Mittal Steel USA Inc.
Form 10-Q
August 14, 2006

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the Quarterly Period Ended June 30, 2006**
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the Transition Period from to**

Commission file number 1-31926

MITTAL STEEL USA INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware *(State or Other Jurisdiction of Incorporation or Organization)*	**71-0871875** *(I.R.S. Employer Identification Number)*
1 South Dearborn, Chicago, Illinois *(Address of Principal Executive Offices)*	**60603** *(Zip Code)*

(312) 899-3400
(Registrant s Telephone Number Including Area Code)

The Registrant meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form with the reduced disclosure format.

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 þ No o

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 o Accelerated Filer o Non-Accelerated Filer þ

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

As of August 14, 2006, the Registrant had 120.81658 shares of common stock, par value $0.01 per share, all of which are ultimately owned by Mittal Steel Company N.V., a company organized under the laws of The Netherlands (Mittal).

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. ***FINANCIAL STATEMENTS***

MITTAL STEEL USA INC.

Consolidated Statements of Operations
(Unaudited)
(Dollars in millions)

	Three Months Ended		Six Months Ended	
	June 30, 2006	**June 30, 2005**	**June 30, 2006**	**June 30, 2005**
Net sales	$ 3,375	$ 2,558	$ 6,736	$ 3,462
Costs and expenses:				
Cost of sales (excluding Depreciation and amortization shown separately below)	2,873	2,217	5,789	2,856
Selling, general and administrative and other expenses	68	62	147	70
Depreciation and amortization	89	61	183	86
Total costs and expenses	3,030	2,340	6,119	3,012
Income from operations	345	218	617	450
Interest and other financing expense, net	49	43	98	63
Income before income taxes	296	175	519	387
Provision for income taxes	118	42	179	126
Net income	$ 178	$ 133	$ 340	$ 261

See accompanying notes to consolidated financial statements.

Table of Contents

MITTAL STEEL USA INC.

Consolidated Balance Sheets
(Dollars in millions except share and per share amounts)

	June 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6	$ 55
Restricted cash	2	8
Receivables, net of allowances of $70 and $60	1,150	975
Receivable from related companies	8	6
Inventories	2,497	2,508
Prepaid expenses and other	121	145
Total current assets	3,784	3,697
Long-term assets:		
Property, plant and equipment, net	5,664	5,779
Investments in and advances to joint ventures	304	273
Receivable from related companies	172	109
Other assets	208	307
Goodwill	177	
Deferred income taxes	202	163
Total assets	$ 10,511	$ 10,328
LIABILITIES AND STOCKHOLDER EQUITY		
Current liabilities:		
Accounts payable	$ 937	$ 1,018
Payables to related companies	138	35
Accrued salaries, wages and benefits	421	284
Accrued taxes	279	212
Accrued expenses and other liabilities	234	155
Unfavorable contracts	262	367
Current debt and capital lease obligations	25	42
Deferred income taxes	129	99
Total current liabilities	2,425	2,212
Long-term liabilities:		
Related party debt	2,120	2,270
Debt and capital lease obligations	774	821
Pension and other retiree benefits	1,901	1,988
Other long-term liabilities	629	684

Total long-term liabilities	5,424	5,763
Total liabilities	7,849	7,975
Stockholder equity		
Preferred stock, $.01 par value, 100 shares authorized, 100 shares issued and outstanding, liquidation value $90	90	90
Common stock, $.01 par value, 1,000 shares authorized, 121 shares issued and outstanding		
Additional paid-in capital	2,542	2,550
Retained earnings	663	323
Accumulated other comprehensive loss	(633)	(610)
Total stockholder equity	2,662	2,353
Total liabilities and stockholder equity	$ 10,511	$ 10,328

See accompanying notes to consolidated financial statements.

Table of Contents

MITTAL STEEL USA INC.

Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in millions)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Operating activities:		
Net income	$ 340	$ 261
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	183	86
Deferred income taxes	97	85
Net amortization of purchased intangibles and contracts	(190)	(42)
Undistributed earnings from joint ventures	(21)	(21)
Other non-cash operating expenses	11	(5)
Change in operating assets and liabilities, net of effects from acquisitions:		
Receivables	(176)	232
Inventories	10	81
Prepaid expenses and other assets	(8)	(8)
Accounts payable	(42)	(146)
Payables to / receivables from related companies	33	4
Deferred employee benefit cost	49	(345)
Accrued expenses and other liabilities	47	(3)
Net cash provided by operating activities	333	179
Investing activities:		
Capital expenditures	(156)	(101)
Investment in, advances to and distributions from joint ventures, net	10	14
Restricted cash	6	(13)
Acquisition of ISG, net of cash acquired		(1,472)
Proceeds from sale of property, plant and equipment	15	13
Other cash from investing activities	11	
Net cash used in investing activities	(114)	(1,559)
Financing activities:		
Proceeds from long-term debt and note payable to related companies		2,072
Proceeds (payments) from revolver borrowings		212
Payments on long-term debt to related companies	(229)	(612)
Payments of note payable and long-term debt	(13)	(7)
Payments on note receivable from related companies, net		(248)
Deferred financing costs	(4)	
Proceeds (payments) payable to banks	(22)	(6)

Net cash provided by (used in) financing activities		(268)		1,411
Net change in cash and cash equivalents		(49)		31
Cash and cash equivalents beginning of period		55		81
Cash and cash equivalents end of period	$	6	$	112
Supplemental schedule of noncash operating and financing activities:				
Conversion of long term Pension Benefit Guaranty Note to Parent s common stock		35		

See accompanying notes to consolidated financial statements.

Table of Contents

MITTAL STEEL USA INC.

Notes to Financial Statements
(Unaudited)
(Dollars in millions)

(1) Reporting Entity

Effective December 31, 2005, Mittal Steel USA ISG Inc. (Mittal ISG) merged with another indirect wholly owned subsidiary of Mittal Steel Company N.V. (Mittal), Ispat Inland Inc. (Inland). Mittal ISG was the surviving subsidiary and was renamed Mittal Steel USA Inc. (MSUSA or the Company). On April 15, 2005, Mittal acquired International Steel Group Inc. (ISG) which was renamed Mittal Steel USA ISG Inc. The business combination was accounted for under the purchase method. See Note 2, *ISG Acquisition* for a description of the acquisition.

The merger of Mittal ISG and Inland was accounted for as a merger of net assets under common control. The existing book values of the companies were combined without remeasuring the assets and liabilities at the business combination date. The additional paid in capital of Mittal ISG and Inland were combined as of the date of the merger. Although Mittal ISG was the surviving entity, Mittal was the controlling party and the merger between Mittal ISG and Inland was accounted for as a reverse acquisition, with Inland as the accounting acquirer. These financial statements present the combined company for 2006. These financial statements include the results of Mittal ISG and Inland since they have been under the control of Mittal for all periods presented for Inland and since April 15, 2005 for Mittal ISG.

These interim financial statements are unaudited and include only selected notes. They do not contain all information required for annual statements under United States generally accepted accounting principles and should be read together with the audited financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. In the opinion of management, these interim financial statements reflect all adjustments that are necessary to fairly present the results for the interim periods presented. Certain prior period amounts have been reclassified to conform to the current presentation.

The preparation of financial statements in conformity with United States generally accepted accounting principles requires that management make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The results of operations for the interim periods shown in this report are not necessarily indicative of the results to be expected for a full year.

(2) ISG Acquisition

On April 15, 2005, ISG became a wholly owned subsidiary of Mittal. ISG s stockholders received $2,072 in cash and 60,891,883 shares of Mittal Class A common shares valued at $1,922. Mittal accounted for the acquisition under SFAS No. 141, *Business Combinations.*

Assets recorded in the purchase include $386 assigned to favorable supply and sales contracts that are being amortized over the term of the associated contracts ranging from one to six years (two year weighted average). The fair value of $1,095 assigned to unfavorable supply and sales contracts is being amortized over the term of the associated contracts ranging from one to 15 years (three year weighted average). We recognized income of $101 and $190 during the three and six month periods ended June 30, 2006 related to the net amortization of these items.

In connection with this acquisition, we identified certain facilities we are no longer operating. We permanently idled the iron and steel producing operations at our Weirton plant, our hot briquette iron plant in Trinidad, and our AK-ISG joint venture. This will affect about 1,000 employees. We recorded a $180 liability comprised of $113 for contract termination costs, including lease obligations, and $67 for severance and other employee benefits. See Note 9, *Other Long-Term Liabilities* for a summary of spending against these liabilities.

MITTAL STEEL USA INC.

Notes to Financial Statements (Continued)

We would have recorded sales of $3,025 and net income of $158 for the three month period ended June 30, 2005 and sales of $6,589 and net income of $483 for the six month period ended June 30, 2005 on a pro forma basis, if the merger had been consummated at the beginning of the period. The pro forma adjustments include the effects of the increased value of property, plant and equipment, amortization of intangibles and other acquisition costs. This pro forma data is based on historical information and does not necessarily reflect the actual results that would have occurred, nor is it indicative of future results of operations.

(3) Recently Issued or Adopted Accounting Standards

SFAS No. 151 In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, *Inventory Costs.* SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight handling costs, and wasted material (spoilage). SFAS No. 151 requires that those items be recognized as current period charges. In addition, SFAS No. 151 requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. There was no material impact to our financial statements upon the adoption of SFAS No. 151 on January 1, 2006.

SFAS No. 123R In December 2004, the FASB issued SFAS No. 123R *Share Based Payment*, which replaces SFAS No. 123, and supersedes APB No. 25. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. We started expensing stock options from 2003 using the prospective method. In March 2005, the SEC staff issued Staff Accounting Bulletin (SAB) No. 107, *Share-Based Payment* regarding the SEC s interpretation of SFAS No. 123R and the valuation of share-based payments for public companies. The adoption of SFAS No. 123R on January 1, 2006 had no impact on our financial statements.

FSP FAS 109-1 In December 2004, the FASB staff issued FSP FAS No. 109-1 *Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004.* This FSP clarifies that the manufacturer s deduction provided for under the American Jobs Creation Act of 2004 should be accounted for as a special deduction in accordance with SFAS No. 109 and not as a tax rate reduction. We accounted for the special deduction accordingly, beginning with the date of the act s enactment.

SFAS No. 153 In December 2004, the FASB issued SFAS No. 153, *Exchange of Non-monetary Assets.* SFAS No. 153 is based on the principle that exchange of non-monetary assets should be measured based on the fair market value of the assets exchanged. SFAS No. 153 eliminates the exception of non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. For MSUSA, SFAS No. 153 was effective for non-monetary asset exchanges in 2006 and thereafter. This statement will only impact our financial statements to the extent we have non-monetary exchanges in the future. None are presently contemplated.

SFAS No. 154 In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* that replaces APB No. 20 *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements.* SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application to the earliest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. We have had no changes in accounting methods or error corrections that have required restatement since we adopted the pronouncement on January 1, 2006.

SFAS No. 155 In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments.* This statement eliminates a restriction on the passive derivatives instruments that a qualifying special-purpose entity (SPE) may hold and is effective for all financial instruments acquired or

MITTAL STEEL USA INC.

Notes to Financial Statements (Continued)

issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. We do not expect the adoption of this pronouncement to have an impact on our financial statements.

SFAS No. 156 In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets.* We have a consolidated SPE that purchased certain of our receivables. This entity previously had a financing arrangement with a group of banks. That arrangement is no longer in place, but the SPE still exists. See Note 7 (l) *Debt Former Credit Facilities* in our financial statements contained in our Annual Report filed on Form 10-K for the year ended December 31, 2005 for further details. We are currently evaluating whether SFAS No. 156 will impact the accounting for our SPE and our consolidated financial statements. This statement is effective January 1, 2007.

FIN No. 48 In June 2006, the FASB issued Financial Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*, which applies to all tax positions related to income taxes. FIN No. 48 prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN No. 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact, if any, this statement will have on our financial statements.

(4) Inventories

Inventories are stated at the lower of cost or market, which approximates replacement cost. Costs include the purchase costs of raw materials, conversion costs, and an allocation of fixed and variable production overhead. The reserve increase for the three months ended June 30, 2006 was $17 and for the six months ended June 30, 2006 was $43. The following table presents the components of inventories:

	June 30, 2006	December 31, 2005
First-in, first-out (FIFO) or average cost:		
Raw materials	$ 1,007	$ 1,005
Finished and semi-finished goods	1,540	1,510
	2,547	2,515
LIFO reserve	(50)	(7)
Total	$ 2,497	$ 2,508

Effective January 1, 2005, MSUSA (previously Inland) changed its accounting policies for valuing inventory from FIFO to LIFO. We believe the LIFO method is preferable to the FIFO method because it provides better matching of current revenues and costs in the income statement, primarily as a result of the volatility in the key steel related energy and commodity markets and because it provides better comparability to the LIFO method used by many of the Company s competitors. We accounted for the change in accounting method under APB No. 20, Accounting Changes.

APB No. 20 requires reporting a change in accounting principle (with certain exceptions) in the year of adoption with the cumulative effect on prior periods shown in the income statement in the current year. The cumulative effect of implementing LIFO on prior periods and the pro forma effects of retroactive application is not determinable primarily because the necessary accounting records since the inception of the Company in 1998, which would be required to compute the cumulative effect, are no longer available. The effect of changing from FIFO to LIFO would have resulted in a reduction of net income of $45 for the six months ended June 30, 2005 had the change been made during the quarter ended March 31, 2005.

Table of Contents

MITTAL STEEL USA INC.

Notes to Financial Statements (Continued)

(5) Debt

On April 20, 2005, we entered into definitive agreements as borrower with respect to a new $1 billion term loan facility and a new $700 term loan facility. Mittal Steel US Finance LLC, a wholly owned subsidiary of Mittal is the lender under each of the term loan facilities. These intercompany borrowings were entered into as part of the financing arrangements to pay the cash portion of the merger consideration to ISG s former stockholders. The term loan facilities represent an intercompany loan to the Company that another subsidiary of Mittal borrowed under a credit agreement, dated as of April 7, 2005 among Mittal and certain subsidiaries of Mittal as original borrowers, and ABN AMRO Bank N.V., Citigroup Global Markets Limited, Credit Suisse First Boston International, Deutsche Bank AG London, HSBC Bank Plc and UBS Limited, as lead arrangers, certain other lenders signatory to the credit agreement and HSBC Bank Plc, as facility agent.

MSUSA drew down on each of the term loan facilities in the principal amounts of $1 billion and $700 on April 21, 2005. Each of the term loan facilities will mature on April 21, 2010. Each term loan facility contains general undertakings which principally requires that all of the Company s transactions with affiliates be conducted on an arms length basis and limits our ability to incur additional indebtedness, consummate certain extraordinary business transactions such as mergers, and create liens on its properties.

We are required to pay interest on each of the term loan facilities at an annual rate for each applicable interest period equal to the sum of (i) a margin, initially set at 0.475% and then subject to adjustment based on Mittal s unsubordinated unsecured debt rating plus 0.125%, and (ii) the London Interbank Offering Rate (LIBOR) for the applicable interest period. The initial interest period for each of the term loan facilities is six months and then shall be agreed upon between borrower and lender for subsequent periods not to exceed six months.

MSUSA has $500 of senior, unsecured debt securities due 2014. The debt bears interest at a rate of 6.5% and is paid semi-annually. In addition, in 2004, an indirect subsidiary of Mittal, Ispat Inland, ULC (Borrower) issued $800 principal amount of senior secured notes: $150 of floating rate notes bearing interest at LIBOR plus 6.75% due April 1, 2010 and $650 of fixed rate notes bearing interest at 9.75% (issued at 99.212% to yield 9.875%) due April 1, 2014 (the Senior Secured Notes). Also in 2004, the Company issued $800 principal amount of First Mortgage Bonds (Series Y, in a principal amount of $150, and Series Z, in a principal amount of $650) to Ispat Inland Finance, LLC, an affiliate of the Borrower, which, in turn, pledged them to the trustee for the Senior Secured Notes as security. On April 1, 2006, the Company redeemed all of its $150 outstanding floating rate Senior Secured Notes at a redemption price equal to 103% of the outstanding principal amount, plus accrued interest.

The Senior Secured Notes are also secured by a second position lien on the inventory of the Company. As further credit enhancement, the Senior Notes are fully and unconditionally guaranteed by the Company, certain subsidiaries of the Company, Mittal and certain other affiliates of the Borrower. The Company is obligated to pay interest on the Series Y Bonds at the rate paid on the floating rate Senior Secured Notes, plus one-half of one percent per annum, and on the Series Z Bonds at a rate of 10.25%.

We had a $35 convertible note with the Pension Benefit Guaranty Corporation (PBGC) that bore interest at 6.0% and required semi-annual interest payments. On April 20, 2006, the PBGC note was converted into 1,268,719 class A common shares of Mittal. On April 25, 2006 an inter-group payable was created between Mittal and MSUSA for $48 which represented the fair value of the shares on the date of conversion. The difference of $12 was a recorded as a reduction to additional paid-in capital.

We have $121 in various unsecured Industrial Development Revenue Bonds that bear interest at rates that range from 5.75% to 7.25% and maturity dates that range from 2007 to 2014.

MITTAL STEEL USA INC.

Notes to Financial Statements (Continued)

The Company fully redeemed all of its remaining $17 Pollution Control Series 1977, 5.75% Bonds due February 2007 during the first quarter 2006. Mittal repaid this on the behalf of MSUSA and reduced an inter- company promissory note owed MSUSA by an equivalent amount.

(6) Income Taxes

The income tax provision for the first six months of 2006 is based on an estimated annual effective rate of 36.8% for ordinary operations before consideration of discreet items. The estimated annual effective rate after consideration of discreet items approximates 35.9%. The income tax provision for the six month period ending June 30, 2006 includes a one-time benefit of $12 related to a change in Indiana income taxes that phases in a single sales factor for apportioning income to the state.

SFAS No. 109, *Accounting for Income Taxes*, requires that we record a valuation allowance for a deferred tax asset when it is more likely than not (a likelihood of more than 50%) that some portion or all of the deferred tax asset will not be realized based on available positive and negative evidence. The realization of the deferred tax asset is ultimately dependent upon the Company s generation of sufficient future taxable income during periods in which those net temporary differences become deductible and before the expiration of the NOL carryforwards. The valuation allowance at June 30, 2006 is $52.

(7) Comprehensive Income

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Net income	$ 178	$ 133	$ 340	$ 261
Other comprehensive income (loss)				
Derivative financial instruments				
Change in value during the period	15	(10)	(39)	(10)
Recognized in net income	(5)		2	
Income taxes	(3)	4	14	4
Total other comprehensive income (loss)	7	(6)	(23)	(6)
Total comprehensive income	$ 185	$ 127	$ 317	$ 255

MSUSA is exposed to fluctuations in interest rates and the prices of certain commodities such as natural gas, fuel oil, coke, steel scrap, iron ore and various non-ferrous metals. Management is authorized to use various financial instruments where available to manage the exposures associated with these fluctuations. MSUSA may employ the use of futures, forwards, collars, options and swaps to manage certain exposures when practical. By policy, MSUSA does not enter into such contracts for the purpose of speculation. MSUSA s policies include establishing a risk management philosophy and objectives, providing guidelines for derivative usage and establishing procedures for control and reporting of derivative activity. For certain transactions MSUSA may elect to account for these transactions as hedges. In this case, the change in value of the effective portion of financial instruments used to hedge certain exposures is reported as a component of other comprehensive income and is reclassified into earnings in the same period during which the hedged transactions affect earnings. Because of the extensive documentation requirements necessary to elect hedge treatment for derivative instruments, we did not elect this accounting during 2005 and all unrealized gains and losses in the market value of these instruments were recognized in the period in which the change in value occurred. Effective January 2006, we implemented the appropriate documentation requirements and elected hedge treatment for certain qualifying derivative instruments.

Table of Contents

MITTAL STEEL USA INC.

Notes to Financial Statements (Continued)

(8) Pension and Other Postretirement Benefit Plans

Under our labor agreement with the United Steelworkers of America (USW), the Company and the USW established defined contribution benefit trusts (VEBA) to fund retiree medical and death benefits for retirees and dependents from certain bargaining units formerly represented by the USW. We have a similar agreement with the Independent Steel Workers Union (ISU) at our Weirton facility. We have contributed $57 so far in 2006.

We provide a non-contributory defined benefit pension plan covering substantially all USW represented employees at our Hibbing Taconite joint venture and our Indiana Harbor East facility. Hibbing s non-represented salaried employees and certain non-represented salaried employees of the former Inland also receive defined pension benefits. Employees at other facilities are not covered by a defined benefit pension plan. We expect to contribute certain funds to the Inland trust in 2006, depending on operating cash flows. There are no PBGC or ERISA funding requirements in 2006.

Substantially all USW represented employees are covered under postretirement life insurance and medical benefit plans that require deductible and co-insurance payments from retirees. For most employees, the Company s share of the healthcare costs are capped at 2008 levels for years 2010 and beyond. The postretirement life insurance benefits are primarily specific amounts for hourly employees. We are not required to pre-fund any amounts under the defined benefit postretirement plans and expect the benefits to be paid in 2006 to be about $76. Our prorated required contribution to the Hibbing plan for other benefits based on tons produced in 2005 and expected benefit payments is $10 in 2006.

ISG s labor contract with the USW provided defined benefit retiree medical and death benefit plans covering employees who are eligible to retire under the current labor agreements. We do not intend to provide similar retiree medical benefits for employees who retire after the current labor agreement expires, but as required by accounting rules, have recognized a healthcare obligation for all active employees, including those expected to retire after the expiration of the current agreement.

The details of our period pension and other postretirement expense follows:

	Pension		Other Benefits	
	Three Months Ended June 30,			
	2006	2005	2006	2005
Service cost	$ 10	$ 10	$ 2	$ 2
Interest cost	41	40	14	14
Expected return on plan assets	(51)	(47)		(1)
Amortization of unrecognized actuarial loss	18	14	2	
Amortization of unrecognized prior service cost (credit)	3	2	(19)	(7)
Total net periodic postretirement benefit cost (credit)	$ 21	$ 19	$ (1)	$ 8

Table of Contents

MITTAL STEEL USA INC.

Notes to Financial Statements (Continued)

	Pension		Other Benefits	
	Six Months Ended June 30,			
	2006	2005	2006	2005
Service cost	$ 20	$ 19	$ 4	$ 4
Interest cost	82	79	28	27
Expected return on plan assets	(102)	(92)		(1)
Amortization of unrecognized actuarial loss	36	28	4	
Amortization of unrecognized prior service cost (credit)	6	4	(38)	(14)
Total net periodic postretirement benefit cost (credit)	$ 42	$ 38	$ (2)	$ 16

(9) Other Long-Term Liabilities

We are subject to various legal actions and contingencies in the normal course of conducting business. We accrue liabilities for such matters when a loss is probable and the amount can be reasonably estimated. The effect of the ultimate outcome of these matters on future results of operations and liquidity cannot be predicted with any certainty. While the resolution of these matters may have a material effect on the results of operations of a particular future quarter or year, we believe that the ultimate resolution of such matters in excess of liabilities recorded will not have a material adverse effect on our competitive position or financial position.

The environmental liabilities and asset retirement obligations of Mittal ISG were recognized in a business combination, while the liabilities of Inland were not. In accordance with SFAS No. 141, *Business Combinations*, the expected future environmental remediation costs and asset retirement obligations acquired with the purchase of ISG were recorded at present value amounts determined at appropriate current interest rates at the time of the acquisition (4.75%). We determined that rate to be the risk free rate (not credit-adjusted). The environmental liabilities of Inland (and any liabilities recognized in the future) were recorded in accordance with Statement of Position 96-1, *Environmental Remediation Liabilities.* These amounts are not discounted because the amount and timing of cash payments are not fixed or reliably determinable. We recorded asset retirement obligations for Inland for the removal of asbestos and the closure of our iron ore mining properties. We accounted for these liabilities in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations.* SFAS No. 143 requires that we discount the liabilities using a credit-adjusted risk free rate (amounts at 6.15% and 7.00%).

MITTAL STEEL USA INC.

Notes to Financial Statements (Continued)

The activity associated with these liabilities including environmental, asset retirement obligations (ARO) and those recorded in connection with the facilities that are no longer being operated (see note 2, *ISG Acquisition)* follows:

	Environmental and ARO Six Months Ended June 30, 2006	Environmental and ARO Six Months Ended June 30, 2005	Employee Termination Six Months Ended June 30, 2006	Contract Termination Costs Six Months Ended June 30, 2006
Balance beginning of period	$ 287	$ 8	$ 55	$ 45
Liabilities recognized at acquisition		232		
Revision of amounts previously recorded in business combination			12	68
Recognized in earnings	7	3		
Spending charged to the liability	(14)	(3)	(45)	(6)
Balance end of period	$ 280	$ 240	$ 22	$ 107
Undiscounted amount	$ 477	$ 386	$ 22	$ 151

(10) Related Party Transactions

The table below summarizes related party transactions (see Note 5, *Debt* for a discussion of long term related party debt). Included in payables to related parties shown on the balance sheet are advances between MSUSA and Mittal which are treated as short term promissory notes in addition to amounts owed for management fees. During the first quarter 2006, Mittal paid $95 to MSUSA for promissory notes entered into during 2005. The payment of $95 included $17 that was a reduction of inter-company debt related to Mittal s redemption of the Pollution Control Series Bonds on behalf of MSUSA. In addition, Mittal advanced $70 to MSUSA under a new promissory note during the first quarter 2006.

During the second quarter 2006, MSUSA repaid $70 to Mittal for promissory notes entered into during the first quarter 2006. In addition, MSUSA advanced $158 to Mittal under a new promissory note during the second quarter of 2006. MSUSA redeemed the $150 Series Y First Mortgage Bond, plus paid an early redemption fee of $5 to Ispat Inland Finance LLC. The $35 convertible note with the PBGC was converted into 1,268,719 class A common shares of Mittal. An inter-group payable was created between Mittal and MSUSA for $48 which represented the fair value of the shares on the date of conversion.

	June 30 2006	December 31, 2005

Balance sheet:				
Payable to related parties	$	138	$	35
Receivable from related parties	$	180	$	115

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
Statements of Operation:				
Interest and other financing expense, net to related parties	$ 49	$ 39	$ 97	$ 56
MSUSA purchases from related parties	90	93	138	164
MSUSA sales of inventory to related parties	104	135	199	238

MITTAL STEEL USA INC.

Notes to Financial Statements (Continued)

(11) Joint Ventures

For the three months ending June 30 we recorded $9 and $10 for 2006 and 2005 for our share of earnings in the joint ventures as a reduction of cost of sales. For the six months ending June 30 we recorded $21 and $21 for 2006 and 2005 for our share of earnings in the joint ventures as a reduction of cost of sales.

A summary of combined financial information of our unconsolidated joint ventures follows:

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Results for the year:				
Gross revenue	$ 402	$ 286	$ 731	$ 541
Costs and expenses	350	271	628	516
Net income	$ 52	$ 15	$ 103	$ 25

	6/30/2006	12/31/2005
Balance sheet:		
Current assets	$ 238	$ 276
Total assets	878	904
Current liabilities	255	271
Total liabilities	527	584
Net assets	$ 351	$ 320

Most of these joint ventures provide services to our operations. They bill for these services at cost or some other contractual rate that may not reflect the market rate for these services.

(12) Subsequent Events

On August 1, 2006, the U.S. Department of Justice (DOJ) announced that it had concluded that the acquisition by Mittal Steel Company N.V., our parent company, of Arcelor, a Luxembourg-based steelmaker, which closed on August 1, was likely to substantially lessen competition in the market for tin mill products in the Eastern United States, and filed in the U.S. District Court in Washington, D.C. a consent decree, which Mittal Steel had previously signed with the DOJ on May 11, 2006. The consent decree requires the divestiture of Dofasco Inc., a Canadian-based steel producer acquired by Arcelor in February 2006 or, if Dofasco cannot be sold, the divestiture of whichever of two identified, alternative assets is selected by DOJ. In April 2006, Arcelor announced that it had transferred its Dofasco holdings to S3, an independent Dutch foundation, in order to prevent any sale of Dofasco for five years, unless S3 s board of directors decides to dissolve S3 earlier. The two alternative assets identified in the consent decree are Mittal Steel s Sparrows Point facility located near Baltimore, Maryland and Mittal Steel s Weirton facility located in Weirton, West Virginia. In the twelve months ended December 31, 2005, the Sparrows Point facility, which primarily serves the construction, tin and distribution markets, represented approximately 15% of the Company s total production volume and 11% of total sales volume, and the Weirton facility, which primarily operates finishing facilities for tin products but does not currently produce liquid steel, represented approximately 6% of the Company s total sales volume, in each case on a pro forma basis assuming that the acquisition of ISG had occurred on January 1, 2005. Mittal Steel Company remains firmly committed to performing its obligations under the consent decree, including with respect to the sale of Dofasco.

Table of Contents

ITEM 2. ***MANAGEMENT S NARRATIVE ANALYSIS RESULTS OF OPERATIONS***

Forward-Looking Statements

The Company and its representatives may from time to time make forward-looking statements in reports filed with the Securities and Exchange Commission (SEC), reports to stockholders, press releases, other written documents and oral presentations. These forward-looking statements may be identified by the use of predictive, future-tense or forward-looking terminology, such as believes, anticipates, expects, estimates, intends, may, or similar terms statements speak only as of the date of such statements and the Company will undertake no ongoing obligation, other than that imposed by law, to update these statements. These statements appear in a number of places in this report and include statements regarding the Company s intent, belief or current expectations of its directors, officers or advisors with respect to, among other things:

- trends affecting the Company s financial condition, results of operations or future prospects;
- business and growth strategies;
- operating culture and philosophy; and
- financing plans and forecasts.

Any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and actual results may differ materially from those contained in the forward-looking statements as a result of various factors, some of which are unknown. The factors that could adversely affect the Company s actual results and performance include, without limitation:

- negative overall economic conditions or conditions in the markets served;
- competition within the steel industry;
- legislation or regulatory changes including changes in U.S. or foreign trade policy affecting steel imports or exports;
- changes in foreign currencies affecting the strength of the U.S. dollar;
- actions by domestic and foreign competitors;
- the inability to achieve our anticipated growth objectives;
- changes in availability or cost of raw materials, energy or other supplies; and
- labor issues affecting the Company s workforce or the steel industry generally;

Results of operations

On April 15, 2005, Mittal Steel Company N.V. (Mittal) acquired International Steel Group Inc. (ISG). The business combination was accounted for under the purchase method. See Note 2, *ISG Acquisition* in our financial statements for a description. Effective December 31, 2005, Mittal Steel USA ISG Inc. (Mittal ISG) merged with Ispat Inland Inc. (Inland). The merger of Mittal ISG and Inland was accounted for as a merger of net assets under common control. The existing book values of the companies were combined without remeasuring the assets and liabilities at the business combination date. Although Mittal ISG was the surviving entity, Mittal was the controlling party and the merger between Mittal ISG and Inland was accounted for as a reverse acquisition, as if Inland was the surviving entity. These financial statements include the results of Mittal ISG and Inland since they have been under the control of Mittal for all periods presented for Inland and since April 15, 2005 for Mittal ISG.

To facilitate the discussion of the three and six month periods ended June 30, 2006 against the results of operations for the same periods in 2005, the historical operations of Inland, ISG and MSUSA ISG have been combined even though they were separate reporting entities under different control. No pro forma adjustments have been made and we have simply combined their respective results.

Table of Contents

	Three Months Ended June 30				
	MSUSA	**ISG**	**MSUSA ISG**	**Inland**	**Combined**
		4/1/05	**4/16/05**	**4/1/05**	
	4/1/06 6/30/06	**4/15/05**	**6/30/05**	**6/30/05**	**4/1/05 6/30/05**
	(Dollars and tons in millions)				
Net sales	$ 3,375	$ 468	$ 1,939	$ 626	$ 3,033
Cost of goods sold	2,873	389	1,673	552	2,614
Selling, gen.& admin.	68	86	53	9	148
Depreciation	89	7	35	26	68
Other (income) exp.				(1)	(1)
Interest expense, net	49	4	22	21	47
Income taxes	118	1	39	3	43
Net income(loss)	$ 178	$ (19)	$ 117	$ 16	$ 114
Shipments	5.1	.5	3.0	1.0	4.5
Raw steel production	5.8	.5	3.0	1.0	4.5

	Six Months Ended June 30				
	MSUSA	**ISG**	**MSUSA ISG**	**Inland**	**Combined**
			4/16/05		
	1/1/06 6/30/06	**1/1/05 4/15/05**	**6/30/05**	**1/1/05 6/30/05**	**1/1/05 6/30/05**
	(Dollars and tons in millions)				
Net sales	$ 6,736	$ 3,128	$ 1,939	$ 1,531	$ 6,598
Cost of goods sold	5,789	2,644	1,673	1,191	5,508
Selling, gen.& admin.	147	159	53	19	231
Depreciation	183	48	35	51	134
Other (income) exp.		(10)		(2)	(12)
Interest expense, net	98	15	22	41	78
Income taxes	179	109	39	87	235
Net income(loss)	$ 340	$ 163	$ 117	$ 144	$ 424
Shipments	10.2	4.3	3.0	2.3	9.6
Raw steel production	11.8	5.4	2.9	2.3	10.6

Second Quarter 2006 Compared to Second Quarter 2005

Net income in the second quarter of 2006 rose by $64 million, or 56%, to $178 million from $114 million in the second quarter of 2005. This was partially driven by a 13% increase in steel shipments in the second quarter of 2006. Second quarter 2006 shipments increased to 5.1 million tons from the 4.5 million tons shipped in the second quarter of 2005. The increase in volume was due in particular to certain markets replenishing inventories that had been reduced throughout 2005. With the increase in shipment volume, the sales revenue in the second quarter of 2006 increased by 11% to $3,375 million from $3,033 million in the second quarter of 2005. The average selling price per ton decreased in the second quarter of 2006 by 2%, to $662 per ton from $674 per ton in the second quarter of 2005, reflecting the market trends.

Cost of goods sold, exclusive of depreciation, increased in the second quarter of 2006 by 10% to $2,873 million from $2,614 million in the comparable period of 2005. This increase in cost was the result of higher sales volume, higher input prices, and the impact of operating outages at three of our facilities. In April, 2006 a fire occurred at one of the steelmaking shops at our Indiana Harbor Plant. Indiana Harbor has since resumed production. In mid-June a motor failure occurred at our Conshohocken plate mill. A replacement for the motor is expected in late August. The company also experienced an outage resulting from a lightning strike at our blast furnace at the Sparrows Point Plant toward the end of the quarter. The losses arising out of these incidents are covered by insurance.

Selling and general administrative expenses decreased by $80 million to $68 million in the second quarter of 2006 from $148 million in the second quarter of 2005, primarily due to the merger related expenses which were incurred at the time of the acquisition of ISG.

Depreciation expense increased by $21 million in the second quarter of 2006 to $89 million compared to $68 million in the second quarter of 2005 due to the inclusion of the assets acquired from ISG. Net interest expense was also higher for the three month period ended June 30, 2006 compared to the same period in 2005 due to higher average debt outstanding including the $1,700 billion intercompany borrowings at Mittal Steel US Finance LLC, a wholly owned subsidiary of Mittal. The intercompany borrowings were entered into as part of the financing arrangements to pay for the cash portion of the ISG acquisition.

In June 2005 the Company recognized discrete benefits related to state tax law changes, which accounted for the lower tax provision for the second quarter ended June 30, 2005 when compared to the second quarter ended June 30, 2006.

First Six Months 2006 Compared to First Six Months 2005

Net income in the first six months of 2006 decreased by $84 million to $340 million from $424 million in the first six months of 2005. Sales revenue increased by 2% to $6,736 million in the first six months of 2006 from $6,598 million in the first six months of 2005 as shipments were 10.2 million tons in 2006 compared to 9.6 million tons in 2005. Average net sales price decreased by 4% to $660 per ton in the first half of 2006 compared to $687 per ton in the first half of 2005 due to a better market balance of supply and demand.

Cost of goods sold, exclusive of depreciation, increased in the first six months of 2006 by 5% to $5,789 million from $5,508 million in the comparable period of 2005. This cost increase was the result of higher sales volume, higher input prices, and the impact of the operating outages mentioned above.

Selling and general administrative expenses decreased by $84 million to $147 million in the first six months of 2006 from $231 million in the first half of 2005, primarily due to the merger related expenses which were incurred at the time of the acquisition of ISG in the second quarter of 2005.

Depreciation expense increased by $49 million in the first half of 2006 to $183 million compared to $134 million in the first half of 2005 due to the assets acquired from ISG. Net interest expense was also higher for the six month period ended June 30, 2006 compared to the same period in 2005 due to higher average debt from Mittal Steel US Finance LLC.

The income tax provision for the six months ended June 30, 2006 is slightly higher when compared to the six months ended June 30, 2005 due to the recognition of discrete state tax benefits in both periods and a provision for a valuation reserve for state tax assets in 2006.

Liquidity

The Company s cash balance at June 30, 2006 was $6 million ($55 million as on December 31, 2005). Cash provided by operating activities for the six months ended June 30, 2006 was $333 million. During the six months ended June 2006, the Company s net payments to related parties for notes entered into prior to 2006 were $71 million. In addition, Mittal advanced $70 million to the Company under a new promissory note during the first quarter 2006, which was repaid in the second quarter 2006. The Company has advanced Mittal $158 million under a new promissory note this quarter.

ITEM 4. ***CONTROLS AND PROCEDURES***

EVALUATION OF DISCLOSURE CONTROLS

Management is responsible for establishing and maintaining a system of disclosure controls and procedures and a system of internal control over financial reporting for Mittal Steel USA.   Disclosure controls and procedures   means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC   s rules and forms.   Internal control over financial reporting   includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

Because of their inherent limitations, systems of disclosure controls and procedures and internal control over financial reporting, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Further, because of changes in conditions (including staffing and operations integration, as discussed in more detail below), effectiveness of disclosure controls and procedures and internal control over financial reporting may vary over time.

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13 (a)-15 (e) and 15 (d)-15 (e) under the Exchange Act as of June 30, 2006 (Evaluation Date). Based on this evaluation, for the reasons discussed in the following paragraphs, the Company s principal executive officer and principal financial officer concluded that the Company s disclosure controls and procedures were, as of the Evaluation Date, effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC s rules and forms. We reached this conclusion despite the past identification of three material weaknesses, discussed below, in our internal control over financial reporting. As we discussed in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, we have taken extraordinary steps to improve our disclosure controls, including a detailed review of several of our accounting practices, which we believe mitigate the potential effect of the previously identified material weaknesses in our internal control over financial reporting.

In preparing our Exchange Act filings, we utilized processes and procedures to provide reasonable assurance that information relating to the Company that was required to be disclosed in such filings was recorded, processed, summarized and reported within the time periods specified by applicable SEC rules and was accumulated and communicated to the Company s management as appropriate to allow timely decisions regarding required disclosure. These processes and procedures are designed to, among other things, mitigate the effect of any deficiencies in our internal control over financial reporting on information relating to the Company that is required to be disclosed in our Exchange Act filings.

(b) Status Of, And Changes In, Internal Control over Financial Reporting

Mittal Steel USA applied for and was granted approval to exit from accelerated filer status in December 2005 and is therefore not currently subject to certain reporting requirements of Section 404 of the Sarbanes-Oxley Act of 2002. The Company has, however, prepared the following update on internal controls over financial reporting.

As noted in our Annual report on Form 10-K for the year ended December 31, 2005, our predecessor company (ISG) and its external auditor concluded that the Company s system of internal controls over financial reporting was not effective as of December 31, 2004, as a result of the following three material weaknesses: deficiencies in policies and procedures in the inventory and cost of goods sold process, excessive access to significant spreadsheets, and inadequate segregation of duties in the revenue cycle. In addition, in the course of management s work to finalize the Company s financial statements for the fiscal year ended December 31, 2005, we agreed, in consultation with our external auditors, that we must strengthen our controls over accounting for deferred taxes and for derivative instruments for financial reporting.

Table of Contents

Recent Review of Internal Control Over Financial Reporting

Management has not identified any additional material weaknesses in internal controls over financial reporting in the first or second quarter of 2006.

Remediation Activities

Management has taken actions in 2005 and 2006 to improve its internal controls over financial reporting, as discussed in our Annual Report on Form 10-K for the year ended December 31, 2005 and our Quarterly Report of Form 10-Q for the quarter ended March 31, 2006. As a result of these actions, management believes that the internal controls around all of the issues that we and our auditors have previously commented on have been addressed. We continue to assess our internal controls over financial reporting and will make all necessary improvements identified by our ongoing review process.

PART II OTHER INFORMATION

ITEM 1. *LEGAL PROCEEDINGS*

Environmental Matters

The Company s operations are subject to a broad range of laws and regulations relating to the protection of human health and the environment. The prior owners of the Company s facilities expended in the past, and the Company expects to expend in the future, substantial amounts to achieve or maintain ongoing compliance with U.S. federal, state, and local laws and regulations, including the Resource Conservation and Recovery Act (RCRA), the Clean Air Act (CAA), and the Clean Water Act (CWA). These environmental expenditures are not projected to have a material adverse effect on the Company s consolidated financial position or on the Company s competitive position with respect to other similarly situated U.S. steelmakers subject to the same environmental requirements.

The following describes material changes that have occurred during the reporting quarter.

CAA, CWA and Other Matters

Clean Air Act

In April, 2006 the Maryland Department of Environment (MDE) notified the Company s Sparrow s Point facility of alleged violations of emissions limitations on volatile organic compounds from the facility s sinter plant. The company is discussing the allegations with MDE and expects to enter into a Consent Order Agreement to resolve the matter before the end of the year. The Consent Order is expected to impose a monetary penalty payment which is expected to be approximately $75,000.

Clean Water Act

Our Weirton facility is subject to stipulated penalties for National Pollution Discharge Elimination System (NPDES) permit excursions under a 1996 Multimedia Consent Decree. In April, 2006 the company was notified by the U.S. Dept. of Justice that it was demanding $231,000 in stipulated penalties for the time period May 17, 2004 through December 31, 2005. The Company paid the penalty in July, 2006.

The Indiana Department of Environmental Management (IDEM) issued the Company s Burns Harbor facility a Notice of Violation (NOV) on February 23, 2006 alleging NPDES permit excursions. We are evaluating the NOV and are in discussions with IDEM to effect a resolution of this matter. It is possible that IDEM may seek a civil penalty with respect to the allegations, however such penalty is not expected to be material.

Table of Contents

Other

In addition to the above matters, the Company receives notices of violation relating to minor environmental matters from time to time in the ordinary course of business. The Company does not expect any material unrecorded reclamation requirements, fines or penalties to arise from these items and none of these involve potential individual monetary sanctions in excess of $100,000.

ITEM 6. *EXHIBITS*

31.1	Certification by the Chief Executive Officer pursuant to Rules 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
31.2	Certification by the Chief Financial Officer pursuant to Rules 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURE

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

MITTAL STEEL USA INC.

By: /s/ Vaidya Sethuraman

Name: Vaidya Sethuraman

Title: Vice President Finance and

Chief Accounting Officer
Mittal Steel USA Inc.

Date: August 14, 2006

21

Table of Contents

EXHIBIT INDEX

QUARTERLY REPORT ON FORM 10-Q

MITTAL STEEL USA INC.
FOR THE QUARTER ENDED JUNE 30, 2006

Exhibit

31.1	Certification by the Chief Executive Officer pursuant to Rules 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
31.2	Certification by the Chief Financial Officer pursuant to Rules 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.