | | | | | | | | | |
|------------------------------|----------------------|----|-------|----|-------|----|-------|-------|-------|
| Commodity futures | Other current assets | \$ | 1,757 | \$ | 352 | \$ | 697 | 2,601 | |
| Total derivative instruments | | \$ | 5,130 | \$ | 1,010 | \$ | 1,225 | \$ | 4,487 |

The fair value of the above derivative instruments along with required margin deposit amounts with the same counterparty under master netting arrangements, which totaled \$7.0 million at September 30, 2014 and \$3.6 million at December 31, 2013, are reflected in other current assets in the consolidated balance sheet.

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 7. Derivative Financial Instruments (continued)

| | Location of gain (loss) recognized in income on derivatives | Amount of gain (loss) recognized in income on derivatives for the | | | Hedged items in fair value hedge relationships | Location of gain (loss) recognized in income on related hedged item | Amount of gain (loss) recognized in income on related hedged items | |
|--|---|---|--------------------|--------------------|--|---|--|--|
| | | September 30, 2014 | September 30, 2013 | September 30, 2014 | | | September 30, 2013 | |
| <i>Derivatives in fair value hedging relationships -</i> | | | | | | | | |
| Commodity futures | Costs of goods sold | \$ 4,371 | \$ 381 | Firm commitments | Costs of goods sold | \$ 784 | \$ (1,736) | |
| | | | | Inventory | Costs of goods sold | (4,163) | 364 | |
| | | | | | | \$ (3,379) | \$ (1,372) | |

Derivatives not designated as hedging instruments -

| | | | | | | | |
|-------------------|---------------------|----------|------------|--|--|--|--|
| Commodity futures | Costs of goods sold | \$ 2,672 | \$ (2,836) | | | | |
|-------------------|---------------------|----------|------------|--|--|--|--|

| | Location of gain (loss) recognized in income on derivatives | Amount of gain recognized in income on derivatives for the | | | Hedged items in fair value hedge relationships | Location of gain (loss) recognized in income on related hedged item | Amount of gain (loss) recognized in income on related hedged items for | |
|--|---|--|--------------------|--------------------|--|---|--|--|
| | | September 30, 2014 | September 30, 2013 | September 30, 2014 | | | September 30, 2013 | |
| <i>Derivatives in fair value hedging relationships -</i> | | | | | | | | |
| Commodity futures | Costs of goods sold | \$ 3,356 | \$ 7,773 | Firm commitments | Costs of goods sold | \$ 1,115 | \$ 877 | |
| | | | | Inventory | Costs of goods sold | (3,805) | (8,458) | |
| | | | | | | \$ (2,690) | \$ (7,581) | |

Derivatives not designated as hedging instruments -

| | | | | | | | |
|-------------------|---------------------|----------|----------|--|--|--|--|
| Commodity futures | Costs of goods sold | \$ 8,598 | \$ 3,793 | | | | |
|-------------------|---------------------|----------|----------|--|--|--|--|

Derivatives accounted for as fair value hedges had ineffectiveness resulting in losses of \$229,000 and \$312,000 during the three-month periods ended September 30, 2014 and 2013, respectively; and a gain of \$227,000 and loss of \$199,000 during the nine-month periods ended September 30, 2014 and 2013, respectively. A gain excluded from hedge effectiveness testing of \$1.2 million reduced costs of goods sold and a loss of \$678,000 increased costs of goods sold during the three-month periods ended September 30, 2014 and 2013, respectively. Gain excluded from hedge effectiveness testing of \$439,000 and \$392,000 reduced cost of goods sold during the nine-month periods ended September 30, 2014 and 2013, respectively.

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 8. Fair Value Measurements

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

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

The following table sets forth financial assets and liabilities measured at fair value in the consolidated balance sheets and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of September 30, 2014, and December 31, 2013 (in thousands):

| | | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---------------------------|-----------------------|----|--|---|--|
| September 30, 2014 | | | | | |
| Commodity futures | financial assets | \$ | 5,130 | \$ | 5,130 |
| Commodity futures | financial liabilities | | 1,225 | | 1,225 |
| December 31, 2013 | | | | | |
| Commodity futures | financial assets | \$ | 1,010 | \$ | 1,010 |
| Commodity futures | financial liabilities | | 4,487 | | 4,487 |

The carrying amounts of financial instruments including cash and equivalents approximate fair value. The fair values of commodity futures contracts are estimated by the use of quoted market prices, estimates obtained from brokers, and other appropriate valuation techniques based on references available. The fair value of long-term debt, including current maturities, as determined by quoted market prices (Level 2), was

approximately \$3.1 billion and \$2.3 billion (with a corresponding carrying amount in the consolidated balance sheets of \$3.1 billion and \$2.1 billion) at September 30, 2014 and December 31, 2013, respectively. Assets and liabilities acquired in business combinations are recorded at their fair value as of the date of acquisition. Refer to Note 2 for the provisional fair values of assets acquired and liabilities assumed in connection with the company's Columbus acquisition.

Note 9. Commitments and Contingencies

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

The company is involved, along with other steel manufacturing companies, in a class action antitrust complaint filed in federal court in Chicago, Illinois in September 2008, which alleges a conspiracy to fix, raise, maintain and stabilize the price at which steel products were sold in the United States during a period between 2005 and 2007, by artificially restricting the supply of such steel products. All but one of the complaints were brought on behalf of a purported class consisting of all direct purchasers of steel products. The other complaint was brought on behalf of a purported class consisting of all indirect purchasers of steel products within the same time period. A ninth complaint, in December 2010, was brought on behalf of indirect purchasers of steel products in Tennessee and has been consolidated with the original complaints. All complaints seek treble damages and costs, including reasonable attorney fees, pre- and post-judgment interest and injunctive relief. Following a period of discovery relating to class certification matters, plaintiffs' motion for class action certification filed in 2012, and briefing by both sides, the court, on March 5, 2013 and April 11, 2014, held a class certification hearing. At the conclusion of the hearing, the court took the class certification issue under advisement. It is unclear when the court will issue its ruling.

Due to the uncertain nature of litigation, the company cannot presently determine the ultimate outcome of this litigation. However, we have determined, based on the information available at this time, that there is not presently a reasonable possibility (as that term is defined in ASC 450-20-20), that the outcome of these legal proceedings would have a material impact on our financial condition, results of operations, or liquidity. Although not presently necessary or appropriate to make a dollar estimate of exposure to loss, if any, in connection with the above matter, we may in the future determine that a loss accrual is necessary. Although we may make loss accruals, if and as warranted, any amounts that we may accrue from time to time could vary significantly from the amounts we actually pay, due to inherent uncertainties and the inherent shortcomings of the estimation process, the uncertainties involved in litigation and other factors. Additionally, an adverse result could have a material effect on our financial condition, results of operations and liquidity.

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 10. Segment Information

The company has three reportable segments: steel operations, metals recycling and ferrous resources operations, and steel fabrication operations. Columbus is reported in the steel operations reporting segment from its September 16, 2014 acquisition date. The segment operations are described in Note 1 to the financial statements. Revenues included in the category "Other" are from subsidiary operations that are below the quantitative thresholds required for reportable segments and primarily consist of further processing, slitting, and sale of certain steel products and the resale of certain secondary and excess steel products. In addition, "Other" also includes certain unallocated corporate accounts, such as the company's senior secured credit facility, senior notes, 5.125% Convertible Senior Notes (which matured on June 15, 2014), certain other investments, and certain profit sharing expenses.

The company's operations are primarily organized and managed by operating segment. Operating segment performance and resource allocations are primarily based on operating results before income taxes. The accounting policies of the reportable segments are consistent with those described in Note 1 to the financial statements. Intra-segment and intra-company sales and any related profits are eliminated in consolidation. Refer to the company's Annual Report on Form 10-K for the year ended December 31, 2013, for more information related to the company's segment reporting. The company's segment results for the three- and nine-month periods ended September 30, 2014 and 2013 are as follows (in thousands):

| For the three months ended September 30, 2014 | Steel Operations | Metals Recycling / Ferrous Resources | Steel Fabrication Operations | Other | Eliminations | Consolidated |
|--|-------------------------|---|---|--------------|---------------------|---------------------|
| Net Sales | | | | | | |
| External | \$ 1,400,370 | \$ 609,098 | \$ 189,993 | \$ 25,084 | \$ | \$ 2,224,545 |
| External Non-U.S. | 50,842 | 63,299 | | 330 | | 114,471 |
| Other segments | 75,320 | 326,090 | 43 | 8,340 | (409,793) | |
| | 1,526,532 | 998,487 | 190,036 | 33,754 | (409,793) | 2,339,016 |
| Operating income (loss) | 200,116 | (5,330) | 19,474 | (26,733)(1) | 1,116(2) | 188,643 |
| Income (loss) before income taxes | 184,589 | (11,724) | 17,877 | (57,191)(7) | 1,116 | 134,667 |
| Depreciation and amortization | 32,998 | 28,775 | 2,974 | 1,262 | (52) | 65,957 |
| Capital expenditures | 12,195 | 11,599 | 477 | 260 | | 24,531 |
| As of September 30, 2014 | | | | | | |
| Assets | 4,553,924 | 2,531,821 | 315,381 | 427,654(3) | (250,497)(4) | 7,578,283 |
| Liabilities | 821,796 | 651,128 | 34,386 | 3,273,198(5) | (240,214)(6) | 4,540,294 |

Footnotes related to the three months ended September 30, 2014 segment results (in millions):

| | | |
|--|----|--------|
| (1) Corporate SG&A | \$ | (12.4) |
| Company-wide equity-based compensation | | (5.1) |
| Profit sharing | | (11.6) |

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

| | | |
|--|----|---------|
| Other, net | | 2.4 |
| | \$ | (26.7) |
| (2) Gross profit increase from intra-company sales | \$ | 1.1 |
| (3) Cash and equivalents | \$ | 80.3 |
| Accounts receivable | | 12.8 |
| Inventories | | 15.2 |
| Deferred income taxes | | 18.3 |
| Property, plant and equipment, net | | 70.2 |
| Debt issuance costs | | 39.6 |
| Intra-company debt | | 160.2 |
| Other | | 31.1 |
| | \$ | 427.7 |
| (4) Elimination of intra-company receivables | \$ | (80.7) |
| Elimination of intra-company debt | | (160.2) |
| Other | | (9.6) |
| | \$ | (250.5) |
| (5) Accounts payable | \$ | 76.9 |
| Income taxes payable | | 26.9 |
| Accrued interest | | 21.1 |
| Accrued profit sharing | | 25.2 |
| Debt | | 2,990.2 |
| Deferred income taxes | | 97.4 |
| Other | | 35.5 |
| | \$ | 3,273.2 |
| (6) Elimination of intra-company payables | \$ | (81.2) |
| Elimination of intra-company debt | | (160.2) |
| Other | | 1.2 |
| | \$ | (240.2) |
| (7) Includes \$25.0 million of acquisition and bridge financing costs associated with the acquisition of Columbus. | | |

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 10. Segment Information (Continued)

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

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

| | | |
|---|----------|---------|
| (1) Corporate SG&A | \$ | (9.2) |
| Company-wide equity-based compensation | | (2.1) |
| Profit sharing | | (7.4) |
| Other, net | | 1.4 |
| | Total \$ | (17.3) |
| (2) Gross profit reduction from intra-company sales | \$ | (2.1) |
| (3) Cash and equivalents | \$ | 325.8 |
| Accounts receivable | | 13.4 |
| Inventories | | 14.0 |
| Deferred income taxes | | 25.2 |
| Property, plant and equipment, net | | 72.9 |
| Debt issuance costs, net | | 27.7 |
| Intra-company debt | | 153.6 |
| Other | | 66.6 |
| | Total \$ | 699.2 |
| (4) Elimination of intra-company receivables | \$ | (46.9) |
| Elimination of intra-company debt | | (153.6) |
| Other | | (10.0) |
| | Total \$ | (210.5) |
| (5) Accounts payable | \$ | 43.1 |
| Income taxes payable | | 7.7 |

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

| | | |
|---|----------|---------|
| Accrued interest | | 22.9 |
| Accrued profit sharing | | 19.5 |
| Debt | | 2,041.8 |
| Deferred income taxes | | 204.6 |
| Other | | 26.7 |
| | Total \$ | 2,366.3 |
| (6) Elimination of intra-company payables | \$ | (47.3) |
| Elimination of intra-company debt | | (153.6) |
| Other | | 0.6 |
| | Total \$ | (200.3) |

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 10. Segment Information (Continued)

| For the nine months ended September 30, 2014 | Steel Operations | Metals Recycling / Ferrous Resources | Steel Fabrication Operations | Other | Eliminations | Consolidated |
|---|------------------|---|---------------------------------|--------------|--------------|--------------|
| Net Sales | | | | | | |
| External | \$ 3,675,696 | \$ 1,714,440 | \$ 440,706 | \$ 69,886 | \$ | \$ 5,900,728 |
| External Non-U.S. | 158,218 | 178,947 | | 966 | | 338,131 |
| Other segments | 188,854 | 973,635 | 43 | 22,322 | (1,184,854) | |
| | 4,022,768 | 2,867,022 | 440,749 | 93,174 | (1,184,854) | 6,238,859 |
| Operating income (loss) | 461,708 | (26,902) | 30,190 | (67,437)(1) | 3,921(2) | 401,480 |
| Income (loss) before income taxes | 419,181 | (47,054) | 25,628 | (112,406)(3) | 3,921 | 289,270 |
| Depreciation and amortization | 89,244 | 81,266 | 7,597 | 4,013 | (154) | 181,966 |
| Capital expenditures | 47,133 | 33,762 | 1,324 | 687 | | 82,906 |

Footnotes related to the nine months ended September 30, 2014 segment results (in millions):

| | | |
|--|----|--------|
| (1) Corporate SG&A | \$ | (31.7) |
| Company-wide equity-based compensation | | (14.4) |
| Profit sharing | | (25.2) |
| Other, net | | 3.9 |
| Total | \$ | (67.4) |

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

(3) Includes \$25.0 million of acquisition and bridge financing costs associated with the acquisition of Columbus.

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

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

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

| | | |
|--|----|--------|
| (1) Corporate SG&A | \$ | (26.3) |
| Company-wide equity-based compensation | | (7.3) |
| Profit sharing | | (16.5) |
| Other, net | | 2.0 |
| Total | \$ | (48.1) |
| (2) Gross profit increase from intra-company sales | \$ | 2.5 |

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 11. Condensed Consolidating Information

Certain 100%-owned subsidiaries of SDI have fully and unconditionally guaranteed all of the indebtedness relating to the issuance of the company's senior notes due 2019, 2020, 2021, 2022, 2023, and 2024. Following are the company's condensed consolidating financial statements, including the guarantors, which present the financial position, results of operations and cash flows of (i) SDI (in each case, reflecting investments in its consolidated subsidiaries under the equity method of accounting), (ii) the guarantor subsidiaries of SDI, which includes Columbus since its acquisition on September 16, 2014, (iii) the non-guarantor subsidiaries of SDI, and (iv) the eliminations necessary to arrive at the information on a consolidated basis. The following statements should be read in conjunction with the accompanying consolidated financial statements and the company's Annual Report on Form 10-K for the year ended December 31, 2013.

Condensed Consolidating Balance Sheets (in thousands)

| As of September 30, 2014 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|---|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Cash and equivalents | \$ 74,925 | \$ 70,695 | \$ 13,971 | \$ | \$ 159,591 |
| Accounts receivable, net | 325,667 | 1,312,449 | 59,672 | (639,120) | 1,058,668 |
| Inventories | 695,441 | 856,685 | 115,089 | (3,003) | 1,664,212 |
| Other current assets | 52,092 | 7,761 | 6,289 | (18,477) | 47,665 |
| Total current assets | 1,148,125 | 2,247,590 | 195,021 | (660,600) | 2,930,136 |
| Property, plant and equipment, net | 1,020,150 | 1,846,279 | 556,490 | (2,265) | 3,420,654 |
| Intangible assets, net | | 406,318 | | | 406,318 |
| Goodwill | | 727,128 | | | 727,128 |
| Other assets, including investments in subs | 4,249,944 | 24,717 | 6,870 | (4,187,484) | 94,047 |
| Total assets | \$ 6,418,219 | \$ 5,252,032 | \$ 758,381 | \$ (4,850,349) | \$ 7,578,283 |
| Accounts payable | \$ 213,990 | \$ 449,535 | \$ 111,505 | \$ (134,909) | \$ 640,121 |
| Accrued expenses | 161,890 | 161,000 | 11,636 | (64,965) | 269,561 |
| Current maturities of long-term debt | 98,374 | 756 | 72,368 | (39,640) | 131,858 |
| Total current liabilities | 474,254 | 611,291 | 195,509 | (239,514) | 1,041,540 |
| Long-term debt | 2,894,071 | 624 | 184,044 | (148,745) | 2,929,994 |
| Other liabilities | 71,810 | 1,940,011 | 36,691 | (1,479,752) | 568,760 |
| Redeemable noncontrolling interests | | | 126,340 | | 126,340 |
| Common stock | 649 | 1,727,859 | 18,121 | (1,745,980) | 649 |
| Treasury stock | (398,818) | | | | (398,818) |
| Additional paid-in-capital | 1,075,593 | 117,737 | 601,282 | (719,019) | 1,075,593 |
| Retained earnings (deficit) | 2,300,660 | 854,510 | (337,171) | (517,339) | 2,300,660 |
| Total Steel Dynamics, Inc. equity | 2,978,084 | 2,700,106 | 282,232 | (2,982,338) | 2,978,084 |
| Noncontrolling interests | | | (66,435) | | (66,435) |
| Total equity | 2,978,084 | 2,700,106 | 215,797 | (2,982,338) | 2,911,649 |

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

| | | | | | | | | | | |
|------------------------------|----|-----------|----|-----------|----|---------|----|-------------|----|-----------|
| Total liabilities and equity | \$ | 6,418,219 | \$ | 5,252,032 | \$ | 758,381 | \$ | (4,850,349) | \$ | 7,578,283 |
|------------------------------|----|-----------|----|-----------|----|---------|----|-------------|----|-----------|

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 11. Condensed Consolidating Information (Continued)

| As of December 31, 2013 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|--|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Cash and equivalents | \$ 320,866 | \$ 61,148 | \$ 13,142 | \$ | \$ 395,156 |
| Accounts receivable, net | 309,691 | 874,707 | 32,018 | (495,816) | 720,600 |
| Inventories | 673,763 | 557,640 | 91,199 | (7,855) | 1,314,747 |
| Other current assets | 50,228 | 8,399 | 3,259 | (18,755) | 43,131 |
| Total current assets | 1,354,548 | 1,501,894 | 139,618 | (522,426) | 2,473,634 |
| Property, plant and equipment, net | 1,046,093 | 619,617 | 562,843 | (2,419) | 2,226,134 |
| Intangible assets, net | | 386,159 | | | 386,159 |
| Goodwill | | 731,996 | | | 731,996 |
| Other assets, including investments in subs | 2,630,411 | 21,789 | 8,092 | (2,545,209) | 115,083 |
| Total assets | \$ 5,031,052 | \$ 3,261,455 | \$ 710,553 | \$ (3,070,054) | \$ 5,933,006 |
| Accounts payable | \$ 160,255 | \$ 258,406 | \$ 60,987 | \$ (64,716) | \$ 414,932 |
| Accrued expenses | 142,055 | 115,182 | 10,694 | (49,229) | 218,702 |
| Current maturities of long-term debt | 315,521 | 300 | 52,163 | (26,440) | 341,544 |
| Total current liabilities | 617,831 | 373,888 | 123,844 | (140,385) | 975,178 |
| Long-term debt | 1,725,433 | | 204,385 | (163,773) | 1,766,045 |
| Other liabilities | 140,465 | 1,986,260 | 34,895 | (1,582,206) | 579,414 |
| Redeemable noncontrolling interest | | | 116,514 | | 116,514 |
| Common stock | 645 | 33,896 | 18,121 | (52,017) | 645 |
| Treasury stock | (718,529) | | | | (718,529) |
| Additional paid-in-capital | 1,085,694 | 117,737 | 552,946 | (670,683) | 1,085,694 |
| Retained earnings (deficit) | 2,179,513 | 749,674 | (288,684) | (460,990) | 2,179,513 |
| Total Steel Dynamics, Inc. equity | 2,547,323 | 901,307 | 282,383 | (1,183,690) | 2,547,323 |
| Noncontrolling interests | | | (51,468) | | (51,468) |
| Total equity | 2,547,323 | 901,307 | 230,915 | (1,183,690) | 2,495,855 |
| Total liabilities and equity | \$ 5,031,052 | \$ 3,261,455 | \$ 710,553 | \$ (3,070,054) | \$ 5,933,006 |

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| For the three months ended, September 30, 2014 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|--|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net sales | \$ 1,044,207 | \$ 2,609,731 | \$ 150,551 | \$ (1,465,473) | \$ 2,339,016 |
| Costs of goods sold | 856,372 | 2,469,396 | 162,094 | (1,437,358) | 2,050,504 |
| Gross profit (loss) | 187,835 | 140,335 | (11,543) | (28,115) | 288,512 |
| Selling, general and administrative | 40,932 | 59,878 | 3,601 | (4,542) | 99,869 |
| Operating income (loss) | 146,903 | 80,457 | (15,144) | (23,573) | 188,643 |
| Interest expense, net of capitalized interest | 18,965 | 12,238 | 1,958 | (1,257) | 31,904 |
| Other (income) expense, net | 22,548 | (202) | (1,530) | 1,256 | 22,072 |
| Income (loss) before income taxes and equity in net income of subsidiaries | 105,390 | 68,421 | (15,572) | (23,572) | 134,667 |
| Income taxes (benefit) | 30,605 | 24,754 | (561) | (7,788) | 47,010 |
| | 74,785 | 43,667 | (15,011) | (15,784) | 87,657 |
| Equity in net loss of subsidiaries | 16,388 | | | (16,388) | |
| Net loss attributable to noncontrolling interests | | | 3,516 | | 3,516 |
| Net income (loss) attributable to Steel Dynamics, Inc. | \$ 91,173 | \$ 43,667 | \$ (11,495) | \$ (32,172) | \$ 91,173 |

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

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 11. Condensed Consolidating Information (Continued)

| For the nine months ended, September 30, 2014 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|--|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net sales | \$ 2,915,339 | \$ 7,035,579 | \$ 377,639 | \$ (4,089,698) | \$ 6,238,859 |
| Costs of goods sold | 2,477,791 | 6,668,153 | 427,029 | (4,008,701) | 5,564,272 |
| Gross profit (loss) | 437,548 | 367,426 | (49,390) | (80,997) | 674,587 |
| Selling, general and administrative | 105,185 | 170,578 | 10,415 | (13,071) | 273,107 |
| Operating income (loss) | 332,363 | 196,848 | (59,805) | (67,926) | 401,480 |
| Interest expense, net of capitalized interest | 57,357 | 33,093 | 5,824 | (3,751) | 92,523 |
| Other (income) expense, net | 20,016 | 147 | (4,226) | 3,750 | 19,687 |
| Income (loss) before income taxes and equity in net loss of subsidiaries | 254,990 | 163,608 | (61,403) | (67,925) | 289,270 |
| Income taxes (benefit) | 64,480 | 58,772 | 949 | (22,627) | 101,574 |
| | 190,510 | 104,836 | (62,352) | (45,298) | 187,696 |
| Equity in net loss of subsidiaries | 11,545 | | | (11,545) | |
| Net loss attributable to noncontrolling interests | | | 14,359 | | 14,359 |
| Net income (loss) attributable to Steel Dynamics, Inc. | \$ 202,055 | \$ 104,836 | \$ (47,993) | \$ (56,843) | \$ 202,055 |

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

Table of Contents

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| For the nine months ended, September 30, 2014 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|--|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net cash provided by (used in) operating activities | \$ 258,952 | \$ 80,298 | \$ (41,245) | \$ (14) | \$ 297,991 |
| Net cash provided by (used in) investing activities | (1,692,967) | 15,023 | (16,740) | (1,528) | (1,696,212) |
| Net cash provided by (used in) financing activities | 1,188,074 | (85,774) | 58,814 | 1,542 | 1,162,656 |
| Decrease in cash and equivalents | (245,941) | 9,547 | 829 | | (235,565) |
| Cash and equivalents at beginning of period | 320,866 | 61,148 | 13,142 | | 395,156 |
| Cash and equivalents at end of period | \$ 74,925 | \$ 70,695 | \$ 13,971 | \$ | \$ 159,591 |

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

Table of Contents

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

Forward-Looking Statements

This report contains some predictive statements about future events, including statements related to conditions in the steel and metallic scrap markets, our revenues, costs of purchased materials, future profitability and earnings, and the operation of new or existing facilities. These statements are intended to be made as forward looking, subject to many risks and uncertainties, within the safe harbor protections of the Private Securities Litigation Reform Act of 1995. These statements speak only as of this date and are based upon information and assumptions, which we consider reasonable as of this date, concerning our businesses and the environments in which they operate. Such predictive statements are not guarantees of future performance, and we undertake no duty to update or revise any such statements. Some factors that could cause such forward-looking statements to turn out differently than anticipated include: (1) the effects of uncertain economic conditions; (2) cyclical and changing industrial demand; (3) changes in conditions in any of the steel or scrap-consuming sectors of the economy which affect demand for our products, including the strength of the nonresidential and residential construction, automotive, appliance, pipe and tube, and other steel-consuming industries; (4) fluctuations in the cost of key raw materials (including steel scrap, iron units, and energy costs) and our ability to pass-on any cost increases; (5) the impact of domestic and foreign import price competition; (6) unanticipated difficulties in integrating or starting up new or acquired businesses; (7) risks and uncertainties involving product and/or technology development; and (8) occurrences of unexpected plant outages or equipment failures.

More specifically, we refer you to our more detailed explanation of these and other factors and risks that may cause such predictive statements to turn out differently, as set forth in our most recent Annual Report on Form 10-K for the year ended December 31, 2013, in our quarterly reports on Form 10-Q or in other reports which we from time to time file with the Securities and Exchange Commission. These reports are available publicly on the SEC website, www.sec.gov, and on the Steel Dynamics website, www.steeldynamics.com.

Description of the Business

We are a domestic manufacturer of steel products and metals recycler. We have three reporting segments: steel operations, metals recycling and ferrous resources operations, and steel fabrication operations.

Operating Statement Classifications

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

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

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

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

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

Table of Contents**Acquisition of Severstal Columbus, LLC.(Columbus)**

On September 16, 2014, we completed our acquisition of Severstal Columbus, LLC (Columbus), on a debt-free basis, for a purchase price of \$1.625 billion, with additional working capital adjustments of \$35.3 million. The Columbus acquisition was funded through the issuance of \$1.2 billion of Senior Notes, borrowings under our senior secured credit facility, and available cash. We purchased Columbus to significantly expand and diversify our steel operating base with the addition of 3.4 million tons of hot roll steel production capacity, diversified with respect to width, gauge, and strength when compared to the capabilities of our Butler Flat Roll Division. Located in northeast Mississippi, Columbus is one of the newest and most technologically advanced sheet steel mini-mills in North America, with access to the high-growth oil country tubular goods (OCTG) and automotive markets. Additionally, Columbus is advantageously located to serve the growing markets in the southern U.S. and Mexico, providing geographic diversification and growth opportunities. Columbus' operating results have been reflected in our financial statements since September 16, 2014, the effective date of the acquisition, in the steel operations reporting segment. Columbus reported revenues of \$126.5 million and \$13.5 million pretax income during the September 16 to September 30, 2014 period, before giving effect to \$14.5 million of purchase accounting related cost of goods sold expenses associated with the estimated step-up in inventory and fixed assets. In conjunction with the acquisition, we recognized \$25.0 million of acquisition and related costs that are included in other expenses in the consolidated income statements for the three- and nine-month periods ended September 30, 2014.

Unless stated, the figures presented below include Columbus for the period from September 16, 2014 to September 30, 2014

Results Overview

Third quarter operational and financial performance reflected record volumes in our steel and fabrication segments, which reported increased shipments of 18% and 37%, respectively, for the third quarter of 2014 as compared to the same period in 2013. Demand continues to be strong in the automotive, manufacturing, and energy markets and continues to improve in nonresidential construction. Our metal spreads in steel and fabrication also improved, as market pricing increased to a greater degree than raw materials costs. Plant utilization throughout the company was also strong, which resulted in volume-related cost compression in our steel and fabrications segments. Consolidated operating income increased \$75.4 million, or 67%, to \$188.6 million for the third quarter of 2014, compared to \$113.3 million for the third quarter of 2013; and increased \$122.8 million, or 44%, to \$401.5 million for the first nine months of 2014, compared to \$278.7 million for the first nine months of 2013.

For the third quarter of 2014, net income increased \$33.7 million, or 59%, to \$91.2 million, or \$.038 per diluted share, compared to \$57.5 million, or \$0.25 per diluted share for the third quarter of 2013. Net income increased \$67.4 million, or 50%, to \$202.1 million, or \$0.85 per diluted share, during the first nine months of 2014, compared with net income of \$134.7 million, or \$0.59 per diluted share, during the first nine months of 2013.

Segment Operating Results 2014 vs. 2013 (dollars in thousands)

**Three Months Ended
September 30,
%**

**Second
Quarter**

**Sequential
Quarter
%**

**Nine Months Ended
September 30,
%**

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

| | 2014 | Change | 2013 | 2014 | Change | 2014 | Change | 2013 |
|--|--------------|--------|--------------|--------------|--------|--------------|--------|--------------|
| Net sales: | | | | | | | | |
| Steel | \$ 1,526,532 | 25% | \$ 1,216,966 | \$ 1,334,906 | 14% | \$ 4,022,768 | 15% | \$ 3,483,239 |
| Metals recycling and ferrous resources | | | | | | | | |
| Steel fabrication | 998,487 | 9% | 918,494 | 948,833 | 5% | 2,867,022 | 7% | 2,677,144 |
| Other | 190,036 | 59% | 119,268 | 134,852 | 41% | 440,749 | 39% | 317,802 |
| | 33,754 | 3% | 32,712 | 31,898 | 6% | 93,174 | 9% | 85,688 |
| | 2,748,809 | | 2,287,440 | 2,450,489 | | 7,423,713 | | 6,563,873 |
| Intra-company | (409,793) | | (375,702) | (380,728) | | (1,184,854) | | (1,055,099) |
| Consolidated | \$ 2,339,016 | 22% | \$ 1,911,738 | \$ 2,069,761 | 13% | \$ 6,238,859 | 13% | \$ 5,508,774 |
| Operating income (loss): | | | | | | | | |
| Steel | \$ 200,116 | 37% | \$ 146,564 | \$ 155,949 | 28% | \$ 461,708 | 31% | \$ 351,410 |
| Metals recycling and ferrous resources | | | | | | | | |
| Steel fabrication | (5,330) | 69% | (17,135) | (6,053) | 12% | (26,902) | 21% | (34,210) |
| Other | 19,474 | 496% | 3,265 | 7,590 | 157% | 30,190 | 324% | 7,125 |
| | (26,733) | (55)% | (17,274) | (24,159) | (11)% | (67,437) | (40)% | (48,147) |
| | 187,527 | | 115,420 | 133,327 | | 397,559 | | 276,178 |
| Intra-company | 1,116 | | (2,147) | (1,422) | | 3,921 | | 2,525 |
| Consolidated | \$ 188,643 | 67% | \$ 113,273 | \$ 131,905 | 43% | \$ 401,480 | 44% | \$ 278,703 |

Table of Contents

Steel Operations

Steel Operations. Our steel operations consist of six electric arc furnace steel mills, producing steel from steel scrap, utilizing continuous casting, automated rolling mills, and various downstream finishing facilities, including The Techs galvanizing operations. Collectively, our steel operations sell directly to end users and service centers. These products are used in numerous industry sectors, including the automotive, construction, commercial, transportation, agriculture, industrial machinery, and OCTG markets. In the third quarter of 2014 and 2013, our steel operations accounted for 62% and 61% of our external net sales, respectively, and in the first nine months of 2014 and 2013, our steel operations accounted for 61% and 60%, of our external net sales, respectively,

Sheet Products. Our sheet operations consist of our Butler Flat Roll Division, newly acquired Columbus Flat Roll Division (acquired September 16, 2014), and our downstream finishing facilities, including The Techs. These operations sell a broad range of sheet steel products, such as hot roll, cold roll and coated steel products, including a large variety of specialty products, such as light gauge hot roll and galvanized. Butler Flat Roll Division sells other products such as Galvalume® and painted products, while Columbus Flat Roll Division, sells other products such as high-strength OCTG pipe grade products. The Techs is comprised of three galvanizing lines which sell specialized galvanized sheet steels used in non-automotive applications.

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

Steel Operations Shipments (net tons):

| | Three Months Ended September 30, | | | Second Quarter | | Nine Months Ended September 30, | | |
|-------------------------------------|-------------------------------------|-------------|-----------|-------------------|-------------|------------------------------------|-------------|-----------|
| | 2014 | % Change | 2013 | 2014 | % Change | 2014 | % Change | 2013 |
| Shipments | | | | | | | | |
| Butler Flat Roll Division | 738,460 | 0% | 740,279 | 778,220 | (5)% | 2,158,200 | 0% | 2,165,151 |
| Columbus Flat Roll Division | 174,754 | 100% | | | 100% | 174,754 | 100% | |
| The Techs | 205,417 | 16% | 176,713 | 191,934 | 7% | 550,588 | 9% | 507,067 |
| Sheet products | 1,118,631 | 22% | 916,992 | 970,154 | 15% | 2,883,542 | 8% | 2,672,218 |
| Structural and Rail Division | 365,900 | 16% | 315,808 | 336,380 | 9% | 994,596 | 13% | 883,679 |
| Engineered Bar Products Division | 176,891 | 38% | 127,788 | 152,768 | 16% | 473,962 | 30% | 364,528 |
| Roanoke Bar Division | 153,395 | 6% | 144,323 | 143,583 | 7% | 440,760 | 5% | 418,274 |
| Steel of West Virginia | 85,226 | 6% | 80,214 | 74,881 | 14% | 235,681 | (1)% | 238,896 |
| Long products | 781,412 | 17% | 668,133 | 707,612 | 10% | 2,144,999 | 13% | 1,905,377 |
| Total shipments | 1,900,043 | 20% | 1,585,125 | 1,677,766 | 13% | 5,028,541 | 10% | 4,577,595 |
| Intra-segment shipments | (62,201) | | (33,778) | (57,930) | | (165,639) | | (100,899) |
| Steel segment shipments | 1,837,842 | 18% | 1,551,347 | 1,619,836 | 13% | 4,862,902 | 9% | 4,476,696 |
| External shipments | 1,728,023 | 18% | 1,463,867 | 1,518,882 | 14% | 4,585,478 | 9% | 4,204,679 |

Table of Contents

Net sales for the steel segment increased 25% in the third quarter of 2014, when compared to the third quarter of 2013 driven by record shipments and higher average external selling prices. Shipments improved 18% compared to prior year's third quarter and average external selling prices improved \$47 per ton, or 6%. Our Structural and Rail and Engineered Bar Products Divisions both achieved record shipments in the third quarter of 2014. Demand for our sheet products remains strong in the automotive, manufacturing and energy markets; while demand for our special bar quality products strengthened, and structural steel products demand improved with the continued steady growth in the nonresidential construction market. Net sales for the steel segment increased 15% in the first nine months of 2014, when compared to the first nine months of 2013, based on a 9% increase in shipments combined with a \$49 per ton, or 6% increase in average external selling prices.

Metallic raw materials used in our electric arc furnaces represent our single most significant steel manufacturing cost. During the third quarter of 2014 and 2013, our metallic raw material costs represented 65% our steel operations' manufacturing costs, excluding the operations of The Techs, which purchases, rather than produces, the steel it further processes. Our metallic raw material cost per net ton consumed in our steel operations increased \$7 in the third quarter of 2014, compared with the third quarter of 2013; and increased \$15 in the first nine months of 2014, compared with the first nine months of 2013, representing 65% of our steel operations' manufacturing costs during each period, excluding the operations of The Techs.

As a result of record shipments and metal spread expansion, operating income for the steel segment increased 37%, to \$200.1 million in the third quarter of 2014, compared to the same period of 2013. Operating income for the steel segment increased 31%, to \$461.7 million in the first nine months of 2014 compared to the same period of 2013, also due to increased shipments and metal spread expansion.

Metals Recycling and Ferrous Resources Operations

Metals Recycling and Ferrous Resources Operations. This operating segment primarily includes our metals recycling operations (OmniSource); our liquid pig iron production facility, Iron Dynamics (IDI); and our Minnesota iron operations. Our metals recycling and ferrous resources operations segment accounted for 29% and 32% of our external net sales in the third quarter of 2014 and 2013, respectively, and 30% and 33% of our external net sales in the first nine months of 2014 and 2013, respectively. Segment operating losses were \$5.3 million in the third quarter of 2014, a decrease of \$11.8 million when compared to the third quarter of 2013. Reduced losses were primarily due to increased nonferrous shipments and increased ferrous metal spreads, along with reduced losses in the Minnesota iron operations. Segment operating losses decreased \$7.3 million in the first nine months of 2014, to \$26.9 million, compared to the first nine months of 2013, as reduced losses in the Minnesota iron operations were partially offset by reductions in metals recycling operating income.

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

| | Three Months Ended September 30, | | | Second Quarter | | Nine Months Ended September 30, | | |
|--|-------------------------------------|-------------|-----------|-------------------|-------------|------------------------------------|-------------|-----------|
| | 2014 | % Change | 2013 | 2014 | % Change | 2014 | % Change | 2013 |
| Ferrous metal (gross tons) | | | | | | | | |
| Total | 1,453,671 | (1)% | 1,472,418 | 1,422,697 | 2% | 4,240,901 | 2% | 4,149,737 |
| Intra-segment | (14) | | (899) | (103) | | (417) | | (4,105) |
| Segment shipments | 1,453,657 | (1)% | 1,471,519 | 1,422,594 | 2% | 4,240,484 | 2% | 4,145,632 |
| External shipments | 780,031 | (1)% | 790,173 | 769,046 | 1% | 2,198,629 | (7)% | 2,365,334 |
| Nonferrous metals (thousands of pounds) | | | | | | | | |
| Total | 325,436 | 24% | 263,467 | 288,233 | 13% | 884,647 | 11% | 797,618 |
| Intra-segment | (30,774) | | (2,809) | (17,263) | | (66,380) | | (9,711) |
| Segment shipments | 294,662 | 13% | 260,658 | 270,970 | 9% | 818,267 | 4% | 787,907 |
| External shipments | 293,958 | 13% | 259,021 | 270,271 | 9% | 815,817 | 4% | 782,906 |
| Mesabi Nugget shipments (metric tons) - intra-company | | | | | | | | |
| | 77,335 | 48% | 52,234 | 32,542 | 138% | 147,365 | (6)% | 156,373 |
| Iron Dynamics (metric tons) intra-company | | | | | | | | |
| | 61,107 | (8)% | 66,674 | 64,756 | (6)% | 182,985 | (7)% | 197,644 |

Metals Recycling. OmniSource represents our metals sourcing and processing operations and is the primary source of net sales in this segment. These operations sell ferrous metals to steel mills and foundries, and nonferrous metals, such as copper, brass, aluminum and stainless steel to, among others, ingot manufacturers, copper refineries and mills, smelters, and specialty mills. Our metals recycling operations represented 86% and 91% of this segment's net sales during the third quarter of 2014 and 2013, respectively. Metals recycling operations net sales were \$953.5 million and \$848.0 million, and operating income was \$8.5 million and \$5.7 million, during the third quarter 2014 and 2013, respectively. During the first nine months of 2014, metals recycling operations sales were \$2.7 billion and operating income was \$27.4 million, compared with sales of \$2.5 billion and operating income of \$35.5 million during the same period of 2013.

Net sales for metals recycling increased 12% in the third quarter of 2014, when compared to the third quarter of 2013. Sales volumes of nonferrous metals, most notably copper, increased 24%, largely attributable to improved industrial and manufacturing markets that are creating increases in scrap inflow and our customers' need for and use of our scrap, and average selling prices increased 9%. Ferrous shipments and pricing were relatively steady. Operating income for the third quarter of 2014 of \$8.5 million increased 49% when compared to the third quarter of 2013, due primarily to the increase in nonferrous shipments and aluminum metal spreads, along with a 7% increase in ferrous metal margins.

Net sales in metals recycling increased 10% in the first nine months of 2014, as compared to the same period in 2013, as nonferrous volumes increased 11% with steady pricing, while ferrous volumes were slightly higher and selling prices increased 6%. Operating income for metals recycling decreased \$8.1 million, or 23%, for the first nine months of 2014, when compared to the same period for 2013 as the decreases in both ferrous and nonferrous metal spreads of 5% and 4%, respectively, more than offset the impact of the increased nonferrous, and to a lesser degree, ferrous shipments.

Ferrous Resources. Our ferrous resource operations consist of our two ironmaking initiatives: Iron Dynamics (IDI), a liquid pig iron production facility, and our Minnesota iron operations, consisting of an iron nugget production facility and operations to supply the nugget facility with its primary raw material, iron concentrate. IDI primarily produces liquid pig iron, which is used as a scrap substitute raw material input exclusively at our Butler Flat Roll Division. Our Minnesota iron operations consists of Mesabi Nugget, (owned 81% by us); our potential future iron mining operations, Mesabi Mining; and, our iron tailings operations, Mining Resources (owned 80% by us). The impact of losses from our Minnesota iron operations on third quarter 2014 net income was approximately \$5.2 million, as compared to approximately \$10.6 million during the third quarter of 2013. For the first nine months of 2014, losses from our Minnesota iron operations reduced our net income by approximately \$23.2 million, compared with approximately \$33.7 million in the first nine months of 2013. The iron nugget production facility utilizes a pioneering production process, which has experienced operational, quality control and production cost challenges. We have continued to modify, re-engineer and further refine this production process and have changed or modified equipment configurations with resulting improvement in plant availability, production, and quality. As a result of these efforts, volumes, yields, product quality, and production costs have improved during 2014, as compared to corresponding 2013 periods.

Table of Contents

Steel Fabrication Operations

Steel fabrication operations consist of our six New Millennium Building Systems plants located throughout the United States and Northern Mexico. Revenues from these plants are generated from the fabrication of trusses, girders, steel joists and steel decking used within the nonresidential construction industry. Steel fabrication operations accounted for 8% and 6% of our external net sales during the third quarter of 2014 and 2013, respectively; and 7% and 6% of our external net sales during the first nine months of 2014 and 2013, respectively.

Net sales for the steel fabrication operations segment increased 59% in the third quarter of 2014, compared to the third quarter of 2013, as shipments increased 41% to a record quarterly level, and selling prices increased 13%, based on continued demand improvement in the nonresidential construction market. Net sales for the segment increased \$122.9 million, or 39%, in the first nine months of 2014, compared to the first nine months of 2013, as shipments increased 29% and selling prices increased 7%. Our steel fabrication operations continue to realize strength in order activity and resulting shipments at levels in excess of the improving demand environment, as we continue to leverage our national footprint to expand market share.

The purchase of various steel products is the largest single cost of production for our steel fabrication operations generally representing more than two-thirds of the total cost of manufacturing for our steel fabrication operations. The average cost of steel consumed increased in the third quarter of 2014, as compared to the same period in 2013, by \$63 per ton, consistent with increased pricing in the general relevant steel market. Likewise, during the first nine months of 2014 the average cost of steel consumed increased, as compared to the same period in 2013, by \$48 per ton.

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

Operating income for the steel fabrication segment of \$19.5 million in the third quarter of 2014 was nearly six times that of the same period in 2013, due to record level shipments and metal spread expansion, as well as decreased conversion costs realized from manufacturing efficiencies and from higher production volumes. Similarly, operating income increased over three times to \$30.2 million in the first nine months of 2014, compared to \$7.1 million in the first nine months of 2013, due to increased selling volumes and metal spread expansion, as well as decreased conversion costs.

Table of Contents

Third Quarter Consolidated Results 2014 vs. 2013

Selling, General and Administrative Expenses. Selling, general and administrative expenses (including profit sharing and amortization of intangible assets) were \$99.9 million during the third quarter of 2014, as compared to \$83.9 million during the third quarter of 2013, comparable in that they represented 4% of our total net sales during each period. The comparable increase of \$16.0 million in total selling, general and administrative expenses was primarily the result of increased profit sharing and equity-based and incentive compensation expenses driven by increased levels of pretax earnings during 2014, as a significant amount of company-wide compensation is performance based.

Interest Expense, net of Capitalized Interest. During the third quarter of 2014, gross interest expense decreased \$365,000 to \$31.9 million, and capitalized interest decreased \$1.3 million to \$43,000, when compared to the same period in 2013. The decrease in interest capitalized during these periods relates to growth or expansion projects initiated in 2013 at two of our steel mills that were completed in 2014.

Other Expense (Income), net. During the third quarter of 2014, other expense increased \$23.9 million to \$22.1 million, when compared to the same period in 2013, due primarily to \$25.0 million of acquisition and financing costs associated with the acquisition of Columbus during the third quarter of 2014.

Income Taxes. During the third quarter of 2014, our income tax expense was \$47.0 million with an effective tax rate of 34.9%, as compared to \$33.1 million with an effective tax rate of 39.3%, during the same period in 2013. The lower effective tax rate in the third quarter of 2014 is due primarily to the impact on the effective tax rate of discrete tax adjustments, and the lower proportional (to pretax income) noncontrolling interest losses in the third quarter of 2014, as compared to the same period in 2013.

First Nine Months Consolidated Results 2014 vs. 2013

Selling, General and Administrative Expenses. Selling, general and administrative expenses (including profit sharing and amortization of intangible assets) were \$273.1 million during the first nine months of 2014, as compared to \$242.4 million during the first nine months of 2013, comparable in that they represent 4% of our total net sales during both periods. The comparable increase of \$31.0 million in total selling, general and administrative expenses was primarily the result of increased profit sharing and equity-based and incentive compensation expenses driven by increased levels of pretax earnings during 2014.

Interest Expense, net of Capitalized Interest. During the first nine months of 2014, gross interest expense decreased \$5.2 million to \$95.0 million, and capitalized interest decreased \$691,000, to \$2.5 million, when compared to the same period in 2013. The decrease in interest capitalized during these periods relates to growth or expansion projects initiated in 2013 at two of our steel mills that were completed in 2014. The decrease in gross interest expense is due to refinancing activities during March/April of 2013 that reduced outstanding debt by \$100.0 million and decreased the effective interest rate by 1.5% on \$400.0 million of senior notes that were refinanced.

Income Taxes. During the first nine months of 2014, our income tax expense was \$101.6 million with an effective tax rate of 35.1%, as compared to \$70.2 million with an effective tax rate of 37.8%, during the same period in 2013. The lower effective tax rate in the first nine

Edgar Filing: STEEL DYNAMICS INC - Form 10-Q

months of 2014 is due primarily to the impact on the effective tax rate of discrete tax adjustments, and the lower proportional (to pretax income) noncontrolling interest losses in the first nine months of 2014, as compared to the same period in 2013.

Liquidity and Capital Resources

Columbus Acquisition. On September 16, 2014, we completed the acquisition of Columbus, on a debt-free basis, for a purchase price of \$1.625 billion, with additional working capital adjustments of \$35.3 million. In conjunction with funding the acquisition of Columbus, on September 9, 2014, we issued \$700.0 million of 5.125% Senior Notes due 2021 and \$500.0 million of 5.500% Senior Notes due 2024 (together, the Senior Notes). The proceeds from the issuance of the Senior Notes, along with cash on hand and \$117.8 million in borrowings under our senior secured credit facility were used to fund the acquisition of Columbus and related expenses.

Capital Resources and Long-term Debt. 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 primarily with cash provided by operations, long-term borrowings and availability under our Revolver. Our liquidity at September 30, 2014 is as follows (in thousands):

| | | |
|-----------------------|----|-----------|
| Cash and equivalents | \$ | 159,591 |
| Revolver availability | | 1,024,556 |
| Total liquidity | \$ | 1,184,147 |

Our total outstanding debt increased \$954.3 million during the first nine months of 2014, to \$3.1 billion, due to the issuance of \$1.2 billion in Senior Notes used to fund a portion of the Columbus acquisition. In June 2014, \$287.5 million of our 5.125% Convertible Senior Notes were converted to shares of our common stock or paid at maturity. As a result of these activities, our total long-term debt to capitalization ratio (representing our long-term debt, including current maturities, divided by the sum of our long-term debt, redeemable noncontrolling interests, and our total stockholders' equity) increased to 50.2% at September 30, 2014, from 44.7% at December 31, 2013.

Table of Contents

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

The outstanding balance on the Revolver must be the lesser of \$1.1 billion less other applicable commitments such as letters of credit and other secured debt, as defined within the Facility or the sum of 85% of our eligible accounts receivable and 65% of our eligible inventories, less other applicable commitments. At September 30, 2014, we had \$1.0 billion of availability on the Revolver, excluding \$15.4 million of outstanding letters of credit and other obligations, and \$60.0 million drawn on the Revolver.

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

The financial covenants under our Facility state that we must maintain an interest coverage ratio of not less than 2.50:1.00. Our interest coverage ratio is calculated by dividing our last-twelve trailing months (LTM) consolidated adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, and certain other non-cash transactions as allowed in our Facility) by our LTM gross interest expense. In addition, a net debt (as defined in the Facility) to consolidated LTM adjusted EBITDA ratio (leverage ratio) of not more than 5.00:1.00 must be maintained. If the leverage ratio exceeds 3.50:1.00 at any time, our ability to make restricted payments as defined in the credit agreement (which includes cash dividends to stockholders and share purchases, among other things), is limited. At September 30, 2014, our interest coverage ratio and net debt leverage ratio were 5.71:1.00 and 2.79:1.00, respectively. We were therefore in compliance with these covenants at September 30, 2014, and we anticipate we will continue to be in compliance during the next twelve months.

Working Capital. Our operating activities provided cash flows of \$298.0 million during the first nine months of 2014, as net income and non-cash items outpaced the increase in accounts receivable during the period. Our operational working capital, representing amounts invested in trade receivables and inventories less current liabilities other than income taxes payable and debt, increased \$434.4 million during the first nine months of 2014, with \$341.7 million of the increase related to the acquisition of Columbus. The remaining increase is primarily a result of the \$157.7 million increase in accounts receivable (excluding receivables acquired from Columbus) consistent with increased sales during the period. High credit quality has been maintained, and days sales outstanding has remained consistently at approximately 37 days. Inventories at September 30, 2014 decreased \$21.1 million, compared to December 31, 2013 (excluding inventory acquired from Columbus), despite the increased levels of production and sales in the third quarter of 2014, as compared to fourth quarter 2013.

Capital Investments. During the first nine months of 2014, we invested \$82.9 million in property, plant and equipment, as compared to \$146.7 million during the same period in 2013. Capital investments in the first nine months of 2014 are below those of the same period in 2013, as growth or expansion projects initiated in early 2013 at two of our steel mills were completed in 2014.

Cash Dividends. As a reflection of confidence in our current and future strength regarding our cash flow generation ability and financial position, we increased our quarterly cash dividend by 5% to \$0.115 per share in 2014 (from \$0.110 per share during 2013), resulting in declared cash dividends of \$80.9 million during the first nine months of 2014. We paid cash dividends of \$77.7 million and \$70.5 million during the first nine months of 2014 and 2013, respectively. Our board of directors, upon the recommendation of management, approves the payment of dividends on a quarterly basis. During the remainder of 2014, we anticipate maintaining our current level of quarterly dividends; however, the

determination to pay cash dividends in the future is at the discretion of our board of directors, after taking into account various factors, including our financial condition, results of operations, outstanding indebtedness, current and anticipated cash needs and growth plans. In addition, the terms of our senior secured credit facility and the indenture relating to our senior notes may restrict the amount of cash dividends we can pay.

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

Other Matters

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

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

Table of Contents

Critical Accounting Policies and Estimates

No material changes have occurred to the indicated critical accounting policies and estimates as disclosed in our 2013 Annual Report on Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

In the normal course of business, we are exposed to interest rate changes. Our objectives in managing exposure to interest rate changes are to limit the impact of these rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we primarily use interest rate swaps to manage net exposure to interest rate changes related to our portfolio of borrowings. We did not have any interest rate swaps during the periods ended September 30, 2014 or 2013.

Commodity Risk

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

Our risk strategy associated with the purchase of raw materials utilized within our operations has generally been to make some commitments with suppliers relating to future expected requirements for certain commodities such as electricity, natural gas and its transportation services, air products, fuel, and zinc. Certain commitments contain provisions which require us to take or pay for specified quantities without regard to actual usage for periods of up to 37 months for physical commodity requirements, for up to 6 years for commodity transportation requirements, and for up to 13 years for air products. We also purchase electricity consumed at our Butler Flat Roll Division pursuant to a contract which extends through December 2014. The contract designates 160 hours annually as interruptible service and establishes an agreed fixed-rate energy charge per Mill/kWh consumed for each year through the expiration of the agreement. At September 30, 2014, 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, 2013. We utilized such take or pay requirements during the past three years under these contracts. We believe that production requirements will be such that consumption of the products or services purchased under these commitments will occur in the normal production process.

In our metals recycling operations we have certain fixed price contracts with various customers and suppliers for future delivery of nonferrous metals. Our risk strategy has been to enter into base metal financial contracts with the goal to protect the profit margin, within certain parameters, that was contemplated when we entered into the transaction with the customer or supplier. At September 30, 2014, we had a cumulative unrealized gain associated with these financial contracts of \$3.9 million, substantially all of which have a settlement date within the next twelve months. We believe the customer and supplier contracts associated with the financial contracts will be fully consummated.

ITEM 4. CONTROLS AND PROCEDURES

(a) ***Evaluation of Disclosure Controls and Procedures.*** Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2014. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of September 30, 2014, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective.

(b) ***Changes in Internal Controls Over Financial Reporting.*** We acquired Severstal Columbus, LLC (Columbus) on September 16, 2014 and consider the transaction material to our results of operations, cash flows and financial position from the date of the acquisition. In conducting our evaluation of the effectiveness of our internal control over financial reporting, we have elected to exclude Columbus from our evaluation in the year of acquisition as permitted by the SEC. We are currently in the process of evaluating and integrating Columbus’ controls over financial reporting. See Note 2, Acquisition, to the Notes to the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for discussion of the acquisition and related financial data. There were no other changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended September 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

We are also involved, along with other steel manufacturing companies, in a class action antitrust complaint filed in federal court in Chicago, Illinois in March 2008, which alleges a conspiracy to fix, raise, maintain and stabilize the price at which steel products were sold in the United States starting in 2005, by artificially restricting the supply of such steel products. All but one of the Complaints were brought on behalf of a purported class consisting of all direct purchasers of steel products. The other Complaint was brought on behalf of a purported class consisting of all indirect purchasers of steel products within the same time period. In addition, in December 2010, we and the other co-defendants were served with a substantially similar complaint purporting to be on behalf of indirect purchasers of steel products in Tennessee and has been consolidated with the original complaint. All Complaints seek treble damages and costs, including reasonable attorney fees, pre- and post-judgment interest and injunctive relief. Following a period of discovery relating to class certification matters, plaintiffs' motion for class certification filed in 2012, and briefing by both sides, the court, on March 5, 2013 and April 11, 2014, held a class certification hearing. At the conclusion of the hearing, the court took the class certification issue under advisement. It is unclear when the court will issue its ruling.

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

ITEM 1A. RISK FACTORS

No material changes have occurred to the indicated risk factors as disclosed in our 2013 Annual Report on Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

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

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

Executive Officer Certifications

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

Other

- 95* Mine Safety Disclosures.

XBRL Documents

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

* Filed concurrently herewith

Table of Contents

SIGNATURE

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

November 10, 2014

STEEL DYNAMICS, INC.

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

30
