

STEEL DYNAMICS INC  
Form 10-Q  
May 11, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2015**

**OR**

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

**Commission File Number 0-21719**

**Steel Dynamics, Inc.**

(Exact name of registrant as specified in its charter)

**Indiana**

(State or other jurisdiction of incorporation or organization)

**35-1929476**

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

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

46804  
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 April 30, 2015, Registrant had 241,804,284 outstanding shares of common stock.

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STEEL DYNAMICS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	March 31, 2015 (unaudited)	December 31, 2014
<b>Assets</b>		
<b>Current assets</b>		
Cash and equivalents	\$ 160,982	\$ 361,363
Accounts receivable, net	741,309	859,835
Accounts receivable-related parties	28,432	42,990
Inventories	1,453,242	1,618,419
Deferred income taxes	33,414	35,503
Other current assets	34,846	55,655
<b>Total current assets</b>	<b>2,452,225</b>	<b>2,973,765</b>
<b>Property, plant and equipment, net</b>	<b>3,085,587</b>	<b>3,123,906</b>
<b>Restricted cash</b>	<b>19,242</b>	<b>19,312</b>
<b>Intangible assets, net</b>	<b>364,620</b>	<b>370,669</b>
<b>Goodwill</b>	<b>743,528</b>	<b>745,158</b>
<b>Other assets</b>	<b>70,636</b>	<b>78,217</b>
<b>Total assets</b>	<b>\$ 6,735,838</b>	<b>\$ 7,311,027</b>
<b>Liabilities and Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 367,267	\$ 489,791
Accounts payable-related parties	9,695	21,265
Income taxes payable	5,116	6,086
Accrued payroll and benefits	66,427	128,968
Accrued interest	51,800	50,405
Accrued expenses	87,302	107,607
Current maturities of long-term debt	30,727	46,460
<b>Total current liabilities</b>	<b>618,334</b>	<b>850,582</b>
<b>Long-term debt</b>		
Senior term loan	234,375	237,500
Senior notes	2,350,000	2,700,000
Other long-term debt	39,069	40,206
<b>Total long-term debt</b>	<b>2,623,444</b>	<b>2,977,706</b>
<b>Deferred income taxes</b>	<b>555,031</b>	<b>542,033</b>
<b>Other liabilities</b>	<b>15,936</b>	<b>18,839</b>
<b>Commitments and contingencies</b>		
<b>Redeemable noncontrolling interests</b>	<b>126,340</b>	<b>126,340</b>
<b>Equity</b>		
Common stock voting, \$.0025 par value; 900,000,000 shares authorized; 261,539,685 and 261,420,126 shares issued; and 241,688,172 and 241,449,423 shares outstanding, as of	635	635

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March 31, 2015 and December 31, 2014, respectively

Treasury stock, at cost; 19,851,513 and 19,970,703 shares, as of March 31, 2015 and December 31, 2014, respectively	(396,517)	(398,898)
Additional paid-in capital	1,088,605	1,083,435
Retained earnings	2,225,354	2,227,843
Total Steel Dynamics, Inc. equity	2,918,077	2,913,015
Noncontrolling interests	(121,324)	(117,488)
<b>Total equity</b>	2,796,753	2,795,527
<b>Total liabilities and equity</b>	\$ 6,735,838	\$ 7,311,027

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 March 31,	
	2015	2014
Net sales		
Unrelated parties	\$ 2,003,973	\$ 1,765,881
Related parties	43,462	64,201
<b>Total net sales</b>	<b>2,047,435</b>	<b>1,830,082</b>
Costs of goods sold	1,860,393	1,666,778
<b>Gross profit</b>	<b>187,042</b>	<b>163,304</b>
Selling, general and administrative expenses	76,350	70,042
Profit sharing	4,598	5,395
Amortization of intangible assets	6,323	6,935
<b>Operating income</b>	<b>99,771</b>	<b>80,932</b>
Interest expense, net of capitalized interest	43,087	30,569
Other expense (income), net	16,192	(631)
<b>Income before income taxes</b>	<b>40,492</b>	<b>50,994</b>
Income taxes	13,538	17,296
<b>Net income</b>	<b>26,954</b>	<b>33,698</b>
Net loss attributable to noncontrolling interests	3,807	4,881
<b>Net income attributable to Steel Dynamics, Inc.</b>	<b>\$ 30,761</b>	<b>\$ 38,579</b>
<b>Basic earnings per share attributable to Steel Dynamics, Inc. stockholders</b>	<b>\$ 0.13</b>	<b>\$ 0.17</b>
Weighted average common shares outstanding	241,535	223,011
<b>Diluted earnings per share attributable to Steel Dynamics, Inc. stockholders, including the effect of assumed conversions when dilutive</b>	<b>\$ 0.13</b>	<b>\$ 0.17</b>
Weighted average common shares and share equivalents outstanding	242,867	241,394
<b>Dividends declared per share</b>	<b>\$ 0.1375</b>	<b>\$ 0.1150</b>

See notes to consolidated financial statements.



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## STEEL DYNAMICS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three Months Ended March 31,	
	2015	2014
<b>Operating activities:</b>		
Net income	\$ 26,954	\$ 33,698
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	72,822	57,568
Equity-based compensation	8,543	5,768
Deferred income taxes	16,717	(4,091)
(Gain) loss on disposal of assets	4,985	2,641
Changes in certain assets and liabilities:		
Accounts receivable	133,084	(88,950)
Inventories	164,999	(17,354)
Other assets	4,508	7,359
Accounts payable	(127,053)	5,041
Income taxes receivable/payable	16,265	19,393
Accrued expenses and liabilities	(87,117)	(48,320)
Net cash provided by (used in) operating activities	234,707	(27,247)
<b>Investing activities:</b>		
Purchases of property, plant and equipment	(33,351)	(24,841)
Other investing activities	1,663	28,884
Net cash provided by (used in) investing activities	(31,688)	4,043
<b>Financing activities:</b>		
Issuance of current and long-term debt	50,093	43,453
Repayment of current and long-term debt	(427,451)	(56,246)
Proceeds from exercise of stock options, including related tax effect	1,753	2,905
Contributions from noncontrolling investors, net	(29)	5,370
Dividends paid	(27,766)	(24,515)
Net cash used in financing activities	(403,400)	(29,033)
Decrease in cash and equivalents	(200,381)	(52,237)
Cash and equivalents at beginning of period	361,363	395,156
<b>Cash and equivalents at end of period</b>	<b>\$ 160,982</b>	<b>\$ 342,919</b>
<b>Supplemental disclosure information:</b>		
Cash paid for interest	\$ 40,094	\$ 39,663
Cash paid (received) for federal and state income taxes, net	\$ (18,539)	\$ 2,143

See notes to consolidated financial statements.





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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

**Description of the Business**

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

**Steel Operations.** Steel operations include the company's 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 electric arc furnace steel mills, producing steel from ferrous scrap, utilizing continuous casting, automated rolling mills, and eight downstream finishing facilities. Steel operations accounted for 68% and 61% of the company's consolidated external net sales during the three-month periods ended March 31, 2015 and 2014, respectively.

**Metals Recycling and Ferrous Resources Operations.** Metals recycling and ferrous resources operations primarily include OmniSource Corporation (OmniSource), the company's metals recycling and processing locations, ferrous scrap procurement, and our two ironmaking initiatives: Iron Dynamics (IDI), a liquid pig iron production facility; and our Minnesota ironmaking 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 23% and 32% of the company's consolidated external net sales during the three-month periods ended March 31, 2015, and 2014, 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 consolidated external net sales during the three-month periods ended March 31, 2015, and 2014, 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.

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**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, 2014.

**Goodwill.** The company's goodwill is allocated to the following reporting units at March 31, 2015, and December 31, 2014, (in thousands):

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
OmniSource Metals Recycling/Ferrous Resources Segment	\$ 455,097	\$ 456,727
The Techs Steel Segment	142,783	142,783
Butler Flat Roll Division, Structural and Rail Division, and Engineered Bar Division Metals Recycling/Ferrous Resources Segment	95,000	95,000
Roanoke Bar Division Steel Segment	29,041	29,041
Columbus Flat Roll Division Steel Segment	19,682	19,682
New Millennium Building Systems Fabrication Segment	1,925	1,925
	<b>\$ 743,528</b>	<b>\$ 745,158</b>

OmniSource goodwill decreased \$1.6 million from December 31, 2014 to March 31, 2015, in recognition of the 2015 tax benefit related to the amortization of the component of OmniSource tax-deductible goodwill in excess of book goodwill.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 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 core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Because the guidance in ASC 606 is principles-based, it can be applied to all contracts with customers regardless of industry-specific or transaction-specific fact patterns. Additionally, ASC 606 requires additional disclosures to help users of financial statements better understand the nature, amount, timing, and potential uncertainty of revenue that is recognized. This guidance is effective for annual and interim periods ending after December 15, 2016. 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 principal conditions or events are identified that raised substantial doubt about the entity’s ability to continue as a going concern (before consideration of management’s plans), as well as 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.

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented as a deduction from the corresponding debt liability, rather than as a separate asset, which is the current accounting method of the company. Implementation of this new guidance is required by the company in the first quarter of 2016, but can be early adopted. Upon adoption, the company must apply the new guidance retrospectively to all prior periods presented in the financial statements. The company is currently evaluating when and the manner in which to adopt the presentation and disclosure requirements of the new guidance. This ASU is not expected to have any impact on our overall results of operations, equity or cash flows as previously reported.

**Note 2. Acquisition**

The company completed its acquisition of 100% of Severstal Columbus, LLC (Columbus) on September 16, 2014, for a purchase price of \$1.625 billion, with additional working capital adjustments of \$44.4 million. The acquisition was funded through the issuance of \$1.2 billion in Senior Notes, borrowings under the company’s senior secured credit facility, and available cash. The company purchased Columbus to

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significantly expand and diversify its steel operating base with the addition of 3.4 million tons of hot roll steel production capacity. The product offerings are 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 electric arc furnace mills in North America. 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.

*Unaudited Pro Forma Information.* Columbus operating results have been reflected in the company's financial statements since the effective date of the acquisition, September 16, 2014, in the steel operations reporting segment. The following unaudited pro forma information is presented below for comparison purposes as if the Columbus acquisition was completed as of January 1, 2013, (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31, 2014</b>	
Net sales	\$	2,358,273
Net income attributable to Steel Dynamics, Inc.		63,065

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 January 1, 2013, nor is it necessarily indicative of future operating results of the combined companies under the ownership and management of the company. The pro forma results reflect the pre-acquisition operations of Columbus for the three-month period ended March 31, 2014.

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**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 convertible subordinated debt; and are excluded from the computation in periods in which they have an anti-dilutive effect. There were no anti-dilutive options at March 31, 2015, and 2014.

The following table presents a reconciliation of the numerators and the denominators of the company's basic and diluted earnings per share computations for the three months ended March 31, 2015 and 2014 (in thousands, except per share data):

	Net Income (Numerator)	2015 Shares (Denominator)	Per Share Amount	Net Income (Numerator)	2014 Shares (Denominator)	Per Share Amount
Basic earnings per share	\$ 30,761	241,535	\$ 0.13	\$ 38,579	223,011	\$ 0.17
Dilutive common share equivalents		1,332			1,608	
5.125% Convertible Senior Notes, net of tax				2,358	16,775	
Diluted earnings per share	\$ 30,761	242,867	\$ 0.13	\$ 40,937	241,394	\$ 0.17

**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 other inventory. Inventory consisted of the following (in thousands):

	March 31, 2015	December 31, 2014
Raw materials	\$ 677,346	\$ 764,883
Supplies	381,695	374,599
Work in progress	100,408	128,882
Finished goods	293,793	350,055
	\$ 1,453,242	\$ 1,618,419

**Note 5. Debt**

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On March 16, 2015, the company called and repaid all \$350.0 million of its outstanding 75/8% Senior Notes due 2020 (the Notes ) at a redemption price of 103.813% of the principal amount of the Notes, plus accrued interest and unpaid interest to, but not including, the date of redemption. Associated premiums and the write off of deferred financing costs of approximately \$16.7 million were recorded in other expense in conjunction with the redemption.

**Note 6. Changes in Equity**

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.						Total Equity	Redeemable Noncontrolling Interests
	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Noncontrolling Interests			
<b>Balances at</b>								
<b>January 1, 2015</b>	\$ 635	\$ 1,083,435	\$ 2,227,843	\$ (398,898)	\$ (117,488)	\$ 2,795,527	\$ 126,340	
Proceeds from the exercise of stock options, including related tax effect		1,752				1,752		
Dividends declared			(33,232)			(33,232)		
Distributions to noncontrolling investors					(29)	(29)		
Equity-based compensation		3,418	(18)	2,381		5,781		
Comprehensive and net income (loss)			30,761		(3,807)	26,954		
<b>Balances at</b>								
<b>March 31, 2015</b>	\$ 635	\$ 1,088,605	\$ 2,225,354	\$ (396,517)	\$ (121,324)	\$ 2,796,753	\$ 126,340	

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## STEEL DYNAMICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 7. Derivative Financial Instruments**

The company is exposed to certain risks relating to its ongoing business operations. The company utilizes derivative instruments to mitigate interest rate risk, foreign currency exchange rate risk, and commodity margin risk. 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.

*Commodity Futures Contracts.* If the company is long on futures contracts, it means the company has more futures contracts purchased than futures contracts sold for the underlying commodity. If the company is short on 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 March 31, 2015 (MT represents metric tons and Lbs represents pounds):

Commodity Futures	Long/Short	Total	
Aluminum	Long	3,825	MT
Aluminum	Short	4,175	MT
Copper	Long	6,267	MT
Copper			