

STEEL DYNAMICS INC
Form 10-Q
August 08, 2007

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

FORM 10-Q

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

For the quarterly period ended June 30, 2007

OR

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

Commission File Number **0-21719**

Steel Dynamics, Inc.

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of incorporation or organization)

35-1929476

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

6714 Pointe Inverness Way, Suite 200, Fort Wayne, IN
(Address of principal executive offices)

46804
(Zip Code)

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

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

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

(Check one): Large accelerated filer Accelerated filer Non-accelerated filer

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 August 6, 2007, Registrant had 90,669,612 outstanding shares of Common Stock.

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

| | June 30, 2007 (Unaudited) | December 31, 2006 |
|--|--|------------------------------|
| Assets | | |
| Current assets | | |
| Cash and equivalents | \$ 12,212 | \$ 29,373 |
| Accounts receivable, net | 399,699 | 355,011 |
| Accounts receivable-related parties | 42,425 | 53,365 |
| Inventories | 726,236 | 569,317 |
| Deferred taxes | 14,488 | 13,964 |
| Other current assets | 31,493 | 15,167 |
| Total current assets | 1,226,553 | 1,036,197 |
| Property, plant and equipment, net | 1,249,178 | 1,136,703 |
| Restricted cash | 6,592 | 5,702 |
| Intangible assets | 14,110 | 12,226 |
| Goodwill | 48,490 | 30,966 |
| Other assets | 30,963 | 25,223 |
| Total assets | \$ 2,575,886 | \$ 2,247,017 |
| Liabilities and Stockholders Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 212,239 | \$ 145,938 |
| Accounts payable-related parties | 6,079 | 2,004 |
| Income taxes payable | 26,365 | 30,497 |
| Accrued profit sharing | 27,619 | 46,341 |
| Accrued expenses | 92,401 | 94,024 |
| Senior secured revolving credit facility | 215,000 | 80,000 |
| Current maturities of long-term debt | 699 | 686 |
| Total current liabilities | 580,402 | 399,490 |
| Long-term debt | | |
| 9½% senior unsecured notes | | 300,000 |
| 6¾% senior unsecured notes | 500,000 | |
| Subordinated convertible 4.0% notes | 37,500 | 37,500 |
| Other long-term debt | 16,750 | 16,920 |
| Unamortized bond premium | | 3,772 |
| | 554,250 | 358,192 |
| Deferred taxes | 256,210 | 256,803 |
| Minority interest | 869 | 1,424 |
| Stockholders equity | | |
| Common stock voting, \$.005 par value; 200,000,000 shares authorized; 108,408,426 and 107,865,486 shares issued, and 91,923,320 and 96,983,303 shares outstanding, as of June 30, 2007 and December 31, 2006, respectively | 540 | 537 |
| Treasury stock, at cost; 16,485,106 and 10,882,183 shares, at June 30, 2007 and December 31, 2006, respectively | (464,405) | (230,472) |
| Additional paid-in capital | 386,935 | 367,772 |

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| | | |
|--|--------------|--------------|
| Retained earnings | 1,261,085 | 1,093,271 |
| Total stockholders' equity | 1,184,155 | 1,231,108 |
| Total liabilities and stockholders' equity | \$ 2,575,886 | \$ 2,247,017 |

See notes to consolidated financial statements.

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

| | Three Months Ended June 30, 2007 | | Six Months Ended June 30, 2007 | |
|---|--|------------|--------------------------------------|--------------|
| | | 2006 | | 2006 |
| Net sales | | | | |
| Unrelated parties | \$ 850,443 | \$ 758,186 | \$ 1,675,037 | \$ 1,366,804 |
| Related parties | 60,805 | 63,061 | 101,885 | 120,321 |
| Total net sales | 911,248 | 821,247 | 1,776,922 | 1,487,125 |
| Costs of goods sold | 694,666 | 624,692 | 1,343,937 | 1,131,083 |
| Gross profit | 216,582 | 196,555 | 432,985 | 356,042 |
| Selling, general and administrative expenses | 48,922 | 42,407 | 94,015 | 70,782 |
| Operating income | 167,660 | 154,148 | 338,970 | 285,260 |
| Interest expense | 7,198 | 8,025 | 14,444 | 16,161 |
| Other (income) expense, net | 11,523 | (1,275) | 10,807 | (1,956) |
| Income before income taxes | 148,939 | 147,398 | 313,719 | 271,055 |
| Income taxes | 54,997 | 50,529 | 117,613 | 98,137 |
| Net income | \$ 93,942 | \$ 96,869 | \$ 196,106 | \$ 172,918 |
| Basic earnings per share | \$ 1.01 | \$ 1.00 | \$ 2.07 | \$ 1.88 |
| Weighted average common shares outstanding | 93,429 | 96,461 | 94,873 | 91,747 |
| Diluted earnings per share, including effect of assumed conversions | \$.95 | \$.89 | \$ 1.96 | \$ 1.65 |
| Weighted average common shares and share equivalents outstanding | 98,781 | 110,037 | 100,209 | 105,507 |
| Dividends declared per share | \$.15 | \$.10 | \$.30 | \$.20 |

See notes to consolidated financial statements.

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

| | Three Months Ended June 30, 2007 | | Six Months Ended June 30, 2007 | |
|---|--|------------|--------------------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| Operating activities: | | | | |
| Net income | \$ 93,942 | \$ 96,869 | \$ 196,106 | \$ 172,918 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 32,978 | 32,181 | 62,244 | 56,676 |
| Unamortized bond premium | (3,350) | 422 | (3,350) | 844 |
| Equity-based compensation | 2,132 | 1,744 | 4,401 | 3,157 |
| Deferred income taxes | (796) | (5,862) | (1,118) | (5,734) |
| (Gain) loss on disposal of property, plant and equipment | 86 | (58) | 80 | (11) |
| Minority interest | (173) | 389 | (555) | 628 |
| Changes in certain assets and liabilities: | | | | |
| Accounts receivable | (20,146) | (10,797) | (33,748) | (29,984) |
| Inventories | (96,824) | (30,993) | (153,726) | (13,814) |
| Other assets | (17,703) | (11,166) | (18,499) | (8,148) |
| Accounts payable | (6,532) | (29,446) | 70,810 | (7,383) |
| Income taxes payable | (58,982) | (30,852) | (4,132) | 7,163 |
| Accrued expenses | 25,101 | 11,417 | (20,345) | (15,019) |
| Net cash provided by (used in) operating activities | (50,267) | 23,848 | 98,168 | 161,293 |
| Investing activities: | | | | |
| Purchase of property, plant and equipment | (101,981) | (34,123) | (155,910) | (48,708) |
| Acquisition of business, net of cash acquired | (38,219) | (89,106) | (38,219) | (89,106) |
| Maturities of short-term investments | | 4,700 | | 14,075 |
| Purchases of short-term investments | | | | (14,075) |
| Other investing activities | 61 | 241 | (162) | 241 |
| Net cash used in investing activities | (140,139) | (118,288) | (194,291) | (137,573) |
| Financing activities: | | | | |
| Issuance of long-term debt | 852,000 | | 997,000 | |
| Repayment of long-term debt | (532,079) | (45,488) | (662,157) | (47,146) |
| Issuance of common stock (net of expenses) and proceeds and tax benefits from exercise of stock options | 8,960 | 6,790 | 16,146 | 24,199 |
| Issuance (purchase) of treasury stock | (132,429) | 193 | (235,314) | 788 |
| Dividends paid | (14,178) | (8,812) | (28,725) | (13,131) |
| Debt issuance costs | (7,988) | | (7,988) | |
| Net cash provided by (used in) financing activities | 174,286 | (47,317) | 78,962 | (35,290) |
| Decrease in cash and equivalents | (16,120) | (141,757) | (17,161) | (11,570) |
| Cash and equivalents at beginning of period | 28,332 | 195,705 | 29,373 | 65,518 |
| Cash and equivalents at end of period | \$ 12,212 | \$ 53,948 | \$ 12,212 | \$ 53,948 |
| Supplemental disclosure information: | | | | |
| Cash paid for interest | \$ 2,019 | \$ 2,171 | \$ 18,358 | \$ 16,439 |
| Cash paid for federal and state income taxes | \$ 131,817 | \$ 94,365 | \$ 132,285 | \$ 95,541 |

See notes to consolidated financial statements.

STEEL DYNAMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Summary of Accounting Policies and Recent Accounting Pronouncements

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

The company has three reporting segments: steel, steel fabrication, and steel scrap and scrap substitute operations. Steel operations are comprised of the company's five steelmaking mini-mills; steel fabrication operations are comprised of the company's five joist and deck manufacturing plants; and steel scrap and scrap substitute operations are comprised of the company's various scrap collection and processing sites.

Roanoke Electric Steel Corporation (Roanoke Electric) operating results have been reflected in the company's financial statements since April 12, 2006, the effective date of the merger. The following unaudited pro forma information is presented below as if the merger was completed as of January 1, 2006 (in thousands, except per share amounts):

| | Three Months Ended June 30, 2006 | Six Months Ended June 30, 2006 |
|----------------------------|---|---|
| Net sales | \$ 821,247 | \$ 1,636,357 |
| Net income | 100,187 | 181,819 |
| Basic earnings per share | 1.03 | 1.88 |
| Diluted earnings per share | .91 | 1.66 |

The information presented above is for information purposes only and is not necessarily indicative of the actual results that would have occurred had the merger been consummated at January 1, 2006, nor is it necessarily indicative of future operating results of the combined companies under the ownership and management of the company. The three-month pro forma results reflect Roanoke Electric operations for the period between the effective date of the merger and June 30, 2006, and the six-month pro forma results reflect Roanoke Electric operations for that same period in addition to operations for the three-month period ended January 31, 2006.

Uncertain Tax Positions. In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The company adopted the provisions of FIN 48 on January 1, 2007. The implementation of FIN 48 did not have a significant impact on the company's financial position or results of operations.

As of January 1, 2007, the company had unrecognized tax benefits of \$24.0 million including accrued interest and penalties. There has been no significant change in the unrecognized tax benefits during the six months ended June 30, 2007. If recognized, the effective tax rate would be affected by the unrecognized tax benefits. The company recognizes interest and penalties related to its tax contingencies on a net-of-tax basis in income tax expense. The company's January 1, 2007 tax contingencies included \$1.7 million of interest and penalties.

The company files U.S. federal income tax returns as well as income tax returns in various state jurisdictions. The company is currently under examination by the Internal Revenue Service (IRS) for calendar years 1997 through 2001 and it expects this audit to be completed by the end of 2007. The company may be subject to examination by the IRS for calendar years 2003 through 2006. The company is currently under examination by the state of Indiana for calendar years 2000 through 2005. It is reasonably possible that the amounts of unrecognized tax benefits could change in the next twelve months as a result of these audits. Based on the current audits in process, the payment of taxes as a result of audit settlements could be from zero to \$24.0 million during the next twelve months. For other major state tax jurisdictions, the company is no longer subject to state and local tax examinations by tax authorities for years before 2003.

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; potential environmental liabilities, litigation claims and settlements. Actual results may differ from these estimates and assumptions.

In the opinion of management, these financial statements reflect all normal recurring adjustments necessary for a fair presentation of the interim period results. These financial statements and notes should be read in conjunction with the audited financial statements included in the company's Annual Report on Form 10-K for the year ended December 31, 2006.

Note 2. Elizabethton Herb & Metal

The company purchased the property, plant and equipment and the inventory of Elizabethton Herb & Metal, Inc. (Elizabethton) on April 1, 2007. Elizabethton consists of two scrap processing yards located in Elizabethton and Johnson City, Tennessee. The two yards process approximately 225,000 tons of ferrous scrap annually. Elizabethton supplied the company's Roanoke Bar Division with a portion of its steel scrap requirements before the purchase and is expected to continue to do so. In addition, Elizabethton may provide ferrous scrap to the company's other steel operations. The company purchased Elizabethton in an effort to continue to control more of its raw material needs for its steelmaking operations. The operating results of Elizabethton will be included in the company's steel scrap and scrap substitute segment.

Note 3. Financing Activities

Senior Note Issuance. On April 3, 2007, the company issued \$500 million of 6¾% Senior Notes due 2015 (6¾% Notes). The net proceeds from the 6¾% Notes were used to redeem the company's existing \$300 million 9½% Senior Unsecured Notes due 2009 (9½% Notes) at a redemption price of 102.375% on May 3, 2007, to repay amounts outstanding under the company's senior secured revolving credit facility and for general corporate purposes, including capital expenditures. In connection with the redemption of the 9½% Notes, the company also terminated its underlying \$200 million fair-value interest rate swap at an after-tax cost of \$3.1 million, which was recognized as a loss on hedging activities during the second quarter of 2007. In addition, the company incurred after-tax expense of approximately \$4.5 million related to the redemption premium, an after-tax benefit of approximately \$2.1 million related to the recognition of the remaining unamortized bond premium, and an after-tax expense of approximately \$1.4 million related to the write-off of previously capitalized financing costs.

Revolving Credit Facility. On June 19, 2007 the company amended, restated and expanded its existing senior secured revolving credit facility from the prior \$350 million level to a renewed 5-year \$750 million facility. Subject to certain conditions, the company has the opportunity to increase the facility by an additional \$350 million. The amended facility is guaranteed by certain of the company's subsidiaries and is secured by substantially all of its accounts receivable and inventories. The proceeds of the revolver are available to fund working capital, capital expenditures, acquisitions, share repurchases and other general corporate purposes. The amended credit agreement contains financial covenants and other covenants that limit or restrict the company's ability to permit liens on its property, incur indebtedness, enter into mergers, acquisition or consolidations, conduct asset sales, make restricted payments or investments or enter into other specified transactions or activities.

Note 4. Subsequent Events

The Techs Purchase. The company completed its acquisition of The Techs, a Pennsylvania-based flat-rolled steel galvanizing company,

on July 2, 2007. The company paid approximately \$370 million for The Techs, which was funded from the company's existing senior secured revolving credit facility. The Techs consist of three non-union galvanizing facilities: GalvTech, MetalTech and NexTech. Each facility specializes in the galvanizing of specific types of flat-rolled steels in non-automotive applications, servicing a variety of customers in the HVAC, commercial construction and consumer goods markets. In 2006, The Techs shipped approximately 958,000 tons of galvanized steel and generated revenues of approximately \$831 million. Beginning July 2, 2007, The Techs will be reflected in the company's steel operations segment.

Note 5. Earnings Per Share

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

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

| | Three Months Ended 2007 | | | 2006 | | |
|---------------------------------|----------------------------|-------------------------|---------------------|---------------------------|-------------------------|---------------------|
| | Net Income (Numerator) | Shares (Denominator) | Per Share Amount | Net Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic earnings per share | \$ 93,942 | 93,429 | \$ 1.01 | \$ 96,869 | 96,461 | \$ 1.00 |
| Dilutive stock option effect | | 941 | | | 898 | |

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| | | | | | | |
|--|-----------|--------|--------|-----------|---------|--------|
| Subordinated convertible 4.0% notes | 214 | 4,411 | | 609 | 12,678 | |
| Diluted earnings per share | \$ 94,156 | 98,781 | \$.95 | \$ 97,478 | 110,037 | \$.89 |

| | Six Months Ended 2007 | | | 2006 | | |
|--|---------------------------|-------------------------|---------------------|---------------------------|-------------------------|---------------------|
| | Net Income (Numerator) | Shares (Denominator) | Per Share Amount | Net Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic earnings per share | \$ 196,106 | 94,873 | \$ 2.07 | \$ 172,918 | 91,747 | \$ 1.88 |
| Dilutive stock option effect | | 925 | | | 884 | |
| Subordinated convertible 4.0% notes | 428 | 4,411 | | 1,274 | 12,876 | |
| Diluted earnings per share | \$ 196,534 | 100,209 | \$ 1.96 | \$ 174,192 | 105,507 | \$ 1.65 |

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Note 6. Inventories

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

| | June 30, 2007 | December 31, 2006 |
|-------------------|--------------------------|------------------------------|
| Raw materials | \$ 348,598 | \$ 243,770 |
| Supplies | 147,279 | 130,373 |
| Work-in-progress | 81,148 | 54,555 |
| Finished goods | 149,211 | 140,619 |
| Total inventories | \$ 726,236 | \$ 569,317 |

Note 7. Segment Information

The company has three segments: steel operations, steel fabrication operations and steel scrap and scrap substitute operations.

Steel operations include the company's Flat Roll Division, Structural and Rail Division, Engineered Bar Products Division, Roanoke Bar Division and Steel of West Virginia operations. These operations consist of mini-mills, producing steel from steel scrap, using electric arc furnaces, continuous casting and automated rolling mills.

Steel fabrication operations include the company's five New Millennium Building System's plants located in Butler, Indiana; Continental, Ohio; Salem, Virginia; Florence, South Carolina; and Lake City, Florida. Revenues from these plants are generated from the fabrication of trusses, girders, steel joists and steel decking. Prior to April 2006, the revenues associated with these operations were included in All Other, as the operations were below the quantitative thresholds required for reportable segments. Accordingly, the company has reclassified these revenues from prior periods to conform to the current presentation.

The steel scrap and scrap substitute operations include the revenues and expenses associated with the company's steel scrap collection and processing locations and from the company's scrap substitute manufacturing facility, Iron Dynamics.

Revenues included in the category All Other are from a subsidiary operation that is below the quantitative thresholds required for reportable segments. These revenues are from the further processing and resale of certain secondary and excess flat rolled steel products. In addition, All Other also includes certain unallocated corporate accounts, such as the company's senior secured credit facilities, senior unsecured notes, convertible subordinated notes, certain other investments and profit sharing expenses.

The company's operations are organized and managed as operating segments. 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. Refer to the company's Annual Report on Form 10-K for the year ended December 31, 2006, for more information related to the company's segment reporting. Inter-segment sales and any related profits are eliminated in consolidation.

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The company's segment results for the three and six-month periods ended June 30 are as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------|------------------|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| Steel Operations | | | | |
| Net sales | | | | |
| External | \$ 792,928 | \$ 733,532 | \$ 1,556,684 | \$ 1,338,487 |
| Other segments | 65,339 | 62,873 | 131,158 | 90,922 |
| Operating income | 176,936 | 169,403 | 363,756 | 315,876 |
| Assets | 1,984,711 | 1,778,855 | 1,984,711 | 1,778,855 |
| Steel Fabrication Operations | | | | |
| Net sales | | | | |
| External | \$ 86,605 | \$ 66,969 | \$ 164,982 | \$ 107,820 |
| Other segments | 5,430 | 1,097 | 10,276 | 1,117 |
| Operating income (loss) | 7,017 | (2,608) | 12,137 | 620 |
| Assets | 215,808 | 160,245 | 215,808 | 160,245 |
| Steel Scrap and Scrap Substitute Operations | | | | |
| Net sales | | | | |
| External | \$ 15,682 | \$ 3,572 | \$ 18,864 | \$ 3,572 |
| Other segments | 42,110 | 25,118 | 71,977 | 36,370 |
| Operating income (loss) | 4,672 | 2,316 | 6,396 | (4,249) |
| Assets | 171,272 | 135,530 | 171,272 | 135,530 |
| All Other | | | | |
| Net sales | | | | |
| External | \$ 16,033 | \$ 17,173 | \$ 36,392 | \$ 37,246 |
| Other segments | 401 | 220 | 619 | 439 |
| Operating loss | (23,563) | (13,743) | (45,658) | (26,833) |
| Assets | 288,871 | 425,239 | 288,871 | 425,239 |
| Eliminations | | | | |
| Net sales | | | | |
| External | \$ | \$ | \$ | \$ |
| Other segments | (113,280) | (89,307) | (214,030) | (128,848) |
| Operating income (loss) | 2,598 | (1,220) | 2,339 | (153) |
| Assets | (84,776) | (335,396) | (84,776) | (335,396) |
| Consolidated | | | | |
| Net sales | \$ 911,248 | \$ 821,247 | \$ 1,776,922 | \$ 1,487,125 |
| Operating income | 167,660 | 154,148 | 338,970 | 285,260 |
| Assets | 2,575,886 | 2,164,473 | 2,575,886 | 2,164,473 |
| Net sales to non-US companies | 58,963 | 19,967 | 97,672 | 35,679 |

Note 8. Condensed Consolidating Information

Certain 100%-owned subsidiaries of SDI have fully and unconditionally guaranteed all of the indebtedness relating to the issuance of \$500.0 million of senior notes due April 2015. Following are condensed consolidating financial statements of the company, including the guarantors. The following condensed consolidating financial statements present the financial position, results of operations and cash flows of (i) SDI (in each case, reflecting investments in its consolidated subsidiaries under the equity method of accounting), (ii) the guarantor subsidiaries of SDI, (iii) the non-guarantor subsidiaries of SDI, and (iv) the eliminations necessary to arrive at the information for the company on a consolidated basis. The following condensed consolidating financial statements (presented dollars in thousands) 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, 2006.

Condensed Consolidating Balance Sheets

| As of June 30, 2007 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|--|--------------|------------|----------------------------|------------------------------|-----------------------|
| Cash | \$ 3,304 | \$ 8,050 | \$ 858 | \$ | \$ 12,212 |
| Accounts receivable | 295,657 | 319,032 | 7,993 | (180,558) | 442,124 |
| Inventories | 563,207 | 159,197 | 11,929 | (8,097) | 726,236 |
| Other current assets | 44,376 | 1,323 | 325 | (43) | 45,981 |
| Total current assets | 906,544 | 487,602 | 21,105 | (188,698) | 1,226,553 |
| Property, plant and equipment, net | 1,016,112 | 225,216 | 7,850 | | 1,249,178 |
| Other assets | 437,088 | 88,340 | 399 | (425,672) | 100,155 |
| Total assets | \$ 2,359,744 | \$ 801,158 | \$ 29,354 | \$ (614,370) | \$ 2,575,886 |
| Accounts payable | \$ 215,714 | \$ 36,361 | \$ 8,298 | \$ (15,690) | \$ 244,683 |
| Accrued expenses | 88,281 | 31,876 | 714 | (851) | 120,020 |
| Current maturities of long-term debt | 215,677 | 23 | 8,107 | (8,108) | 215,699 |
| Total current liabilities | 519,672 | 68,260 | 17,119 | (24,649) | 580,402 |
| Other liabilities | 113,744 | 426,378 | 3,384 | (287,296) | 256,210 |
| Long-term debt | 554,118 | 132 | 3,649 | (3,649) | 554,250 |
| Minority interest | (264) | | | 1,133 | 869 |
| Common stock | 540 | 19,753 | 7,746 | (27,499) | 540 |
| Treasury stock | (464,405) | (818) | | 818 | (464,405) |
| Additional paid in capital | 386,935 | 117,753 | | (117,753) | 386,935 |
| Retained earnings | 1,249,404 | 169,700 | (2,544) | (155,475) | 1,261,085 |
| Total stockholders' equity | 1,172,474 | 306,388 | 5,202 | (299,909) | 1,184,155 |
| Total liabilities and stockholders' equity | \$ 2,359,744 | \$ 801,158 | \$ 29,354 | \$ (614,370) | \$ 2,575,886 |

| As of December 31, 2006 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|--------------------------------------|--------------|------------|----------------------------|------------------------------|-----------------------|
| Cash | \$ 15,571 | \$ 12,610 | \$ 1,192 | \$ | \$ 29,373 |
| Accounts receivable | 291,521 | 282,152 | 5,425 | (170,722) | 408,376 |
| Inventories | 419,519 | 148,958 | 11,336 | (10,496) | 569,317 |
| Other current assets | 28,041 | 877 | 263 | (50) | 29,131 |
| Total current assets | 754,652 | 444,597 | 18,216 | (181,268) | 1,036,197 |
| Property, plant and equipment, net | 947,745 | 181,999 | 7,076 | (117) | 1,136,703 |
| Other assets | 164,955 | 114,612 | 398 | (205,848) | 74,117 |
| Total assets | \$ 1,867,352 | \$ 741,208 | \$ 25,690 | \$ (387,233) | \$ 2,247,017 |
| Accounts payable | \$ 142,593 | \$ 37,952 | \$ 4,490 | \$ (6,596) | \$ 178,439 |
| Accrued expenses | 108,453 | 28,927 | 935 | 2,050 | 140,365 |
| Current maturities of long-term debt | 80,665 | 22 | 7,907 | (7,908) | 80,686 |
| Total current liabilities | 331,711 | 66,901 | 13,332 | (12,454) | 399,490 |
| Other liabilities | (31,435) | 360,422 | 3,498 | (75,682) | 256,803 |
| Long-term debt | 358,049 | 143 | 1,837 | (1,837) | 358,192 |
| Minority interest | (98) | | | 1,522 | 1,424 |

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| | | | | | | |
|---|--------------|------------|-----------|-------------|----------------|---|
| Common stock | 537 | 10,745 | 7,946 | (18,691 |) 537 | |
| Treasury stock | (230,472 |) | | | (230,472 |) |
| Additional paid in capital | 367,772 | 116,868 | | (116,868 |) 367,772 | |
| Retained earnings | 1,071,288 | 186,129 | (923 |) (163,223 |) 1,093,271 | |
| Total stockholders equity | 1,209,125 | 313,742 | 7,023 | (298,782 |) 1,231,108 | |
| Total liabilities and stockholders equity | \$ 1,867,352 | \$ 741,208 | \$ 25,690 | \$ (387,233 |) \$ 2,247,017 | |

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Condensed Consolidating Statements of Income

| For the three months ended, June 30, 2007 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|---|------------|------------|----------------------------|------------------------------|-----------------------|
| Net sales | \$ 700,196 | \$ 938,455 | \$ 16,434 | \$ (743,837) |) \$ 911,248 |
| Costs of goods sold | 542,329 | 875,340 | 15,892 | (738,895) |) 694,666 |
| Gross profit | 157,867 | 63,115 | 542 | (4,942) |) 216,582 |
| Selling, general and administrative | 31,971 | 18,130 | 1,114 | (2,293) |) 48,922 |
| Operating income (loss) | 125,896 | 44,985 | (572) | (2,649) |) 167,660 |
| Interest expense | 5,140 | 2,011 | 182 | (135) |) 7,198 |
| Other (income) expense, net | 60,759 | (49,387) | (15) | 166 |) 11,523 |
| Income (loss) before income taxes and equity in net income of subsidiaries | 59,997 | 92,361 | (739) | (2,680) |) 148,939 |
| Income taxes | 22,122 | 33,291 | (128) | (288) |) 54,997 |
| Equity in net income of subsidiaries | 58,459 | | | (58,459) |) |
| Net income (loss) | \$ 96,334 | \$ 59,070 | \$ (611) | \$ (60,851) |) \$ 93,942 |

| For the three months ended, June 30, 2006 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|---|------------|------------|----------------------------|------------------------------|-----------------------|
| Net sales | \$ 651,295 | \$ 842,542 | \$ 17,394 | \$ (689,984) |) \$ 821,247 |
| Costs of goods sold | 487,296 | 804,993 | 15,148 | (682,745) |) 624,692 |
| Gross profit | 163,999 | 37,549 | 2,246 | (7,239) |) 196,555 |
| Selling, general and administrative | 23,653 | 18,976 | 1,038 | (1,260) |) 42,407 |
| Operating income (loss) | 140,346 | 18,573 | 1,208 | (5,979) |) 154,148 |
| Interest expense | 6,188 | 1,990 | 88 | (241) |) 8,025 |
| Other (income) expense, net | 40,963 | (42,434) | (77) | 273 |) (1,275) |
| Income (loss) before income taxes and equity in net loss of subsidiaries | 93,195 | 59,017 | 1,197 | (6,011) |) 147,398 |
| Income taxes | 30,388 | 21,531 | 484 | (1,874) |) 50,529 |
| Equity in net income of subsidiaries | 38,198 | | | (38,198) |) |
| Net income (loss) | \$ 101,005 | \$ 37,486 | \$ 713 | \$ (42,335) |) \$ 96,869 |

| For the six months ended, June 30, 2007 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|---|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Net sales | \$ 1,361,106 | \$ 1,742,071 | \$ 117,147 | \$ (1,443,402) |) \$ 1,776,922 |
| Costs of goods sold | 1,040,451 | 1,634,006 | 103,362 | (1,433,882) |) 1,343,937 |
| Gross profit | 320,655 | 108,065 | 13,785 | (9,520) |) 432,985 |
| Selling, general and administrative | 63,243 | 26,013 | 9,550 | (4,791) |) 94,015 |
| Operating income (loss) | 257,412 | 82,052 | 4,235 | (4,729) |) 338,970 |
| Interest expense | 10,371 | 3,209 | 1,129 | (265) |) 14,444 |
| Other (income) expense, net | 107,443 | (96,925) | (39) | 328 |) 10,807 |
| Income (loss) before income taxes and equity in net loss of subsidiaries | 139,598 | 175,768 | 3,145 | (4,792) |) 313,719 |
| Income taxes | 52,256 | 63,235 | 1,483 | 639 |) 117,613 |
| Equity in net income of subsidiaries | 114,195 | | | (114,195) |) |
| Net income (loss) | \$ 201,537 | \$ 112,533 | \$ 1,662 | \$ (119,626) |) \$ 196,106 |

Condensed Consolidating Statements of Income

| For the six months ended, June 30, 2006 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|--|---------------|-------------------|------------------------------------|--------------------------------------|-------------------------------|
| Net sales | \$ 1,284,234 | \$ 1,516,418 | \$ 37,685 | \$ (1,351,212) | \$ 1,487,125 |
| Costs of goods sold | 970,845 | 1,465,025 | 33,791 | (1,338,578) | 1,131,083 |
| Gross profit | 313,389 | 51,393 | 3,894 | (12,634) | 356,042 |
| Selling, general and administrative | 46,994 | 25,613 | 1,916 | (3,741) | 70,782 |
| Operating income (loss) | 266,395 | 25,780 | 1,978 | (8,893) | 285,260 |
| Interest expense | 13,784 | 2,531 | 174 | (328) | 16,161 |
| Other (income) expense, net | 79,130 | (81,377) | (99) | 390 | (1,956) |
| Income (loss) before income taxes and equity in net loss of subsidiaries | 173,481 | 104,626 | 1,903 | (8,955) | 271,055 |
| Income taxes | 62,966 | 37,962 | 772 | (3,563) | 98,137 |
| Equity in net income of subsidiaries | 67,795 | | | (67,795) | |
| Net income (loss) | \$ 178,310 | \$ 66,664 | \$ 1,131 | \$ (73,187) | \$ 172,918 |

Condensed Consolidating Statements of Cash Flow

| For the six months ended, June 30, 2007 | Parent | Guarantors | Combined Non-Guarantors | Total Consolidated |
|--|---------------|-------------------|------------------------------------|-------------------------------|
| Net cash provided by (used in) operations | \$ (82,305) | \$ 180,808 | \$ (335) | \$ 98,168 |
| Net cash used in investing activities | (118,199) | (74,873) | (1,219) | (194,291) |
| Net cash provided by (used in) in financing activities | 188,237 | (110,495) | 1,220 | 78,962 |
| Increase (decrease) in cash and equivalents | (12,267) | (4,560) | (334) | (17,161) |
| Cash and equivalents at beginning of year | 15,571 | 12,610 | 1,192 | 29,373 |
| Cash and equivalents at end of period | \$ 3,304 | \$ 8,050 | \$ 858 | \$ 12,212 |

| For the six months ended, June 30, 2006 | Parent | Guarantors | Combined Non-Guarantors | Total Consolidated |
|--|---------------|-------------------|------------------------------------|-------------------------------|
| Net cash provided by (used in) operations | \$ 125,119 | \$ 30,930 | \$ 2,087 | \$ 158,136 |
| Net cash used in investing activities | (55,460) | (81,632) | (481) | (137,573) |
| Net cash provided by (used in) in financing activities | (104,108) | 74,934 | (2,959) | (32,133) |
| Increase (decrease) in cash and equivalents | (34,449) | 24,232 | (1,353) | (11,570) |
| Cash and equivalents at beginning of year | 62,842 | 132 | 2,544 | 65,518 |
| Cash and equivalents at end of period | \$ 28,393 | \$ 24,364 | \$ 1,191 | \$ 53,948 |

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 marketplace, our revenue growth, costs of raw materials, future profitability and earnings, and the operation of new or existing facilities. These statements are intended to be made as forward-looking, subject to many risks and uncertainties, within the safe harbor protections of the Private Securities Litigation Reform Act of 1995. Such predictive statements are not guarantees of future performance, and actual results could differ materially from our current expectations. Factors that could cause such predictive statements to turn out other than as anticipated or predicted include, among others: changes in economic conditions affecting steel consumption; increased foreign imports; increased price competition; difficulties in integrating acquired businesses; risks and uncertainties involving new products or new technologies; changes in the availability or cost of steel scrap or substitute materials; increases in energy costs; occurrence of unanticipated equipment failures and plant outages; labor unrest; and the effect of the elements on production or consumption.

In addition, we refer you to the sections denominated *Special Note Regarding Forward-Looking Statement* and *Risk Factors* in our Annual report on Form 10-K for the year ended December 31, 2006, as well as, in other reports which we from time to time file with the Securities and Exchange Commission, for a more detailed discussion of some of the many factors, variable risks and uncertainties that could cause actual results to differ materially from those we may have expected or anticipated. These reports are available publicly on the SEC Web site, www.sec.gov, and on our web site, www.steeldynamics.com. Forward-looking or predictive statements we make are based on our knowledge of our businesses and the environment in which they operate as of the date on which the statements were made. Due to these risks and uncertainties, as well as matters beyond our control which can affect forward-looking statements, you are cautioned not to place undue reliance on these predictive statements, which speak only as of the date of this report. We undertake no duty to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Income Statement Classifications

Net Sales. **Net sales from steel operations are a factor of net tons shipped, product mix and related pricing. Net sales from steel fabrication are recognized from construction contracts utilizing a percentage-of-completion method, which is based on the percentage of steel consumed to-date as compared to the estimated total steel required for each contract. Steel fabrication revenues accounted for approximately 10% and 8% of our total net sales for the three months ended June 30, 2007 and 2006 and approximately 9% and 7% for the six months ended June 30, 2006 and 2007, respectively. Our net sales are determined by subtracting product returns, sales discounts, return allowances and claims from total sales. We charge premium prices for certain grades of**

steel, product dimensions, or certain smaller volumes, and for value-added processing or coating of steel products. We also charge marginally higher prices for our value-added products. These products include hot rolled and cold rolled galvanized products, cold rolled products, and painted products from our Flat Roll Division; certain special-bar-quality products from our Engineered Bar Products Division; and certain industrial truck and trailer products from our Steel of West Virginia operations.

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 steel scrap and scrap substitutes, alloys, zinc, natural gas, argon, direct and indirect labor and related benefits, electricity, oxygen, electrodes, depreciation, materials and freight. Our metallic raw materials, steel scrap and scrap substitutes, represent the most significant component of our costs of goods sold.**

Selling, General and Administrative Expenses (SG&A). **Selling, general and administrative expenses consist of all costs associated with our sales, finance and accounting, and administrative departments. These costs include labor and benefits, professional services, financing cost amortization, property taxes, and profit-sharing expense.**

Interest Expense. **Interest expense consists of interest associated with our senior credit facilities and other debt (as described in the notes to our financial statements as set forth in our 2006 Annual Report on Form 10-K and within the notes to our financial statements included in this Form 10-Q) net of capitalized interest costs that are related to construction expenditures during the construction period of material capital projects.**

Other (Income) Expense ■ **Other income consists of interest income earned on our cash balances and any other non-operating income activity. Other expense consists of any non-operating costs, including losses incurred due to interest rate hedging activities.**

Acquisitions

We purchased the property, plant and equipment and inventory of Elizabethton Herb & Metal, Inc. (Elizabethton) on April 1, 2007. Elizabethton is comprised of two scrap processing yards located in Elizabethton and Johnson City, Tennessee. These two yards generally process in excess of 225,000 tons of ferrous scrap annually. Elizabethton supplied our Roanoke Bar Division with a portion of its steel scrap requirements before the purchase and will continue to do so. Elizabethton operations are reflected in our steel scrap and steel scrap substitute operating segment beginning April 1, 2007.

Due to the fact that the Roanoke Electric merger was effective April 11, 2006, the results of these operations are reflected in our results from the effective date of the merger through June 30, 2006.

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We purchased The Techs, a Pennsylvania-based flat-rolled steel galvanizing company on July 1, 2007. The Techs consist of three galvanizing facilities: GalvTech, MetalTech, and NexTech. Each facility specializes in the galvanizing of specific types of flat-rolled steels in non-automotive applications, serving a variety of customers in the HVAC, commercial construction, and consumer goods markets. About 85% of its sales are to customers in the eastern U.S. and the Midwest. In 2006, the privately held company shipped 958,000 tons of galvanized steel and generated revenues of \$831 million.

Second Quarter Operating Results 2007 vs. 2006

Net income was \$93.9 million or \$.95 per diluted share during the second quarter of 2007, compared with \$96.9 million or \$.89 per diluted share during the second quarter of 2006. Our gross margin percentage was 24% during the second quarters of 2006 and 2007, as compared to 25% on a linked-quarter basis. Our second quarter 2007 average consolidated selling price per ton shipped increased \$50 per ton when compared to the first quarter of 2007, and at the same time costs associated with our metallic raw materials on a comparative basis increased \$44 per net ton consumed.

Gross Profit. When comparing the second quarter of 2007 with the second quarter of 2006, our net sales increased \$90.0 million, or 11%, to \$911.2 million, while our consolidated shipments increased 11,000 tons to 1.2 million tons. The increase in shipments was due primarily to increased shipments of 67,000 tons at our Structural and Rail Division and increased shipments of 79,000 tons within our Steel Scrap and Scrap Substitute operations; however, these increases were offset by decreased shipments of 74,000 tons at our Flat Roll Division as a result of continued high customer inventories due to record import levels late last year and continued weaker demand in the second quarter.

As depicted by the following graph, our second quarter 2007 average consolidated selling price per ton shipped increased \$67 compared with the second quarter of 2006. During the first six months of 2007, the volume of steel products imported into the United States decreased for certain products. We believe import volumes could remain at lower levels in the short term as a result of stronger global demand; however, import activity is difficult to forecast. Continued strength within the non-residential construction market has resulted in sustained strong demand for structural steel and building fabrication products. Currently, we anticipate a modest increase in our third quarter average pricing, particularly at our Flat Roll Division. We also anticipate our per net ton consumed scrap costs to decrease during the third quarter when compared to the second quarter of 2007. These combined circumstances could result in increased third quarter margins when compared to second quarter 2007 results.

Generally, we incur higher production costs when manufacturing value-added products such as cold rolled, galvanized, and painted flat roll steels; and special-bar-quality steels. The following charts depict our steel and fabrication operations product-mix by major product category for the three and six-month periods ended June 30, 2007 and 2006, based on tons shipped from these operations.

| Three Months Ended | | Six Months Ended | |
|--------------------|------|------------------|------|
| June 30, | | June 30, | |
| 2006 | 2007 | 2006 | 2007 |

Other (Income) Expense. Other income consists of interest income earned on our cash balances and an²⁴other no

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| | | | | | | | | | |
|--------------|---|-----|---|-----|---|-----|---|-----|---|
| Flat Rolled: | Hot Band | 21 | % | 22 | % | 25 | % | 22 | % |
| | Pickled & Oiled | 2 | | 2 | | 2 | | 2 | |
| | Cold Rolled | 3 | | 2 | | 3 | | 2 | |
| | Cold Rolled Galvanized | 9 | | 5 | | 10 | | 6 | |
| | Hot Rolled Galvanized | 8 | | 6 | | 9 | | 6 | |
| | Painted | 4 | | 3 | | 5 | | 4 | |
| Structural: | Wide Flange Beams, H-Piling and Specialty | 23 | | 26 | | 22 | | 25 | |
| Bar: | SBQ and Merchant Shapes | 19 | | 18 | | 15 | | 20 | |
| Fabrication: | Joists, Girders and Decking | 4 | | 5 | | 4 | | 5 | |
| Other | | 7 | | 11 | | 5 | | 8 | |
| | | 100 | % | 100 | % | 100 | % | 100 | % |

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Other (Income) Expense. Other income consists of interest income earned on our cash balances and any other no

Metallic raw materials used in our electric arc furnaces represent our most significant manufacturing cost. Our metallic raw material cost per net ton consumed increased \$43 during the second quarter of 2007 as compared to the second quarter of 2006 and increased \$44 on a linked-quarter basis. During the second quarter of 2007 and 2006, respectively, our metallic raw material costs represented 58% and 53% of our total manufacturing costs. Historically our metallic raw material costs represented between 45% and 50% of our total manufacturing costs; however, this percentage increased to as high as 65% in 2004, when the industry encountered historically high steel scrap prices. We anticipate our cost of steel scrap consumed to decrease in the third quarter when compared to the second quarter of 2007.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$48.9 million during the second quarter of 2007, as compared to \$42.4 million during the same period in 2006, an increase of \$6.5 million, or 15%. During both the second quarter of 2007 and 2006 our selling, general and administrative expenses represented 5% of our total net sales. During the second quarter of 2007, the company incurred an expense of \$2.3 million related to the write-off of previously capitalized financing costs when the company redeemed its then existing \$300 million 9½% senior unsecured notes due 2009 (9 ½% Notes).

We recorded expense of \$12.0 million and \$8.3 million during the second quarter of 2007 and 2006, respectively, related to our Steel Dynamics performance-based profit sharing plan allocation, which is currently calculated as 8% of pretax earnings. Our board of directors approved an increase from 6% to the current 8% in the profit sharing rate effective August 1, 2006, in recognition of the additional plan participants added as a result of the April 2006 Roanoke Electric merger.

Interest Expense. During the second quarter of 2007, gross interest expense increased \$4.3 million, or 52%, to \$12.5 million and capitalized interest increased \$1.7 million to \$1.9 million, when compared to the same period in 2006. The interest capitalization that occurred during these periods resulted primarily from the interest required to be capitalized with respect to construction activities at our Flat Roll and Structural and Rail divisions. During the second quarter, interest expense was also reduced by approximately \$3.4 million related to the recognition of the remaining unamortized bond premium associated with our 9½% Notes. We currently anticipate gross interest expense to remain at the elevated second quarter levels throughout the remainder of this year.

Other (Income) Expense. Other expense was \$11.5 million during the second quarter of 2007, as compared to other income of \$1.3 million during the same period in 2006. During 2007 and 2006, other income was principally composed of certain non-operating revenues recognized at several of the Roanoke Electric subsidiaries and the Structural and Rail Division. During 2007 other income was offset by \$7.1 million of additional expense related to the call premium associated with the redemption of our 9½% Notes and the termination of a related fixed-to-floating interest rate swap which resulted in a \$5.0 million loss on hedging activities.

Other (Income) Expense. Other income consists of interest income earned on our cash balances and an~~26~~ other no

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Income Taxes. During the second quarter of 2007, our income tax provision was \$55.0 million, as compared to \$50.5 million during the same period in 2006. Our effective income tax rate was 36.9% and 34.3% during the second quarters of 2007 and 2006, respectively. We decreased our estimated annual effective tax rate in the second quarter of 2007 to 37.5% to reflect, among other things, the recognition of research and development tax credits and the increase in the Domestic Production Activities Deduction from 3% to 6% of qualifying domestic activities income, effective January 1, 2007.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. We adopted the provisions of FIN 48 on January 1, 2007. The implementation of FIN 48 did not have a significant impact on our financial position or results of operations.

As of January 1, 2007, we had unrecognized tax benefits of \$24.0 million including accrued interest and penalties. There has been no significant change in the unrecognized tax benefits during the six months ended June 30, 2007. If recognized, our effective tax rate would be

affected by the unrecognized tax benefits. We recognize interest and penalties related to our tax contingencies on a net-of-tax basis in income tax expense. Our January 1, 2007 tax contingencies included \$1.7 million of interest and penalties.

We file U.S. federal income tax returns as well as income tax returns in various state jurisdictions. We currently are under examination by the Internal Revenue Service (IRS) for calendar years 1997 through 2001 and we expect this audit to be completed by the end of 2007. We may be subject to examination by the IRS for calendar years 2002 through 2006. We are currently under examination by the state of Indiana for calendar years 2000 through 2005. It is reasonably possible that the amounts of unrecognized tax benefits could change in the next twelve months as a result of these audits. Based on the current audits in process, the payment of taxes as a result of audit settlements could be from zero to \$24.0 million during the next twelve months. For other major state tax jurisdictions, we are no longer subject to state and local tax examinations by tax authorities for years before 2003.

First Half Operating Results 2007 vs. 2006

Net income was \$196.1 million or \$1.96 per diluted share during the first half of 2007, compared with \$172.9 million or \$1.65 per diluted share during the first half of 2006.

Gross Profit. During the first half of 2007, our net sales increased \$289.8 million, or 19%, to \$1.8 billion and our consolidated shipments increased 211,000 tons, or 9%, to 2.5 million tons, compared with the first half of 2006. The increase in shipments was due in part to the inclusion of shipments from the Roanoke Electric operating facilities acquired April, 11, 2006. We also had increased shipments of 104,000 tons, or 21%, from our Structural & Rail Division, and increased shipments of 25,000 tons, or 10%, from our Engineered Bar Products Division. Our first half 2007 average consolidated selling price increased \$61 per ton, to \$714 as compared with the first half of 2006.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$94.0 million during the first half of 2007, as compared to \$70.8 million during the same period in 2006, an increase of \$23.2 million, or 33%. This increase was attributed in part to increased combined profit sharing expense of \$9.8 million, or 51%. During both the first half of 2007 and 2006, selling, general and administrative expenses represented approximately 5% of net sales. We also adopted FAS 123R on January 1, 2006, which requires companies to recognize the cost of employee services received in exchange for awards of equity instruments in the financial statements. During the first half of 2007 and 2006, respectively, we recorded \$4.4 million and \$3.2 million of share-based compensation expense related to our outstanding incentive stock options.

Interest Expense. During the first half of 2007, gross interest expense increased \$4.5 million, or 21%, to \$21.1 million. During the first half of 2007, interest expense was reduced by \$3.4 million due to the recognition of the unamortized bond premium related to our 9½% Notes. Capitalized interest increased \$2.9 million to \$3.3 million as compared to the same period in 2006. The interest capitalization that occurred during these periods primarily resulted from the interest required to be capitalized with respect to construction activities at our Flat Roll and Structural & Rail divisions.

Other (Income) Expense. Other expense was \$10.8 million during the first half of 2007, as compared to other income of \$2.0 million during the same period of 2006. The increase in other expense during 2007 primarily resulted from the \$7.1 million call premium associated with the redemption of our 9½% Notes and the related termination of a fixed-to-floating interest rate swap resulting in a \$5.0 million loss on hedging activities.

Income Taxes. During the first half of 2007, our income tax provision was \$117.6 million, as compared to \$98.1 million during the same period in 2006. During the first half of 2007 and 2006 our effective income tax rates were 37.5% and 36.2%, respectively.

Other (Income) Expense. Other income consists of interest income earned on our cash balances and an other no

Liquidity and Capital Resources

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Our business is capital intensive and requires substantial expenditures for, among other things, the purchase and maintenance of equipment used in our steelmaking and finishing operations and to remain in compliance with environmental laws. Our short-term and long-term liquidity needs arise primarily from capital expenditures, working capital requirements and principal and interest payments related to our outstanding indebtedness. We have met these liquidity requirements with cash provided by operations, equity offerings, long-term borrowings, and state and local grants.

Working Capital. During the first half of 2007, our operational working capital position, representing our cash invested in trade receivables and inventories less trade payables and accruals increased \$144.8 million to \$803.7 million compared to December 31, 2006. Trade receivables increased \$33.7 million, or 8%, during the first half of 2007 to \$442.1 million, of which approximately 96%, were current or less than 60 days past due. Our largest customer is an affiliated company, Heidtman Steel, which represented 10% and 13% of our outstanding trade receivables at June 30, 2007 and December 31, 2006, respectively. During the first half of 2007 our inventories increased \$156.9 million, or 28%, to \$726.2 million. Raw materials, primarily steel scrap inventories, increased significantly during the first half of 2007 for all of our steelmaking divisions and was the primary driver of total inventory increase. Our trade payables and general accruals increased \$69.4 million, or 30%, during the first half of 2007, due primarily to the timing of payments.

Capital Expenditures. During the first half of 2007, we invested \$155.9 million in property, plant and equipment, of which \$109.1 million, or 70%, related to the construction of a second rolling mill at our Structural and Rail Division; and the continued reconfiguration of the three joist plants acquired in April 2006. The remaining capital expenditures represented improvement projects at our other facilities. We believe these capital investments will increase our net sales and related cash flows as each project develops.

Capital Resources and Long-term Debt. During the first half of 2007, our total outstanding debt increased \$331.1 million to \$769.9 million. Our total debt to capitalization ratio, representing our total debt divided by the sum of our total debt and our total stockholders' equity, was 39% and 26% at June 30, 2007 and December 31, 2006, respectively.

On June 19, 2007, we amended, restated and expanded our senior secured revolving credit facility from the prior \$350 million level to a renewed 5-year \$750 million facility. Subject to certain conditions, we also have the opportunity to increase the facility size by an additional \$350 million.

At June 30, 2007, there were outstanding borrowings of \$215 million under our \$750 million senior secured revolving credit facility. The senior secured credit agreement is secured by substantially all of our and our wholly-owned subsidiaries receivables and inventories and by pledges of all shares of capital stock and inter-company debt held by us and each of our wholly-owned subsidiaries. The senior secured credit agreement contains financial covenants and other covenants that limit or restrict our ability to make capital expenditures; incur indebtedness; permit liens on property; enter into transactions with affiliates; make restricted payments or investments; enter into mergers, acquisitions or consolidations; conduct asset sales; pay dividends or distributions and enter into other specified transactions and activities. Our ability to borrow funds within the terms of the revolver is dependent upon our continued compliance with the financial covenants and other covenants contained in the senior secured credit agreement. We were in compliance with these covenants at June 30, 2007, and expect to remain in compliance during the next twelve months.

On July 2, 2007, we paid approximately \$370 million for the purchase of The Techs. We utilized our senior secured revolving credit facility to fund this purchase.

On April 3, 2007, we issued \$500 million of 6¾% Senior Notes due 2015 (6¾% Notes). The net proceeds from the 6¾% Notes were used to redeem our existing \$300 million 9½% Notes at a redemption price of 102.375% on May 3, 2007, to repay amounts outstanding under our senior secured revolving credit facility and for general corporate purposes, including capital expenditures. In connection with the redemption of the 9½% Notes, we also terminated an underlying \$200 million fair-value interest rate swap at an after-tax cost of \$3.1 million, which was recognized in other expense as a loss on hedging activities during the second quarter of 2007. In addition, we incurred after-tax expense of approximately \$4.5 million related to the call premium, an after-tax benefit of approximately \$2.1 million related to the recognition of the remaining unamortized bond premium, and an after-tax expense of approximately \$1.4 million related to the write-off of previously capitalized financing costs.

Common Stock Purchases. During the three months ended June 30, 2007, we purchased 2.9 million shares of our common stock in open market trades at an average purchase price of \$45.29. These purchases were made pursuant to programs authorized by our board of directors. On June 29, 2007, our board of directors approved an increase of 5 million shares to our existing share repurchase program. As of June 30, 2007, 4.9 million shares remain authorized and available for purchase.

Cash Dividends. During the second quarter of 2007, our board of directors approved a \$.10 per common share regular quarterly cash dividend and the continuation of a special dividend of \$.05 per common share to be distributed in addition to the company's regular quarterly cash dividend. The combined \$.15 per common share dividend was payable to shareholders of record at the close of business on June 29, 2007 and was paid on July 13, 2007. We anticipate continuing comparable quarterly cash dividends throughout 2007. The determination to pay cash dividends in the future will be at the discretion of our board of directors, after taking into account various factors, including our financial condition, results of operations, outstanding indebtedness, current and anticipated cash needs and growth plans. In addition, the terms of our senior secured revolving credit agreement and the indenture relating to our senior notes restrict the amount of cash dividends we can pay.

Other. Our ability to meet our debt service obligations and reduce our total debt will depend upon our future performance which, in turn, will depend upon general economic, financial and business conditions, along with competition, legislation and regulatory factors that are largely beyond our control. In addition, we cannot assure you that our operating results, cash flow and capital resources will be sufficient for repayment of our indebtedness in the future. We believe that based upon current levels of operations and anticipated growth, cash flow from operations,

together with other available sources of funds, including additional borrowings under our senior secured credit agreement, will be adequate for the next two years for making required payments of principal and interest on our indebtedness, funding working capital requirements and funding 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 material adverse effect on our financial condition, results of operations or liquidity; however, environmental laws and regulations are subject to change, and we may become subject to more stringent environmental laws and regulations in the future.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk. In the normal course of business we are exposed to interest rate changes. Our objectives in managing exposure to interest rate changes are to limit the impact of these rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we, at times, use interest rate swaps to manage net exposure to interest rate changes related to our borrowings. We generally maintain fixed rate debt as a percentage of our net debt between a minimum and maximum percentage. At June 30, 2007, the following changes had occurred regarding our interest rate risk when compared to the information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

On April 3, 2007, we issued \$500 million of our 6¾% Notes, and a portion of the net proceeds were used to redeem our existing \$300 million 9½% Notes. In connection with the redemption, we also terminated our underlying \$200 million fair-value interest rate swap.

On June 19, 2007, we amended, restated and expanded our existing senior secured revolving credit facility from the prior \$350 million level to a renewed 5-year \$750 million facility. Subject to certain conditions, we have the opportunity to increase the facility by an additional \$350 million. The amended facility's pricing grids for both drawn and undrawn amounts are based on our consolidated leverage ratio.

Commodity Risk. In the normal course of business we are exposed to the market risk and price fluctuations related to the sale of steel products and to the purchase of commodities used in our production process, such as metallic raw materials, electricity, natural gas and alloys. Our risk strategy associated with product sales has generally been to obtain competitive prices for our products and to allow operating results to reflect market price movements dictated by supply and demand. Our risk strategy associated with the purchase of commodities utilized within our production process has generally been to make certain commitments with suppliers relating to future expected requirements for such commodities. Certain of these commitments contain provisions which require us to take or pay for specified quantities without regard to actual usage for periods of up to two years for physical commodity requirements and for up to 15 years for commodity transportation requirements.. Historically, we have fully utilized all such take or pay requirements and we believe that our future production requirements will be such that consumption of the products or services purchased under these commitments will occur in the normal production process. At June 30, 2007, 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, 2006.

ITEM 4. CONTROLS AND PROCEDURES

(a) **Evaluation of Disclosure Controls and Procedures.** Our management, with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2007. The term disclosure controls and procedures, as we use that term and as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures that are designed to provide reasonable assurance that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Based on the evaluation of our disclosure controls and procedures as of June 30, 2007, our principal executive officer and our principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported to our management, including our principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

(b) **Changes in Internal Controls Over Financial Reporting.** No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended June 30, 2007, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

There are no material pending legal proceedings required to be described in this report.

ITEM 1A. RISK FACTORS.

No material changes have occurred to the indicated risk factors as described in our 2006 Annual Report on Form 10-K and subsequently updated in our March 31, 2007 Form 10-Q, filed May 7, 2007.

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

(c) Share Repurchases

The following table indicates shares repurchased pursuant to Section 12 of the Exchange Act during the three months ended June 30, 2007. Our board of directors approved an increase of 5 million shares to our existing share repurchase program in June 2007.

| Period 2007 | Total Shares Purchased | Average Price Paid Per Share | Total Program Shares Purchased | Total Shares Still Available For Purchase Under the Program |
|----------------------|---------------------------|---------------------------------|-----------------------------------|--|
| April 18 to April 30 | 179,700 | \$ 44.85 | 179,700 | 2,667,356 |
| May 1 to May 29 | 1,969,000 | 46.36 | 1,969,000 | 698,356 |
| June 6 to June 29 | 775,000 | 42.69 | 775,000 | 4,923,356 |

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

Following are the results of matters submitted to a vote of shareholders at the Steel Dynamics Annual Shareholders Meeting held May 17, 2007.

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

| Director | Shares Voted For | Shares Voted Against or Withheld. |
|-----------------------|------------------|--------------------------------------|
| Keith E. Busse | 81,180,851 | 3,127,857 |
| Mark D. Millett | 81,390,166 | 2,918,542 |
| Richard P. Teets, Jr. | 81,386,520 | 2,922,188 |
| John C. Bates | 76,935,838 | 7,372,870 |
| Dr. Frank D. Byrne | 83,549,351 | 759,357 |
| Paul B. Edgerley | 83,506,800 | 801,908 |
| Richard J. Freeland | 83,539,339 | 769,369 |
| Dr. Jürgen Kolb | 79,653,299 | 4,655,409 |
| James C. Marcuccilli | 83,486,509 | 822,199 |
| Joseph D. Ruffolo | 83,496,929 | 811,779 |

- With respect to Item 2 in our Proxy Statement (Approval of Ernst & Young LLP as Auditors for the Year 2007), Ernst & Young LLP was approved as our independent auditors for the year 2007:

| | |
|------------------|------------|
| Shares Voted For | 78,766,597 |
|------------------|------------|

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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| | |
|----------------------|-----------|
| Shares Voted Against | 2,747,173 |
| Abstentions | 21,552 |

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ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

* Filed concurrently herewith.

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.

August 8, 2007

STEEL DYNAMICS, INC.

By: /s/ Theresa E. Wagler
Theresa E. Wagler
Chief Financial Officer

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