

STEEL DYNAMICS INC
Form 10-Q
November 02, 2005

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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 period ended September 30, 2005

OR

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

Steel Dynamics, Inc.

(Exact name of registrant as specified in its charter)

Indiana
(State or other jurisdiction of incorporation or
organization)

35-1929476
(I.R.S. Employer Identification No.)

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

46804
(Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act. Yes No

As of October 28, 2005, Registrant had 43,102,648 outstanding shares of Common Stock.

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

| | September 30, 2005 | December 31, 2004 |
|---|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| | (Unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and equivalents | \$ 30,604 | \$ 16,334 |
| Accounts receivable, net | 192,372 | 214,880 |
| Accounts receivable-related parties | 26,253 | 38,981 |
| Inventories | 379,486 | 381,488 |
| Deferred taxes | 9,229 | 6,856 |
| Other current assets | 22,780 | 18,980 |
| | <u> </u> | <u> </u> |
| Total current assets | 660,724 | 677,519 |
| Property, plant and equipment, net | 1,004,551 | 1,024,044 |
| Restricted cash | 1,588 | 989 |
| Other assets | 31,245 | 31,067 |
| | <u> </u> | <u> </u> |
| Total assets | <u>\$ 1,698,108</u> | <u>\$ 1,733,619</u> |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 108,101 | \$ 136,517 |
| Accounts payable-related parties | 3,087 | 5,371 |
| Accrued interest | 3,043 | 8,796 |
| Other accrued expenses | 62,950 | 75,750 |
| Current maturities of long-term debt | 7,621 | 6,774 |
| | <u> </u> | <u> </u> |
| Total current liabilities | 184,802 | 233,208 |
| Long-term debt, including unamortized bond premium of \$5,881 and \$7,147, as of September 30, 2005 and December 31, 2004, respectively | 469,252 | 441,605 |
| Deferred taxes | 225,454 | 209,215 |
| Minority interest | 944 | 2,469 |

Commitments and contingencies

Stockholders' equity:

Common stock voting, \$.01 par value; 100,000,000 shares authorized;

52,973,268 and 52,435,059 shares issued; and 43,101,537 and 48,485,671

shares outstanding, as of September 30, 2005 and December 31, 2004, respectively

Treasury stock, at cost; 9,871,731 and 3,949,388 shares, at September 30, 2005

and December 31, 2004, respectively

Additional paid-in capital

Retained earnings

Total stockholders' equity

Total liabilities and stockholders' equity

| | | |
|--|---------------------|---------------------|
| | 528 | 523 |
| | (270,905) | (84,141) |
| | 404,345 | 390,505 |
| | 683,688 | 540,235 |
| | <u>817,656</u> | <u>847,122</u> |
| | <u>\$ 1,698,108</u> | <u>\$ 1,733,619</u> |

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 September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------------------|------------------------------------|-------------------|
| | 2005 | 2004 | 2005 | 2004 |
| Net sales: | | | | |
| Unrelated parties | \$ 464,208 | \$ 562,552 | \$ 1,447,605 | \$ 1,372,535 |
| Related parties | 34,481 | 72,189 | 167,616 | 172,008 |
| Total net sales | 498,689 | 634,741 | 1,615,221 | 1,544,543 |
| Costs of goods sold | 393,457 | 413,851 | 1,270,028 | 1,110,507 |
| Gross profit | 105,232 | 220,890 | 345,193 | 434,036 |
| Selling, general and administrative expenses | 23,381 | 27,630 | 65,916 | 67,120 |
| Operating income | 81,851 | 193,260 | 279,277 | 366,916 |
| Interest expense | 9,468 | 10,469 | 26,443 | 30,565 |
| Other income, net | (1,450) | (458) | (2,203) | (5,704) |
| Income before income taxes | 73,833 | 183,249 | 255,037 | 342,055 |
| Income taxes | 28,425 | 69,635 | 98,189 | 129,187 |
| Net income | \$ 45,408 | \$ 113,614 | \$ 156,848 | \$ 212,868 |
| | | | | |
| Basic earnings per share | \$ 1.05 | \$ 2.29 | \$ 3.48 | \$ 4.32 |
| | | | | |
| Weighted average common shares outstanding | 43,138 | 49,611 | 45,117 | 49,299 |
| | | | | |
| Diluted earnings per share, including effect of assumed conversions | \$.92 | \$ 2.01 | \$ 3.05 | \$ 3.80 |

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| | | | | |
|--|---------------|---------------|---------------|---------------|
| Weighted average common shares and share equivalents outstanding | <u>50,138</u> | <u>56,881</u> | <u>52,146</u> | <u>56,546</u> |
| Dividends declared per share | <u>\$.10</u> | <u>\$.15</u> | <u>\$.30</u> | <u>\$.15</u> |

See notes to consolidated financial statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2005 | 2004 | 2005 | 2004 |
| Operating activities: | | | | |
| Net income | \$ 45,408 | \$ 113,614 | \$ 156,848 | \$ 212,868 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 25,059 | 21,735 | 68,468 | 64,143 |
| Deferred income taxes | (602) | 34,272 | 13,866 | 66,871 |
| Loss on disposal of property, plant and equipment | 4 | 583 | 526 | 757 |
| Minority interest | (91) | 451 | (1,525) | 1,661 |
| Changes in certain assets and liabilities: | | | | |
| Accounts receivable | 20,742 | (48,598) | 35,236 | (121,729) |
| Inventories | 42,408 | (5,620) | 2,002 | (101,294) |
| Other assets | (10,908) | 6,612 | (7,980) | (4,152) |
| Accounts payable | 18,058 | 24,519 | (30,128) | 66,154 |
| Accrued expenses | 4,311 | 5,455 | (18,554) | 21,825 |
| Net cash provided by operating activities | <u>144,389</u> | <u>153,023</u> | <u>218,759</u> | <u>207,104</u> |
| Investing activities: | | | | |
| Purchase of property, plant and equipment | (8,799) | (18,211) | (45,355) | (72,872) |
| Other investing activities | 1,345 | 55 | 1,345 | 55 |
| Net cash used in investing activities | <u>(7,454)</u> | <u>(18,156)</u> | <u>(44,010)</u> | <u>(72,817)</u> |
| Financing activities: | | | | |
| Issuance of long-term debt | 31,101 | 162 | 268,706 | 164,284 |
| Repayment of long-term debt | (127,640) | (17,450) | (240,212) | (220,857) |
| Issuance of common stock (net of expenses) and proceeds and tax benefits from exercise of stock options | 1,008 | 7,244 | 13,845 | 21,869 |
| Issuance (purchase) of treasury stock | (6,340) | 189 | (186,764) | (49) |
| Dividends paid | (4,363) | (3,719) | (13,966) | (3,719) |
| Debt issuance costs | (1,742) | (60) | (2,088) | (1,571) |
| Net cash used in financing activities | <u>(107,976)</u> | <u>(13,634)</u> | <u>(160,479)</u> | <u>(40,043)</u> |

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| | | | | |
|--|------------------|-------------------|------------------|-------------------|
| Increase in cash and equivalents | 28,959 | 121,233 | 14,270 | 94,244 |
| Cash and equivalents at beginning of period | <u>1,645</u> | <u>38,441</u> | <u>16,334</u> | <u>65,430</u> |
| Cash and equivalents at end of period | <u>\$ 30,604</u> | <u>\$ 159,674</u> | <u>\$ 30,604</u> | <u>\$ 159,674</u> |
| Supplemental disclosure information: | | | | |
| Cash paid for interest | <u>\$ 15,721</u> | <u>\$ 15,545</u> | <u>\$ 32,739</u> | <u>\$ 35,890</u> |
| Cash paid for federal and state income taxes | <u>\$ 35,323</u> | <u>\$ 13,679</u> | <u>\$ 90,100</u> | <u>\$ 25,638</u> |

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Accounting Policies

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

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

In the opinion of management, these financial statements reflect all normal recurring adjustments necessary for a fair presentation of the interim period results. These financial statements and notes should be read in conjunction with the audited financial statements included in the company's Annual Report on Form 10-K for the year ended December 31, 2004.

Reclassifications. Certain 2004 quarterly amounts have been reclassified to conform to the annual 2004 presentation. The company reclassified certain costs related to the receipt of materials, internal transportation of inventories and related employee salaries and benefits from selling, general and administrative expenses to costs of goods sold for the three and nine months ended September 30, 2004. Generally, the company's gross margin was reduced by approximately 1% due to this reclassification; however, total operating income was not affected.

Stock-Based Compensation. At September 30, 2005 and 2004, the company had three incentive stock option plans and accounted for these plans under the recognition and measurement principles of Accounting Standards Board APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under APB 25, no stock-based employee compensation cost related to the incentive stock option plans is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock.

The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of the Financial Accounting Standards Board (FASB) Statement No. 123 to its stock-based employee compensation for the three and nine-month periods ended September 30 (in thousands, except per share data):

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------|-------------------|------------|
| | 2005 | 2004 | 2005 | 2004 |
| Net income, as reported | \$ 45,408 | \$ 113,614 | \$ 156,848 | \$ 212,868 |
| Stock-based employee compensation expense, using the fair value based method, net of related tax effect | (944) | (944) | (2,608) | (2,373) |
| Pro forma net income, basic earnings per share | 44,464 | 112,670 | 154,240 | 210,495 |
| Effect of assumed conversions, net of related tax effect | 664 | 670 | 1,994 | 1,998 |
| Pro forma net income, diluted earnings per share | \$ 45,128 | \$ 113,340 | \$ 156,234 | \$ 212,493 |

Basic earnings per share:

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| | | | | | | | | |
|-----------------------------|----|------|----|------|----|------|----|------|
| As reported | \$ | 1.05 | \$ | 2.29 | \$ | 3.48 | \$ | 4.32 |
| Pro forma | | 1.03 | | 2.27 | | 3.42 | | 4.27 |
| Diluted earnings per share: | | | | | | | | |
| As reported | \$ | .92 | \$ | 2.01 | \$ | 3.05 | \$ | 3.80 |
| Pro forma | | .90 | | 1.99 | | 3.00 | | 3.76 |

In December 2004, the FASB issued FAS No. 123R (FAS 123R), "Share-Based Payments", which among other things, eliminates the use of APB 25 and the intrinsic value method of accounting that the company uses to account for its stock option plans. FAS 123R requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. On April 14, 2005, the Securities and Exchange Commission announced that it would provide for a phased-in implementation process for FAS 123R and that registrants that are not small business issuers must adopt FAS 123R no later than the beginning of the first fiscal year beginning after June 15, 2005, which is January 1, 2006 for the company. The financial impact of adopting FAS 123R cannot currently be predicted as it will depend on future levels of share-based payments. However, had the company adopted FAS 123R in prior periods and utilized the Black-Scholes pricing model, the impact would have approximated the disclosure of pro forma net income presented in the preceding table.

Note 2. Earnings Per Share

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

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STEEL DYNAMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| | Three Months Ended | | | | | |
|--------------------------------------|---------------------------|-------------------------|------------------------|---------------------------|-------------------------|------------------------|
| | 2005 | | | 2004 | | |
| | Net Income (Numerator) | Shares (Denominator) | Per Share Amount | Net Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic earnings per share | \$ 45,408 | 43,138 | \$ 1.05 | \$ 113,614 | 49,611 | \$ 2.29 |
| Dilutive stock option effect | □ | 237 | | □ | 507 | |
| Convertible subordinated debt effect | 664 | 6,763 | | 671 | 6,763 | |
| Diluted earnings per share | \$ 46,072 | 50,138 | \$.92 | \$ 114,285 | 56,881 | \$ 2.01 |

| | Nine Months Ended | | | | | |
|--------------------------------------|---------------------------|-------------------------|------------------------|---------------------------|-------------------------|------------------------|
| | 2005 | | | 2004 | | |
| | Net Income (Numerator) | Shares (Denominator) | Per Share Amount | Net Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic earnings per share | \$ 156,848 | 45,117 | \$ 3.48 | \$ 212,868 | 49,299 | \$ 4.32 |
| Dilutive stock option effect | □ | 266 | | □ | 484 | |
| Convertible subordinated debt effect | 1,994 | 6,763 | | 1,998 | 6,763 | |
| Diluted earnings per share | \$ 158,842 | 52,146 | \$ 3.05 | \$ 214,866 | 56,546 | \$ 3.80 |

At September 30, 2005, options to purchase 211,000 shares were excluded from the diluted earnings per share calculation because the options were anti-dilutive. At September 30, 2004, no options were excluded from the calculation.

Note 3. Comprehensive Income

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------|-------------------|------------|
| | 2005 | 2004 | 2005 | 2004 |
| Net income available to common shareholders | \$ 45,408 | \$ 113,614 | \$ 156,848 | \$ 212,868 |
| Unrealized gain (loss) related to interest rate swaps | □ | 20 | □ | (20) |
| Reclassification adjustment related to interest rate swaps | □ | 853 | □ | 2,716 |
| Unrealized loss on available-for-sale securities | □ | (17) | □ | (61) |
| Comprehensive income | \$ 45,408 | \$ 114,470 | \$ 156,848 | \$ 215,503 |
| Hedge ineffectiveness gain | \$ □ | \$ □ | \$ □ | \$ 275 |

Note 4. Inventories

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

| | September 30, 2005 | December 31, 2004 |
|-------------------|--------------------------|-------------------------|
| Raw Materials | \$ 183,931 | \$ 174,254 |
| Supplies | 95,520 | 74,057 |
| Work-in-progress | 33,831 | 33,864 |
| Finished Goods | 66,204 | 99,313 |
| Total Inventories | \$ 379,486 | \$ 381,488 |

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STEEL DYNAMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Segment Information

The company has two reportable segments: steel operations and steel scrap substitute operations. The steel operations segment includes the company's Flat Roll Division, Structural and Rail Division, and Bar Products Division. These divisions operate mini-mills, producing steel from steel scrap, using electric arc melting furnaces, continuous casting and automated rolling mills. The Bar Products Division began operations during January 2004. The steel scrap substitute operations include the revenues and expenses associated with the company's steel scrap substitute facility, Iron Dynamics.

Revenues included in the category "All Other" are from two subsidiary operations that are below the quantitative thresholds required for reportable segments. These revenues are from the fabrication of trusses, girders, steel joists and steel decking and from the further processing and resale of certain secondary and excess steel products. In addition, "All Other" also includes certain unallocated corporate accounts, such as the company's senior secured credit facilities, senior unsecured notes, convertible subordinated notes, 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, 2004, for more information related to the company's segment reporting.

Intersegment sales and any related profits are eliminated in consolidation. The external net sales of the company's steel operations include sales to non-U.S. companies of \$18.3 million and \$30.3 million for the three months ended September 30, 2005 and 2004, respectively and \$60.1 million and \$36.6 million for the nine months ended September 30, 2005 and 2004, respectively. The company's segment results for the three and nine-month periods ended September 30 are as follows (in thousands)

Steel Operations

| | Three Months Ended | | Nine Months Ended | |
|------------------|--------------------|------------|-------------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| Net sales | | | | |
| External | \$ 439,942 | \$ 592,814 | \$ 1,472,509 | \$ 1,435,449 |
| Other segments | 30,571 | 28,837 | 73,440 | 72,103 |
| Operating income | 89,141 | 208,451 | 307,799 | 400,802 |
| Assets | 1,362,091 | 1,360,037 | 1,362,091 | 1,360,037 |

Steel Scrap Substitute Operations

| | | | | |
|----------------|---------|---------|---------|---------|
| Net sales | | | | |
| External | \$ | \$ | \$ | \$ |
| Other segments | 15,528 | 10,745 | 39,439 | 27,294 |
| Operating loss | (1,771) | (3,347) | (5,736) | (9,388) |
| Assets | 136,513 | 166,288 | 136,513 | 166,288 |

All Other

| | | | | |
|----------------|-----------|-----------|------------|------------|
| Net sales | | | | |
| External | \$ 58,747 | \$ 41,927 | \$ 142,712 | \$ 109,094 |
| Other segments | 200 | 192 | 557 | 836 |
| Operating loss | (6,144) | (10,537) | (23,569) | (21,491) |

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| | | | | |
|--------|---------|---------|---------|---------|
| Assets | 242,144 | 304,207 | 242,144 | 304,207 |
|--------|---------|---------|---------|---------|

Eliminations

| | | | | |
|-------------------------|----|----------|----------|-----------|
| Net sales | | | | |
| External | \$ | □ \$ | □ \$ | □ \$ |
| Other segments | | (46,299) | (39,774) | (113,436) |
| Operating income (loss) | | 625 | (1,307) | 783 |
| Assets | | (42,640) | (65,519) | (42,640) |

Consolidated

| | | | | | | | | |
|------------------|----|-----------|----|-----------|----|-----------|----|-----------|
| Net sales | \$ | 498,689 | \$ | 634,741 | \$ | 1,615,221 | \$ | 1,544,543 |
| Operating income | | 81,851 | | 193,260 | | 279,277 | | 366,916 |
| Assets | | 1,698,108 | | 1,765,013 | | 1,698,108 | | 1,765,013 |

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STEEL DYNAMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Condensed Consolidating Information

Certain 100%-owned subsidiaries of SDI have fully and unconditionally guaranteed all of the indebtedness relating to the issuance of \$300.0 million of senior notes due March 2009. Following are condensed consolidating financial statements of the company, including the guarantors. The following condensed consolidating financial statements present the financial position, results of operations and cash flows of (i) SDI (in each case, reflecting investments in its consolidated subsidiaries under the equity method of accounting), (ii) the guarantor subsidiaries of SDI, (iii) the non-guarantor subsidiaries of SDI, and (iv) the eliminations necessary to arrive at the information for the company on a consolidated basis. The condensed consolidating financial statements should be read in conjunction with the accompanying consolidated financial statements of the company and the company's Annual Report on Form 10-K for the year ended December 31, 2004.

Condensed Consolidating Balance Sheets (in thousands)

As of September 30, 2005

| | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|--------------------------------------|---------------------|-------------------|----------------------------|------------------------------|-----------------------|
| Cash | \$ 30,281 | \$ 150 | \$ 173 | \$ □ | \$ 30,604 |
| Accounts receivable | 196,257 | 143,931 | 30,537 | (152,100) | 218,625 |
| Inventories | 344,734 | □ | 36,452 | (1,700) | 379,486 |
| Other current assets | 31,710 | □ | 299 | □ | 32,009 |
| Total current assets | 602,982 | 144,081 | 67,461 | (153,800) | 660,724 |
| Property, plant and equipment, net | 946,140 | □ | 58,529 | (118) | 1,004,551 |
| Other assets | 10,644 | 104,038 | 699 | (82,548) | 32,833 |
| Total assets | \$ 1,559,766 | \$ 248,119 | \$ 126,689 | \$ (236,466) | \$ 1,698,108 |
| Accounts payable | \$ 110,258 | \$ (9,958) | \$ 9,099 | \$ 1,789 | \$ 111,188 |
| Accrued expenses | 61,888 | 942 | 4,105 | (942) | 65,993 |
| Current maturities of long-term debt | 2,110 | □ | 5,511 | □ | 7,621 |
| Total current liabilities | 174,256 | (9,016) | 18,715 | 847 | 184,802 |
| Other liabilities | 131,082 | 88,285 | 86,543 | (80,456) | 225,454 |
| Long-term debt | 469,252 | □ | □ | □ | 469,252 |
| Minority interest | □ | □ | □ | 944 | 944 |
| Common stock | 528 | 2 | 17,322 | (17,324) | 528 |
| Treasury stock | (270,905) | □ | □ | □ | (270,905) |
| Additional paid in capital | 404,345 | 116,868 | □ | (116,868) | 404,345 |
| Retained earnings | 651,208 | 51,980 | 4,109 | (23,609) | 683,688 |
| Total stockholders' equity | 785,176 | 168,850 | 21,431 | (157,801) | 817,656 |

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Total liabilities and
stockholders' equity

\$ 1,559,766 \$ 248,119 \$ 126,689 \$ (236,466) \$ 1,698,108

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STEEL DYNAMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2004

| | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|---|---------------------|-------------------|----------------------------|------------------------------|-----------------------|
| Cash | \$ 15,202 | \$ 323 | \$ 809 | \$ □ | \$ 16,334 |
| Accounts receivable | 188,675 | 130,903 | 29,636 | (95,353) | 253,861 |
| Inventories | 281,594 | 65,691 | 36,212 | (2,009) | 381,488 |
| Other current assets | 25,309 | 261 | 287 | (21) | 25,836 |
| Total current assets | 510,780 | 197,178 | 66,944 | (97,383) | 677,519 |
| Property, plant and equipment, net | 713,641 | 142,542 | 167,979 | (118) | 1,024,044 |
| Other assets | 364,636 | 59,679 | 95 | (392,354) | 32,056 |
| Total assets | \$ 1,589,057 | \$ 399,399 | \$ 235,018 | \$ (489,855) | \$ 1,733,619 |
| Accounts payable | \$ 115,458 | \$ 9,800 | \$ 14,674 | \$ 1,956 | \$ 141,888 |
| Accrued expenses | 70,752 | 8,319 | 6,990 | (1,515) | 84,546 |
| Current maturities of long-term debt | 2,095 | □ | 4,702 | (23) | 6,774 |
| Total current liabilities | 188,305 | 18,119 | 26,366 | 418 | 233,208 |
| Other liabilities | 131,508 | 188,139 | 40,955 | (151,387) | 209,215 |
| Long-term debt | 440,819 | □ | 786 | □ | 441,605 |
| Minority interest | □ | □ | □ | 2,469 | 2,469 |
| Common stock | 523 | 89,426 | 202,184 | (291,610) | 523 |
| Treasury stock | (84,141) | □ | □ | □ | (84,141) |
| Additional paid in capital | 390,505 | 116,868 | □ | (116,868) | 390,505 |
| Retained earnings | 521,538 | (13,153) | (35,273) | 67,123 | 540,235 |
| Total stockholders' equity | 828,425 | 193,141 | 166,911 | (341,355) | 847,122 |
| Total liabilities and stockholders' equity | \$ 1,589,057 | \$ 399,399 | \$ 235,018 | \$ (489,855) | \$ 1,733,619 |

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STEEL DYNAMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidating Statements of Income (in thousands)

For the Three Months Ended,
September 30, 2005

| | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|--|------------|------------|----------------------------|------------------------------|-----------------------|
| Net sales | \$ 469,350 | \$ 470,513 | \$ 58,760 | \$ (499,934) | \$ 498,689 |
| Costs of goods sold | 373,180 | 466,007 | 50,143 | (495,873) | 393,457 |
| Gross profit | 96,170 | 4,506 | 8,617 | (4,061) | 105,232 |
| Selling, general and administrative | 18,729 | 2,134 | 4,826 | (2,308) | 23,381 |
| Operating income (loss) | 77,441 | 2,372 | 3,791 | (1,753) | 81,851 |
| Interest expense | 8,774 | □ | 694 | □ | 9,468 |
| Other (income) expense, net | 28,037 | (29,515) | (2) | 30 | (1,450) |
| Income (loss) before income taxes and equity in net loss of subsidiaries | 40,630 | 31,887 | 3,099 | (1,783) | 73,833 |
| Income taxes | 16,670 | 11,420 | 1,193 | (858) | 28,425 |
| | 23,960 | 20,467 | 1,906 | (925) | 45,408 |
| Equity in net income of subsidiaries | 22,372 | □ | □ | (22,372) | □ |
| Net income (loss) | \$ 46,332 | \$ 20,467 | \$ 1,906 | \$ (23,297) | \$ 45,408 |

For the Three Months Ended,
September 30, 2004

| | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|---------------------|------------|------------|----------------------------|------------------------------|-----------------------|
| Net sales | \$ 552,976 | \$ 621,651 | \$ 52,865 | \$ (592,751) | \$ 634,741 |
| Costs of goods sold | 353,881 | 608,348 | 47,666 | (603,406) | 406,489 |
| Gross profit | 199,095 | 13,303 | 5,199 | 10,655 | 228,252 |
| | 28,210 | 4,486 | 3,097 | (801) | 34,992 |

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Selling, general
and
administrative

| | | | | | |
|--|------------|-----------|----------|-------------|------------|
| Operating income (loss) | 170,885 | 8,817 | 2,102 | 11,456 | 193,260 |
| Interest expense | 9,354 | 742 | 378 | (5) | 10,469 |
| Other (income) expense, net | 37,153 | (37,597) | (58) | 44 | (458) |
| Income (loss) before income taxes and equity in net loss of subsidiaries | 124,378 | 45,672 | 1,782 | 11,417 | 183,249 |
| Income taxes | 48,118 | 16,265 | 677 | 4,575 | 69,635 |
| | 76,260 | 29,407 | 1,105 | 6,842 | 113,614 |
| Equity in net income of subsidiaries | 30,511 | □ | □ | (30,511) | □ |
| Net income (loss) | \$ 106,771 | \$ 29,407 | \$ 1,105 | \$ (23,669) | \$ 113,614 |

For the Nine Months Ended,
September 30, 2005

| | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|--|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Net sales | \$ 1,544,742 | \$ 1,545,949 | \$ 142,763 | \$ (1,618,233) | \$ 1,615,221 |
| Costs of goods sold | 1,217,815 | 1,531,530 | 124,806 | (1,604,123) | 1,270,028 |
| Gross profit | 326,927 | 14,419 | 17,957 | (14,110) | 345,193 |
| Selling, general and administrative | 53,958 | 6,024 | 12,415 | (6,481) | 65,916 |
| Operating income (loss) | 272,969 | 8,395 | 5,542 | (7,629) | 279,277 |
| Interest expense | 24,706 | □ | 1,736 | 1 | 26,443 |
| Other (income) expense, net | 93,217 | (95,508) | (2) | 90 | (2,203) |
| Income (loss) before income taxes and equity in net loss of subsidiaries | 155,046 | 103,903 | 3,808 | (7,720) | 255,037 |
| Income taxes | 62,567 | 37,233 | 1,480 | (3,091) | 98,189 |
| | 92,479 | 66,670 | 2,328 | (4,629) | 156,848 |
| Equity in net income of subsidiaries | 68,999 | □ | □ | (68,999) | □ |

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| | | | | | |
|-------------------|-------------------|------------------|-----------------|--------------------|-------------------|
| Net income (loss) | <u>\$ 161,478</u> | <u>\$ 66,670</u> | <u>\$ 2,328</u> | <u>\$ (73,628)</u> | <u>\$ 156,848</u> |
|-------------------|-------------------|------------------|-----------------|--------------------|-------------------|

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STEEL DYNAMICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended,
September 30, 2004

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

Condensed Consolidating Statements of Cash Flow (in thousands)

For the Nine Months Ended,
September 30, 2005

| | Parent | Guarantors | Combined Non-Guarantors | Total Consolidated |
|--|------------|-------------|----------------------------|-----------------------|
| Net cash provided by (used in) operations | \$ 252,901 | \$ (19,850) | \$ (14,292) | \$ 218,759 |
| Net cash used in investing activities | (25,879) | □ | (18,131) | (44,010) |
| Net cash provided by (used in) in financing activities | (212,447) | 19,680 | 32,288 | (160,479) |

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| | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| Increase (decrease) in cash and equivalents | 14,575 | (170) | (135) | 14,270 |
| Cash and equivalents at beginning of year | 15,706 | 320 | 308 | 16,334 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Cash and equivalents at end of period | \$ 30,281 | \$ 150 | \$ 173 | \$ 30,604 |
| For the Nine Months Ended, September 30, 2004 | | | | |

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

Note 7. Subsequent Events

On October 18, 2005, the company announced the execution of a definitive agreement of merger with Roanoke Electric Steel Corporation, pursuant to which Steel Dynamics, Inc. will acquire Roanoke. Pursuant to the merger agreement, Roanoke stockholders will receive a fixed consideration equal to .400 shares of Steel Dynamics' common stock plus \$9.75 in cash for each share of Roanoke stock outstanding at the effective time of the merger. At July 31, 2005, Roanoke had 11,145,813 shares outstanding. The company plans to use current cash reserves and its senior secured revolving credit facility to fund the cash portion of this acquisition. Completion of the merger is subject to Roanoke stockholder approvals, regulatory approvals, including antitrust, and the satisfaction or waiver of customary conditions. The definitive agreement of merger contains certain termination rights for both parties, including a provision for a termination fee of \$7.5 million plus expenses to be paid to the company if the transaction is terminated under certain circumstances.

Roanoke has steel manufacturing facilities in Roanoke, Virginia and Huntington, West Virginia. These facilities produce angles, rounds, flats, channels, beams, special sections and billets, which are sold to steel service centers, fabricators, original equipment manufacturers and other steel producers. Roanoke also has certain subsidiaries involved in steel fabrication including bar joist and truck trailer beams and has two steel scrap processing locations.

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

Forward-Looking Statements

Statements made in this report that are not statements of historical fact are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include, without limitation, any statements that may project, indicate or imply future results, events, performance or achievements. We refer you to the section denominated "Special Note Regarding Forward-Looking Statements" and "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2004, incorporated herein by reference, for a more detailed discussion of some of the many factors, variables, risks and uncertainties that could cause actual results to differ materially from those we may have expected or anticipated. We caution that any forward-looking statement reflects only our reasonable belief at the time the statement is made.

Income Statement Classifications

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

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

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

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

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

Third Quarter Operating Results 2005 vs. 2004

Net income was \$45.4 million or \$.92 per diluted share during the third quarter of 2005, compared with \$113.6 million or \$2.01 per diluted share during the third quarter of 2004. When compared to 2004, our third quarter 2005 average consolidated selling price per ton shipped decreased \$166. We experienced a compression of 14% in our gross margin percentage not only due to reduced product pricing, but also due to increased costs associated with our manufacturing processes caused by a change in the types of products produced and higher energy costs.

Gross Profit. During the third quarter of 2005, our net sales decreased \$136.1 million, or 21%, to \$498.7 million, while our consolidated shipments increased 25,000 tons to 924,000 tons, when compared with the third quarter of 2004. The increase in shipments was primarily due to increased shipments of 52,000 tons, or 28%, from our Structural & Rail Division which resulted from increased demand of structural products for the

commercial construction industry. Our Bar Products Division shipments decreased 41,000 tons during this period as a result of weaker spot-market demand for special-bar-quality products. The special-bar-quality market tends to be driven by long-term customer supply contracts. Our Bar Products Division started operations in January 2004 and since that time, has been selling into the spot-market and commissioning various products for customer inspection and approvals in an attempt to develop customer relationships and enter into the long-term customer supply contract arena.

As depicted by the following graph, our third quarter 2005 average consolidated selling price per ton shipped decreased \$166 compared with the third quarter of 2004, and decreased \$68 from the second quarter of 2005. When compared to the first half of 2005, the United States has seen a slowing in the importing of steel products and steel service centers have reduced previously elevated inventory levels. These combined circumstances, along with a stronger non-residential construction market, have aided in the strengthening of demand for flat rolled, structural steel and building fabrication products. Currently we have orders for the fourth quarter that suggest we will achieve higher average selling prices than experienced during the third quarter of 2005.

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The following table depicts our product mix by major product category based on tons shipped for the indicated periods (* indicates shipments of less than 1%). 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. During the third quarter of 2005, we also experienced an overall increase in our electricity and natural gas costs. As a percentage of our total costs of goods sold, combined electricity and natural gas costs increased from 8% during the full year 2004 timeframe to 10% during the third quarter of 2005. Given the recent disruption in natural gas supply in the Gulf Coast region, we expect to continue to experience higher natural gas costs; however, we do not expect this to have a material adverse impact on our financial position as natural gas consumption is a much less significant component in the production of steel through electric arc furnace operations, such as ours, than in traditional steel manufacturing blast furnace operations.

| | | Three Months Ended | | Nine Months Ended | |
|------------------|------------------------------|--------------------|------|-------------------|------|
| | | 2005 | 2004 | 2005 | 2004 |
| Flat Roll | Hot Band | 29% | 26% | 28% | 27% |
| | Pickled & Oiled | 5 | 3 | 5 | 3 |
| | Cold Rolled | 3 | 5 | 4 | 4 |
| | Cold Rolled Galvanized | 10 | 12 | 10 | 13 |
| | Hot Rolled Galvanized | 9 | 12 | 9 | 12 |
| | Post Anneal | * | * | * | 1 |
| | Painted | 5 | 6 | 5 | 5 |
| Structural | Wide Flange Beams & H-Piling | 22 | 19 | 21 | 20 |
| | Bar | 6 | 11 | 9 | 7 |
| Rail | Industrial | * | □ | * | □ |
| Fabrication | Joist, Girders & Decking | 4 | 3 | 3 | 2 |
| Alternative Iron | | | | | |
| Units | Liquid & Briquette Iron | 6 | 4 | 5 | 4 |

Metallic raw materials used in our electric arc furnaces represent our single-most significant manufacturing cost. Our metallic raw material cost per net ton consumed decreased \$42 during the third quarter of 2005 and decreased \$67 when compared to the same period of 2004. Historically our metallic raw material costs represented between 45% and 50% of our total manufacturing costs; however, for the year 2004 this percentage increased to 67% during the third quarter due to the elevated cost of our metallic raw materials, specifically steel scrap. This increase in the cost of our primary raw material as a percentage of our total manufacturing costs necessitated the initiation of a surcharge mechanism which was adopted by the steel industry during the first quarter of 2004. The surcharge is derived from an indexed scrap number and designed to pass some of the increased costs associated with rising metallic prices through to our customers. As these costs decrease, the surcharge also declines. During a portion of the second and third quarters of 2005 actual steel scrap costs were below the indexed surcharge numbers and in some instances no surcharge was utilized in determining prices for our products. Metallic raw materials represented 49% and 56% of our total manufacturing costs during the third quarter and first nine months of 2005, respectively.

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Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$23.4 million during the third quarter of 2005, as compared to \$27.6 million during the same period in 2004, a decrease of \$4.2 million, or 15%. During the third quarter of 2005 and 2004, our total selling, general and administrative expenses represented 5% and 4%, respectively, of net sales. In connection with our September 2005 refinancing, we wrote-off \$1.9 million of previously capitalized financing costs during the quarter. We recorded expense of \$4.6 million and \$11.6 million during the third quarter of 2005 and 2004, respectively, related to our performance-based profit sharing plan allocation, which is based on 6% of pretax earnings.

Interest Expense. During the third quarter of 2005, gross interest expense decreased \$2.6 million, or 21%, to \$9.5 million and capitalized interest decreased \$1.6 million to \$39,000, as compared to the same period in 2004. This decrease in gross interest expense was the result of interest expense of \$1.9 million that was recorded during the third quarter of 2004 in conjunction with a one-time short-term U.S. Treasury bond transaction. The interest capitalization that occurred during these periods resulted from the interest required to be capitalized with respect to construction activities at our Bar Products Division and Structural & Rail Division. We currently anticipate gross interest expense to remain consistent throughout the remainder of this year.

Other (Income) Expense. Other income was \$1.5 million during the third quarter of 2005, as compared to \$458,000 during 2004. During the third quarter of 2005, we recorded gains of \$1.3 million from the sale of certain equity securities.

Income Taxes. During the third quarter of 2005, our income tax provision was \$28.4 million, as compared to \$69.6 million during the same period in 2004. Our effective income tax rate was increased to 38% for the second half of 2004 due to increased profitability. We further increased our effective income tax rate to 38.5% beginning January 1, 2005 in anticipation of the year's expected profitability levels and the resulting impact to our state income taxes.

First Nine Months Operating Results 2005 vs. 2004

Net income was \$156.8 million or \$3.05 per diluted share during the first nine months of 2005, compared with \$212.9 million or \$3.80 per diluted share during the first nine months of 2004.

Gross Profit. During the first nine months of 2005, our net sales increased \$70.7 million, or 5%, to \$1.6 billion and our consolidated shipments increased 88,000 tons, or 3%, to 2.7 million tons, compared with the first nine months of 2004. The increase in shipments was primarily due to increased shipments of 52,000 tons from our Structural & Rail Division and 55,000 tons from our Bar Products Division, which started commercial operations during the first quarter of 2004, combined with a decrease of 37,000 tons from our Flat Roll Division. Our average consolidated selling price increased \$7 per ton, or 1%, compared with the first nine months of 2004.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$65.9 million during the first nine months of 2005, as compared to \$67.1 million during the same period in 2004, a decrease of \$1.2 million, or 2%. During the first nine months of 2005 and 2004, selling, general and administrative expenses represented approximately 4% of net sales.

Interest Expense. During the first nine months of 2005, gross interest expense decreased \$8.9 million, or 25%, to \$27.0 million and capitalized interest decreased \$4.8 million to \$584,000, as compared to the same period in 2004. This decrease in gross interest expense was the result of the repayment of certain debt instruments during the second half of 2004 and due to interest expense of \$5.4 million that was recorded during the first nine months of 2004 in conjunction with the aforementioned short-term U.S. Treasury bond transaction.

Other (Income) Expense. Other income was \$2.2 million during the first nine months of 2005, as compared to \$5.7 million during 2004. During the first quarter of 2004 we entered into a one-time short-term U.S. Treasury Bond transaction to generate net interest income in an increasing interest rate environment and to generate capital gains. This transaction was completed during the fourth quarter of 2004 and we recorded associated gains of \$4.9 million during the first nine months of 2004. We also recorded a \$1.0 million gain from the early extinguishment of certain debt associated with our Structural & Rail Division during the first nine months of 2004.

Income Taxes. During the first nine months of 2005, our income tax provision was \$98.2 million, as compared to \$129.2 million during the same period in 2004. Our effective income tax rate was 37.5% for the first half of 2004. We increased our effective income tax rate to 38% effective July 1, 2004 and increased it further to 38.5% beginning January 1, 2005 in anticipation of the year's expected profitability levels and the resulting impact to our state income taxes.

Liquidity and Capital Resources

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

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Working Capital. During the first nine months of 2005, our operational working capital position, representing our cash invested in trade receivables and inventories less trade payables and accruals increased \$12.0 million to \$420.9 million compared to December 31, 2004. Due to decreased product pricing, trade receivables decreased \$35.2 million during the first nine months to \$218.6 million, of which 96%, were current or less than 60 days past due. Our largest customer is an affiliated company, Heidtman Steel, which represented 12% and 15% of our outstanding trade receivables at September 30, 2005 and December 31, 2004, respectively. During the first nine months of 2005 our inventories decreased \$2.0 million to \$379.5 million. Raw materials and supplies increased \$31.1 million while finished goods inventories decreased \$33.1 million. The increase in raw material and supplies was driven by increased alloy volumes required as product diversification increases at our Bar Products Division and by the addition of inventories at our New Millennium Lake City, Florida plant, which began operations during the first quarter of 2005. The decrease in our finished goods inventories resulted from record shipments at our Structural & Rail Division which reduced finished goods inventories by 74,000 tons, or 61%, during 2005. Our trade payables and accruals decreased \$49.3 million, or 22%, during the first nine months of 2005 due to the timing of funding certain payables, including our 2004 401(k) retirement savings and profit sharing plan contribution in March 2005.

Capital Expenditures. During the first nine months of 2005 we invested \$45.4 million in property, plant and equipment, of which \$18.0 million, or 40%, related to the expansion of our joist and deck operations and the remainder represented improvement projects for our existing facilities. We believe these capital investments will increase our net sales and related cash flows as each project develops.

Capital Resources. During the first nine months of 2005 our total outstanding debt, including unamortized bond premium, increased \$28.5 million to \$476.9 million. Our long-term debt to capitalization ratio, representing our long-term debt divided by the sum of our long-term debt and our total stockholders' equity, was 36% and 34% at September 30, 2005 and December 31, 2004, respectively.

On September 7, 2005, we replaced our \$230 million 4-year revolving credit facility with a new 5-year \$350 million senior secured revolving credit facility, which includes a provision to increase the new facility by as much as \$100 million under certain circumstances. The proceeds from the revolver will be available for working capital and other general corporate purposes. As a result of this refinancing we wrote-off \$1.9 million of previously capitalized financing costs associated with the refinanced debt during the third quarter of 2005.

At September 30, 2005, we had \$30.0 million in outstanding borrowings related to our \$350 million senior secured revolving credit facility. Our senior secured credit agreement is secured by substantially all of our receivables and inventories of our wholly-owned subsidiaries and by pledges of all shares of capital stock and inter-company debt held by us and each wholly-owned subsidiary. 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 our property; enter into transaction 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 draw down the revolver is dependent upon our continued compliance with the financial covenants and other covenants contained in our senior secured credit agreement. We were in compliance with these covenants at September 30, 2005, and expect to remain in compliance during the next twelve months.

During the third quarter of 2005, our board of directors declared a cash dividend of \$.10 (ten cents) per common share for shareholders of record at close of business on September 30, 2005. The cash dividend of \$4.3 million was paid on October 14, 2005. On April 20, 2005, we announced the approval of our board of directors to increase the shares available for the company to repurchase from 5 million shares to 7.5 million shares pursuant to the 2004 share repurchase program. At September 30, 2005, we had repurchased the entire 7.5 million shares, of which 200,000 shares was purchased during the third quarter, pursuant to the program in the open market at an average price of \$32 per share.

On October 18, 2005, we announced the execution of a definitive agreement of merger with Roanoke Electric Steel Corporation, pursuant to which we will acquire Roanoke. Pursuant to the merger agreement, Roanoke stockholders will receive a fixed consideration equal to .400 shares of our common stock plus \$9.75 in cash for each share of Roanoke stock outstanding at the effective time of the merger. At July 31, 2005, Roanoke had 11,145,813 shares outstanding. We plan to use current cash reserves and our senior secured revolving credit facility to fund the cash portion of this acquisition. Completion of the merger is subject to Roanoke stockholder approvals, regulatory approvals, including antitrust, and the satisfaction or waiver of customary conditions. The

definitive agreement of merger contains certain termination rights for both parties, including a provision for a termination fee of \$7.5 million plus expenses to be paid to us if the transaction is terminated under certain circumstances.

Roanoke has steel manufacturing facilities in Roanoke, Virginia and Huntington, West Virginia. These facilities produce angles, rounds, flats, channels, beams, special sections and billets, which are sold to steel service centers, fabricators, original equipment manufacturers and other steel producers. Roanoke also has certain subsidiaries involved in steel fabrication including bar joist and truck trailer beams and has two steel scrap processing locations.

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

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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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk. In the normal course of business we are exposed to interest rate changes. Our objectives in managing exposure to interest rate changes are to limit the impact of these rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we primarily use interest rate swaps to manage net exposure to interest rate changes related to our borrowings. We generally maintain fixed rate debt as a percentage of our net debt between a minimum and maximum percentage. A portion of our debt has an interest component that resets on a periodic basis to reflect current market conditions. At September 30, 2005, no material changes had occurred related to our interest rate risk from the information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2004.

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. Generally, our risk strategy associated with the purchase of commodities utilized within our production process is 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. We believe that our production requirements will be such that consumption of the products or services purchased under these commitments will occur in the normal production process. At September 30, 2005, 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, 2004.

ITEM 4. CONTROLS AND PROCEDURES

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

(b) **Changes in Internal Controls.** There have been no significant changes in registrant's internal controls or in other factors that could significantly affect internal controls subsequent to their evaluation. There were no significant deficiencies or material weaknesses, and, therefore, there were no corrective actions taken.

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PART II
OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

On April 20, 2005, our board of directors approved an increase in the shares authorized for repurchase pursuant to the 2004 share repurchase program from 5 million shares to 7.5 million shares. The following table indicates shares repurchased during the nine months ended September 30, 2005.

| Period 2005 | Total Shares Purchased | Average Price Paid Per Share | Total Program Shares Purchased | Total Shares Still Available For Purchase Under the Program |
|-----------------|---------------------------|---------------------------------|--------------------------------------|--|
| January 1 to 26 | 1,037,100 | \$ 35.46 | 1,037,100 | 4,875,167 |
| February 1 | 10,076 | 37.80 | □ | 4,875,167 |
| March 16 to 30 | 1,099,400 | 35.97 | 1,099,400 | 3,775,767 |
| April 1 to 29 | 1,875,767 | 31.40 | 1,875,767 | 1,900,000 |
| May 2 to 25 | 1,302,000 | 26.41 | 1,302,000 | 598,000 |
| June 20 to 27 | 398,000 | 26.21 | 398,000 | 200,000 |
| July 19 to 26 | 200,000 | 31.70 | 200,000 | □ |

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

Items 1 and 3 through 5 of Part II are not applicable for this reporting period and have been omitted.

* Filed concurrently herewith.

SIGNATURE

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

November 2, 2005

STEEL DYNAMICS, INC.

By: /s/ Gary E. Heasley

Gary E. Heasley

Vice President of Finance and CFO