STEEL DYNAMICS INC
Form 10-K
February 26, 2016

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ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number 0-21719

(Exact name of registrant as specified in its charter)

Indiana	**35-1929476**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
7575 West Jefferson Blvd, Fort Wayne, IN	**46804**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $.0025 par value	Nasdaq Global Select Stock Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 ý No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer ý	Accelerated file o	Non-accelerated filer o (Do not check if a smaller reporting company.)	Smaller reporting company o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant computed by reference to the price at which the common equity was last sold as of June 30, 2015, was approximately $4,117,734,350. Registrant has no non-voting shares. For purposes of this calculation, shares of common stock held by directors, officers and 5% stockholders known to the registrant have been deemed to be owned by affiliates, but this should not be construed as an admission that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or that such person is controlled by or under common control with the registrant.

As of February 17, 2016, Registrant had outstanding 243,186,659 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of registrant's definitive proxy statement referenced in Part III, Items 10 through 14 of this report, to be filed prior to April 29, 2016, are incorporated herein by reference.

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STEEL DYNAMICS, INC.

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PART I

Special Note Regarding Forward-Looking Statements

Throughout this report, or in other reports or registration statements filed from time to time with the Securities and Exchange Commission under the Securities Exchange Act of 1934, or under the Securities Act of 1933, as well as in documents we incorporate by reference herein or herefrom, or in press releases or oral statements made by our officers or Regulation FD authorized representatives, we may make statements that express our opinions, expectations, or projections regarding future events or future results, in contrast with statements that reflect present or historical facts. These predictive statements, which we generally precede or accompany by such typical conditional words as "anticipate," "intend," "believe," "estimate," "plan," "seek," "project" or "expect," or by the words "may," "will," or "should," are intended to operate as "forward looking statements" of the kind permitted by the Private Securities Litigation Reform Act of 1995, incorporated in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements involve both known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. That legislation protects such predictive and cautionary statements by creating a "safe harbor" from liability in the event that a particular prediction does not turn out as anticipated.

While we always intend to express our best judgment when we make statements about what we believe will occur in the future, and although we base these statements on assumptions that we believe to be reasonable when made, these forward looking statements are not a guarantee of performance, and you should not place undue reliance on such statements. Forward-looking statements are subject to many uncertainties and other variable circumstances, many of which are outside of our control, that could cause our actual results and experience to differ materially from those we thought would occur.

The following listing represents some, but not necessarily all, of the factors that may cause actual results to differ from those we may have anticipated or predicted:

- the adverse impact of the economic recession, or a slower than anticipated or uneven recovery therefrom, resulting in a general decrease of or stagnating demand for our products:
- the weakening of demand for steel products within the construction or other metal consuming industries;
- conditions affecting steel or recycled metals consumption;
- U.S. or foreign trade policy affecting the amount of foreign steel imported in the United States, or adverse or less than satisfactory outcomes of pending and future trade cases alleging unlawful practices in connection with steel imports;
- cyclical changes in market supply and demand for steel and recycled metals;
- increased price competition brought about by excess domestic and global steelmaking capacity;
- changes in the availability or cost of raw materials, such as recycled metals, iron substitute materials, including pig iron, iron concentrate, or other raw materials or supplies, which we use in our production processes;
- periodic fluctuations in the availability and cost of electricity, natural gas, or other utilities;

the occurrence of unanticipated equipment failures and plant outages;

margin compression resulting from falling selling prices with no offsetting reduction in raw material costs, or our inability to pass increases in costs of raw materials and supplies, if any, onto our customers;

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- labor unrest, work stoppages and/or strikes involving our own workforce, those of our important suppliers or customers, or those affecting the steel industry in general;

- the impact of, or changes in, environmental law or in the application of other legal or regulatory requirements upon our production processes or costs of production or upon those of our suppliers or customers, including actions by government agencies, such as the U.S. Environmental Protection Agency or related state agencies, upon our receipt of pending or future environmentally related construction or operating permits;

- the impact of U.S. government or various other governmental agencies introducing laws or regulatory changes in response to the subject of climate change and greenhouse gas emissions, including the introduction of carbon emissions trading mechanisms;

- private or governmental liability claims or litigation, or the impact of any adverse litigation costs or outcome of any litigation on the adequacy of our reserves or the availability or adequacy of our insurance coverage;

- changes in our business strategies or development plans which we have adopted, or which may be brought about in response to actions by our suppliers or customers, and any difficulty or inability to successfully consummate, implement, or integrate any planned or potential projects, acquisitions, joint ventures or strategic alliances;

- increased price and other forms of competition from other steel producers, scrap processors and alternative materials;

- the impact of construction delays, cost overruns, technology risk or operational complications upon our ability to complete, start-up or continue to profitably operate a project or a new business, or to complete, integrate and operate any potential acquisitions as anticipated;

- the impact of impairment charges;

- costs to idle facilities, idled facility carrying costs, or increased costs to resume production at idled facilities;

- increased global information technology security requirements, vulnerabilities and threats, and a rise in sophisticated cyber crime that pose a risk to the security of our operating systems and data networks and to the confidentiality, availability and integrity of our data; and

- uncertainties involving new products or new technologies.

We also refer you to and urge you to carefully read the section entitled *Risk Factors* at Item 1A of this report to better understand some of the principal risks and uncertainties inherent in our businesses or in owning our securities, as well as the section entitled *Management Discussion and Analysis of Financial Condition and Results of Operations* at Item 7. You should also review the notes to consolidated financial statements under headings in Note 1 *Use of Estimates* and in Note 9 *Commitments and Contingencies*.

Any forward-looking statements which we make in this report or in any of the documents that are incorporated by reference herein or herefrom speak only as of the date of such statement, and we undertake no ongoing obligation to update such statements. Comparisons of results between current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

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ITEM 1. BUSINESS

Our Company

Steel Dynamics, Inc. (the company) is one of the largest steel producers and one of the largest metals recyclers in the United States based on a current estimated annual steelmaking and coating capability of approximately 11 million tons, and actual recycling volumes. We reported net sales of $7.6 billion, $8.8 billion, and $7.4 billion during 2015, 2014, and 2013, respectively. The primary sources of our revenues are from the manufacture and sale of steel products, processing and sale of recycled ferrous and nonferrous metals, and the fabrication and sale of steel joist and deck products.

Competitive Strengths / Business Strategies

We believe our financial strength and flexibility, coupled with our competitive advantages of maintaining a low, highly variable cost structure, producing a diversified value-added product offering, controlling a secure supply of recycled ferrous metals, fostering an entity-wide entrepreneurial culture and having an experienced senior management team and work force, positions us well to continue to strengthen our leadership position and execute our growth strategy.

One of the Lowest Cost Steel Producers in the United States; State-of-the-Art Facilities / Continue to Maintain Low Production Costs

We are focused on continuing to maintain and enhance one of the lowest operating cost structures in the North American steel industry. Our low operating costs are primarily a result of our efficient plant designs and operations, our high productivity rate, such as our productivity rate of approximately 0.3 man hours per hot band ton produced at our Butler Flat Roll Division, low ongoing maintenance cost requirements and strategic locations near our customers and sources of our primary raw material, ferrous scrap.

We will continue to strive to optimize the use of our equipment, enhance our productivity and explore new technologies to further improve our unit costs of production at each of our facilities. As one of the lowest cost producers in each of our three primary operating segments, we are able to better manage through cyclical and non-cyclical downturns, and to consistently maximize our profitability. We continuously seek to maximize the variability of our cost structure and to reduce per unit and fixed costs. Our incentive compensation plans at all employee levels are based on both divisional and consolidated company performance. Performance-based incentive compensation is designed to reward high productivity and efficient use of physical resources and capital employed. Additionally, leveraging existing facilities through capital effective organic growth and diversified product offerings allows us to maximize utilization of current cost structures.

Secure Supply of High Quality, Just-in-time Ferrous Raw Materials

We maintain a secure supply of ferrous raw material resources through the benefit of our metals recycling operations and Iron Dynamics. Ferrous materials represent the single largest raw material component of our steel operations' manufacturing costs, excluding The Techs, representing 55% and 65% of such costs in 2015 and 2014, respectively. During 2015 and 2014, our metals recycling operations (OmniSource) provided our steel operations with 37% and 44%, respectively, of its ferrous scrap requirements based on volume. This represented 54% and 48% of OmniSource's total ferrous scrap shipments during 2015 and 2014, respectively. During 2015 and 2014, our steel operations consumed 8.8 and 7.6 million tons, respectively, of metallic materials, of which iron units, other than scrap, represented approximately 12% and 9% in 2015 and 2014, respectively. Iron Dynamics supplies 100% of its production to the Butler Flat Roll Division, representing 66% and 62% of their iron units in 2015 and 2014, respectively, through the transfer of liquid pig iron and hot briquetted iron, which are higher-quality, energy-saving ferrous raw materials. We believe our metals recycling operations and

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Iron Dynamics provide us with a high quality, cost effective, and secure raw material platform for effective working capital management.

Diversified Product Mix / Expand Product Offerings

We are one of the most diversified steel companies in the United States, with very broad product offerings. We currently offer a broad range of steel products (see Steel Operations Products and Sales by End Market table following), including:

Sheet Products. Hot roll, cold roll and coated steel, including a wide variety of specialty products, such as light gauge hot roll, galvanized, galvanneal, Galvalume®, Galfan, and painted products.

Long Products. Structural steel beams, pilings, and standard and premium grade rail; engineered special-bar-quality of numerous sizes and chemistries; various merchant-bar products including rounds, angles, flats, channels, and reinforcing bar; and channels and specialty steel sections.

Steel Finishing and Fabrication Services. Turning, polishing, straightening, chamfering, precision saw-cutting and heat-treating of bar products; and cutting to length, additional straightening, hole punching, shot blasting, welding and coating of beams, channels and specialty steel sections.

Metals Recycling. An array of both ferrous and nonferrous scrap processing, scrap management, transportation, and brokerage products and services.

Steel Fabrication. Steel joists and steel deck material, including specialty deck.

This diversified mix of products enables us to access a broad range of end-user markets, serve a broad customer base, and help mitigate our market exposure to any one product or end-user market. In addition, our value-added product offerings help to balance our exposure to commodity grade products supplied by other domestic steel and to a larger extent in 2015 and 2014, foreign manufacturers.

We will continue to seek additional opportunities and collaborate with our customers to anticipate future needs to further expand our range of products, such as the recent expansions at our Engineered Bar Products Division into high-quality smaller-diameter SBQ bars, and at our Structural and Rail Division into premium grade rails. We also utilize greenfield projects and acquisitions, such as the September 14, 2015 purchase of steel deck facilities from Consolidated Systems, Inc. (CSi), and the September 16, 2014, acquisition of Columbus Flat Roll Division, for avenues of further diversification. Columbus Flat Roll Division is in the process of expanding its offering of value-added flat roll steel products through the addition of painting and Galvalume® capabilities, which is expected to begin operations in the first quarter of 2017.

Strategic Geographic Locations / Enter New Geographic Markets

The majority of our steelmaking facilities are in locations near sources of scrap materials and near our customer base, allowing us to realize freight savings for inbound scrap as well as for outbound steel products destined for our customers. This also allows us to provide consistent on-time delivery to our customer base with relatively short lead times, further enhancing our customer relationships. Our coated sheet steel products are cost effectively available through our locations in Pittsburgh, Pennsylvania and Jeffersonville, Indiana due to river access, as are all of our Columbus Flat Roll Division sheet steel products. Recycled ferrous scrap and iron units represent the most significant component of our cost of steel manufacturing. Our metals recycling facilities are located in the Upper Midwest and Southeastern U.S., and thus further expand our geographic service area. We believe these regions account for a majority of the total ferrous scrap produced in the United States. Our steel fabrication operations have a national footprint allowing us to serve the entire joist and deck domestic market and national accounts.

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We may seek to enter new markets in strategic geographic locations that offer attractive growth opportunities.

Experienced Management Team and Unique Corporate Culture / Foster Entrepreneurial Culture

Our senior management team is highly experienced and has a proven track record in the steel, metals recycling, and steel fabrication industries. Management's objectives are closely aligned with our stockholders through meaningful stock ownership positions and performance-based compensation programs that are correlated to the company's profitability and operational performance in relationship to its steel manufacturing peers. Our entrepreneurial culture resonates throughout each of our operating segments. We emphasize decentralized decision making, with corporate risk oversight, and have established incentive compensation programs specifically designed to reward employee teams for their efforts toward identifying ways to enhance productivity, improve profitability, and control costs.

We intend to continue to foster our entrepreneurial culture and emphasize decentralized operational decision making and responsibility, while maintaining corporate risk oversight. We will reward teamwork, innovation, and operating efficiency. We will also continue to focus on maintaining the effectiveness of our incentive-based bonus plans that are designed to maximize overall productivity and align the interests of our management and employees with our stockholders.

Industry Segments

We have three reporting segments: steel operations, metals recycling operations, and steel fabrication operations. Please refer to Notes 1 and 13 in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for additional segment information, including changes to our reporting segments that were effective beginning with the third quarter 2015 results.

Steel Operations Segment

Steel operations consist of our six electric arc furnace steel mills, producing steel from ferrous scrap and scrap substitutes, utilizing continuous casting, automated rolling mills, and ten downstream steel coating lines, and Iron Dynamics (IDI), our liquid pig iron production facility that supplies solely the Butler Flat Roll Division. Our steel operations sell directly to end users, steel fabricators, and service centers. These products are used in numerous industry sectors, including the automotive, construction, manufacturing, transportation, heavy and agriculture equipment, and pipe and tube (including OCTG) markets. The most significant portion of our products is tied to the automotive, construction and other manufacturing sectors. Our steel operations accounted for 69%, 63%, and 61% of our consolidated net sales in 2015, 2014, and 2013, respectively. We are predominantly a domestic steel company, with only 5% and 4% of our revenues generated from exported sales during 2015 and 2014, respectively.

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Our steel operations consist primarily of steelmaking and coating operations. The following chart summarizes the locations and the current estimated production capacities of our facilities:

Steel Production Capacity (tons)		Casting	Rolling/Billet
Sheet Products:			
Butler Flat Roll Division	Butler, Indiana	3,050,000	3,000,000
Columbus Flat Roll Division	Columbus, Mississippi	3,400,000	3,200,000
Long Products:			
Structural and Rail Division	Columbia City, Indiana	2,200,000	1,800,000
Engineered Bar Products Division	Pittsboro, Indiana	780,000	950,000
Roanoke Bar Division	Roanoke, Virginia	650,000	
Merchant Bars			500,000
Billets			150,000
Steel of West Virginia	Huntington, West Virginia	290,000	355,000
		10,370,000	9,955,000

Steel Coating Capacity (tons)		Galvanizing	Painting
Sheet Products:			
Butler Flat Roll Division (3 lines)	Butler, Indiana	785,000	240,000
Butler Flat Roll Division (2 lines)	Jeffersonville, Indiana	370,000	190,000
Columbus Flat Roll Division (2 lines)	Columbus, Mississippi	1,100,000	
The Techs (3 lines)	Pittsburgh, Pennsylvania	1,005,000	
		3,260,000	430,000

Note: Capacities represent manufacturing capabilities based on mill configuration and related employee support. These capacities do not represent expected volumes in a given year. In addition, estimates of mill capacity, particularly rolling capacity, are highly dependent on the specific product mix manufactured. Each of our mills can and do roll many different types and sizes of products; therefore, our capacity estimates assume a typical product mix.

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The following chart summarizes our steel operations products and the percentage of sales tons by end market:

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SHEET PRODUCTS

Our sheet steel products, consisting of hot roll, cold roll and coated steel products are produced by Butler and Columbus Flat Roll Divisions, and our ten downstream coating lines. Our sheet operations represented 65%, 59%, and 57% of steel operations net sales in 2015, 2014, and 2013, respectively. We produced the following sheet steel at these facilities (tons):

	2015	2014
Butler Flat Roll Division	2,695,000	3,016,000
Columbus Flat Roll Division since September 15, 2014 acquisition	2,645,000	815,000
The Techs	661,000	712,000

The following chart summarizes the types of sheet products we sold during the respective years:

Sheet Steel Product Mix

Customers. Steel processors and service centers typically act as intermediaries between primary sheet steel producers and the many end-user manufacturers that require further processing of hot roll coils. The additional processing performed by the intermediate steel processors and service centers include pickling, galvanizing, cutting to length, slitting to size, leveling, blanking, shape correcting, edge rolling, shearing and stamping. We believe that our intermediate steel processor and service center customers will remain an integral part of our customer base. Columbus Flat Roll Division allows us to capitalize on the industrial markets in the Southern U.S. and Mexico, as well as expand our customer base into line and other pipe products. Galvanized flat roll products produced by Butler and Columbus Flat Roll Divisions, and The Techs are similar and are sold to a similar customer base. However, The Techs specializes in the galvanizing of specific types of flat roll steels in generally non-automotive applications, servicing a variety of customers in the heating, ventilation and air conditioning (HVAC), construction, agriculture and consumer goods markets. Our sheet steel operations also provide a significant portion of the sheet steel utilized in our steel fabrication operations.

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The following chart summarizes the types of customers who purchased our sheet steel products during the respective years:

Sheet Steel Customers

Competition. Our sheet steelmaking operations compete with domestic and foreign integrated and electric arc furnace based hot roll coil producers. Additionally, the global steel industry suffers from over-capacity, and that excess capacity in 2015 has resulted in steel manufacturers in certain countries exporting steel at prices that are lower than prevailing domestic prices, and at or below their cost of production. Steel imports throughout 2015 and 2014 have been at record levels of 29% and 28% of U.S. consumption, respectively.

LONG PRODUCTS

Our Structural and Rail Division is capable of producing a variety of parallel flange sections such as Wide Flange Beams, American Standard Beams, Manufactured Housing Beams, H Piling and Channel sections for the construction, transportation and industrial machinery markets. They also produce standard strength carbon, intermediate alloy hardness, and premium grade rails in 40 to 320 feet lengths for the railroad industry. Our state-of-the-art heat treating system allows us to produce high-quality premium rail, which has been certified by all but one Class I railroads. In addition, our rail-welding facility has the ability to weld rails to lengths of 1,600 feet, which offers substantial savings to the railroads both in terms of initial capital cost and through reduced maintenance. Our Structural and Rail Division produced 1.2 million tons and 1.3 million tons during 2015 and 2014, respectively, of which 269,000 tons and 225,000 tons, respectively, was rail production.

Our Engineered Bar Products Division is capable of producing a broad array of engineered special-bar-quality (SBQ), merchant-bar-quality (MBQ), rounded-cornered squares, and smaller-diameter engineered round bars. The recently completed expansion of our smaller-diameter rolling mill increased the mill's product offering into high-quality smaller-diameter (1-inch to 3-inch) precision SBQ bars. Without this product diversification expansion, production tons at this mill could have been significantly less due to the weak heavy equipment and agriculture markets in 2015. We produced 516,000 tons and 670,000 tons during 2015 and 2014, respectively, at this facility. Adjacent to this mill, we have a bar finishing facility, with an annual capacity of 260,000 tons, which provides various downstream finishing operations for our SBQ steel bars. Processing operations include turning, polishing, straightening, chamfering, precision saw-cutting and heat-treating capabilities. In addition,

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non-destructive testing services are available, including eddy current, flux leakage and ultrasonic inspection.

Our Roanoke Bar Division sells angles, merchant rounds, flats, channels, reinforcing bars and billets. During 2015 and 2014, respectively, Roanoke Bar Division produced 536,000 and 601,000 tons of billets and 389,000 tons and 432,000 tons of finished steel products.

Steel of West Virginia primarily sells beams, channels and specialty steel sections. Unlike most other mills, Steel of West Virginia frequently performs fabrication and finishing operations on its products, such as cutting to length, additional straightening, hole punching, shot blasting, welding and coating. Through this additional finishing, we create custom finished products that are generally placed directly into our customers' assembly operations. We produced 295,000 tons and 294,000 tons of various merchant and structural steel products at Steel of West Virginia during 2015 and 2014, respectively.

Customers. The principal customers for our structural steel products are steel service centers, steel fabricators and various manufacturers. Service centers, though not the ultimate end-user, provide valuable mill distribution functions to the fabricators and manufacturers, including small quantity sales, repackaging, cutting, preliminary processing and warehousing. The steel rail marketplace in the United States, Canada and Mexico is specialized and defined, with seven Class I railroads and a large distribution network. We supply rail in 80 feet lengths and Continuous Welded Rail (CWR) in lengths up to 1,600 feet throughout North America.

SBQ products are principally consumed by cold finishers, forgers, intermediate processors, OEM manufacturers, steel service centers, and distributors. Our MBQ products are sold primarily to steel service centers, as well as rebar distributors, joist producers, and OEMs. Some of the excess steel billet production at the Roanoke Bar Division is sold to mills without sufficient melting capacities, including our Steel of West Virginia facility. Our steel fabrication operations also purchase angles from Roanoke Bar Division. Steel of West Virginia's customers are primarily OEMs producing truck trailers, industrial lift trucks, merchant products, guardrail posts, manufactured housing, mining, and off-highway construction equipment. Steel of West Virginia's flexible manufacturing capabilities enable us to meet demand for a variety of custom-ordered and designed products. Many of these products are produced in small quantities for low volume end uses resulting in a wide variety of customers, the largest of which are in the truck trailer and industrial lift truck industries.

Competition. Our structural steel products compete with various electric arc furnace structural steelmakers, some of which have cost structures and flexible management cultures similar to our own, and we compete with alternative structural and manufacturing materials. We also believe, however, that both geography and product choice play significant roles. There are currently no other structural mills located in the Midwest, one of the largest structural steel consuming regions in the U.S., and we provide customer service benefits to service centers, fabricators and manufacturers located in the region. We provide a broad product mix, focusing on the mid-range and larger sections served only by a few other competitors from locations more remote than our facility. Most of Canada's structural steel consumption is located in Canada's eastern provinces, closer to us than our two largest competitors.

At present, the rail market is principally served by two other domestic producers who have the capability to produce either standard or premium rail. However, they are limited to producing rail in 80 feet lengths and do not own welding operations. We can produce rail in lengths up to 320 feet and weld to lengths of 1,600 feet, requiring far fewer welds for our rail customers. There are currently no rail producers in Canada or Mexico. Global competitors include high quality integrated and electric arc furnace steel producers in Europe and Asia.

Our Engineered Bar Division competes with a number of other domestic producers of SBQ and MBQ. We are among the largest and most diversified suppliers of engineered SBQ in North America. Our customer service, centralized geographic location, just-in-time delivery and Vendor Management

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Inventory program further differentiates us from other suppliers. Roanoke Bar Division competes primarily with several domestic steel manufactures. Steel West Virginia competes in the specialty shape products market with other domestic and European operations by being able to provide small quantity niche products unique to our customer manufacturing capabilities.

IRON DYNAMICS (IDI)

IDI produces liquid pig iron and hot briquetted iron (HBI) that serves as a substitute for a portion of the metallic raw material mix that goes directly into our Butler Flat Roll Division electric arc furnaces to produce steel. Direct reduced iron (DRI) is a metallic product made from mill scale and other iron waste products that have been reduced in a rotary hearth furnace, using natural gas and coal. The reduction method employed by IDI uses coal as the reducing agent. The DRI is either compacted by briquetters to form HBI, or is processed further to produce liquid pig iron. HBI can be immediately used in our melting furnaces or stockpiled for later use. Liquid pig iron is tapped from IDI's submerged arc furnace and immediately transferred in ladles to the adjacent Butler Flat Roll Division mill, where it is combined with ferrous scrap in their electric arc furnaces.

IDI's primary focus is to maximize liquid pig iron production, due to the inherent economic benefits achieved at the steel mill when the material is used in the steelmaking process, such as reduced energy cost, reduced materials cost, and quicker melting cycles. During 2015 and 2014, respectively, IDI produced 245,000 and 250,000 metric tons, of which 98% and 93%, was liquid pig iron. We have used and plan to continue to use all of the facility's output internally.

Metals Recycling Operations Segment

The metals recycling operations consists solely of OmniSource and includes both ferrous and nonferrous scrap metal processing, transportation, marketing, brokerage, and consulting services in approximately 75 locations, strategically located primarily in the Midwest and Southeast portion of the United States. In addition, OmniSource designs, installs, and manages customized scrap management programs for industrial manufacturing companies at over 600 locations throughout North America. Our metals recycling operations accounted for 19%, 25%, and 31% of our consolidated net sales in 2015, 2014, and 2013, respectively. Our steel mills utilize a portion of the ferrous scrap processed through OmniSource as raw material in our steelmaking operations, and the remainder is sold to other consumers, such as other steel manufacturers and foundries. This strategic symbiotic relationship with our own steelmaking operations provides valuable pull-through demand to OmniSource's ferrous scrap operations. In 2015, 2014, and 2013, OmniSource supplied our steel mills with approximately 37%, 44%, and 45%, respectively, of the tons of their ferrous raw material requirements, representing approximately 54%, 48%, and 44%, respectively, of OmniSource's 2015, 2014, and 2013, ferrous shipped tons.

OmniSource sold approximately 5.1 million gross tons and 5.6 million gross tons of ferrous material, during 2015 and 2014, respectively, and approximately 1.1 billion pounds and 1.2 billion pounds of nonferrous material, during 2015 and 2014, respectively. During 2015 and 2014, approximately 8% and 7%, respectively, of OmniSource's revenue were from export sales primarily from nonferrous materials.

We sell various grades of processed ferrous scrap primarily to steel mills and foundries. Ferrous scrap metal is the primary raw material for electric arc furnaces, such as our steel mills. In addition, we sell various grades of nonferrous metals such as copper, brass, aluminum and stainless steel, to aluminum, steel and ingot manufacturers, brass and bronze ingot makers, copper refineries and mills, smelters, specialty mills, alloy manufacturers, and other consumers.

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We purchase ferrous and nonferrous scrap metals, processed and unprocessed, in a variety of forms for our metals recycling facilities.

Ferrous scrap comes from two primary sources:

- Manufacturers and industrial plants, metal fabrication plants, machine shops and factories, which generate ferrous scrap referred to as prompt or industrial scrap, and

- Scrap dealers, retail individuals, auto wreckers, demolition firms and others who generate steel and iron scrap, referred to as "obsolete" scrap. Obsolete scrap includes post-consumer waste, demolition of steel structures and automobiles, and represents a significant source of scrap generation.

Nonferrous scrap comes from three primary sources:

- Manufacturers and other nonferrous scrap sources, which generate or sell scrap aluminum, copper, stainless steel, and other nonferrous metals,

- Producers of electric wire, telecommunication service providers, aerospace, defense and recycling companies that generate nonferrous scrap consisting primarily of copper wire, aluminum beverage cans, and various other metals and alloys, and

- Retail individuals who sell material directly to our facilities, which they collect from a variety of sources.

We do not purchase a significant amount of scrap metal from a single source or from a limited number of major sources. Market demand, and the composition, quality, size, weight and location of the materials are the primary factors that determine prices.

Products. Our metals recycling operations primarily involve the purchase, processing, and resale of ferrous and nonferrous scrap metals into reusable forms and grades. We process an array of ferrous products through a variety of methods, including sorting, shredding, shearing, cutting, torching, baling, briquetting, and breaking. Our major ferrous products include heavy melting steel, busheling, bundled scrap, shredded scrap and other scrap metal products, such as steel turnings and cast iron. These products vary in properties or attributes related to cleanness, size of individual pieces, and residual alloys. The necessary characteristics of the ferrous products are determined by the specific needs and requirements of the consumer and affect the individual product's relative value. In addition, we process various grades of nonferrous products, including aluminum, brass, copper, stainless steel, and other nonferrous metals. Additionally, we provide transportation logistics (truck, rail, and river barge), management services, marketing, brokerage, and consulting services related to the scrap industry.

Customers. We sell various grades of processed ferrous scrap to end-users, such as electric arc furnace steel mills, integrated steelmakers, foundries, secondary smelters, and metal brokers, who aggregate materials for other large users. Ferrous scrap metal is the primary raw material for electric arc furnaces, such as our steel mills. Most of our ferrous scrap customers purchase processed scrap through negotiated spot sales contracts which establish a quantity purchase for the month. The price we charge for ferrous scrap depends upon market demand and pricing, transportation costs, as well as, the quality and grade of the scrap. We sell various grades of processed nonferrous scrap to end-users such as aluminum sheet and ingot manufacturers, brass and bronze ingot makers, copper refineries, mills, smelters, specialty steelmakers, alloy manufacturers, wire and cable producers, utilities, and telephone networks. The price we charge for nonferrous scrap depends upon market demand and pricing, transportation costs, as well as, the quality and grade of the scrap.

Competition. Scrap is a global commodity influenced by conditions in a number of industrialized and emerging-markets throughout Asia, Europe and North America. The markets for scrap metals are highly competitive, both in the purchase of raw or unprocessed scrap, and the sale of processed scrap.

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With regard to the purchase of raw scrap, we compete with numerous independent recyclers, as well as smaller scrap companies engaged only in collecting obsolete scrap. In many cases we also purchase unprocessed scrap metal from smaller scrap dealers and other processors. Successful procurement of materials is determined primarily by the price offered by the purchaser for the raw scrap and the proximity of our processing facility to the source of the raw scrap. Both ferrous and nonferrous scrap sells as a commodity in both national and international markets, which are affected, sometimes significantly, by relative economic conditions, currency fluctuations, and the availability and cost of transportation. Competition for sales of processed scrap is based primarily on the price, quality, and location of the scrap metals, as well as the level of service provided in terms of reliability and timing of delivery.

We also face potential competition for sales of processed scrap from other producers of steel products, such as electric arc furnace and integrated steel mills, some of which are also vertically integrated in the scrap metals recycling business. In addition, other steel mills may compete with us in attempting to secure scrap supply through direct purchasing from our scrap suppliers. Scrap metal processors also face competition from substitutes for prepared ferrous scrap, such as pre-reduced iron pellets, hot briquetted iron, pig iron, DRI, and other forms of processed iron. The availability and relative prices of substitutes for ferrous scrap could result in a decreased demand for processed ferrous scrap and could result in lower prices and/or lower demand for our scrap products.

The industry is highly fragmented with many smaller family-owned companies, many regional scrap companies, along with a number of national and global companies, each of which has multiple locations in areas in which OmniSource also operates. No single scrap metals recycler has a significant market share in the domestic market.

During the fourth quarter of 2015, we determined that the fair market value of OmniSource operations was less than its carrying value, due to the weak global scrap commodity outlook, and thus impaired. As a result, we recorded $428.5 million in pretax non-cash asset impairment charges related to goodwill, trade name, and other related assets.

Steel Fabrication Operations Segment

Our steel fabrication operations include eight New Millennium Building Systems plants that primarily serve the non-residential construction industry located in Butler, Indiana; Lake City, Florida; Salem, Virginia; Hope, Arkansas; Juarez, Mexico, and Fallon, Nevada; and Memphis, Tennessee and Phoenix, Arizona, which were acquired from CSi on September 14, 2015. We have established a national operating footprint that allows us to serve the entire U.S. construction market, as well as national accounts, such as large retail chains.

Steel fabrication operations accounted for 9%, 7%, and 6% of our consolidated net sales during 2015, 2014, and 2013, respectively. We sold 493,000 tons and 481,000 tons of joist and deck products, during 2015 and 2014, respectively. Our steel operations supply a substantial portion (approximately 63% and 51% in 2015 and 2014, respectively) of the steel utilized in our steel fabrication operations, providing strategic pull-through demand.

Products: Our steel fabrication operations produce steel building components, including steel joists, girders, trusses (six locations), and steel deck (six locations). Our joist products include bowstring, arched, scissor, double-pitched and single-pitched joists. Our deck products include a full range of steel roof, form, and composite floor deck, and with the 2015 addition of our Tennessee and Arizona plants our product offerings were further expanded to include specialty architectural deck, floor systems, and bridge deck.

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Customers. Our primary steel fabrication operations customers are non-residential steel fabricators. Other customers include metal building companies, general construction contractors, developers, brokers and governmental entities. Our customers are located throughout the United States, including national accounts.

Markets. Our steel fabrication operations primarily serve the non-residential construction industry. The steel joist and deck market in the U.S. was approximately 1.7 million tons in 2015 and 2014, an increase from 1.5 million tons in 2013, based on trade association estimates. Based on this information, our steel fabrication operations' growth rate has outpaced the steel joist and deck market growth resulting in our increasing market share of approximately 31%, 30%, and 27%, in 2015, 2014 and 2013, respectively. We believe we are well positioned with our expanding national footprint to continue to grow as the non-residential construction market continues to be strong, and we have available capacity that can be deployed as needed.

Competition. We compete with other North American joist and steel deck producers primarily on the basis of price, quality, customer service, and proximity to the customer. Our expanding national footprint allows us to service the entire U.S. non-residential construction market, as well as national accounts such as large retail chains, and certain specialty deck customers.

Other Operations

Other operations consists of subsidiary operations that are below the quantitative thresholds required for reportable segments and primarily consist of our Minnesota ironmaking operations, and several smaller joint ventures. Our Minnesota ironmaking operations consists of our iron nugget production facility, Mesabi Nugget, (owned 82% by us); our iron concentrating operations, Mesabi Mining; and, our iron tailings operations, Mining Resources (owned 81% by us). Also included in "Other" are certain unallocated corporate accounts, such as the company's senior secured credit facility, senior notes, certain other investments and certain profit sharing expenses.

During the fourth quarter of 2014, our Minnesota ironmaking operations reached a steady operating state, indicating a consistency in the operation's production capability, processes and cost structure, including the ability to utilize certain lower-cost raw materials. Given this, we undertook an assessment of the recoverability of the carrying value of our Minnesota ironmaking operation's fixed assets. Given our outlook at that time regarding future operating costs and product pricing, we concluded that the carrying value of these fixed assets was no longer fully recoverable, and the fixed assets were in fact impaired. This assessment resulted in a $260.0 million pretax non-cash impairment charge, including amounts attributable to noncontrolling interests of $46.5 million. Please refer to Note 1 in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for information regarding the asset impairment charge. Given the significant and sustained decline in pig iron pricing, which resulted in the cost of iron nugget production to be meaningfully higher than product selling prices, management and the board of directors elected to indefinitely idle the Minnesota ironmaking operations in May 2015. Upon that decision, and the decision to monetize existing raw material inventory, we recorded an inventory lower-of-cost or market charge of $21.0 million (inclusive of noncontrolling interests of $3.6 million), in cost of goods sold in the second quarter 2015. Operating losses associated with our Minnesota ironmaking operations have been significantly curtailed post-idling.

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Sources, Availability, and Cost of Steel and Other Operations' Raw Materials

Scrap Metals. The principal raw material of our steel operations is scrap metal derived from, among other sources "home scrap," generated internally at steel mills themselves; industrial scrap, generated as a by-product of manufacturing; and "obsolete" scrap recycled from end-of-life automobiles, appliances, railroad cars and railroad track materials, agricultural machinery and demolition scrap from obsolete structures, containers and machines.

Ferrous scrap typically comprises more than 80% of the metallic melt mix in electric arc furnace steelmaking, in contrast to integrated mill steelmaking, where the proportion of scrap has traditionally been approximately 25% to 35%. Depending upon the scrap substitute material that may be available from time to time, and the relative cost of such material, the percentage of scrap used in our steelmaking operations could be increased or reduced in our metallic melt mix.

Many variables can impact ferrous scrap prices, all of which reflect the pushes and pulls of the supply demand equation. These factors include the level of U.S. steel production (for high-quality, low-residual scrap is a by-product of steel manufacturing activity), the level of exports of scrap from the United States, and the amount of obsolete scrap production. Generally, as domestic steel demand increases, so does scrap demand and resulting scrap prices. The reverse is also normally, but not always, true with scrap prices following steel prices downward when supply exceeds demand. In 2015, domestic steel mill utilization and steel pricing was negatively impacted by record levels of steel imports resulting in lower demand for scrap, forcing ferrous pricing downward throughout the year.

The price of ferrous scrap, as a commodity, has tended to be volatile, rising and falling with supply, and not always in lock step with or in proportion to the market price of steel. In addition, domestic ferrous scrap prices generally have a strong correlation and spread to global pig iron pricing. Scrap prices declined sharply in 2015 due to domestic scrap competition, the strong U.S. dollar tempering scrap exports, lower steel mill utilization rates resulting from excessive steel imports, and decreasing global pig iron prices. When scrap prices greatly accelerate, this challenges one of the principal elements of an electric arc furnace based steel mill's traditional lower cost structure the cost of its metallic raw material.

The following table provides pricing per gross ton from American Metal Market (AMM) and Ryan's Notes (Pig Iron) estimates for ferrous materials used in steel production:

Ferrous Material Pricing

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Iron Units. In addition to scrap, DRI, hot briquetted iron, pig iron, and iron nuggets are used in our electric arc furnace steel mill production. During 2015 and 2014, we consumed 8.8 million tons and 7.6 million tons, respectively, of metallic materials in our steelmaking furnaces, of which, iron units other than scrap, represented approximately 12% and 9% of the tons in 2015 and 2014, respectively. Of these iron substitute units consumed, our Iron Dynamics operations supplies 100% of its production to the Butler Flat Roll Division mill, representing 66% and 62% of their iron units in 2015 and 2014, respectively.

Energy Resources

Electricity. Electricity is a significant input required in the electric arc furnaces in our steelmaking operations (excluding The Techs), representing 6% and 5% of steel production costs of goods sold in 2015 and 2014, respectively. We have entered into a fixed price interruptible electricity supply agreement that extends through December 31, 2017, for the Butler Flat Roll Division. The contract allows our supplier to interrupt service in the event of an emergency or in response to various market conditions. Columbus Flat Roll Division, Roanoke Bar Division and Steel of West Virginia have each entered into fixed price contracts, while our Engineered Bar Products Division has a combination of fixed pricing and market pricing for the various components of the electrical services (demand charge, energy charge, riders, etc.). Our Structural and Rail Division purchases electricity at current market prices and through forward contracts at fixed prices.

Natural Gas. We purchase a portion of our steelmaking operations' natural gas requirements at market prices and a portion by entering into hedging transactions on the futures markets for ultimate physical delivery in order to help minimize price volatility. These contracts typically have duration of up to 24 months, but on occasion may extend further. Natural gas represented 1.3% and 1.5% of steelmaking operations (excluding The Techs) costs of goods sold in 2015 and 2014, respectively.

Patents and Trademarks

We currently do not own any material patents or patent applications for technologies that are in use in our production processes. We have seven major registered trademarks, as follows:

- the mark "SDI" and a chevron alone;
- the mark "SDI" and a chevron and "Steel Dynamics, Inc." to the right of the chevron;
- the mark "SDI" and a chevron and "Steel Dynamics" to the right of the chevron;
- the mark "OmniSource Corporation" with the circle logo design;
- the slogan "The Best in Metals Recycling";
- the mark "The Techs"; and
- the mark "New Millennium Building Systems, LLC".

Research and Development

Our research and development activities have consisted of efforts to develop or improve our products and operating processes, and our efforts to develop and improve alternative ironmaking technologies through Iron Dynamics and, prior to idling, our Minnesota ironmaking operations. Most of these research and development efforts have been conducted in-house by our employees.

Environmental Matters

Our operations are subject to substantial and evolving local, state, and federal environmental, health and safety laws and regulations concerning, among other things, emissions to the air, discharges

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to surface and ground water and to sewer systems, and the generation, handling, storage, transportation, treatment and disposal of solid and hazardous wastes. Our manufacturing operations are dependent upon permits regulating discharges into the air or into the water or the use and handling of by-products in order to operate our facilities. We dedicate considerable resources aimed at achieving material compliance with federal and state laws concerning the environment. While we do not currently believe that our future compliance efforts with such provisions will have a material adverse effect on our results of operations, cash flows or financial condition, this is subject to change in the evolving regulatory environment in which we operate.

Since the level of enforcement of environmental laws and regulations, or the nature of those laws that may be enacted from time to time are subject to changing social or political pressures, our environmental capital expenditures and costs for environmental compliance may increase in the future. In addition, due to the possibility of unanticipated regulatory or other developments, the amount and timing of future environmental expenditures may vary substantially from those currently anticipated. The cost of current and future environmental compliance may also place U.S. steel producers at a competitive disadvantage with respect to foreign steel producers, which may not be required to undertake equivalent costs in their operations.

Pursuant to the Resource Conservation and Recovery Act, or RCRA, which governs the treatment, handling and disposal of solid and hazardous wastes, the United States Environmental Protection Agency, or U.S. EPA, and authorized state environmental agencies may conduct inspections to identify areas where there may have been releases of solid or hazardous constituents into the environment and require the facilities to take corrective action to remediate any such releases. RCRA also allows citizens to bring certain suits against regulated facilities for potential damages and cleanup. Our steelmaking and certain other facilities generate wastes subject to RCRA. Our manufacturing operations produce various by-products, some of which, for example, electric arc furnace or EAF dust, are categorized as solid or hazardous waste, requiring special handling for disposal or for the recovery of metallics. We collect such by-products in pollution controlled equipment, such as baghouses, and either recycle or dispose of these by-products. While we cannot predict the future actions of the regulators or other interested parties, the potential exists for required corrective action at these facilities, the costs of which could be substantial.

Under the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, the U.S. EPA and, in some instances, private parties have the authority to impose joint and several liability for the remediation of contaminated properties upon generators of waste, current and former site owners and operators, transporters and other potentially responsible parties, regardless of fault or the legality of the original disposal activity. Many states have statutes and regulatory authorities similar to CERCLA and to the U.S. EPA. We have a number of material handling agreements with various contractors to properly dispose of or recycle our electric arc furnace dust and certain other by-products of our operations. However, we cannot assure that, even if there has been no fault by us, we may not still be cited as a waste generator by reason of an environmental cleanup at a site to which our by-products were transported.

The Clean Water Act and similar state laws apply to aspects of our operations and impose regulatory burdens related to the discharge of wastewater, stormwater and dredged or fill material. U.S. EPA, states and, in certain instances, private parties have the ability to bring suit alleging violations and seeking penalties and damages. The Clean Water Act's provisions can require new or expanded water treatment investments to be made and can limit or even prohibit certain current or planned activities at our operations.

The Clean Air Act and analogous state laws require many of our facilities to obtain and maintain air permits in order to operate. Air permits can impose new or expanded obligations to limit or prevent current or future emissions and to add costly pollution control equipment. Enforcement can be brought

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by U.S. EPA, the states and, in certain instance, private parties and can result in large penalties and injunctive relief.

In addition, there are a number of other environmental, health and safety laws and regulations that apply to our facilities and may affect our operations. By way of example and not of limitation, certain portions of the federal Toxic Substances Control Act, Oil Pollution Act, Safe Drinking Water Act and Emergency Planning and Community Right-to-Know Act, as well as state and local laws and regulations implemented by the regulatory agencies, apply to aspects of our facilities' operations. Many of these laws allow both the governments and citizens to bring certain suits against regulated facilities for alleged environmental violations. Finally, any steelmaking and metals recycling company could be subject to certain toxic tort suits brought by citizens or other third parties alleging causes of action such as nuisance, negligence, trespass, infliction of emotional distress, or other claims alleging personal injury or property damage.

Employees

We emphasize decentralized decision-making and responsibility and have established performance-based incentive compensation programs specifically designed to enhance productivity, improve profitability, control costs and foster innovation. Our work force consisted of approximately 7,500 full time employees at December 31, 2015, of which approximately 9% were represented by collective bargaining agreements. The largest group of unionized employees is at Steel of West Virginia. The remaining unionized employees are located in five different OmniSource metals recycling locations, each of which has its own agreement. We believe that our relationship with our employees is good.

Available Information

Our internet website address is *http://www.steeldynamics.com*. We make available on our internet website, under "Investors," free of charge, as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the Securities and Exchange Commission, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, as well as press releases, ownership reports pursuant to Section 16(a) of the Securities Act of 1933, our Code of Ethics for Principal Executive Officers and Senior Financial Officers, our Code of Business Conduct and Ethics, and any amendments thereto to or waivers thereof, as well as our Audit, Compensation and Nominating and Corporate Governance Committee Charters. We do not intend to incorporate the contents of our or any other website into this report.

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ITEM 1A. RISK FACTORS

Many factors could have an effect on our financial condition, cash flows and results of operations. We are subject to various risks resulting from changing economic, environmental, political, industry, business and financial conditions. The factors described below represent our principal risks.

Risks Related to our Industry

Our industry is affected by domestic and global economic factors including the slower than anticipated and uneven recovery from the recent recession and the risk of a new recession.

Our financial results are substantially dependent not only upon overall economic conditions in the United States, in Europe and in Asia, but also as they may affect one or more of the industries upon which we depend for the sale of our products. The slower than anticipated and uneven recovery from the recent recession could stifle improving customer confidence and adversely affect demand for our products and further adversely affect our business. Metals industries have historically been vulnerable to significant declines in consumption and product pricing during periods of economic downturn or continued uncertainty, including the pace of domestic non-residential construction activity.

Our business is also dependent upon certain industries, such as automotive, construction, manufacturing, transportation, heavy and agriculture equipment, and pipe and tube (including OCTG) markets, and these industries are also cyclical in nature. Therefore, these industries may experience their own fluctuations in demand for our products based on such things as economic conditions, energy prices, consumer demand and infrastructure funding decisions by governments. Many of these factors are beyond our control. As a result of volatility in our industry or in the industries we serve, we may have difficulty increasing or maintaining our level of sales or profitability. If the industries we serve were to suffer a downturn, then our business may be adversely affected.

Our level of production and our sales and earnings are subject to significant fluctuations as a result of the cyclical nature of the steel industry and some of the industries we serve.

The steel manufacturing business is cyclical in nature, and the selling price of the steel we make may fluctuate significantly due to many factors beyond our control. Furthermore, many of our products are commodities, subject to their own cyclical fluctuations in supply and demand in both metal consuming and metal generating industries, including the construction industry. The timing, magnitude and duration of these cycles and the resulting price fluctuations are difficult to predict. The sale of our manufactured steel products is directly affected by demand for our products in other cyclical industries, such as automotive, construction, manufacturing, transportation, heavy and agriculture equipment, and pipe and tube (including OCTG) markets. Economic difficulties, stagnant global economies, supply/demand imbalances and currency fluctuations in the United States or globally could decrease the demand for our products or increase the amount of imports of steel into the United States, which could decrease our sales, margins and profitability.

The scrap metal recycling industry has historically been, and is expected to remain, highly cyclical and this could have a material adverse effect on our metals recycling operations' results.

Scrap metal prices have become increasingly volatile, and operating results within the metals recycling industry in general have historically been cyclical, and are expected to remain highly cyclical in nature. Similarly, but not necessarily paralleling the price fluctuations in the steel business, the purchase prices for automobile bodies and various other grades of obsolete and industrial scrap, as well as the selling prices for processed and recycled scrap metals we utilize in our own manufacturing process, or which we resell to others through our metals recycling operations, are also highly volatile. During periods of increased imports, scrap metal prices may become depressed and adversely affect the sales, profitability and margins of our scrap business. As a metals recycler, we may attempt to respond

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to changing recycled metal selling prices by adjusting the scrap metal purchase prices we pay to others, but our ability to do this may be limited by competitive or other factors during periods of low scrap prices, when inbound scrap flow may slow considerably, as scrap generators hold on to their scrap in hopes of getting higher prices later. As such, a prolonged period of low scrap prices could reduce our ability to obtain, process, and sell recycled materials, and this could adversely affect our metals recycling operations' results. Due to the weak global scrap commodity outlook, during the fourth quarter of 2015, as a part of our annual goodwill and indefinite-lived intangible asset assessment, it was determined that the fair market value of our metals recycling operations was less than its carrying value. This led to the determination that the book value of the metals recycling operations was impaired, resulting in pretax non-cash asset impairment charges related to goodwill, trade name, and other assets of $428.5 million. Conversely, periodic increased foreign demand for scrap can result in an outflow of available domestic scrap, as well as resulting higher scrap prices domestically that cannot always be passed on to domestic scrap consumers, thereby further reducing available domestic scrap flows and scrap margins, all of which could adversely affect our sales and profitability of our scrap business. Additionally during periods of high demand and resulting higher scrap prices, ferrous scrap consumers may seek and develop ferrous scrap alternatives, including pig iron and direct reduced iron. The availability and pricing of these scrap alternatives in the domestic market may have a longer term impact on scrap pricing, particularly in prime grades, which could adversely affect our sales, profitability and margins.

Imports of steel into the United States have adversely affected, and may again adversely affect, United States steel prices, which could impact our sales, margins and profitability.

Global steelmaking capacity currently exceeds global consumption of steel products. Such excess capacity sometimes results in steel manufacturers in certain countries exporting steel at prices that are lower than prevailing domestic prices, and sometimes at or below their cost of production. Excessive imports of steel into the United States, such as in 2015 and 2014, have exerted, and may continue to exert, downward pressure on U.S. steel prices which negatively affects our ability to increase our sales, margins, and profitability. This may also adversely impact domestic demand for ferrous scrap and our ferrous metallics margins. U.S. steel producers compete with many foreign producers, including those in China. Competition from foreign producers is typically strong and is periodically exacerbated by weakening of the economies of certain foreign steelmaking countries. A higher volume of steel exports to the U.S. tend to occur at depressed prices when steel producing countries experience periods of economic difficulty, decreased demand for steel products or excess capacity.

In addition, we believe the downward pressure on, and periodically depressed levels of U.S. steel prices in recent years have been further exacerbated by imports of steel involving dumping and subsidy abuses by foreign steel producers. Some foreign steel producers are owned, controlled or subsidized by foreign governments. As a result, decisions by these producers with respect to their production, sales and pricing are sometimes influenced to a greater degree by political and economic policy considerations than by prevailing market conditions, realities of the marketplace or consideration of profit or loss. However, while some tariffs and quotas have recently been put into effect for certain steel products imported from a number of countries that have been found to have been unfairly pricing steel imports to the U.S., there is no assurance that tariffs and quotas will always be levied, even if otherwise justified, and even when imposed many of these are only short-lived. When such tariffs or duties expire or if others are further relaxed or repealed, or if relatively higher U.S. steel prices make it attractive for foreign steelmakers to export their steel products to the U.S., despite the presence of duties or tariffs, the resurgence of substantial imports of foreign steel could create downward pressure on U.S. steel prices.

China's current steelmaking overcapacity in relation to its steel consumption could have a material adverse effect on domestic and global steel pricing and could result in increased steel imports into the United States.

The significant growth of new Chinese steel production capacity that began in the 2000s, coupled with the slowdown in Chinese steel consumption, has resulted in Chinese steel production capacity that far exceeds that country's current demand and has made China a major global exporter of steel. This combination of a slowdown in China's economic growth and steel consumption and its own expansion of steelmaking capacity generally results in a weakening of steel pricing. Should Chinese steelmaking capacity remain the same or further increase in relation to its demand, China might not only remain a net exporter of steel, but many Asian and European steel producers whose steel output previously fed China's steel import needs could redirect their steel into the U.S. market through increased steel imports, causing a further erosion of margins or negatively impacting our ability to increase our prices.

The recent global economic downturn and the difficult conditions in the global industrial, capital and credit markets that resulted, have adversely affected and may continue to adversely affect our industry, as well as the industries of many of our customers and suppliers upon whom we are dependent.

Many of the markets in which our customers participate, such as automotive, construction, manufacturing, transportation, heavy and agriculture equipment, and pipe and tube (including OCTG) markets, are cyclical in nature and experience significant fluctuations in demand for our steel products based on economic conditions, consumer demand, raw material and energy costs, and decisions by our government to fund or not fund infrastructure projects such as highways, bridges, schools, energy plants, railroads and transportation facilities. Many of these factors are beyond our control. These markets are highly competitive, to a large extent driven by end-use markets, and may experience overcapacity, all of which may affect demand for and pricing of our products.

A decline in consumer and business confidence and spending, together with reductions in the availability of credit or increased cost of credit, as well as volatility in the capital and credit markets, could adversely affect the business and economic environment in which we operate and the profitability of our business. We are also exposed to risks associated with the creditworthiness of our suppliers and customers. If the availability of credit to fund or support the continuation and expansion of our customers' business operations is curtailed or if the cost of that credit is increased the resulting inability of our customers or of their customers to access either credit or absorb the increased cost of that credit could adversely affect our business by reducing our sales or by increasing our exposure to losses from uncollectible customer accounts. A renewed disruption of the credit markets could also result in financial instability of some of our suppliers and customers. The consequences of such adverse effects could include the interruption of production at the facilities of our customers, the reduction, delay or cancellation of customer orders, delays or interruptions of the supply of raw materials we purchase, and bankruptcy of customers, suppliers or other creditors. Any of these events may adversely affect our profitability, cash flow, and financial condition.

Volatility and major fluctuations in scrap metal and pig iron prices and our potential inability to pass higher costs on to our customers may constrain operating levels and reduce profit margins.

Steel producers require large amounts of raw materials, including scrap metal and scrap substitute products such as pig iron, pelletized iron and other supplies such as graphite electrodes and ferroalloys. Our principal raw material is scrap metal derived primarily from junked automobiles, industrial scrap, railroad cars, railroad track materials, agricultural machinery and demolition scrap from obsolete structures, containers and machines. The prices for scrap are subject to market forces largely beyond our control, including demand by U.S. and international steel producers, freight costs and speculation. The prices for scrap have varied significantly, may vary significantly in the future and do not necessarily fluctuate in tandem with the price of steel. Moreover, some of our integrated steel producer competitors are not as dependent as we are on scrap as a part of their raw material melt mix, which,

during periods of high scrap costs relative to the cost of blast furnace iron used by the integrated producers, give them a raw material cost advantage over mini-mills. While our vertical integration into the metals recycling business, through our OmniSource operations, and into the ironmaking business, through our Iron Dynamics facility, should enable us to continue being a cost-effective supplier to our steelmaking operations, for some of our metallics requirements, we will still need to rely on other metallics and raw material suppliers, as well as upon general industry supply conditions for the balance of our needs. The idling of our Minnesota ironmaking operations in May 2015 may hinder or delay our ability to be a cost-effective supplier to our steelmaking operations during periods of high raw material costs.

Purchase prices for auto bodies, scrap metal and scrap substitute products such as pig iron that we consume, and selling prices for scrap and recycled metals that we sell to third parties are volatile and beyond our control. While OmniSource attempts to respond to changing recycled metal selling prices through adjustments to its metal purchase prices, its ability to do so is limited by competitive and other market factors. Changing prices could potentially impact the volume of scrap metal available to us and the volume and realized margins of processed metals we sell.

The availability and prices of raw materials may also be negatively affected by new laws and regulations, allocation by suppliers, interruptions in production, accidents or natural disasters, changes in exchange rates, global price fluctuations, and the availability and cost of transportation.

If prices for ferrous metallics increase by a greater margin than corresponding price increases for the sale of our steel products, we may not be able to recoup such cost increases from increases in the selling prices of steel products. Conversely, depressed prices for ferrous scrap may constrain its supply, which may adversely affect our metals recycling operations and also the availability of certain grades of scrap for our steelmaking operations. Additionally, our inability to pass on all or any substantial part of any cost increases during periods of rapidly rising scrap prices, through scrap or other surcharges, or to provide for our customers' needs because of the potential unavailability of key raw materials or other inputs, may result in production curtailments or may otherwise have a material adverse effect on our business, financial condition, results of operations or prospects.

The cost and availability of electricity and natural gas are also subject to volatile market conditions.

Steel producers like us consume large amounts of energy, inasmuch as mini-mills melt ferrous scrap in electric arc furnaces and use natural gas to reheat steel or steel billets for rolling into finished products. We rely on third parties for the supply of energy resources we consume in our steelmaking activities. The prices for and availability of electricity, natural gas, oil and other energy resources are also subject to volatile market conditions, often affected by weather conditions as well as political and economic factors beyond our control. As large consumers of electricity and gas, we must have dependable delivery in order to operate. Accordingly, we are at risk in the event of an energy disruption. Prolonged black-outs or brown-outs or disruptions caused by natural disasters or by political considerations would substantially disrupt our production. In addition, a significant portion of our finished steel products are delivered by truck. Unforeseen fluctuations in the price of fuel attributable to fluctuations in crude oil prices would also have a negative impact on our costs or on the costs of many of our customers. In addition, changes in certain environmental regulations in the U.S., including those that may impose output limitations or higher costs associated with climate change or greenhouse gas emissions legislation could substantially increase the cost of manufacturing and raw materials, such as energy, to us and other U.S. steel producers.

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Fluctuations in the value of the United States dollar relative to other currencies may adversely affect our business.

Fluctuations in the value of the dollar can be expected to affect our business. A strong U.S. dollar, such as was experienced in 2015, makes imported products less expensive, potentially resulting in more imports of steel products into the U.S. by our foreign competitors, while a weak U.S. dollar may have the opposite impact on imports.

Compliance with and changes in environmental and remediation requirements could result in substantially increased capital requirements and operating costs.

Existing laws or regulations, as currently interpreted or as may be interpreted in the future, as well as future laws or regulations, may have a material adverse effect on our results of operations and financial condition.

We are subject to comprehensive local, state, federal and international statutory and regulatory environmental requirements relating to, among other things:

- the acceptance, storage, treatment, handling and disposal of solid and hazardous waste;
- the discharge of materials into the air, including periodic changes to the National Ambient Air Quality Standards and to emission standards;
- the management and treatment of wastewater and storm water;
- the remediation of soil and groundwater contamination;
- global climate change legislation or regulation;
- the need for and the ability to timely obtain air, water or other operating permits;
- the timely reporting of certain chemical usage, content, storage and releases;
- the remediation and reclamation of land used for iron mining;
- natural resource damages; and
- the protection of our employees' health and safety.

Compliance with environmental laws and regulations, which affect our steelmaking, metals recycling and ironmaking operations, is a significant factor in our business. We are required to obtain and comply with environmental permits and licenses, and failure to obtain or renew or the violation of any permit or license could result in substantial fines and penalties, suspension of operations and/or the closure of a subject facility. Similarly, delays, increased costs and/or the imposition of onerous conditions to the securing or renewal of operating permits could have a material adverse effect on these operations.

Private parties might also bring claims against us under citizen suit provisions and/or for alleged property damage or personal injury resulting from the environmental impacts of our operations. Moreover, legal requirements change frequently, are subject to interpretation and have tended to become more stringent over time. Uncertainty regarding adequate pollution control levels, testing and sampling procedures, and new pollution control technology are factors that may increase our future compliance expenditures. We are unable to predict the ultimate cost of

future compliance with these requirements or their effect on our operations. Although we work hard to be in substantial compliance with all applicable laws and regulations, legal requirements frequently change and are subject to interpretation. New laws, regulations and changing interpretations by regulatory authorities, together with uncertainty regarding adequate pollution control levels, testing and sampling procedures, and evolving pollution control technology are among the factors that may increase our future expenditures

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to comply with environmental requirements. The cost of complying with existing laws or regulations as currently interpreted or reinterpreted in the future, or with future laws or regulations, may have a material adverse effect on our results of operations and financial condition.

Our manufacturing and metals recycling operations produce significant amounts of by-products, some of which are handled as solid or hazardous waste. For example, our mills generate electric arc furnace (EAF) dust, which the United States Environmental Protection Agency (U.S. EPA) and other regulatory authorities classify as hazardous waste and regulate accordingly.

In addition, the primary feed materials for the shredders operated by our metals recycling operations include automobile hulks and obsolete household appliances. A portion of the feed materials consist of unrecyclable material known as shredder residue. If laws or regulations, the interpretation of the laws or regulations, or testing methods change with regard to EAF dust or shredder residue, we may incur significant additional expenditures.

The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund") enables the U.S. EPA, state agencies and certain private parties to recover from owners, operators, generators and transporters the cost of investigation and cleanup of sites at which hazardous substances were disposed. In connection with CERCLA and analogous state laws, we may be required to clean up contamination discovered at our sites including contamination that may have been caused by former owners or operators of the sites, to conduct additional cleanup at sites that have already had some cleanup performed, and/or to perform cleanup with regard to sites formerly used in connection with our operations.

In addition, we may be required to pay for, or to pay a portion of, the costs of cleanup at sites to which we sent materials for disposal or recycling, notwithstanding that the original disposal or recycling activity may have complied with all regulatory requirements then in effect. Pursuant to CERCLA, a party can be held jointly and severally liable for all of the cleanup costs associated with a disposal site. In practice, a liable party often splits the costs of cleanup with other potentially responsible parties. We have received notices from the U.S. EPA, state agencies and third parties that we have been identified as potentially responsible for the cost of investigating and cleaning up a number of disposal sites. In most cases, many other parties are also named as potentially responsible parties.

Because CERCLA can be imposed retroactively on shipments that occurred many years ago, and because the U.S. EPA and state agencies are still discovering sites that pose a threat to public health or the environment, we can provide no assurance that we will not become liable for significant costs associated with investigation and remediation of CERCLA cleanup sites.

CERCLA, including the Superfund Recycling Equity Act of 1999, limits the exposure of scrap metal recyclers for sales of certain recyclable material under certain circumstances. However, the recycling defense is subject to a number of limitations and may be found not to apply to all instances of recycling activity that we conduct.

Increased regulation associated with climate change and greenhouse gas emissions could impose significant additional costs on both our steelmaking and metals recycling operations.

The United States government or various governmental agencies may introduce additional regulatory changes in response to the potential impacts of climate change. International treaties or agreements may also result in increasing regulation of greenhouse gas emissions, including the introduction of carbon emissions trading mechanisms. Any such regulation regarding climate change and greenhouse gas, or GHG emissions, could impose significant costs on our steelmaking and metals recycling operations and on the operations of our customers and suppliers, including increased energy, capital equipment, environmental monitoring and reporting and other costs in order to comply with current or future laws or regulations concerning and limitations imposed on our operations by virtue of

climate change and GHG emissions laws and regulations. Any adopted future climate change and GHG regulations could negatively impact our ability (and that of our customers and suppliers) to compete with companies situated in areas not subject to such limitations.

From a medium and long-term perspective, we are likely to see an increase in costs relating to our assets that emit significant amounts of greenhouse gases as a result of these regulatory initiatives. These regulatory initiatives may impact our operations directly or through our suppliers or customers. Until the timing, scope and extent of any future regulation becomes known, we cannot predict the effect on our financial condition, operating performance and ability to compete.

Risks Related to the Business

Our senior secured credit facility contains, and any future financing agreements may contain, restrictive covenants that may limit our flexibility.

Restrictions and covenants in our existing debt agreements, including our senior secured credit facility, and any future financing agreements, may impair our ability to finance future operations or capital needs or to engage in other business activities. Specifically, these agreements may limit or restrict our ability to:

- incur additional indebtedness;
- pay dividends or make distributions with respect to our capital stock, in excess of certain amounts;
- repurchase or redeem capital stock;
- make some investments;
- create liens on property;
- make some capital expenditures;
- enter into transactions with affiliates or related persons;
- issue or sell stock of certain subsidiaries;
- sell or transfer assets; and
- enter into mergers, acquisitions or consolidations, or some joint ventures.

A breach of any of the restrictions or covenants could cause a default under our senior secured credit facility, our senior notes, or our other debt. A significant portion of our indebtedness then may become immediately due and payable if the default is not remedied.

Under our senior secured credit facility, we are required to maintain certain financial covenants tied to our leverage and profitability. Our ability to meet such covenants or other restrictions can be affected by events beyond our control. If a default were to occur, the lenders could elect to declare all amounts then outstanding to be immediately due and payable and terminate all commitments to extend further credit. If we are unable to repay those amounts, the lenders could proceed against the collateral granted to them to secure such indebtedness. We have pledged substantially all of our receivables and inventories and all shares of capital stock or other equity interests of our subsidiaries and intercompany debt held by us as collateral for our senior secured credit facility.

We may face significant price and other forms of competition from other steel producers, scrap processors and alternative materials, which could have a material adverse effect on our business, financial condition, results of operation, or prospects.

The global markets in which steel companies and scrap processors conduct business are highly competitive and became even more so due to the slow and uneven recovery from the global economic downturn and consolidations in the steel and scrap industries. Additionally, in many applications, steel competes with other materials, such as aluminum, cement, composites, plastics, carbon fiber, glass and wood. Increased use of alternative materials could decrease demand for steel and combined with increased competition could cause us to lose market share, increase expenditures or reduce pricing, any one of which could have a material adverse effect on our business, financial condition, results of operations or prospects. The global steel industry suffers from over-capacity, and that excess capacity intensifies price competition in some of our products. A decrease in the global demand for steel scrap, due to market or other conditions, generally causes a decrease in the price of scrap metals. A decrease in price could result in some scrap generators exiting the marketplace which could further decrease the availability of scrap. This shortage in availability of scrap could have a material adverse effect on both our steelmaking and our metals recycling operations and thus on our business, financial condition, results of operations or prospects.

We are subject to significant risks relating to changes in commodity prices and may not be able to effectively protect against these risks.

We are exposed to commodity price risk during periods where we hold title to scrap metal products that we may hold in inventory for processing or resale. Prices of commodities, including scrap, can be volatile due to numerous factors beyond our control. In an increasing price environment for raw materials, competitive conditions may limit our ability to pass on price increases to our consumers. In a decreasing price environment for processed scrap, we may not have the ability to fully recoup the cost of raw materials that we procure, process, and sell to our customers. In addition, new entrants into the market areas we serve could result in higher purchase prices for raw materials and lower margins from our scrap. We have not hedged positions in certain commodities, such as ferrous scrap, where futures markets are not well established. Thus, our sales and inventory position will be vulnerable to adverse changes in commodity prices, which could materially adversely impact our operating and financial performance.

The profitability of our metals recycling operations depends, in part, on the availability of an adequate source of supply.

We procure our scrap inventory from numerous sources. These suppliers generally are not bound by long-term contracts and have no obligation to sell recyclable metal to us. In periods of low industry prices, suppliers may elect to hold recyclable metal to wait for higher prices or intentionally slow their metal collection activities. If a substantial number of suppliers cease selling recyclable metal to us, we will be unable to recycle metal at desired levels and our results of operations and financial condition could be materially adversely affected. In addition, a slowdown of industrial production in the U.S. reduces the supply of industrial grades of metal to the metal recycling industry, resulting in our having less recyclable metal available to process and market.

We may face risks associated with the implementation of our growth strategy.

Our growth strategy subjects us to various risks. As part of our growth strategy, we may expand existing facilities, enter into new product or process initiatives, acquire or build additional plants, acquire other businesses and assets, enter into joint ventures, or form strategic alliances that we believe

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will complement our existing business. These transactions will likely involve some or all of the following risks:

- the risk of entering markets in which we have little experience;
- the difficulty of competing for acquisitions and other growth opportunities with companies having materially greater financial resources than us;
- the inability to realize anticipated synergies or other benefits expected from an acquisition;
- the difficulty of integrating the new or acquired operations and personnel into our existing operations;
- the potential disruption of ongoing operations;
- the diversion of financial resources to new operations or acquired businesses;
- the diversion of management attention from other business concerns to new operations or acquired businesses;
- the loss of key employees and customers of acquired businesses;
- the potential exposure to unknown liabilities;
- the inability of management to maintain uniform standards, controls, procedures and policies;
- the difficulty of managing the growth of a larger company;
- the risk of becoming involved in labor, commercial, or regulatory disputes or litigation related to the new operations or acquired businesses;
- the risk of becoming more highly leveraged;
- the risk of contractual or operational liability to other venture participants or to third parties as a result of our participation;
- the inability to work efficiently with joint venture or strategic alliance partners; and
- the difficulties of terminating joint ventures or strategic alliances.

These initiatives or transactions might be required for us to remain competitive, but we may not be able to complete any such transactions on favorable terms or obtain financing, if necessary. Future transactions may not improve our competitive position and business prospects as anticipated, and if they do not, our sales and earnings may be significantly reduced.

Impairment charges could adversely affect our results of operations.

We periodically test goodwill, intangible assets and long-lived assets to determine whether their estimated fair value is less than their value recorded on our balance sheet. If we determine that the fair value of any of these assets is less than the value recorded on our balance sheet, we will incur non-cash impairment charges that could adversely affect our results of operations.

During the fourth quarter of 2014, we assessed the carrying value of the Minnesota ironmaking operations' fixed assets, and determined that the future estimated cash flow did not support the value in place. Therefore, we recorded a pre-tax, non-cash asset impairment charge of $260 million, and based on our joint venture ownership percentage, reduced consolidated company net income by $132.6 million. Due to a significant and sustained decline in global pig iron pricing, which resulted in the cost of iron nugget production being higher than product selling values, we indefinitely idled our Minnesota ironmaking operations in May 2015.

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During the fourth quarter of 2015, as a part of our annual goodwill and indefinite-lived intangible asset assessment, it was determined that the fair market value of our metals recycling operations was less than its carrying value, due to the sustained weak global scrap commodity outlook. We determined that the carrying value of the metals recycling operations was impaired, resulting in pretax non-cash goodwill, trade name, and other related asset impairment charges of $428.5 million.

We are subject to litigation and legal compliance risks which could adversely affect our financial condition, results of operations and liquidity.

We are involved, along with two other remaining steel manufacturing company defendants, in a class action antitrust suit in federal court in Chicago, Illinois, originally against eight companies. The Complaint alleges a conspiracy on the part of the original defendants to fix, raise, maintain and stabilize the price at which steel products were sold in the United States during a specified period between 2005 and 2007, by artificially restricting the supply of such steel products. All but one of the Complaints were brought on behalf of a purported class consisting of all direct purchasers of steel products. The other Complaint was brought on behalf of a purported class consisting of all indirect purchasers of steel products within the same time period. In addition, another similar complaint was filed in December 2010 purporting to be on behalf of indirect purchasers of steel products in Tennessee. All Complaints have been consolidated in the Chicago action and seek treble damages and costs, including reasonable attorney fees, pre- and post-judgment interest and injunctive relief. Following an extensive period of discovery and related motions concerning class certification matters, the Court, on September 9, 2015, certified a class, limited, however, to the issue of the alleged conspiracy alone, and denied class certification on the issue of antitrust impact and damages. As a result, some additional discovery is ongoing. We have also filed a motion for summary judgment, as has co-defendant SSAB, and this is currently pending.

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

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

In addition to risks associated with our environmental and other regulatory compliance, our international operations are subject to complex foreign and U.S. laws and regulations, including the Foreign Corrupt Practices Act, regulations related to import-export controls, the Office of Foreign Assets Control, and other laws and regulations, each of which may increase our cost of doing business and expose us to increased risk.

Unexpected equipment downtime or shutdowns could adversely affect our business, financial condition, results of operations and prospects.

Interruptions in our production capabilities could adversely affect our production costs, products available for sale and earnings during the affected period. In addition to equipment failures, our

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facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions or violent weather conditions. Our manufacturing processes are dependent upon critical pieces of steelmaking equipment, such as our furnaces, continuous casters and rolling equipment, as well as electrical equipment, such as transformers. This equipment may, on occasion, be out of service as a result of unanticipated failures or other events. We have experienced and may in the future experience plant shutdowns or periods of reduced production as a result of such equipment failures or other events. These disruptions could have an adverse effect on our operations, customer service levels, financial results and prospects.

We have incurred, and may incur in the future, costs to idle facilities, idled facility carrying costs, or increased costs to resume production at idled facilities.

Due to a significant and sustained decline in global pig iron pricing, which resulted in the cost of iron nugget production being higher than product selling values, we indefinitely idled our Minnesota ironmaking operations in May 2015. We incurred approximately $34.8 million (inclusive of noncontrolling interest of $5.1 million) of expenses related to the idling, including $21.0 million of non-cash inventory valuation adjustments. We currently incur minor ongoing carrying costs related to these idled facilities and, should we in the future resume production, we would incur further costs related to preparing the Minnesota ironmaking operations for operation, perform any required repairs and maintenance, and training employees.

Should economic or market conditions dictate, we may in the future idle additional facilities, which may require us to incur additional idling and carrying costs related to those facilities, as well as further increased costs should production be resumed at any idled facility, which could have an adverse effect on our financial results and results of operations.

We may face risks to the security of our information technology.

Increased global information technology security requirements, vulnerabilities, threats and a rise in sophisticated and targeted cybercrime pose a risk to the security of our systems, our information networks, and to the confidentiality, availability and integrity of our data, as well as to the functionality of our automated and electronically controlled manufacturing operating systems. Although we have adopted procedures and controls to protect our information and operating technology, including sensitive proprietary information and confidential and personal data, there can be no assurance that a system or network failure, or security breach, will be prevented. This could lead to system interruption, production delays or downtimes and operational disruptions, the disclosure, modification or destruction of proprietary and other key information, which could have an adverse effect on our reputation, financial results and results of operations.

Governmental agencies may refuse to grant or renew some of our licenses and permits.

We must receive licenses, air, water and other permits and approvals from state and local governments to conduct certain of our operations or to develop or acquire new facilities. Governmental agencies sometimes resist the establishment of certain types of facilities in their communities, including scrap metal collection and processing facilities. There can be no assurance that future approvals, licenses and permits will be granted or that we will be able to maintain and renew the approvals, licenses and permits we currently hold. Failure to do so could have a material adverse effect on our results of operations and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The following table describes our more significant properties as of December 31, 2015. These properties are owned by us and not subject to any significant encumbrances, or are leased by us. We believe these properties are suitable and adequate for our current operations and are appropriately utilized. For additional information regarding our facilities please refer to Item 1. *Business.*

Operations	Location	Description	Site Acreage Owned	Site Acreage Leased
Steel Operations Segment*				
Butler Flat Roll Division:				
Butler Operations	Butler, IN	Flat Roll Steel Mill and Coating Facility	1,082	
Jeffersonville Operations	Jeffersonville, IN	Flat Roll Steel Coating Facility	27	10
Columbus Flat Roll Division	Columbus, MS	Flat Roll Steel Mill and Coating Facility	277	1,422
The Techs	Pittsburgh, PA	Flat Roll Steel Coating Facilities	16	2
Structural and Rail Division	Columbia City, IN	Structural and Rail Steel Mill	699	
Engineered Bar Division	Pittsboro, IN	Engineered Bar Steel Mill and Finishing Facility	285	
Roanoke Bar Division	Roanoke, VA	Merchant Bar Steel Mill	290	
Steel of West Virginia	Huntington, WV	Specialty Shapes Steel Mill and Finishing Facility	49	6
Steel of West Virginia	Wurtland, KY		28	
Steel of West Virginia	Memphis, TN		4	
Iron Dynamics	Butler, IN	Liquid Ironmaking Facility	25	
Metals Recycling Operations Segment				
OmniSource (representing over 75 locations):				
Georgia	Athens, Georgia	Ferrous and Nonferrous Scrap Processing	22	
Indiana	Multiple Cities	Ferrous and Nonferrous Scrap Processing	484	28
Michigan	Multiple Cities	Ferrous and Nonferrous Scrap Processing	223	
North Carolina	Multiple Cities	Ferrous and Nonferrous Scrap Processing	446	7
Ohio	Multiple Cities	Ferrous and Nonferrous Scrap Processing	212	21
South Carolina	Multiple Cities	Ferrous and Nonferrous Scrap Processing	157	
Tennessee	Multiple Cities	Ferrous and Nonferrous Scrap Processing	44	
Virginia	Multiple Cities	Ferrous and Nonferrous Scrap Processing	196	
Steel Fabrication Operations Segment				
New Millennium Building Systems:				
Joist and Deck Operations	Butler, IN	Steel Joist and Deck Fabrication Facility	95	
Joist and Deck Operations	Lake City, FL	Steel Joist and Deck Fabrication Facility	75	
Joist and Deck Operations	Salem, VA	Steel Joist and Deck Fabrication Facility	62	
Joist and Deck Operations	Hope, AR	Steel Joist and Deck Fabrication Facility	72	
Deck Operations	Memphis, TN	Deck Fabrication Facility	19	
Joist Operations	Fallon, NV	Steel Joist Fabrication Facility	53	
Deck Operations	Phoenix, AZ	Deck Fabrication Facility		3
Joist Operations	Juarez, MX	Steel Joist Fabrication Facility	17	
Other Operations				

Corporate Headquarters	Fort Wayne, IN	Office Building (116,000 square feet)	20	
SDI LaFarga, LLC	New Haven, IN	Copper Wire Rod Facility	35	
Mesabi Nugget	Hoyt Lakes, MN	Ironmaking Facility Idled May 2015	**	**
Mesabi Mining	Hoyt Lakes, MN	Iron Ore Concentration and Grinding (Mining not developed) Idled May 2015	**	**
Mining Resources	Chisholm, MN	Iron Ore Tailings Mining Idled May 2015	***	***

*

For 2015, our steel mill production utilization was 79% of our estimated annual steelmaking capability, as compared to domestic and global raw steel capability utilization of 70% according to AISI (domestic) and World Steel Association data.

**

The Mesabi Nugget and Mesabi Mining properties are located at the site of an open pit taconite mine on the Mesabi Iron Range near Hoyt Lakes, Minnesota. The site encompasses 7,981 acres of land owned outright by us (including mineral and surface rights) and land for which we acquired a leasehold interest (including 774 acres of mineral and 624 acres of surface rights). The properties were purchased from Cleveland Cliffs, Inc. and were formerly operated by LTV Corporation.

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Mining Resources has leases for iron-bearing materials on 916 acres of iron tailings basins located in Chisholm, Minnesota.

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ITEM 3. LEGAL PROCEEDINGS

We are involved, along with two other remaining steel manufacturing company defendants, in a class action antitrust suit in federal court in Chicago, Illinois, originally against eight companies. The Complaint alleges a conspiracy on the part of the original defendants to fix, raise, maintain and stabilize the price at which steel products were sold in the United States during a specified period between 2005 and 2007, by artificially restricting the supply of such steel products. All but one of the Complaints were brought on behalf of a purported class consisting of all direct purchasers of steel products. The other Complaint was brought on behalf of a purported class consisting of all indirect purchasers of steel products within the same time period. In addition, another similar complaint was filed in December 2010 purporting to be on behalf of indirect purchasers of steel products in Tennessee. All Complaints have been consolidated in the Chicago action and seek treble damages and costs, including reasonable attorney fees, pre- and post-judgment interest and injunctive relief. Following an extensive period of discovery and related motions concerning class certification matters, the Court, on September 9, 2015, certified a class, limited, however, to the issue of the alleged conspiracy alone, and denied class certification on the issue of antitrust impact and damages. As a result, some additional discovery is ongoing. We have also filed a motion for summary judgment, as has co-defendant SSAB, and this matter is currently pending.

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

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

ITEM 4. MINE SAFETY DISCLOSURES

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

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The information required by Item 5 with respect to securities authorized for issuance under equity compensation plans is set forth in Part III, Item 12 of this Form 10-K. Our common stock trades on The NASDAQ Global Select Stock Market under the symbol STLD. The reported high and low "intra-day" sales prices of our common stock and our dividend information for the two most recent fiscal years are set forth in the following table (in dollars):

	Common Stock Market Price		Dividends
	High	Low	Declared
2015			
First Quarter	$ 20.94	$ 16.51	$ 0.1375
Second Quarter	23.17	19.50	0.1375
Third Quarter	21.73	16.52	0.1375
Fourth Quarter	19.71	16.23	0.1375
2014			
First Quarter	$ 19.53	$ 15.80	$ 0.115
Second Quarter	19.07	17.00	0.115
Third Quarter	25.51	17.75	0.115
Fourth Quarter	23.58	18.83	0.115

As of February 17, 2016, we had 243,186,659 shares of common stock outstanding and held beneficially by approximately 20,600 stockholders based on our security position listing. Because many of the shares were held by depositories, brokers and other nominees, the number of registered holders (approximately 1,540) is not representative of the number of beneficial holders.

We declared our first quarterly cash dividend during July 2004 and continued quarterly dividends throughout 2015. Our board of directors, along with executive management, approves the payment of dividends on a quarterly basis. The determination to pay cash dividends in the future will be at the discretion of our board of directors, after taking into account various factors, including our financial condition, results of operations, outstanding indebtedness, current and anticipated cash needs and growth plans. In addition, the terms of our senior secured revolving credit agreement and the indenture relating to our senior notes restrict the amount of cash dividends we can pay.

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Total Return Graph

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Steel Dynamics, Inc., the NASDAQ Composite Index, and the S&P Steel Index

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* $100 invested on 12/31/10 in stock or index, including reinvestment of dividends.

Fiscal year ending December 31.

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth the selected consolidated financial and operating data of Steel Dynamics, Inc. The selected consolidated operating, other financial and balance sheet data as of and for each of the years in the five-year period ended December 31, 2015, were derived from our audited consolidated financial statements. You should read the following data in conjunction with *Management's Discussion and Analysis of Financial Condition and Results of Operations* and our consolidated financial statements and notes appearing elsewhere in this Form 10-K.

You should also read the following information in conjunction with the data in the table on the following page:

In the fourth quarter of 2015, we recorded pretax non-cash impairment charges related to goodwill, trade name and certain other assets associated with OmniSource, the company's metal recycling operations, which reduced 2015 operating income by $428.5 million, and net income and net income attributable to Steel Dynamics, Inc. by $268.7 million, and basic and diluted earnings per share by $1.11.

In the fourth quarter 2014, we recorded a non-cash impairment charge associated with the company's Minnesota ironmaking operations, which reduced 2014 operating and pretax income by $260.0 million, net income by $179.1 million, net income attributable to Steel Dynamics, Inc. by $132.6 million, and basic and diluted earnings per share by $0.55.

On September 16, 2014, we completed the acquisition of Severstal Columbus, LLC (Columbus Flat Roll Division). Located in northeast Mississippi, Columbus Flat Roll Division is one the newest and most technologically advanced sheet steel electric arc furnace mills in North America. Columbus Flat Roll Division operations are reflected in our steel operations from the date of acquisition.

For purposes of calculating our "ratio of earnings to fixed charges", earnings consist of earnings from continuing operations before income taxes, extraordinary items and before adjustments for noncontrolling interests, adjusted for the portion of fixed charges deducted from these earnings, plus amortization of capitalized interest (Adjusted earnings (losses)). Fixed charges consist of interest on all indebtedness, including capitalized interest, and amortization of debt issuance costs.

Adjusted losses in 2015 of ($81.0) million are not sufficient to cover fixed charges of $154.4 million, by $235.4 million. Adjusted losses in 2015 of ($81.0) million include $428.5 million of pretax non-cash asset impairment charges related to OmniSource as noted above. Without the impact of these non-cash asset impairment charges, 2015 would reflect adjusted earnings of $347.5 million and a ratio of earnings to fixed charges of 2.20x.

Adjusted earnings in 2014 of $309.3 million include $260.0 million of pretax non-cash asset impairment charges related to our Minnesota ironmaking operations as noted above. Without the impact of these non-cash asset impairment charges, 2014 adjusted earnings would increase from $309.3 million to $569.3 million, resulting in a ratio of earnings to fixed charges of 4.07x.

For purposes of calculating our "operational working capital" for all periods presented, we consider amounts invested in trade receivables and inventories, less current liabilities other than income taxes payable and debt as reported on our consolidated balance sheets.

The company adopted FASB ASU 2015-03, Interest Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented as a deduction from the corresponding debt liability, rather than as a separate asset, on December 31, 2015, and applied the new guidance retrospectively to all prior periods

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presented in the financial statements and Selected Financial Data presented in this Item 6. As a result of the adoption, deferred debt issuance costs of $42.3 million, $26.5 million, $28.4 million, and $24.3 million were reclassified from Other Assets to a reduction of Long Term Debt in our December 31, 2014, 2013, 2012, and 2011, respectively, consolidated balance sheets.

The company adopted FASB ASU 2015-17, Income Taxes (Topic 740), which requires an entity to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating into current and noncurrent amounts, on December 31, 2015, and applied the new guidance retrospectively to all prior periods presented in the financial statements and Selected Financial Data presented in this Item 6. As a result of the adoption, current deferred income tax assets of $35.5 million, $18.0 million, $23.4 million, and $25.3 million were reclassified as a reduction of noncurrent deferred tax liabilities in our December 31, 2014, 2013, 2012, and 2011, respectively, consolidated balance sheets.

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	Years Ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
	(dollars and shares in thousands, except per share data)				
Operating data:					
Net sales	$ 7,594,411	$ 8,755,952	$ 7,372,924	$ 7,290,234	$ 7,997,500
Gross profit	731,718	966,211	719,144	719,898	931,518
Operating income (loss)	(72,784)	320,320	386,525	391,165	584,820
Asset impairment charges reflected in operating income (loss)	(428,500)	(260,000)	(308)	(8,250)	
Net income (loss)	(145,170)	91,650	163,516	142,281	265,692
Net income (loss) attributable to Steel Dynamics, Inc.	(130,311)	157,024	189,314	163,551	278,120
Basic earnings (loss) per share	$ (.54)	$ 0.68	$ 0.86	$ 0.75	$ 1.27
Weighted average common shares outstanding	242,017	232,547	220,916	219,159	218,471
Diluted earnings (loss) per share	$ (0.54)	$ 0.67	$ 0.83	$ 0.73	$ 1.22
Weighted average common shares and share equivalents outstanding	242,017	242,078	238,996	236,624	235,992
Dividends declared per share	$ 0.55	$ 0.46	$ 0.44	$ 0.40	$ 0.40
Other financial data:					
Capital expenditures	$ 114,501	$ 111,785	$ 186,843	$ 223,525	$ 167,007
Ratio of earnings (losses) to fixed charges	Note prior page	2.21x	3.00x	2.31x	3.40x
Ratio of earnings, excluding asset impairment charges, to fixed charges	2.20x	4.07x	3.01x	2.36x	3.40x
Other data:					
Shipments:					
Steel operations segment (net tons)	8,328,150	7,358,366	6,119,884	5,832,776	5,842,694
Metals recycling operations segment					
Ferrous metals (gross tons)	5,139,506	5,566,238	5,505,995	5,647,058	5,879,729
Nonferrous metals (thousands of pounds)	1,082,777	1,173,771	1,052,494	1,051,333	1,066,648
Steel fabrication operations segment (net tons)	492,890	480,509	366,676	295,161	217,838
Steel operations segment production (net tons)	8,528,885	7,376,657	6,266,507	5,884,775	5,931,833
Shares outstanding (in thousands)	243,090	241,449	222,867	219,523	218,874
Number of employees	7,510	7,780	6,870	6,670	6,530
Balance sheet data:					

Cash and equivalents, and short-term commercial paper	$ 727,032	$ 361,363	$ 395,156	$ 407,437	$ 475,591
Operational working capital	1,246,408	1,723,208	1,405,736	1,281,765	1,276,916
Net property, plant and equipment	2,951,210	3,123,906	2,226,134	2,231,198	2,193,745
Total assets	6,202,082	7,233,159	5,888,534	5,763,561	5,929,604
Long-term debt (including current maturities)	2,594,656	2,981,849	2,081,110	2,173,832	2,355,819
Equity	2,545,111	2,795,527	2,495,855	2,377,842	2,299,900

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report contains some predictive statements about future events, including statements related to conditions in the steel and metallic scrap markets, our revenues, costs of purchased materials, future profitability and earnings, and the operation of new or existing facilities. These statements, which we generally precede or accompany by such typical conditional words as "anticipate," "intend," "believe," "estimate," "plan," seek," "project"' or "expect," or by the words "may," "will," or "should," are intended to be made as "forward-looking," subject to many risks and uncertainties, within the safe harbor protections of the Private Securities Litigation Reform Act of 1995, incorporated in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements involve both known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements speak only as of this date and are based upon information and assumptions, which we consider reasonable as of this date, concerning our businesses and the environments in which they operate. Such predictive statements are not guarantees of future performance, and we undertake no duty to update or revise any such statements. Some factors that could cause such forward-looking statements to turn out differently than anticipated include: (1) the effects of uncertain economic conditions; (2) cyclical and changing industrial demand; (3) changes in conditions in any of the steel or scrap-consuming sectors of the economy which affect demand for our products, including the strength of the non-residential and residential construction, automotive, appliance, pipe and tube, and other steel-consuming industries; (4) fluctuations in the cost of key raw materials (including steel scrap, iron units, and energy costs) and our ability to pass-on any cost increases; (5) the impact of domestic and foreign import price competition; (6) unanticipated difficulties in integrating or starting up new or acquired businesses; (7) risks and uncertainties involving product and/or technology development; and (8) occurrences of unexpected plant outages or equipment failures.

More specifically, we refer you to the sections titled *Special Note Regarding Forward-Looking Statements* at the beginning of Part I of this Report and *Risk Factors* set forth in Item 1A of this Report, as well as in other subsequent reports we file with the Securities and Exchange Commission, for a more detailed discussion of some of the many factors, variable risks and uncertainties and subsequent developments that could cause actual results to differ materially from those we may have expected or anticipated. These reports are available publicly on the Securities and Exchange Commission website, *www.sec.gov*, and on our website, *www.steeldynamics.com*.

Operating Statement Classifications

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

Costs of Goods Sold. Our costs of goods sold represent all direct and indirect costs associated with the manufacture of our products. The principal elements of these costs are scrap and scrap substitutes (which represent the most significant single component of our consolidated costs of goods sold), steel,

direct and indirect labor and related benefits, alloys, zinc, transportation and freight, repairs and maintenance, utilities (most notably electricity and natural gas), and depreciation.

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

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

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

2015 Overview

We are one of the largest steel producers and one of the largest metals recyclers in the United States based on a current estimated annual steelmaking and coating capability of approximately 11 million tons, and actual recycling volumes. The primary sources of our revenues and operating income are from the manufacture and sale of steel products, processing and sale of recycled ferrous and nonferrous metals, and the fabrication and sale of steel joist and deck products. In the third quarter 2015, we changed our reportable segments consistent with how we currently manage the business, representing three reporting segments: steel operations, metals recycling operations, and steel fabrication operations.

Metals Recycling Operations Segment Asset Impairment Charges

In the fourth quarter of 2015, we recorded pretax non-cash impairment charges related to goodwill, indefinite-lived intangibles and certain other assets associated with OmniSource, the company's metal recycling operations, which reduced 2015 operating income by $428.5 million, and net income and net income attributable to Steel Dynamics, Inc. by $268.7 million, and basic and diluted earnings per share by $1.11. During the company's 2015 annual goodwill and indefinite-lived intangible asset impairment analysis, we determined that the fair value of OmniSource was less than its carrying value, and upon the completion of the second step of the impairment analysis, that the goodwill and trade name indefinite-lived intangible assets were impaired. The OmniSource goodwill and trade name assets were written down to their respective fair values, resulting in non-cash asset impairment charges of $341.3 million and $68.5 million, respectively. Upon the December 31, 2015 determination and classification of certain OmniSource property and plant assets as held for sale, the company recorded a $10.3 million non-cash asset impairment. The company reflected a total of $428.5 million of pretax non-cash asset impairment charges in the consolidated statement of operations for the year ended December 31, 2015, within the metals recycling operations.

Our 2015 consolidated operational and financial results were negatively impacted by decreased steel shipments (excluding Columbus Flat Roll Division for the 2015 and 2014 periods) and average steel product pricing, driven by continuing excessive and historically high levels of steel imports. While scrap costs also decreased significantly throughout 2015, steel metal margins contracted as the drop in steel selling prices was more severe than the decline of scrap costs. Underlying domestic steel consumption remained steady, as we continue to see improvements in non-residential construction, as well as steady consumption in automotive and other manufacturing segments. However, a larger portion

of the domestic steel demand was served by imports in 2015 than compared to 2014. As a result of this, as well as customer destocking, domestic steel mill utilization rates decreased throughout 2015, as compared to 2014, resulting in decreased ferrous scrap shipments in our metals recycling operations. Decreased shipments, along with metal margin compression due to monthly price declines, resulted in significantly reduced profitability in our metals recycling operations in 2015, as compared to 2014. During 2015, our steel fabrication operations continued to benefit from the sustained improvements in non-residential construction demand, our market share and expanding geographic footprint, and lower steel raw material costs, resulting in significant increases in both sales and operating income, compared to 2014.

Excluding the impact of the $428.5 million and $260.0 million in pretax non-cash impairment charges in 2015 and 2014, respectively, consolidated operating income decreased $224.6 million, or 39%, to $355.7 million in 2015, compared to $580.3 million in 2014, and net income decreased $151.3 million, or 52%, to $138.3 million, or $0.57 per diluted share, during 2015, compared with net income of $289.6 million, or $1.22 per diluted share, during 2014. The impact of the $428.5 million pretax non-cash impairment charge related to our metals recycling operations reduced 2015 net income by $268.7 million and our diluted earnings per share by $1.11. The impact of the $260.0 million pretax non-cash impairment charge related to our Minnesota ironmaking operations, including amounts attributable to noncontrolling interests of $46.5 million, reduced 2014 net income attributable to Steel Dynamics, Inc. by $132.6 million and our diluted earnings per share by $0.55.

2014 Overview

Acquisition of Severstal Columbus, LLC. (Columbus Flat Roll Division)

On September 16, 2014, we completed our acquisition of Columbus Flat Roll Division, on a debt-free basis, for a purchase price of $1.625 billion, with additional working capital adjustments of $44.4 million. The Columbus Flat Roll Division acquisition was funded through the issuance of $1.2 billion of senior notes, borrowings under our senior secured credit facility, and available cash. We purchased Columbus Flat Roll Division to significantly expand and diversify our steel operating base, with the addition of 3.4 million tons of hot roll steel production capacity. The product offerings are diversified with respect to width, gauge, and strength, when compared to the capabilities of our Butler Flat Roll Division. Located in northeast Mississippi, Columbus Flat Roll Division is one of the newest and most technologically advanced sheet steel electric arc furnace mills in North America, with access to non-energy related pipe and tube, oil country tubular goods (OCTG) and automotive markets. Additionally, Columbus Flat Roll Division is advantageously located to serve the growing markets in the southern U.S. and Mexico, providing geographic diversification and growth opportunities. Columbus Flat Roll Division operating results have been reflected in our financial statements since the effective date of the acquisition, in the steel operations. Columbus Flat Roll Division reported revenues of $638.3 million and pretax income of $56.1 million during the September 16 to December 31, 2014, period, before giving effect to $26.4 million of purchase accounting related cost of goods sold expenses associated with the step-up in inventory, fixed assets and intangible assets, and $25.2 million of acquisition and related costs that are included in other expenses in the consolidated statement of operations for the year ended December 31, 2014.

Minnesota Ironmaking Operations Impairment

During the fourth quarter of 2014, our Minnesota ironmaking operations reached a steady operating state, indicating a consistency in the operation's production capability, processes and cost structure, including the ability to utilize certain lower-cost raw materials. Given this, we undertook an assessment of the recoverability of the carrying value of our Minnesota ironmaking operation's fixed assets. Given our outlook at that time regarding future operating costs and product pricing,

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we concluded that the carrying value of these fixed assets was no longer fully recoverable, and the fixed assets were in fact impaired. This assessment resulted in a $260.0 million pretax non-cash impairment charge, including amounts attributable to noncontrolling interests of $46.5 million, which reduced net income attributable to Steel Dynamics, Inc. by $132.6 million. The impact of losses from our Minnesota ironmaking operations on 2014 net income, including the impact of the $260.0 million of pretax non-cash impairment charges, was approximately $165.9 million. Excluding the $260.0 million in pretax non-cash asset impairment charges, the impact of Minnesota ironmaking operations on 2014 net income attributable to Steel Dynamics, Inc. was approximately $33.3 million, as compared to approximately $41.9 million in 2013.

Net sales in 2014 of $8.8 billion increased 19% from 2013 net sales of $7.4 billion, due to increased shipments in all of our operating segments, and higher average selling prices in our steel and steel fabrication operations. We achieved record volumes in our steel and steel fabrication operations, which reported increased shipments of 19% (4% without Columbus Flat Roll Division) and 31%, respectively, in 2014, as compared to 2013. Demand continued to be strong in the automotive and manufacturing markets, the non-residential construction markets continued to improve, and we began to realize sales from our new special-bar-quality smaller-diameter rolling mill at our Engineered Bar Products Division and from our premium rail expansion at our Structural and Rail Division. Our metal spreads in steel and steel fabrication operations also improved, as market pricing increased to a greater degree than raw materials costs. Plant utilization was also strong, which resulted in volume-related cost compression in our steel and steel fabrication operations. While shipments increased at our metals recycling operations, operating income decreased in 2014, when compared to 2013, due to decreases in metal spreads. The impact of losses from our Minnesota ironmaking operations on 2014 net income, reflected in "Other", including the impact of the $260.0 million of pretax non-cash asset impairment charges, was approximately $165.9 million, or $0.69 per diluted share, as compared to approximately $42 million, or $0.18 per diluted share in 2013. As a result of the above, net income in 2014, including the impact of impairment charges, decreased $32.3 million or 17%, to $157.0 million, or $0.67 per diluted share.

Excluding the impact of the $260.0 million in pretax non-cash asset impairment charges, consolidated operating income increased $193.8 million, or 50%, to $580.3 million in 2014, compared to $386.5 million in 2013, and net income increased $100.3 million, or 53%, to $289.6 million, or $1.22 per diluted share, during 2014, compared with net income of $189.3 million, or $0.83 per diluted share, during 2013. The impact of the $260.0 million pretax non-cash asset impairment charge related to our Minnesota ironmaking operations, including amounts attributable to noncontrolling interests of $46.5 million, reduced net income attributable to Steel Dynamics, Inc. by $132.6 million and our diluted earnings per share by $0.55.

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Segment Operating Results (*dollars in thousands*)

	Years Ended December 31,				
	2015	% Change	2014	% Change	2013
Net sales					
Steel Operations Segment	$ 5,422,475	(7)%	$ 5,821,578	24%	$ 4,684,847
Metals Recycling Operations Segment	2,337,716	(34)%	3,539,206	8%	3,274,866
Steel Fabrication Operations Segment	673,399	7%	631,808	44%	439,655
Other	314,847	(33)%	468,505	57%	299,079
Total	8,748,437		10,461,097		8,698,447
Intra-company	(1,154,026)		(1,705,145)		(1,325,523)
Consolidated	$ 7,594,411	(13)%	$ 8,755,952	19%	$ 7,372,924

	2015	% Change	2014	% Change	2013
Operating income (loss)					
Steel Operations Segment	$ 403,216	(41)%	$ 683,609	32%	$ 516,125
Metals Recycling Operations Segment(1)	(448,137)	(1,823)%	26,014	(38)%	41,949
Steel Fabrication Operations Segment	115,947	123%	51,894	641%	7,003
Other(2)	(148,784)	67%	(445,549)	(150)%	(177,939)
Total	(77,758)		315,968		387,138
Intra-company	4,974		4,352		(613)
Consolidated	$ (72,784)	(123)%	$ 320,320	(17)%	$ 386,525

(1) Metals recycling operations segment operating loss of $448.1 million in 2015 includes $428.5 million of pretax non-cash goodwill and other related asset impairment charges.

(2) Other operations consists of subsidiary operations that are below the quantitative thresholds required for reportable segments and primarily consist of our Minnesota ironmaking operations that were indefinitely idled in May 2015, and several smaller joint ventures. Also included in "Other" are certain unallocated corporate accounts, such as the company's senior secured credit facility, senior notes, certain other investments and certain profit sharing expenses. Operating loss of $445.5 million in 2014 includes $260.0 million of pretax non-cash asset impairment charges related to our Minnesota ironmaking operations.

Steel Operations Segment

Steel Operations Segment. Steel operations consist of our six electric arc furnace steel mills, producing steel from ferrous scrap and scrap substitutes, utilizing continuous casting, automated rolling mills, and ten downstream coating lines, and IDI, our liquid pig production facility that supplies solely our Butler Flat Roll Division mill. Our steel operations sell directly to end users and service centers (see Item 1 to this Form 10-K). These products are used in numerous industry sectors, including the automotive, construction, manufacturing, transportation, heavy and agriculture equipment, and pipe and tube (including OCTG) markets. During 2015, 2014, and 2013, our steel operations accounted for 69%, 63%, and 61% respectively, of our consolidated net sales.

Sheet Products. Our sheet products operations consist of Butler and Columbus (acquired September 16, 2014) Flat Roll Divisions, and our downstream coating lines, including The Techs. These operations sell a broad range of sheet steel products, such as hot roll, cold roll and coated steel products, including a wide variety of specialty products, such as light gauge hot roll and

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galvanized. Butler Flat Roll Division sells other products such as Galvalume® and painted products, while Columbus Flat Roll Division sells other products used to produce non-energy line pipe, and is currently in the construction phase of a $100 million expansion to add painted and Galvalume® capacity. The Techs is comprised of three galvanizing lines which sell specialized galvanized sheet steels used in non-automotive applications.

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

Steel Operations Segment Shipments (tons):

	Years Ended December 31,				
	2015	% Change	2014	% Change	2013
Shipments:					
Butler Flat Roll Division	2,539,399		2,917,259		2,904,149
Columbus Flat Roll Division	2,598,939		873,661		
The Techs	667,661		714,158		669,608
Sheet products	5,805,999	29%	4,505,078	26%	3,573,757
Structural and Rail Division	1,185,109		1,324,935		1,178,606
Engineered Bar Products Division	509,083		646,731		488,393
Roanoke Bar Division	515,440		572,373		569,260
Steel of West Virginia	312,519		309,249		309,868
Long products	2,522,151	(12)%	2,853,288	12%	2,546,127
Total shipments	8,328,150	13%	7,358,366	20%	6,119,884
Intra-segment shipments	(222,025)		(241,656)		(135,938)
Steel operations segment shipments	8,106,125	14%	7,116,710	19%	5,983,946
External shipments	7,703,749	15%	6,704,714	19%	5,628,632

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Steel Operations
Shipments and Average Selling Price

Segment Results 2015 vs. 2014

Overall steel operations performance in 2015 compared to 2014 was negatively impacted by continuing excessive and historically high levels of steel imports, customers destocking inventories, and sharply falling steel and scrap prices. Domestic steel consumption was relatively steady during 2015, with strong automotive and improving non-residential steel markets, but a large portion of the domestic consumption was served by imports. Net sales for the steel operations decreased 7% in 2015, when compared to 2014, as a 14% increase in steel operations shipments was more than offset by a decrease of $149 per ton, or 18%, in average selling prices. In spite of solid overall domestic steel demand, average selling prices decreased throughout 2015 due to elevated levels of imported steel into the United States and significant reductions in the cost of scrap, which also caused uncertainty for steel consumers. Steel operations shipments increased 14% in 2015 compared to 2014 with the inclusion of Columbus Flat Roll Division for the full year of 2015 (acquired September 16, 2014), as 2015 sales volumes, excluding them, were down 12% compared to 2014.

Metallic raw materials used in our electric arc furnaces represent our single most significant steel manufacturing cost. During 2015 and 2014, our metallic raw material costs represented 55% and 65%, respectively, of our steel operations' manufacturing costs, excluding the operations of The Techs, which purchases, rather than produces, the steel it further processes. Our metallic raw material cost per net ton consumed in our steel operations decreased $105, or 29%, in 2015, compared with 2014, consistent with overall declines in scrap market pricing.

Decreases in steel selling prices more than offset decreases in raw material cost per ton, resulting in 2015 metal spread (which we define as the difference between average selling prices and the cost of ferrous scrap consumed) contracting significantly compared to 2014. Thus, despite increased shipments from the inclusion of Columbus Flat Roll Division for the full year 2015 versus only four and a half months in 2014, operating income for the steel operations decreased 41%, to $403.2 million, compared to 2014.

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Segment Results 2014 vs. 2013

Net sales for steel operations increased in 2014 by $1.1 billion, or 24%, ($638.3 million, or 13%, of which related to the addition of Columbus Flat Roll Division), compared to 2013, with the segment achieving record shipments of 7.4 million tons in 2014. Selling volumes increased for both our sheet products (26%, of which 24% was related to Columbus Flat Roll Division) and long products (12%) in 2014, compared to 2013, and overall product mix shifted somewhat toward sheet products with the acquisition of Columbus Flat Roll Division. Our Engineered Bar Products and Structural and Rail Divisions achieved increased shipments of 32% and 12%, respectively. Demand for our sheet products remained strong in the automotive and manufacturing markets. Customer demand for our special-bar-quality products strengthened from the prior year, and we began selling smaller diameter products produced from our recent expansion project. Demand for structural steel products improved with the continued growth in the non-residential construction market, and we began to realize sales from our expansion into premium rail. In addition, despite pressure from increased imports in 2014, our average steel selling prices improved by $35 per ton, or 4%, over those in 2013 on the strength of improved domestic market demand in 2014.

Our metallic raw material cost per net ton consumed in our steel operations increased $7 in 2014 compared with 2013. During 2014 and 2013, our metallic raw material costs represented 65% of our steelmaking operations' manufacturing costs, excluding the operations of The Techs, which purchases, rather than produces, the steel it further processes. As a result of record shipments and metal spread, operating income for the steel operations increased 32%, to $683.6 million in 2014, compared to $516.1 million in 2013.

Metals Recycling Operations Segment

Metals Recycling Operations Segment. Metals recycling operations consists solely of OmniSource, our metals recycling, processing, and ferrous scrap procurement operations. OmniSource sells ferrous metals to steel mills and foundries, and nonferrous metals, such as copper, brass, aluminum and stainless steel to, among others, ingot manufacturers, copper refineries and mills, smelters, and specialty mills. Our metals recycling operations accounted for 19%, 25%, and 31% of our consolidated net sales in 2015, 2014, and 2013, respectively.

Metals Recycling Operations Segment Shipments:

	Years Ended December 31,				
	2015	**% Change**	**2014**	**% Change**	**2013**
Ferrous metal (gross tons)					
Total	5,139,506	(8)%	5,566,238	1%	5,505,995
Inter-company	(2,755,218)		(2,673,777)		(2,422,736)
External shipments	2,384,288	(18)%	2,892,461	(6)%	3,083,259
Nonferrous metals (thousands of pounds)					
Total	1,082,777	(8)%	1,173,771	12%	1,052,494
Inter-company	(85,410)		(89,078)		(18,450)
External shipments	997,367	(8)%	1,084,693	5%	1,034,044

Segment Results 2015 vs. 2014

Overall metals recycling operations performance in 2015 compared to 2014 was negatively impacted by excess domestic scrap competition, a strong U.S. dollar tempering scrap exports, and lower

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domestic steel mill utilizations, resulting in substantial decreases in selling prices. Metals recycling operations net sales decreased 34% in 2015 as compared to 2014, with ferrous and nonferrous volumes both decreasing 8% in 2015, as compared to 2014. Similarly, both ferrous and nonferrous selling prices declined 37% and 18%, respectively, during 2015, as compared to 2014, consistent with overall declines in scrap market selling prices. Metal spreads (which we define as the difference between average selling prices and the cost of purchased scrap) for ferrous and nonferrous materials contracted 14% and 18%, respectively, during 2015 as compared to 2014 as selling prices declined more than scrap costs. Operating loss for the metals recycling operations in 2015 of $448.1 million includes $428.5 million of pretax non-cash asset impairment charges related to goodwill, trade name and other assets. Excluding the impairment charges, metals recycling operations segment operating loss is $19.6 million compared to operating income of $26.0 million in 2014.

Segment Results 2014 vs. 2013

Net sales for metals recycling operations increased 8% in 2014 as compared to 2013, as nonferrous volumes increased 12% with steady pricing, while ferrous volumes were slightly higher and selling prices increased 2%. Operating income for the metals recycling operations decreased $15.9 million, or 38%, in 2014, when compared to 2013, as the decreases in both ferrous and nonferrous metal spreads of 8% and 2%, respectively, more than offset the impact of the increased nonferrous, and to a lesser degree, ferrous shipments.

Steel Fabrication Operations Segment

Steel Fabrication Operations Segment. Steel fabrication operations consist of our eight New Millennium Building Systems plants located throughout the United States and Northern Mexico. Revenues from these plants are generated from the fabrication of trusses, girders, steel joists and steel deck used within the non-residential construction industry. Steel fabrication operations accounted for 9%, 7%, and 6% of our consolidated net sales during 2015, 2014, and 2013, respectively.

Steel Fabrication Operations

Sales Volumes and Average Selling Price

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Segment Results 2015 vs. 2014

Overall steel fabrication operations performance in 2015 compared to 2014 was positively impacted by a recovering non-residential construction market, increased average selling prices, and lower costs of manufacturing due to lower steel input prices. Net sales for the steel fabrication operations increased $41.6 million, or 7%, in 2015, compared to 2014, as shipments increased 3% and average selling prices increased $51 per ton, or 4%, with increased demand. Our steel fabrication operations continue to realize strength in order activity and resulting shipments and selling prices, as we leverage our national operating footprint and market demand continues to improve.

The purchase of various steel products is the largest single cost of production for our steel fabrication operations, generally representing more than two-thirds of the total cost of manufacturing. The average cost of steel consumed decreased by 14% in 2015, as compared to 2014, and coupled with 4% higher selling prices resulted in significantly expanded metal spreads. As a result of record shipments, increased selling prices and metal spread expansion, as well as decreased conversion costs realized from manufacturing efficiencies, operating income increased 123% to $115.9 million in 2015, as compared to $51.9 million in 2014.

On September 14, 2015, we purchased from CSi certain of its steel deck facilities (including associated assets) and net working capital of approximately $30 million, for a purchase price of $45 million in cash. Operating results of these facilities have been reflected in our financial statements since the September 14, 2015, purchase date, in the steel fabrication operations. The purchased assets include two deck facilities located in Memphis, Tennessee, and Phoenix, Arizona. Producing both standard and premium specialty deck profiles, the new locations will allow for enhanced geographic reach into the southwestern and western markets, and further diversify New Millennium Building Systems' product offerings.

Segment Results 2014 vs. 2013

Steel fabrication operations net sales increased $192.2 million, or 44%, in 2014, compared to 2013, as shipments increased 31% and average selling prices increased $116 per ton, or 10%, with increased demand. Our steel fabrication operations experienced strength in order activity and resulting shipments at levels in excess of overall improving consumer demand during 2014, as we continued to leverage our national footprint to expand market share. The average cost of steel consumed increased in 2014, as compared to 2013, by $47 per ton, consistent with increased pricing in the general relevant steel market. Operating income for the steel fabrication operations of $51.9 million in 2014 was over seven times that of 2013, due to record level shipments and metal spread expansion, as well as decreased conversion costs realized from manufacturing efficiencies and from higher production volumes.

Other Operations

Other operations consists of subsidiary operations that are below the quantitative thresholds required for reportable segments and primarily consist of our Minnesota ironmaking operations, which were indefinitely idled in May 2015, and several smaller joint ventures. Also included in "Other" are certain unallocated corporate accounts, such as the company's senior secured credit facility, senior notes, certain other investments and certain profit sharing expenses. Prior to being indefinitely idled, our Minnesota ironmaking operations experienced operating losses. In addition, upon deciding to idle the Minnesota ironmaking operations and to monetize existing raw material inventory, we recorded an inventory lower-of-cost or market charge of $21.0 million (inclusive of noncontrolling interests of $3.6 million), in cost of goods sold in the second quarter 2015. Operating losses associated with our Minnesota ironmaking operations have been significantly curtailed post-idling. The impact of losses

from our Minnesota ironmaking operations on 2015 net income attributable to Steel Dynamics, Inc. was approximately $27.9 million, as compared to $165.9 million in 2014.

During the fourth quarter of 2014, our Minnesota ironmaking operations reached a steady operating state, indicating a consistency in the operation's production capability, processes and cost structure, including the ability to utilize certain lower-cost raw materials. Given this, we undertook an assessment of the recoverability of the carrying value of our Minnesota ironmaking operation's fixed assets. Given our outlook at that time regarding future operating costs and product pricing, we concluded that the carrying value of these fixed assets was no longer fully recoverable, and the fixed assets were in fact impaired. This assessment resulted in a $260.0 million pretax non-cash impairment charge, including amounts attributable to noncontrolling interests of $46.5 million, which reduced net income attributable to Steel Dynamics, Inc. by $132.6 million. The impact of losses from our Minnesota ironmaking operations on 2014 net income, including the impact of the $260.0 million of pretax non-cash impairment charges, was approximately $165.9 million. Excluding the $260.0 million in pretax non-cash impairment charges, the impact of Minnesota ironmaking operations on 2014 net income attributable to Steel Dynamics, Inc. was approximately $33.3 million, as compared to approximately $41.9 million in 2013.

Consolidated Results 2015 vs. 2014

Selling, General and Administrative Expenses. Selling, general and administrative expenses (including profit sharing and amortization of intangible assets) of $376.0 million during 2015 were comparable to $385.9 million during 2014, representing approximately 4.9% and 4.4% of net sales, respectively.

Interest Expense, net of Capitalized Interest. During 2015, interest expense increased $17.7 million, or 12%, to $154.0 million, when compared to 2014. The increase in interest expense is due primarily to the addition of the $1.2 billion senior notes in September 2014, in conjunction with our acquisition of Columbus Flat Roll Division, partially offset by the conversion or payoff at maturity of $287.5 million of 5.125% convertible notes in June 2014, and the call of our $350.0 million 7^5/$_8$% Senior Notes due 2020 in March 2015.

Other Expense, net. During 2015, net other expense of $15.4 million included $16.7 million of call premium and other financing costs associated with the March 2015 senior notes call and prepayment. Net other expense of $18.3 million in 2014 included $25.2 million of acquisition and financing costs associated with our September 2014 Columbus Flat Roll Division acquisition.

Income Tax Expense (Benefit). During 2015, our income tax benefit was $96.9 million at an effective income tax rate of 40.0%, as compared to expense of $73.2 million resulting in an effective income tax rate of 44.4% during 2014. The higher effective tax rate in 2014 was due primarily to the impact of the increased noncontrolling interest losses, offset somewhat by increased benefits from other permanent tax benefit items, most notably the domestic manufacturing deduction.

Included in the balance of unrecognized tax benefits at December 31, 2015, of $16.0 million are potential benefits of $11.7 million that, if recognized, would affect the effective tax rate. We recognize interest and penalties related to our tax contingencies on a net-of-tax basis in income tax expense (benefit). During the year ended December 31, 2015, we recognized benefits from the reduction of interest expense of $100,000, net of tax. In addition to the unrecognized tax benefits noted above, we had $5.2 million accrued for the payment of interest and penalties at December 31, 2015.

We file income tax returns in the U.S. federal jurisdiction as well as income tax returns in various state jurisdictions. The IRS is currently examining our federal income tax returns for the years 2010 and 2011. At this time we do not believe there will be any significant examination adjustments that would result in a material change to our financial position, results of operations or cash flows. It is

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reasonably possible that the amount of unrecognized tax benefits could change in the next twelve months as a result of these federal income tax audits, and state income tax audits. Based on the current audits in process, the payment of taxes as a result of audit settlements could be in an amount from zero to $7.1 million by the end of 2016. With the exception of the 2010 federal return, which is currently under examination, we are no longer subject to federal, state and local income tax examinations by tax authorities for years ended before 2011.

Consolidated Results 2014 vs. 2013

Selling, General and Administrative Expense. Selling, general and administrative expenses (including profit sharing and amortization of intangible assets) were $385.9 million during 2014, as compared to $332.3 million during 2013, an increase of $53.6 million, or 16%. During 2014 and 2013, these selling, general and administrative expenses represented approximately 4.4% and 4.5% of net sales, respectively. The increase in total SG&A expenses in 2014 compared to 2013 relates most notably to the increased profit sharing, incentive compensation and stock compensation expenses of $35.5 million, which increased due to increased profitability before the Minnesota ironmaking operations asset impairment charges. While total intangible assets increased slightly due to the acquisition of Columbus Flat Roll Division, amortization of intangible assets decreased $4.2 million, or 13%, during 2014 compared to 2013 due to the accelerated amortization methods used for intangible assets related to existing customer and scrap generator relationships.

Interest Expense, net of Capitalized Interest. During 2014, gross interest expense increased $7.4 million, or 6%, to $139.7 million, and capitalized interest decreased $2.1 million, to $2.5 million, as compared to 2013. The decrease in interest capitalized during these periods relates to growth or expansion projects initiated in 2013 at two of our steel mills that were completed in 2014. The increase in gross interest expense is due primarily to the addition of the $1.2 billion senior notes in September 2014, in conjunction with our acquisition of Columbus Flat Roll Division, partially offset by the conversion or payoff at maturity of $287.5 million of 5.125% convertible notes in June 2014.

Other (Income) Expense, net. Other expense increased $22.3 million to $18.3 million during 2014, as compared to other income of $4.0 million during 2013, due primarily to $25.2 million in acquisition and finance costs associated with the acquisition of Columbus Flat Roll Division.

Income Tax Expense (Benefit). During 2014, our income tax expense was $73.2 million, as compared to $99.3 million during 2013, and our effective income tax rate before exclusion of noncontrolling interests was 44.4% and 37.8%, for 2014 and 2013, respectively. The higher effective income tax rate in 2014 is due primarily to the impact of the increased noncontrolling interest losses, offset somewhat by increased benefits from other permanent tax benefit items, most notably the domestic manufacturing deduction. The 2013 effective tax rate benefited from the effects of additional stock option exercises during 2013, and 2012 research and development tax credits enacted in January 2013.

Liquidity and Capital Resources

Columbus Flat Roll Division Acquisition. In September 2014, we issued $700.0 million of 5.125% Senior Notes due 2021 and $500.0 million of 5.500% Senior Notes due 2024 (together, the Senior Notes). The proceeds from the issuance of the Senior Notes, along with cash on hand and $117.8 million in borrowings under our senior secured credit facility were used to fund the September 16, 2014, acquisition of Columbus Flat Roll Division and related expenses.

Capital Resources and Long-term Debt. Our business is capital intensive and requires substantial expenditures for, among other things, the purchase and maintenance of equipment used in our steelmaking and finishing operations and to remain in compliance with environmental laws. Our

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short-term and long-term liquidity needs arise primarily from working capital requirements, capital expenditures, principal and interest payments related to our outstanding indebtedness, dividends to our shareholders, and acquisitions. We have met these liquidity requirements primarily with cash provided by operations, long-term borrowings and availability under our Revolver. We had record liquidity at December 31, 2015, is as follows (in thousands):

Cash and equivalents	$	727,032
Revolver availability		1,187,170
Total liquidity	$	1,914,202

Our total outstanding debt decreased $387.2 million during 2015, to $2.6 billion, due primarily to our March 2015 call and prepayment of $350.0 million in 7⁵/₈% senior notes due 2020. As a result, our total long-term debt to capitalization ratio (representing our long-term debt, including current maturities, divided by the sum of our long-term debt, redeemable noncontrolling interests, and our total stockholders' equity) decreased to 49.6% at December 31, 2015, from 51.6% at December 31, 2014.

We have a senior secured credit facility (Facility) that matures in November 2019 which provides for a $1.2 billion Revolver along with a term loan facility. Subject to certain conditions, we also have the ability to increase the combined facility size by a minimum of $750 million. The Facility contains financial and other covenants pertaining to our ability (which may under certain circumstances be limited) to make capital expenditures; incur indebtedness; permit liens on property; enter into transactions with affiliates; make restricted payments or investments; enter into mergers, acquisitions or consolidations; conduct asset sales; pay dividends or distributions and enter into other specified transactions and activities. Our ability to borrow funds within the terms of the Revolver is dependent upon our continued compliance with the financial and other covenants. At December 31, 2015, we had $1.2 billion of availability on the Revolver, $12.8 million of outstanding letters of credit and other obligations which reduce availability, and there were no borrowings outstanding.

The financial covenants under our Facility state that we must maintain an interest coverage ratio of not less than 2.50:1.00. Our interest coverage ratio is calculated by dividing our last-twelve trailing months (LTM) consolidated adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, and certain other non-cash transactions as allowed in our Facility) by our LTM gross interest expense, less amortization of financing fees. In addition, a net debt (as defined in the Facility) to consolidated LTM adjusted EBITDA (net debt leverage ratio) of not more than 5.00:1.00 must be maintained. If the net debt leverage ratio exceeds 3.50:1:00 at any time, our ability to make certain payments as defined in the Facility (which includes cash dividends to stockholders and share purchases, among other things), is limited. At December 31, 2015, our interest coverage ratio and net debt leverage ratio were 4.76:1.00 and 2.99:1.00, respectively. We were, therefore, in compliance with these covenants at December 31, 2015, and we anticipate we will continue to be in compliance during the next twelve months.

Working Capital. We generated cash flow from operations of over $1.0 billion in 2015. Operational working capital (representing amounts invested in trade receivables and inventories, less current liabilities other than income taxes payable and debt) decreased $476.8 million during 2015 to $1.2 billion. Amounts invested in accounts receivable and inventories, net of accounts payable, decreased $530.5 million in conjunction with a decrease in sales and production volume and a significant decrease in the cost of scrap and steel when compared to the fourth quarter of 2014.

Capital Investments. During 2015 we invested $114.5 million in property, plant and equipment, consistent with the $111.8 million during 2014. Our current estimated 2016 cash allocation plan includes the investment of between $250 million and $300 million in capital expenditures in our existing and announced operations.

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Cash Dividends. As a reflection of confidence in our current and future cash flow generation ability and financial position, we increased our quarterly cash dividend by 20% to $0.1375 per share in 2015 (from $0.115 per share in 2014), resulting in declared cash dividends of $133.2 million during 2015, compared to $108.6 million during 2014. We paid cash dividends of $127.6 million and $105.4 million during 2015 and 2014, respectively. Our board of directors, along with executive management, approves the payment of dividends on a quarterly basis. The determination to pay cash dividends in the future is at the discretion of our board of directors, after taking into account various factors, including our financial condition, results of operations, outstanding indebtedness, current and anticipated cash needs and growth plans. In addition, the terms of our senior secured credit facility and the indenture relating to our senior notes may restrict the amount of cash dividends we can pay.

Other. Our ability to meet our debt service obligations and reduce our total debt will depend upon our future performance which, in turn, will depend upon general economic, financial and business conditions, along with competition, legislation and regulatory factors that are largely beyond our control. In addition, we cannot assure that our operating results, cash flows, access to credit markets and capital resources will be sufficient for repayment of our indebtedness in the future. We believe that based upon current levels of operations and anticipated growth, cash flows from operations, together with other available sources of funds, including additional borrowings under our Revolver through its term, which expires in November 2019, will be adequate for the next twelve months for making required payments of principal and interest on our indebtedness, funding working capital requirements, and anticipated capital expenditures.

During 2015 we received benefits from state and local governments in the form of real estate and personal property tax abatements and credits of approximately $23.6 million. Based on our current abatements and incentive credits, and utilizing our existing long-lived asset structure, we estimate the remaining annual benefit to our future operations to be approximately $23.6 million, $23.6 million, $11.9 million, $2.5 million, $1.4 million, $1.3 million, and $1.2 million during the years 2016 through 2022, respectively.

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Contractual Obligations and Other Long-Term Liabilities

We have the following minimum commitments under contractual obligations, including purchase obligations, as defined by the Securities and Exchange Commission. A "purchase obligation" is defined as an agreement to purchase goods or services that is enforceable and legally binding and that specifies all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Other long-term liabilities are defined as long-term liabilities that are reflected on our balance sheet under generally accepted accounting principles. Based on this definition, the following table includes only those contracts which include fixed or minimum obligations. It does not include normal purchases, which are made in the ordinary course of business. The following table provides aggregated information about outstanding contractual obligations and other long-term liabilities as of December 31, 2015 (in thousands):

	Payments Due By Period				
	Total	**2016**	**2017 & 2018**	**2019 & 2020**	**2021 & After**
Long-term debt(1)	$ 2,628,134	$ 16,680	$ 31,397	$ 606,782	$ 1,973,275
Estimated interest payments on debt(2)	878,816	140,902	281,147	237,984	218,783
Purchase obligations(3)	379,364	224,850	50,756	37,158	66,600
Construction commitments(4)	69,638	69,638			
Lease commitments	49,660	14,699	17,043	11,232	6,686
Other commitments(5)	3,134	575	750	600	1,209
Total(6)	$ 4,008,746	$ 467,344	$ 381,093	$ 893,756	$ 2,266,553

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(1) The long-term debt payment information presented above assumes that our term loan and senior notes remain outstanding until maturity. Refer to Note 3 to the consolidated financial statements elsewhere in this report for additional information regarding these transactions, and our long-term debt.

(2) The estimated interest payments shown above assume interest rates of 1.90% (variable rate at December 31, 2015) on the $237.5 million term loan issued November 2014 maturing in November 2019; 6 1/8% on our $400.0 million senior unsecured notes due August 2019; 5.125% on our $700.0 million senior unsecured notes due October 2021; 6 3/8% on our $350.0 million senior unsecured notes due August 2022; 5 1/4% on our $400.0 million senior unsecured notes due March 2023; 5.500% on our $500.0 million senior unsecured notes due October 2024; 0.275% commitment fee on our available senior secured revolver; and an average of 5.5% on our other debt of $40.6 million.

(3) Purchase obligations include commitments we have for the purchase of electricity, natural gas and its transportation, fuel, air products, and zinc. These arrangements have "take or pay" or other similar commitment provisions. We have utilized such "take or pay" requirements during the past three years under these contracts, except for certain air products at our Minnesota ironmaking operations which were idled in May 2015.

(4) Construction commitments relate to firm contracts we have with various vendors for the completion of certain construction projects at our various divisions at December 31, 2015.

(5) Other commitments principally relate to certain pension and deferred compensation plan obligations.

(6)

We expect to make cash outlays in the future related to our unrecognized tax benefits; however, due to the uncertainty of the timing, we are unable to make reasonably reliable estimates regarding the period of cash settlement with the respective taxing authorities. Accordingly, unrecognized tax benefits and related interest and penalties of $21.2 million as of December 31, 2015, have been excluded from the contractual obligations table above. Refer to Note 4 to the consolidated financial statements elsewhere in this report for additional information.

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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. During 2015, we incurred costs related to the monitoring and compliance of environmental matters in the amount of approximately $35.7 million and capital expenditures related to environmental compliance of approximately $6.2 million. Of the costs incurred during 2015 for monitoring and compliance, 78% were related to the normal transportation of certain types of waste produced in our steelmaking processes and other facilities, in accordance with legal requirements. We incurred combined environmental remediation costs of approximately $850,000 at all of our facilities during 2015. We have an accrual of $2.2 million recorded for environmental remediation related to our metals recycling operations and $2.7 million related to Minnesota ironmaking operations. We believe, apart from our dependence on environmental construction and operating permits for our existing and any future manufacturing facilities, that compliance with current environmental laws and regulations is not likely to have a materially adverse effect on our financial condition, results of operations or liquidity; however, environmental laws and regulations evolve and change, and we may become subject to more stringent environmental laws and regulations in the future, such as the impact of U.S. government or various governmental agencies introducing regulatory changes in response to the potential of climate change.

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U. S. We review the accounting policies we use in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent liabilities. We evaluate the appropriateness of these estimations and judgments on an ongoing basis. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Results may differ from these estimates due to actual outcomes being different from those on which we based our assumptions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition and Allowance for Doubtful Accounts. Except for our steel fabrication operations, we recognize revenues from sales and the allowance for estimated returns from these sales when the title of the product transfers. Provision is made for estimated product returns and customer claims based on historical experience. If the historical data used in our estimates does not reflect future returns and claims trends, additional provision may be necessary. The allowance for doubtful accounts is based on the company's best estimate of probably credit losses, along with historical experience, which estimates may or may not prove accurate. Our steel fabrication operations recognizes revenues from construction contracts using a percentage of completion methodology based on steel tons used on completed units to-date as a percentage of estimated total steel tons required by each contract.

We are exposed to credit risk in the event of nonpayment by our customers, which in steel operations are principally intermediate steel processors and service centers that sell our products to

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numerous industry sectors, including the automotive, construction, manufacturing, transportation, heavy and agriculture equipment, and pipe and tube (including OCTG) markets. Our metals recycling operations sell ferrous scrap to steel mills and foundries, and nonferrous scrap, such as copper, brass, aluminum and stainless steel to, among others, ingot manufacturers, copper refineries and mills, smelters, and specialty mills. Our steel fabrication operations sell fabricated steel joists and deck primarily to the non-residential construction market. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments based on known credit risks, historical loss experience and current economic conditions affecting our customers. We mitigate our exposure to credit risk by performing ongoing credit evaluations and taking further action when necessary, such as requiring letters of credit or other security interests to support the receivable from our customer. If the financial condition of our customers were to deteriorate, resulting in the impairment of their ability to make payments, additional allowance may be required.

Inventories. We record inventories at lower of cost or market. Cost is determined using a weighted average cost method for scrap, and on a first-in, first-out, basis for other inventory. We record amounts required, if any, to reduce the carrying value of inventory to its net realizable value as a charge to cost of goods sold. If product selling prices were to decline in future periods, further write-down of inventory could result, specifically raw material inventory such as scrap purchased during periods of peak market pricing. Upon deciding to idle the Minnesota ironmaking operations and to monetize existing raw material inventory, we recorded an inventory lower-of-cost or market charge of $21.0 million (inclusive of noncontrolling interests of $3.6 million), in cost of goods sold in the second quarter 2015.

Impairments of Long-Lived Tangible and Definite-Lived Intangible Assets. We review long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be fully recoverable. Impairment losses are recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. The impairment loss is measured by comparing the fair value of the asset to its carrying amount. We consider various factors and determine whether an impairment test is necessary, including by way of examples, a significant and prolonged deterioration in operating results and/or projected cash flows, significant changes in the extent or manner in which an asset is used, technological advances with respect to assets which would potentially render them obsolete, our strategy and capital planning, and the economic climate in markets to be served. When determining future cash flows and if necessary, fair value, we must make judgments as to the expected utilization of assets and estimated future cash flows related to those assets. We consider historical and anticipated future results, general economic and market conditions, the impact of planned business and operational strategies and all other available information at the time the estimates are made. Those estimates and judgments may or may not ultimately prove accurate.

A long-lived asset is classified as held for sale upon meeting specified criteria related to ability and intent to sell. An asset classified as held for sale is measured at the lower of its carrying amount or fair value less cost to sell. As of December 31, 2015, the company reported $8.6 million of land and buildings as assets held for sale within other current assets in our consolidated balance sheet. An impairment loss is recognized for any initial or subsequent write-down of the asset held for sale to its fair value less cost to sell. Upon the December 31, 2015, determination and classification of these assets as held for sale, the company recorded a $10.3 million asset impairment charge in the consolidated statement of operations for the year ended December 31, 2015. The company determined fair value using Level 3 inputs as provided for under ASC 820, consisting of information provided by brokers and other external sources along with management's own assumptions.

During the fourth quarter of 2014, our Minnesota ironmaking operations reached a steady state, indicating a consistency in the operation's production capability, processes and cost structure, including the ability to utilize certain lower-cost raw materials. Given this, we undertook an assessment of the

recoverability of the carrying value of our Minnesota ironmaking operation's fixed assets. With our outlook at that time regarding future operating costs and product pricing, we concluded that the carrying value of these fixed assets was no longer fully recoverable, and the fixed assets were in fact impaired. This assessment resulted in a $260.0 million pretax non-cash impairment charge, including amounts attributable to noncontrolling interests of $46.5 million, which is reflected in "Other" in Note 13, Segment Information. The carrying values of the impaired assets were adjusted to their expected fair values as determined primarily on the cost approach, as well as expected future discounted cash flows income approach, using Level 3 inputs under ASC 820.

Goodwill and Other Indefinite-Lived Intangible Assets.

Our goodwill relates to various business combinations, and is allocated to the following reporting units at December 31(in thousands):

	2015	2014
OmniSource Metals Recycling Operations Segment	$ 109,039	$ 456,727
Butler Flat Roll Division, Structural and Rail Division, and Engineered Bar Division Metals Recycling Operations Segment	95,000	95,000
The Techs Steel Operation Segment	142,783	142,783
Roanoke Bar Division Steel Operations Segment	29,041	29,041
Columbus Flat Roll Division Steel Operations Segment	19,682	19,682
New Millennium Building Systems Steel Fabrication Operations Segment	1,925	1,925
	$ 397,470	$ 745,158

At least once annually or when indicators of impairment exist, we perform an impairment test for goodwill. Goodwill is allocated to various reporting units, which are generally one level below our operating segments. We utilize a two-stepped approach to measuring goodwill impairment. The first step of the test determines if there is potential goodwill impairment. In this step we compare the fair value of the reporting unit to its carrying amount (which includes goodwill). The fair value of the reporting unit is determined by using an estimate of future cash flows utilizing a risk-adjusted discount rate to calculate the net present value of future cash flows (income approach), and by using a market approach based upon an analysis of valuation metrics of comparable peer companies. If the carrying amount exceeds the fair value, we perform the second step of the test, which measures the amount of impairment loss to be recorded. In the second step, we compare the carrying amount of the goodwill to the implied fair value of the goodwill based on the net fair value of the recognized and unrecognized assets and liabilities of the reporting unit. If the implied fair value is less than the carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill is less than its carrying value.

Key assumptions used to determine the estimated fair value of each reporting unit under the discounted cash flows method (income approach) include: (a) expected cash flows for the five-year period following the testing date (including market share, sales volumes and prices, costs to produce and estimated capital needs); (b) an estimated terminal value using a terminal year growth rate determined based on the growth prospects of the reporting unit; and (c) a risk-adjusted discount rate based on management's best estimate of market participants' after-tax weighted average cost of capital and market risk premiums. Key assumptions used to determine the estimated fair value of each reporting unit under the market approach include the expected revenues and cash flows in the next year. We consider historical and anticipated future results, general economic and market conditions, the impact of planned business and operational strategies and all available information at the time the fair

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values of its reporting units are estimated. Those estimates and judgments may or may not ultimately prove accurate.

Goodwill and other intangible assets acquired in past transactions are naturally more susceptible to impairment, primarily due to the fact that they are recorded at fair value based on operating plans and economic conditions at the time of acquisition. Consequently, if operating results and/or economic conditions deteriorate after an acquisition, it could result in the impairment of the acquired assets. A deterioration of economic conditions may not only negatively impact the estimated operating cash flows used in our cash flow models, but may also negatively impact other assumptions used in our analyses, including, but not limited to, the estimated cost of capital and/or discount rates. Additionally, we are required to ensure that assumptions used to determine fair value in our analyses are consistent with the assumptions a hypothetical marketplace participant would use. As a result, the cost of capital and/or discount rates used in our analyses may increase or decrease based on market conditions and trends, regardless of whether our actual cost of capital has changed. Therefore, we may recognize an impairment of an intangible asset or assets in spite of realizing actual cash flows that are approximately equal to or greater than our previously forecasted amounts.

Our other indefinite-lived intangible assets relate to trade names acquired through various business combinations and is allocated to the following reporting units at December 31, (in thousands):

	2015	2014
OmniSource Metals Recycling Operations Segment	$ 39,500	$ 108,000
The Techs Steel Operations Segment	81,800	81,800
	$ 121,300	$ 189,800

At least annually or when indicators of impairment exist, we test for indefinite-lived intangible assets for impairment through the comparison of the fair value of the specific intangible asset with its carrying amount. The fair value of the intangible asset is determined by using an estimate of future cash flows attributable to the asset and a risk-adjusted discount rate to compute a net present value of future cash flows. If the fair value is less than the carrying value, an impairment loss is recorded in an amount equal to the excess in carrying value.

During the fourth quarter of 2015, we determined that the fair value of OmniSource was less than its carrying value, and upon the completion of the impairment analysis, that the goodwill and trade name assets were impaired. The decrease in OmniSource fair value from our prior year impairment analysis was the result of a forecasted reduction in future cash flows based on management's view of the weaker longer-term global scrap commodity outlook. This outlook became clearer in the fourth quarter of 2015 from the longevity of: 1) the prolonged strength of the U.S. dollar decreasing scrap export volume (resulting in excess domestic supply); 2) currency devaluation contributing to China and Russia supplying alternative scrap materials to Turkey, versus those coming from the U.S.; and 3) slower global growth decreasing demand for scrap. While the scrap commodity outlook deteriorated throughout much of 2015, there were indicators of improvement during the year such as the restoration of the ratio of iron ore to scrap costs to a more historically consistent relationship, as well as a mid-year scrap pricing increase, versus the monthly decreases experienced throughout much of the year, including large decreases in both the first and fourth quarters. Upon the fourth quarter decrease in selling prices and resulting metal spreads, we concluded that the impact of the factors noted above were longer-term, which resulted in our reassessment of our future long-term cash flows. The OmniSource goodwill and trade name indefinite-lived intangible assets were written down to their respective fair values, resulting in pretax non-cash asset impairment charges of $341.3 million and $68.5 million, respectively, that are reflected in asset impairment charges in the consolidated statement of operations for the year ended December 31, 2015, within the metals recycling operations.

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The 2015 annual goodwill and indefinite-lived intangible asset impairment analysis did not result in any impairment charges related to any other of our reporting units. Management does not believe that it is reasonably likely that any of our reporting units will fail step one of a goodwill or indefinite-lived asset impairment test in the near term. We will continue to monitor operating results within all reporting units throughout the upcoming year in order to determine if events and circumstances warrant interim impairment testing. Otherwise, all reporting units will again be subject to the required annual impairment test during the fourth quarter of 2016. Due to the inherent uncertainties involved in forecasting, changes in judgments and estimates underlying our analysis of goodwill and indefinite-lived intangible assets for possible impairment, including expected future operating cash flows and discount rate, could decrease the estimated fair value of our reporting units in the future, resulting in further impairments.

Income Taxes. We are required to estimate our income taxes as a part of the process of preparing our consolidated financial statements. This requires us to estimate our actual current tax exposure together with assessing temporary differences resulting from differing treatments of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. We establish reserves to reduce some or all of the tax benefit of any of our tax positions at the time we determine that the positions become uncertain. We adjust these reserves, including any impact on the related interest and penalties, in light of changing facts and circumstances, such as the progress of a tax audit. A number of years may elapse before a particular matter for which we have established a reserve is audited by a taxing authority and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction. The tax benefit that has been previously reserved because of a failure to meet the "more likely than not" recognition threshold would be recognized in our income tax expense in the first interim period when the uncertainty disappears. Settlement of any particular issue would usually require the use of cash.

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ITEM 7A. 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 portfolio of borrowings.

The following table represents the principal cash repayments and related weighted-average interest rates by maturity date for our long-term debt as of December 31, 2015 (in thousands):

	Interest Rate Risk			
	Fixed Rate		Variable Rate	
	Principal	Average Rate	Principal	Average Rate
Expected maturity date:				
2016	$ 3,593	4.9%	$ 13,087	2.0%
2017	3,296	6.1	12,500	1.9
2018	3,102	5.9	12,500	1.9
2019	403,291	6.1	200,000	1.9
2020	3,491	6.0		
Thereafter	1,973,274	5.5		
Total Debt Outstanding	$ 2,390,047	5.6%	$ 238,087	1.9%
Fair value	$ 2,495,259		$ 238,087	

Commodity Risk

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

Our risk strategy associated with the purchase of raw materials utilized within our operations has generally been to make some commitments with suppliers relating to future expected requirements for some commodities such as electricity, natural gas and its transportation services, fuel, air products, and zinc. 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 24 months for physical commodity requirements, for up to 4 years for commodity transportation requirements, and for up to 13 years for air products. Our commitments for these arrangements with "take or pay" or other similar commitment provisions for the years ending December 31 are as follows (in thousands):

2016	$ 224,850
2017	32,120
2018	18,636
2019	20,059
2020	17,099
Thereafter	66,600
	$ 379,364

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We utilized such "take or pay" requirements during the past three years under these contracts, except for certain air products at our Minnesota ironmaking operations which were idled in May 2015. We believe that production requirements will be such that consumption of the products or services purchased under these commitments will occur in the normal production process, other than certain air products related to our Minnesota ironmaking operations during the idle period. We also purchase electricity consumed at our Flat Roll Division pursuant to a contract which extends through December 2017. The contract designates 160 hours annually as "interruptible service" and establishes an agreed fixed-rate energy charge per Mill/kWh consumed for each year through the expiration of the agreement.

In our metals recycling operations we have certain fixed price contracts with various customers and suppliers for future delivery of nonferrous metals. Our risk strategy has been to enter into base metal financial contracts with the goal to protect the profit margin, within certain parameters, that was contemplated when we entered into the transaction with the customer or vendor. At December 31, 2015, we had a cumulative unrealized loss associated with these financial contracts of $2.2 million, substantially all of which have a settlement date in 2016. We believe the customer contracts associated with the financial contracts will be fully consummated.

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ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Steel Dynamics, Inc. is responsible for the preparation and integrity of the company's consolidated financial statements and for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act, for the company (including its consolidated subsidiaries). We maintain accounting and internal control systems which are intended to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, transactions are executed in accordance with management's authorization, and accounting records are reliable for preparing financial statements in accordance with accounting principles generally accepted in the United States. We are dedicated to ensuring that we maintain the high standards of financial accounting and reporting that we have established. Our culture demands integrity and an unyielding commitment to strong internal control practices and policies.

Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles; and provide reasonable assurance that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not always prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting. The framework on which such evaluation was based upon is contained in the report entitled "Internal Control Integrated Framework 2013" issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Report"). Based on that evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2015, the end of the period covered by this report.

/s/ MARK D. MILLETT	/s/ THERESA E. WAGLER
Chief Executive Officer *(Principal Executive Officer)*	*Executive Vice President and Chief Financial Officer* *(Principal Financial Officer)*

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Steel Dynamics, Inc.

We have audited Steel Dynamics, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). Steel Dynamics, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Steel Dynamics, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Steel Dynamics, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2015, of Steel Dynamics, Inc. and our report dated February 26, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Indianapolis, Indiana
February 26, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Steel Dynamics, Inc.

We have audited the accompanying consolidated balance sheets of Steel Dynamics, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Steel Dynamics, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 3 and Note 4 to the consolidated financial statements, the Company adopted two amendments to accounting standards that changed its method for the presentation of debt issuance costs and deferred income tax assets and liabilities on the consolidated balance sheet. Adoption of the new standards was applied retrospectively.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Steel Dynamics, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 26, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Indianapolis, Indiana
February 26, 2016

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STEEL DYNAMICS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31,	
	2015	**2014**
Assets		
Current assets		
Cash and equivalents	$ 727,032	$ 361,363
Accounts receivable, net of related allowances of $9,765 and $12,646 as of December 31, 2015, and 2014, respectively	579,333	859,835
Accounts receivable-related parties	34,272	42,990
Inventories	1,149,390	1,618,419
Other current assets	47,914	55,655
Total current assets	2,537,941	2,938,262
Property, plant and equipment, net	2,951,210	3,123,906
Restricted cash	19,565	19,312
Intangible assets, net of accumulated amortization of $265,940 and $241,731 as of December 31, 2015, and 2014, respectively	278,960	370,669
Goodwill	397,470	745,158
Other assets	16,936	35,852
Total assets	$ 6,202,082	$ 7,233,159
Liabilities and Equity		
Current liabilities		
Accounts payable	$ 276,725	$ 489,791
Accounts payable-related parties	6,630	21,265
Income taxes payable	2,023	6,086
Accrued payroll and benefits	94,906	128,968
Accrued interest	38,502	50,405
Accrued expenses	99,824	107,607
Current maturities of long-term debt	16,680	46,460
Total current liabilities	535,290	850,582
Long-term debt	2,577,976	2,935,389
Deferred income taxes	400,770	506,482
Other liabilities	16,595	18,839
Commitments and contingencies		
Redeemable noncontrolling interests	126,340	126,340
Equity		
Common stock voting, $.0025 par value; 900,000,000 shares authorized; 262,937,139 and 261,420,126 shares issued; and 243,089,514 and 241,449,423 shares outstanding, as of December 31, 2015, and 2014, respectively	638	635
Treasury stock, at cost; 19,847,625 and 19,970,703 shares, as of December 31, 2015, and 2014, respectively	(396,455)	(398,898)
Additional paid-in capital	1,110,253	1,083,435
Retained earnings	1,965,291	2,227,843
Total Steel Dynamics, Inc. equity	2,679,727	2,913,015
Noncontrolling interests	(134,616)	(117,488)
Total equity	2,545,111	2,795,527
Total liabilities and equity	$ 6,202,082	$ 7,233,159

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Years Ended December 31,		
	2015	**2014**	**2013**
Net sales			
Unrelated parties	$ 7,407,233	$ 8,481,567	$ 7,087,101
Related parties	187,178	274,385	285,823
Total net sales	7,594,411	8,755,952	7,372,924
Costs of goods sold	6,862,693	7,789,741	6,653,780
Gross profit	731,718	966,211	719,144
Selling, general and administrative expenses	327,626	316,214	272,777
Profit sharing	23,064	42,126	27,764
Amortization of intangible assets	25,312	27,551	31,770
Asset impairment charges	428,500	260,000	308
Operating income (loss)	(72,784)	320,320	386,525
Interest expense, net of capitalized interest	153,950	137,263	127,728
Other (income) expense, net	15,383	18,254	(4,033)
Income (loss) before income taxes	(242,117)	164,803	262,830
Income tax expense (benefit)	(96,947)	73,153	99,314
Net income (loss)	(145,170)	91,650	163,516
Net loss attributable to noncontrolling interests	14,859	65,374	25,798
Net income (loss) attributable to Steel Dynamics, Inc.	$ (130,311)	$ 157,024	$ 189,314
Basic earnings (loss) per share attributable to Steel Dynamics, Inc. stockholders	$ (0.54)	$ 0.68	$ 0.86
Weighted average common shares outstanding	242,017	232,547	220,916
Diluted earnings (loss) per share attributable to Steel Dynamics, Inc. stockholders, including the effect of assumed conversions when dilutive	$ (0.54)	$ 0.67	$ 0.83

Weighted average common shares and share equivalents outstanding		242,017		242,078		238,996
Dividends declared per share	$	0.55	$	0.46	$	0.44

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF EQUITY

(in thousands)

	Shares								
	Common	Treasury	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
Balances at January 1, 2013	219,523	36,070	$ 637	$ (720,479)	$ 1,037,687	$ 2,087,620	$ (27,623)	$ 2,377,842	$ 98,814
Proceeds from exercise of stock options, including related tax effect	3,132		8	(160)	37,660			37,508	
Dividends declared						(97,375)		(97,375)	
Conversion of 5.125% convertible senior notes				4				4	
Acquisition of noncontrolling interest					(2,232)		2,232		
Contributions from noncontrolling investors							160	160	17,700
Distributions to noncontrolling investors							(439)	(439)	
Equity-based compensation	212	(97)		2,106	12,579	(46)		14,639	
Comprehensive income and net income (loss)						189,314	(25,798)	163,516	
Balances at December 31, 2013	222,867	35,973	645	(718,529)	1,085,694	2,179,513	(51,468)	2,495,855	116,514
Proceeds from exercise of stock options, including related tax effect	1,770	8	5	(164)	32,466			32,307	
Dividends declared						(108,630)		(108,630)	
Conversion of 5.125% convertible senior notes	15,893	(15,893)		317,451	(45,650)			271,801	
Contributions from noncontrolling investors							97	97	9,826
Distributions to noncontrolling investors							(743)	(743)	
Equity-based compensation	919	(117)	(15)	2,344	10,925	(64)		13,190	
Comprehensive income and net income (loss)						157,024	(65,374)	91,650	
Balances at December 31, 2014	241,449	19,971	635	(398,898)	1,083,435	2,227,843	(117,488)	2,795,527	126,340
Proceeds from exercise of stock options, including related tax effect	737	10	1	(211)	10,975			10,765	
Dividends declared						(133,227)		(133,227)	
Dissolution of noncontrolling interest						1,082	(1,082)		
Distributions to noncontrolling investors							(1,187)	(1,187)	
Equity-based compensation	904	(133)	2	2,654	15,843	(96)		18,403	
Comprehensive, and net loss						(130,311)	(14,859)	(145,170)	
Balances at December 31, 2015	243,090	19,848	$ 638	$ (396,455)	$ 1,110,253	$ 1,965,291	$ (134,616)	$ 2,545,111	$ 126,340

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended December 31,		
	2015	**2014**	**2013**
Operating activities:			
Net income (loss)	$ (145,170)	$ 91,650	$ 163,516
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	294,595	263,325	230,928
Impairment charges	428,500	260,000	308
Equity-based compensation	22,604	14,016	15,504
Deferred income taxes	(99,323)	(25,042)	30,737
Loss on disposal of assets	9,763	5,561	1,082
Changes in certain assets and liabilities:			
Accounts receivable	311,302	(2,191)	(78,237)
Inventories	488,003	68,730	(108,025)
Other assets	3,284	3,064	13,705
Accounts payable	(227,092)	(76,141)	40,141
Income taxes receivable/payable	12,706	(22,086)	(12,494)
Accrued expenses	(60,689)	36,686	15,010
Net cash provided by operating activities	1,038,483	617,572	312,175
Investing activities:			
Purchases of property, plant and equipment	(114,501)	(111,785)	(186,843)
Proceeds from maturities of short-term commercial paper, net			31,520
Acquisition of business, net of cash acquired	(45,000)	(1,669,449)	
Other investing activities	9,874	33,967	2,478
Net cash used in investing activities	(149,627)	(1,747,267)	(152,845)
Financing activities:			
Issuance of current and long-term debt	207,930	1,822,096	423,965
Repayments of current and long-term debt	(612,534)	(635,578)	(517,978)
Proceeds from exercise of stock options, including related tax effect	10,781	32,307	37,508
Contributions from noncontrolling investors		5,418	17,860
Distributions to noncontrolling investors	(1,187)	(743)	(439)
Dividends paid	(127,569)	(105,379)	(94,812)
Debt issuance costs	(608)	(22,219)	(6,195)
Net cash provided by (used in) financing activities	(523,187)	1,095,902	(140,091)
Increase (decrease) in cash and equivalents	365,669	(33,793)	19,239
Cash and equivalents at beginning of year	361,363	395,156	375,917
Cash and equivalents at end of year	$ 727,032	$ 361,363	$ 395,156

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Description of the Business

Steel Dynamics, Inc. (SDI), together with its subsidiaries (the company), is a domestic manufacturer of steel products and metals recycler. In the third quarter 2015, the company changed its reportable segments, consistent with how it currently manages the business, representing three reporting segments: steel operations, metals recycling operations, and steel fabrication operations. Segment information provided within this Form 10-K, including that within Note 13: Segment Information, has been adjusted for all prior periods consistent with the current reportable segment presentation. Approximately 9% of the company's workforce is represented by collective bargaining agreements, and one of these agreements affecting 117 employees at one location expires during 2016.

Steel Operations Segment

Steel operations include the company's Butler Flat Roll Division, Columbus Flat Roll Division acquired September 16, 2014, The Techs galvanizing lines, Structural and Rail Division, Engineered Bar Products Division, Roanoke Bar Division, Steel of West Virginia, and with the third quarter 2015 segment changes, Iron Dynamics (IDI), a liquid pig iron (scrap substitute) production facility that supplies solely the Butler Flat Roll Division. These operations include electric arc furnace steel mills, producing steel from ferrous scrap and scrap substitutes, utilizing continuous casting, automated rolling mills, and ten downstream coating lines. Steel operations accounted for 69%, 63%, and 61% of the company's consolidated net sales during 2015, 2014, and 2013, respectively.

Butler and Columbus Flat Roll Divisions sell a broad range of sheet steel products, such as hot roll, cold roll and coated steel products, including a wide variety of specialty products, such as light gauge hot roll and galvanized. Butler Flat Roll Division sells other products such as Galvalume® and painted products, while Columbus Flat Roll Division sells other products used to produce non-energy line pipe, and is currently in the construction phase of a $100 million expansion to add painted and Galvalume® capacity. The Techs is comprised of three galvanizing lines which sell specialized galvanized sheet steels used in non-automotive applications. The Structural and Rail Division sells structural steel beams and pilings to the construction market, as well as standard-grade and premium rail to the railroad industry. The Engineered Bar Products Division primarily sells engineered, special-bar-quality and merchant-bar-quality rounds, round-cornered squares, and smaller-diameter round engineered bars. The Roanoke Bar primarily sells merchant steel products, including angles, merchant rounds, flats and channels, and reinforcing bar. Steel of West Virginia primarily sells beams, channels and specialty steel sections. The company's steel operations sell directly to end users and service centers. These products are used in numerous industry sectors, including the automotive, construction, manufacturing, transportation, heavy and agriculture equipment, and pipe and tube (including OCTG) markets.

Metals Recycling Operations Segment

Metals recycling operations consist solely of OmniSource Corporation (OmniSource), the company's metals recycling and processing locations, and ferrous scrap procurement operations. Metals recycling operations accounted for 19%, 25 and 31% of the company's consolidated net sales during 2015, 2014, and 2013, respectively.

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Steel Fabrication Operations Segment

Steel fabrication operations include the company's eight New Millennium Building Systems' joist and deck plants located throughout the United States and Northern Mexico. Revenues from these plants are generated from the fabrication of trusses, girders, steel joists and steel deck used within the non-residential construction industry. Steel fabrication operations accounted for 9%, 7%, and 6% of the company's consolidated net sales during 2015, 2014, and 2013, respectively.

Other

The "Other" category consists of subsidiary operations that are below the quantitative thresholds required for reportable segments and primarily consist of our Minnesota ironmaking operations and several smaller joint ventures. Also included in "Other" are certain unallocated corporate accounts, such as the company's senior secured credit facility, senior notes, certain other investments and certain profit sharing expenses.

Our Minnesota ironmaking operations consists of Mesabi Nugget, (owned 82% by us); our iron concentrating and potential future iron mining operations, Mesabi Mining; and our iron tailings operation, Mining Resources (owned 81% by us). See discussion of 2014 Minnesota ironmaking operations impairment later in Note 1 under "Impairment of Long-Lived Tangible and Definite-Lived Intangible Assets." The Minnesota ironmaking operations were indefinitely idled in May 2015.

Three years subsequent to Mesabi Nugget achieving certain performance measures (which as of December 31, 2015, had not been met), the noncontrolling investor may elect to require the company to purchase at par value all (but not less than all) of the units it owns at the time of such election. At any time after that same date, the company may elect to purchase at par value all of the units owned by the noncontrolling investor. The $111.2 million par value owned by the noncontrolling investor at December 31, 2015, and 2014 has been reported as redeemable noncontrolling interest in the consolidated balance sheets.

On the fifth anniversary of the effective date of the formation of Mining Resources (2016), the noncontrolling investor has a non-transferable, non-assignable right to require the company to purchase at fair value all (but not less than all) of the units it owns at that time. The $15.1 million value owned by the noncontrolling investor at December 31, 2015, and 2014, has been reported as redeemable noncontrolling interest in the consolidated balance sheet.

Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

These financial statements are prepared in conformity with accounting principles generally accepted in the United States, and accordingly, include amounts that require management to make

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

estimates and assumptions that affect the amounts reported in the financial statements and in the notes thereto. Significant items subject to such estimates and assumptions include the carrying value of property, plant and equipment, intangible assets, and goodwill; valuation allowances for trade receivables, inventories and deferred income tax assets; unrecognized tax benefits; potential environmental liabilities; and litigation claims and settlements. Actual results may differ from these estimates and assumptions.

Revenue Recognition and Allowances for Doubtful Accounts

Except for the steel fabrication operations, the company recognizes revenues from sales and the allowance for estimated returns and claims from these sales at the time the title of the product transfers, upon shipment. Provision is made for estimated product returns and customer claims based on historical experience. If the historical data used in the estimates does not reflect future returns and claims trends, additional provision may be necessary. The company's steel fabrication operations recognizes revenues from construction contracts utilizing a percentage of completion methodology based on steel tons used on completed units to date as a percentage of estimated total steel tons required for each contract. The allowance for doubtful accounts for all operating segments is based on the company's best estimate of probable credit losses, along with historical experience.

Cash and Equivalents

Cash and equivalents include all highly liquid investments with a maturity of three months or less at the date of acquisition. Restricted cash is primarily funds held in escrow as required by various insurance and government organizations.

Inventories

Inventories are stated at lower of cost or market. Cost is determined using a weighted average cost method for scrap, and on a first-in, first-out, basis for other inventory. Inventory consisted of the following at December 31 (in thousands):

	2015	2014
Raw materials	$ 419,608	$ 764,883
Supplies	396,349	374,599
Work in progress	90,486	128,882
Finished goods	242,947	350,055
	$ 1,149,390	$ 1,618,419

Investments

The company has investments in certain joint ventures and closely-held companies in which ownership varies between 49% and 50%. For these investments where the company does not have effective control, the company accounts for the investment using the equity method of accounting. Investments in companies in which the company does not exercise control and its ownership is less than 20% are carried at cost. These investments are reflected in other long-term assets on the company's balance sheet in an amount of $6.4 million and $18.4 million at December 31, 2015, and

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

2014, respectively. The company's equity in the income (losses) of investments accounted for using the equity method of accounting are recorded in other (income) expenses, net, in our consolidated statements of operations.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, which includes capitalized interest on construction-in-progress amounts, and is reduced by proceeds received from certain state and local government grants and other capital cost reimbursements. The company assigns each fixed asset a useful life ranging from 3 to 20 years for plant, machinery and equipment and 10 to 40 years for buildings and improvements. Repairs and maintenance are expensed as incurred. Depreciation is provided utilizing the straight-line depreciation methodology, or the units-of-production depreciation methodology for certain production related assets, based on units produced, subject to a minimum and maximum level. Depreciation expense was $263.2 million, $229.4 million, and $192.4 million for the years ended December 31, 2015, 2014, and 2013, respectively.

The company's property, plant and equipment at December 31 consisted of the following (in thousands):

	2015	2014
Land and improvements	$ 328,739	$ 334,583
Buildings and improvements	706,708	713,837
Plant, machinery and equipment	3,966,181	3,898,275
Construction in progress	76,074	63,344
	5,077,702	5,010,039
Less accumulated depreciation	2,126,492	1,886,133
Property, plant and equipment, net	$ 2,951,210	$ 3,123,906

Intangible Assets

The company's intangible assets, at December 31, consisted of the following (in thousands):

	2015	2014	Useful Life	Weighted Average Amortization Period
Customer and scrap generator relationships	$ 420,400	$ 419,400	10 to 25 years	19 years
Trade names	121,300	189,800	Indefinite	
Trade name	3,200	3,200	12 years	12 years
	544,900	612,400		19 years
Less accumulated amortization	265,940	241,731		
	$ 278,960	$ 370,669		

Refer to "Impairment of Goodwill and Indefinite-Lived Intangible Assets" below in Note 1 for discussion regarding the 2015 impairment of OmniSource trade name. The company utilizes an accelerated amortization methodology for customer and scrap generator relationships in order

to follow

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

the pattern in which the economic benefits of the amounts are anticipated to be consumed. Definite-lived trade names are amortized using a straight line methodology. Amortization of intangible assets was $25.3 million, $26.4 million, and $30.5 million for the years ended December 31, 2015, 2014, and 2013, respectively. Estimated amortization expense, related to amortizable intangibles, for the years ending December 31 is as follows (in thousands):

2016	$	22,039
2017		19,257
2018		16,723
2019		15,184
2020		13,365
Thereafter		71,092
Total	$	157,660

Impairment of Long-Lived Tangible and Definite-Lived Intangible Assets

The company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be fully recoverable. Impairment losses are recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. The impairment loss is measured by comparing the fair value of the asset to its carrying amount. We consider various factors and determine whether an impairment test is necessary, including by way of examples, a significant and prolonged deterioration in operating results and/or projected cash flows, significant changes in the extent or manner in which an asset is used, technological advances with respect to assets which would potentially render them obsolete, our strategy and capital planning, and the economic climate in markets to be served.

A long-lived asset is classified as held for sale upon meeting specified criteria related to ability and intent to sell. An asset classified as held for sale is measured at the lower of its carrying amount or fair value less cost to sell. As of December 31, 2015, the company reported $8.6 million of assets held for sale within other current assets in our consolidated balance sheet. An impairment loss is recognized for any initial or subsequent write-down of the asset held for sale to its fair value less cost to sell. Upon the December 31, 2015, determination and classification of these assets as held for sale, the company recorded a $10.3 million asset impairment charge in the consolidated statement of operations for the year ended December 31, 2015. The company determined fair value using Level 3 inputs as provided for under ASC 820, consisting of information provided by brokers and other external sources along with management's own assumptions.

During the fourth quarter of 2014, the company's Minnesota ironmaking operations reached a steady operating state, indicating a consistency in the operations' production capability, processes and cost structure, including the ability to utilize certain lower-cost raw materials. Given this, the company undertook an assessment of the recoverability of the carrying value of its Minnesota ironmaking operations' fixed assets. With the company's outlook at the time regarding future operating costs and product pricing, the company concluded that the carrying value of these fixed assets was no longer fully recoverable, and the fixed assets were in fact impaired. This assessment resulted in a $260.0 million pretax non-cash impairment charge, including amounts attributable to noncontrolling interests of

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

$46.5 million, which is reflected in "Other" in Note 13, Segment Information. The carrying values of the impaired assets were adjusted to their estimated fair values as determined primarily on the cost approach, as well as expected future discounted cash flows (an income approach), using Level 3 inputs as provided for under ASC 820. The Minnesota ironmaking operations were indefinitely idled in May 2015.

Goodwill

The company's goodwill is allocated to the following reporting units at December 31, (in thousands):

	2015	2014
OmniSource Metals Recycling Operations Segment	$ 109,039	$ 456,727
Butler Flat Roll Division, Structural and Rail Division, and Engineered Bar Division Metals Recycling Operations Segment	95,000	95,000
The Techs Steel Operations Segment	142,783	142,783
Roanoke Bar Division Steel Operations Segment	29,041	29,041
Columbus Flat Roll Division Steel Operation Segment	19,682	19,682
New Millennium Building Systems Steel Fabrication Operations Segment	1,925	1,925
	$ 397,470	$ 745,158

In 2015, a $341.3 million OmniSource goodwill impairment charge was recorded pursuant to the company's annual review for impairment of goodwill and indefinite-lived intangible assets, as discussed further under "Impairment of Goodwill and Indefinite-Lived Intangible Assets" below. Cumulative OmniSource goodwill impairment charges are $341.3 million at December 31, 2015.

OmniSource goodwill decreased $6.4 million in 2015, in recognition of the 2015 tax benefit related to the normal amortization of the component of OmniSource tax-deductible goodwill in excess of book goodwill.

Impairment of Goodwill and Indefinite-Lived Intangible Assets

At least once annually (as of October 1) or when indicators of impairment exist, the company performs an impairment test for goodwill and other indefinite-lived intangible assets. Goodwill is allocated to various reporting units, which are generally one level below the company's operating segments. The company utilizes a two-stepped approach to evaluate goodwill impairment. The first step of the test determines if there is potential goodwill impairment. In this step the company compares the fair value of the reporting unit to its carrying amount (which includes goodwill). The fair value of the reporting unit is determined by using an estimate of future cash flows utilizing a risk-adjusted discount rate to calculate the net present value of future cash flows (income approach), and by using a market approach based upon an analysis of valuation metrics of comparable peer companies, Level 3 inputs as provided for under ASC 820. If the fair value exceeds the carrying value, there is no impairment. If the carrying amount exceeds the fair value, the company performs the second step of the test, which measures the amount of impairment loss to be recorded. In the second step, the company compares the

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

carrying amount of the goodwill to the implied fair value of the goodwill based on the net fair value of the recognized and unrecognized assets and liabilities of the reporting unit to which it is allocated. If the implied fair value is less than the carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill is less than its carrying value.

At least once annually (as of October 1) or when indicators of impairment exist, the company tests indefinite-lived intangible assets for impairment through the comparison of the fair value of the specific intangible asset with its carrying amount. The fair value of the intangible asset is determined by using an estimate of future cash flows attributable to the asset and a risk-adjusted discount rate to compute a net present value of future cash flows (income approach). If the fair value is less than the carrying value, an impairment loss is recorded in an amount equal to the excess in carrying value.

During the company's 2015 annual goodwill and indefinite-lived intangible asset impairment analysis, we determined that the fair value of OmniSource was less than its carrying value, and upon the completion of the second step of the impairment analysis, that the goodwill and trade name indefinite-lived intangible assets were impaired. The decrease in OmniSource fair value from prior impairment analysis was due primarily to the reduction in expected future cash flows based on management's view of the weak shorter and longer-term global scrap commodity outlook. The OmniSource goodwill and trade name indefinite-lived intangible assets were written down to their respective fair values, resulting in non-cash asset impairment charges of $341.3 million and $68.5 million, respectively, that are reflected in asset impairment charges in the consolidated statement of operations for the year ended December 31, 2015, within the metals recycling operations.

Equity-Based Compensation

The company has several stock-based employee compensation plans which are more fully described in Note 6. Compensation expense for restricted stock units, deferred stock units, restricted stock, and performance awards is recorded over the vesting periods using the fair value as determined by the closing fair market value of the company's common stock on the grant date, and with respect to performance awards, an estimate of probability of award achievement during the performance period. Compensation expense for these stock-based employee compensation plans was $27.1 million, $22.8 million, and $15.2 million for the years ended December 31, 2015, 2014, and 2013, respectively.

Income Taxes

The company accounts for income taxes and the related accounts under the liability method. Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted rates expected to be in effect during the year in which the basis differences reverse.

Earnings Per Share

Basic earnings per share is based on the weighted average shares of common stock outstanding during the period. Diluted earnings per share assumes the weighted average dilutive effect of common share equivalents outstanding during the period applied to the company's basic earnings per share. Common share equivalents represent potentially dilutive stock options, restricted stock units, deferred stock units, and in 2014 and 2013, 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 (Continued)

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

There were 1.5 million anti-dilutive common stock equivalents as of and for the year ended December 31, 2015. There were no anti-dilutive common share equivalents at or for the year ended December 31, 2014, and 2013.

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

	2015		
	Net Loss (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share	$ (130,311)	242,017	$ (0.54)
Dilutive stock options, deferred stock units, and restricted stock units			
Diluted earnings per share	$ (130,311)	242,017	$ (0.54)

	2014			2013		
	Net Income (Numerator)	Shares (Denominator)	Per Share Amount	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share	$ 157,024	232,547	$ 0.68	$ 189,314	220,916	$ 0.86
Dilutive stock options, deferred stock units, and restricted stock units		1,828			1,392	
5.125% convertible senior notes	4,327	7,703		9,432	16,688	
Diluted earnings per share	$ 161,351	242,078	$ 0.67	$ 198,746	238,996	$ 0.83

Concentration of Credit Risk

Financial instruments that potentially subject the company to significant concentrations of credit risk principally consist of temporary cash investments and accounts receivable. The company places its temporary cash investments with high credit quality financial institutions and companies, and limits the amount of credit exposure from any one entity. The company is exposed to credit risk in the event of nonpayment by customers. The company mitigates its exposure to credit risk, which it generally extends initially on an unsecured basis, by performing ongoing credit evaluations and taking further action if necessary, such as requiring letters of credit or other security interests to support the customer receivable. Management's estimation of the allowance for doubtful accounts is based upon known credit risks, historical loss experience and current economic conditions affecting the company's customers. Customer accounts receivable are charged off when all collection efforts have been exhausted and the amounts are deemed uncollectible. Heidtman Steel Products (Heidtman), a related party, accounted for 5% of the company's net accounts receivable at December 31, 2015, and 4% at December 31, 2014.

Derivative Financial Instruments

The company recognizes all derivatives as either assets or liabilities in the consolidated balance sheets and measures those instruments at fair value. Derivatives that are not designated as hedges must

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

be adjusted to fair value through earnings. Changes in the fair value of derivatives that are designated as hedges, depending on the nature of the hedge, are recognized as either an offset against the change in fair value of the hedged balance sheet item in the case of fair value hedges or as other comprehensive income in the case of cash flow hedges, until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. The company offsets fair value amounts recognized for derivative instruments executed with the same counterparty under master netting agreements.

In the normal course of business, the company may have involvement with derivative financial instruments related to managing fluctuations in interest rates, foreign exchange rates, and forward contracts in various commodities. At the time of acquiring these financial instruments, the company designates and assigns these instruments as hedges of specific assets, liabilities or anticipated transactions. When hedged assets or liabilities are sold or extinguished, or the anticipated transaction being hedged is no longer expected to occur, the company recognizes the gain or loss on the designated hedged financial instrument.

The company routinely enters into forward contracts in various commodities, primarily nonferrous metals (specifically aluminum, copper, nickel and silver) in our metals recycling operations, to reduce exposure to commodity related price fluctuations. The company does not enter into these derivative financial instruments for speculative purposes.

Recently Issued Accounting Standards

In May 2014, the FASB issued guidance codified in ASC 606, Revenue Recognition Revenue from Contracts with Customers, which amends the guidance in former ASC 605, Revenue Recognition. The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Because the guidance in ASC 606 is principles-based, it can be applied to all contracts with customers regardless of industry-specific or transaction-specific fact patterns. Additionally, ASC 606 requires additional disclosures to help users of financial statements better understand the nature, amount, timing, and potential uncertainty of revenue that is recognized. This guidance is effective for annual and interim periods beginning after December 15, 2017, but can be early adopted for annual and interim periods ending after December 15, 2016. The company is currently evaluating the impact of the provisions of ASC 606, including the timing of adoption.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements Going Concern (Subtopic 205-40: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern), effective for annual and interim periods ending after December 15, 2016. ASU 2014-15 requires management to evaluate whether there are conditions or events, considered in aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. There are required disclosures if principal conditions or events are identified that raised substantial doubt about the entity's ability to continue as a going concern (before consideration of management's plans), as well as management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations, and management's plans that alleviated substantial doubt about the entity's ability to continue as a going

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

concern. This ASU is not expected to have any impact on our overall results of operations, financial position or cash flows.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, which requires an entity to measure inventory at the lower of cost and net realizable value, rather than at the lower of cost or market. This new guidance is effective for interim and annual periods beginning after December 15, 2016, but can be early adopted. The company is currently evaluating the impact of this ASU's adoption.

Note 2. Acquisitions

Consolidated Systems, Inc. **(CSi)**

On September 14, 2015, the company purchased from CSi certain of its steel deck facilities (including associated assets) and net working capital of approximately $30.0 million, for a purchase price of $45.0 million in cash. Operating results of these facilities have been reflected in the company's financial statements under the steel fabrication operations since the September 14, 2015, purchase date. The purchased assets include two deck facilities located in Memphis, Tennessee, and Phoenix, Arizona. Producing both standard and premium specialty deck profiles, the new locations will allow for enhanced geographic reach into the southwestern and western markets, and further diversify New Millennium Building Systems' product offerings.

Severstal Columbus, LLC **(Columbus Flat Roll Division)**

The company completed its acquisition of 100% of Columbus Flat Roll Division on September 16, 2014, for a purchase price of $1.625 billion, with additional working capital adjustments of $44.4 million. The acquisition was funded through the issuance of $1.2 billion in Senior Notes, borrowings under the company's senior secured credit facility, and available cash. The company purchased Columbus Flat Roll Division to significantly expand and diversify its steel operating base with the addition of 3.4 million tons of hot roll steel production capacity. The product offerings are diversified with respect to width, gauge, and strength when compared to the capabilities of our Butler Flat Roll Division. Located in northeast Mississippi, Columbus Flat Roll Division is one of the newest and most technologically advanced sheet steel electric arc furnace mills in North America. Additionally, Columbus Flat Roll Division is advantageously located to serve the growing markets in the southern U.S. and Mexico, providing the company with geographic diversification and growth opportunities.

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

	Years Ended December 31,	
	2014	**2013**
Net Sales	$ 10,355,774	$ 9,193,344
Net Income attributable to Steel Dynamics, Inc.	264,779	155,357

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Acquisitions (Continued)

The pro forma results reflect the pre-acquisition operations of Columbus Flat Roll Division for the years ended December 31, 2014, and 2013. The information presented is for information purposes only and is not necessarily indicative of the actual results that would have occurred had the acquisition been consummated at January 1, 2013, nor are they necessarily indicative of future operating results of the combined companies under the ownership and management of the company.

Note 3. Long-Term Debt

The company's borrowings consisted of the following at December 31 (in thousands):

	2015	2014
Senior term loan	$ 237,500	$ 250,000
6 1/8% senior notes due 2019	400,000	400,000
7 5/8% senior notes due 2020		350,000
5.125% senior notes due 2021	700,000	700,000
6 3/8% senior notes due 2022	350,000	350,000
5 1/4% senior notes due 2023	400,000	400,000
5.500% senior notes due 2024	500,000	500,000
Other obligations	40,634	74,166
Total debt	2,628,134	3,024,166
Less debt issuance costs	33,478	42,317
Total amounts outstanding	2,594,656	2,981,849
Less current maturities	16,680	46,460
Long-term debt	$ 2,577,976	$ 2,935,389

In April 2015, the FASB issued ASU 2015-03, Interest Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented as a deduction from the corresponding debt liability, rather than as a separate asset. The company adopted ASU 2015-03 on December 31, 2015, and applied the new guidance retrospectively to all prior periods presented in the financial statements. As a result of the adoption, $42.3 million of deferred debt issuance costs were reclassified from Other Assets to Long Term Debt in our December 31, 2014, consolidated balance sheet.

Financing Activity

On March 16, 2015, the company called and repaid all $350.0 million of its outstanding 7 5/8% Senior Notes due 2020 (the "2020 Notes") at a redemption price of 103.813% of the principal amount of the 2020 Notes, plus accrued and unpaid interest to, but not including, the date of redemption. Associated premiums and the write off of deferred financing costs of approximately $16.7 million were recorded in other expense in conjunction with the redemption.

In September 2014, the company issued $700.0 million of 5.125% Senior Notes due 2021 (the "2021 Senior Notes") and $500.0 million of 5.500% Senior Notes due 2024 (the "2024 Senior Notes"), combined the "Senior Notes". The proceeds from the issuance of the Senior Notes, along with cash on

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Long-Term Debt (Continued)

hand and borrowings under the company's then existing senior secured credit facility, were used to fund the September 16, 2014, acquisition of Columbus Flat Roll Division.

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

In March 2013, the company issued $400.0 million of $5^1/_4$% senior notes due 2023 (the "2023 Notes"), the proceeds of which, along with available cash, was used to fund the March 2013 purchase of $301.7 million, plus accrued and unpaid interest to, but not including, the date of repurchase, of the company's $6^3/_4$% senior notes due 2015 (the "2015 Notes") pursuant to a tender offer; and the April 2013 repayment of the remaining outstanding 2015 Notes due in the principal amount of $198.3 million plus accrued and unpaid interest to, but not including, the date of repayment. As a result of the tender offer and repurchase of the 2015 Notes, the company recorded expenses related to tender premiums, unamortized debt issuance costs write-off, and tender expenses of $2.6 million, which are reflected in other expenses in the consolidated statement of operations for the year ended December 31, 2013.

Senior Secured Credit Facility, due 2019

The company's November 2014 senior secured credit Facility, which provides a $1.2 billion Revolver, matures November 2019. Subject to certain conditions, the company has the opportunity to increase the Revolver size by at least $750.0 million. The Facility is guaranteed by certain of the company's subsidiaries; and is secured by substantially all of the company's and its wholly-owned subsidiaries' receivables and inventories, and by pledges of all shares of the company's wholly-owned subsidiaries' capital stock. The Revolver is available to fund working capital, capital expenditures, and other general corporate purposes. The company also issued a $250.0 million Term Loan under the Facility which matures on November 14, 2019. The proceeds from the new Term Loan were used to refinance the Company's then existing $226.9 million term loan facility and for general corporate purposes. Quarterly principal payments under the Term Loan are required to be made in the amount of 1.25% of the original principal amount, with the unpaid principal balance of approximately $190.6 million due on the maturity date. Interest on the Term Loan is based on the Facility's pricing grid (1.90% at December 31, 2015) and is payable quarterly.

The Facility pricing grid is adjusted quarterly, and is based on the company's leverage of net debt (as defined in the Facility) to last-twelve-months (LTM) EBITDA (earnings before interest, taxes, depreciation, amortization, and certain other non-cash transactions). The minimum pricing is LIBOR plus 1.00% or Prime, and the maximum pricing is LIBOR plus 2.00% or Prime plus 1.00%. In addition, the company is subject to an unused commitment fee of between 0.225% and 0.375% (based on leverage of net debt to LTM EBITDA) which is applied to the unused portion of the Revolver each quarter.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Long-Term Debt (Continued)

The Facility contains financial covenants and other covenants pertaining to the company's ability (which may under certain circumstances be limited) to make capital expenditures; incur indebtedness; permit liens on property; enter into transactions with affiliates; make restricted payments or investments; enter into mergers, acquisitions or consolidations; conduct asset sales; pay dividends or distributions and enter into other specified transactions and activities. The company's ability to borrow funds within the terms of the Revolver is dependent upon its continued compliance with the financial and other covenants. At December 31, 2015, the company had $1.2 billion of availability on the Revolver, $12.8 million of outstanding letters of credit and other obligations which reduce availability, and there were no borrowings outstanding.

The financial covenants under the company's Facility state that it must maintain an interest coverage ratio of not less than 2.50:1.00. The company's interest coverage ratio is calculated by dividing its LTM EBITDA by its LTM gross interest expense less amortization of financing fees. In addition, a net debt (as defined in the Facility) to LTM EBITDA (net debt leverage ratio) of not more than 5.00:1.00 must be maintained. If the net debt leverage ratio exceeds 3.50:1:00 at any time, the company's ability to make certain payments as defined in the Facility (which includes cash dividends to stockholders and share purchases, among other things), is limited. At December 31, 2015, the company's interest coverage ratio and net debt leverage ratio were 4.76:1.00 and 2.99:1.00, respectively. The company was therefore in compliance with these covenants at December 31, 2015, and anticipates remaining in compliance during the next twelve months.

Senior Unsecured Notes

We have five different tranches of senior unsecured notes (Notes) outstanding. These Notes are in equal right of payment with all existing and future senior unsecured indebtedness and are senior in right of payment to all subordinated indebtedness. These Notes contain provisions that allow the company to redeem the senior notes on or after the dates and at redemption prices (expressed as a percentage of principal amount) listed below. Additionally, these Notes generally allow the company to redeem some or all of the Notes by paying a "make-whole" premium any time prior to the dates listed below. The company may redeem up to 35% of each of the Notes at a redemption price and by the

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Long-Term Debt (Continued)

dates listed below using the proceeds from the sales of the company's common stock. See the key terms of each of the Notes outstanding below.

Issue	2019 Notes	2021 Notes	2022 Notes	2023 Notes	2024 Notes
Outstanding Balance	$400.0 million	$700.0 million	$350.0 million	$400.0 million	$500.0 million
Stated Interest Rate	$6^{1}/_{8}$%	5.125%	$6^{3}/_{8}$%	$5^{1}/_{4}$%	5.500%
Semi-Annual Interest Payment Dates	February 15 and August 15	April 1 and October 1	February 15 and August 15	April 15 and October 15	April 1 and October 1
Equity Redemption Option Price & Date	N/A date passed	105.125% (10/1/17)	N/A date passed	105.250% (4/15/16)	105.500% (10/1/17)
"Make-whole" Option Date	8/15/16	10/1/17	8/15/17	4/15/18	10/1/19
First Call Price & Date	103.063% (8/15/16)	102.563% (10/1/17)	103.188% (8/15/17)	102.625% (4/15/18)	102.750% (10/1/19)
Second Call Price & Date	101.531% (8/15/17)	101.281% (10/1/18)	102.125% (8/15/18)	101.750% (4/15/19)	101.833% (10/1/20)
Third Call Price & Date	100.000% (8/15/18)	100.000% (10/1/19)	101.063% (8/15/19)	100.875% (4/15/20)	100.917% (10/1/21)
Fourth Call Price & Date			100.000% (8/15/20)	100.000% (4/15/21)	100.000% (10/1/22)
Maturity Date	August 15, 2019	October 1, 2021	August 15, 2022	April 15, 2023	October 1, 2024

Other Secured Obligations

Minnesota Economic Development State Loans. Mesabi Nugget has loans from various Minnesota state agencies related to the construction and ultimate operation of Mesabi Nugget. These loans require monthly principal and interest payments, at a 3.5% interest rate until February 2017, and then changing to 5.0% through maturity in 2027. Amounts due under these loans were $24.0 million and $25.7 million at December 31, 2015, and 2014, respectively.

Other. The company has an unsecured electricity transmission facility loan which bears interest at 8.1%, with monthly principal and interest payments required through maturity in 2022. The company has an unused $3.0 million stand-by letter of credit in conjunction with this loan. The outstanding principal balance was $4.9 million and $5.4 million as of December 31, 2015, and 2014, respectively. One of the company's controlled subsidiaries entered into a secured credit agreement in 2015 which provides a revolving variable rate credit facility of up to $40.0 million, subject to a borrowing base determined from eligible accounts receivable and inventory. Interest is payable monthly. There were no amounts outstanding under this credit facility as of December 31, 2015. One of the company's controlled subsidiaries entered into financing agreements for certain equipment which bear interest at 6.0%, with monthly principal and interest payments required through maturities in 2027 and 2028. The outstanding principal balance of these agreements was $10.1 and $10.7 million at December 31, 2015, and 2014, respectively.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Long-Term Debt (Continued)

Outstanding Debt Maturities

Maturities of outstanding debt as of December 31, 2015, are as follows (in thousands):

2016	$ 16,680
2017	15,796
2018	15,601
2019	603,291
2020	3,491
Thereafter	1,973,275
	$ 2,628,134

The company capitalizes interest on all qualifying construction-in-progress assets. For the years ended December 31, 2015, 2014, and 2013, total interest costs incurred were $154.4 million, $139.7 million, and $132.3 million, respectively, of which $457,000, $2.5 million and $4.6 million, respectively, were capitalized. Cash paid for interest was $160.2 million, $114.3 million, and $129.5 million for the years ended December 31, 2015, 2014, and 2013, respectively.

Note 4. Income Taxes

The company files a consolidated federal income tax return. Net cash paid (refunded) for taxes was $(9.9) million, $120.5 million and $72.4 million for the years ended December 31, 2015, 2014, and 2013, respectively. The current and deferred federal and state income tax expense (benefit) for the years ended December 31 is as follows (in thousands):

	2015	2014	2013
Current income tax expense	$ 6,391	$ 94,312	$ 72,599
Deferred income tax expense (benefit)	(103,338)	(21,159)	26,715
Total income tax expense (benefit)	$ (96,947)	$ 73,153	$ 99,314

A reconciliation of the statutory tax rates to the actual effective tax rates for the years ended December 31, are as follows:

	2015	2014	2013
Statutory federal tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	6.3	4.6	3.8
Domestic manufacturing deduction		(4.8)	(2.0)
Noncontrolling interests	(2.1)	13.9	3.4
Federal research and development tax credits		(1.5)	(2.5)
Other permanent differences	0.8	(2.8)	0.1
Effective tax rate	40.0%	44.4%	37.8%

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Income Taxes (Continued)

Significant components of the company's deferred tax assets and liabilities at December 31 are as follows (in thousands):

	2015	2014
Deferred tax assets		
Accrued expenses and allowances	$ 21,205	$ 22,780
Inventories	21,559	20,546
Net operating loss carryforwards	61,148	33,347
Intangible Assets	28,553	
Other	8,684	5,571
Subtotal	141,149	82,244
Less: valuation allowance	(26,835)	(21,586)
Total net deferred tax assets	114,314	60,658
Deferred tax liabilities		
Property, plant and equipment	(511,596)	(449,939)
Intangible assets		(108,840)
Other	(3,488)	(8,361)
Total deferred tax liabilities	(515,084)	(567,140)
Net deferred tax liability	$ (400,770)	$ (506,482)

The change in intangible assets to a $28.6 million deferred tax asset at December 31, 2015, from a $108.8 million deferred tax liability at December 31, 2014, is due primarily to the $409.8 million impairment of OmniSource goodwill and trade name assets in 2015, which is not currently deductible.

Certain wholly-owned and controlled subsidiaries of the company file separate federal and state income tax returns. These subsidiaries have generated federal net operating loss carryforwards of $69.7 million which expire in 2032 to 2035, and state net operating loss carryforwards which principally expire in the years 2024 to 2035. Management has considered the scheduled reversal of the deferred tax liabilities, historical taxable losses, projected taxable income and tax planning strategies in determining that it is more likely than not that some of the deferred tax assets relating to the tax loss carryforwards of the subsidiaries will not be realized. Based on these evaluations, valuation allowances of $26.8 million and $21.6 million have been recorded as of December 31, 2015, and 2014, respectively. The $5.2 million increase in valuation allowance in the year ended December 31, 2015, primarily relates to the realizability of certain state tax net operating loss carryforwards.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740), which requires an entity to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating into current and noncurrent amounts. The company adopted ASU 2015-17 on December 31, 2015, and applied the new guidance retrospectively to all prior periods presented in the financial statements. As a result of the adoption, $35.5 million was reclassified from current deferred income tax asset to noncurrent deferred income tax liability in our December 31, 2014, consolidated balance sheet.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Income Taxes (Continued)

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	2015	2014	2013
Balance at January 1	$ 17,338	$ 26,564	$ 22,245
Increases related to current year tax positions		1,050	1,050
Increases related to prior year tax positions	81	653	3,760
Decreases related to prior year tax positions	(719)	(2,298)	(491)
Settlements with taxing authorities	(70)	(8,631)	
Lapses in statute of limitations	(639)		
Balance at December 31	$ 15,991	$ 17,338	$ 26,564

Included in the balance of unrecognized tax benefits at December 31, 2015, are potential benefits of $11.7 million that, if recognized, would affect the effective tax rate. The company recognizes interest and penalties related to its tax contingencies on a net-of-tax basis in income tax expense. During the year ended December 31, 2015, the company recognized benefits from the reduction of interest expense of $100,000, net of tax. In addition to the unrecognized tax benefits in the table above, the company had $5.2 million accrued for the payment of interest and penalties at December 31, 2015.

The company files income tax returns in the U.S. federal jurisdiction as well as income tax returns in various state jurisdictions. The IRS is currently examining the company's federal income tax returns for the years 2010 and 2011. At this time the company does not believe there will be any significant examination adjustments that would result in a material change to the company's financial position, results of operations or cash flows. It is reasonably possible that the amount of unrecognized tax benefits could change in the next twelve months as a result of these federal income tax audits, and state income tax audits. Based on the current audits in process, the payment of taxes as a result of audit settlements could be in an amount from zero to $7.1 million by the end of 2016. With the exception of the 2010 federal return which is currently under examination, the company is no longer subject to federal, state and local income tax examinations by tax authorities for years ended before 2011.

Note 5. Shareholders' Equity

Cash Dividends

The company declared cash dividends of $133.2 million, or $0.55 per common share, during 2015; $108.6 million, or $0.46 per common share, during 2014; and $97.4 million, or $0.44 per common share, during 2013. The company paid cash dividends of $127.6 million, $105.4 million and $94.8 million during 2015, 2014, and 2013, respectively.

Treasury Stock

The company's board of directors has authorized the company to repurchase shares of the company's common stock through open market trades. The company did not repurchase any shares during the three-year period ended December 31, 2015. As of December 31, 2015, the company had remaining authorization to repurchase approximately 3.6 million additional shares. The repurchase program does not have an expiration date.

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Note 6. Equity-based Incentive Plans

2015 Equity Incentive Plan (2015 Plan)

The 2015 Plan was designed to attract, motivate and retain qualified persons that are able to make important contributions to the company's success. To accomplish these objectives, the 2015 Plan provides for awards of equity-based incentives through granting of stock options, restricted stock units (RSUs), deferred stock units (DSUs), restricted stock awards, unrestricted stock awards, stock appreciation rights, and performance awards, such as long-term incentive compensation program (LTIP). The company's stockholders approved the 2015 Plan in May 2015, and 12.5 million shares of common stock were reserved for issuance upon exercise of options or other equity grants through December 31, 2025. The 2015 Plan replaced the 2006 Amended and Restated Equity Incentive Plan (Expired 2006 Plan) which was set to expire on December 31, 2015. The 2015 Plan remains substantially the same as the Expired 2006 Plan. No further awards can be made under the Expired 2006 Plan and any shares that do not vest or are forfeited will simply be canceled. The 2015 Plan uses a fungible share concept under which any awards that are not a full-value award, such as stock options and stock appreciation rights, will be counted against the share limit as one share for each share of common stock, and awards that are full-value awards, such as RSUs, DSUs, restricted and unrestricted stock awards, and performance awards, will be counted against the share limit as 2.09 shares for each share of common stock. At December 31, 2015, there were 9.1 million shares in the fungible share reserve still available for issuance.

Substantially all of the company's employees receive RSUs, which are granted annually in November at no cost to employees, vest 100% over the shorter of two years from grant date or upon the recipient reaching retirement eligible age (59$^{1}/_{2}$ years), and are issued to employees upon vesting. Prior to 2012, substantially all of the company's employees were granted stock options at an exercise price of 100% of the fair market value of the company's common stock on the date of grant, which vested 100% six months after the date of grant, with a maximum term of five years. The company satisfies RSUs and stock options with newly issued shares, and satisfies restricted stock awards, deferred stock units, and performance awards with treasury shares. In addition to the RSUs, stock options and LTIP awards granted during the three year period ended December 31, 2015, presented below, the company awarded 51,000, 54,000 and 53,000 DSUs in 2015, 2014 and 2013, respectively.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Equity-based Incentive Plans (Continued)

Restricted Stock Units

A summary of the company's RSU activity and outstanding RSUs as of December 31, 2015, are presented below (dollars in thousands except grant date fair value):

	Number of RSUs	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value	Unrecognized Compensation
Outstanding RSUs as of January 1, 2013	1,269,307	$ 11.87	$ 17,428	$ 12,318
Granted	1,293,140	$ 18.16		
Vested	(170,398)	$ 17.74		
Forfeited	(112,406)	$ 12.48		
As of December 31, 2013		28,669	27,678	

General and administrative	57,950	30,435	13,649
Sales and marketing	82,140	38,908	9,578
Total operating expenses	174,004	98,012	50,905
Loss from operations	(159,068)	(100,539)	(46,761)
Other income (expense)			
Investment income	1,271	542	316
Interest (expense)	(6)	(51)	(69)
Total other income	1,265	491	247
Net loss	$ (157,803)	$ (100,048)	$ (46,514)
Net loss per share—basic and diluted	$ (1.71)	$ (1.25)	$ (0.69)
Weighted average common shares outstanding—basic and diluted	92,135	80,232	67,493

The accompanying notes are an integral part of these consolidated financial statements.

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EXACT SCIENCES CORPORATION

Consolidated Statements of Comprehensive Loss

(Amounts in thousands)

	Year Ended December 31,		
	2015	2014	2013
Net loss	$ (157,803)	$ (100,048)	$ (46,514)
Other comprehensive loss, net of tax:			
Unrealized gain (loss) on available-for-sale investments	(329)	(240)	47
Foreign currency translation gain	11	—	—
Comprehensive loss	$ (158,121)	$ (100,288)	$ (46,467)

The accompanying notes are an integral part of these consolidated financial statements.

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EXACT SCIENCES CORPORATION

Consolidated Statements of Stockholders' Equity

(Amounts in thousands, except share data)

	Common Stock Number of Shares	$0.01 Par Value	Additional Paid In Capital	Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balance, January 1 , 2013	63,909,800	$ 639	$ 372,123	$ 78	$ (274,245)	$ 98,595
Issuance of common stock, net of issuance costs of $4.8 million	6,325,000	63	73,232	—	—	73,296
Exercise of common stock options and warrants	418,146	4	1,337	—	—	1,341
Issuance of common stock to fund the Company's 2012 401(k) match	30,538	1	354	—	—	354
Compensation expense related to issuance of stock options and restricted stock awards	328,422	3	7,741	—	—	7,744
Purchase of employee stock purchase plan shares	59,932	1	452	—	—	453
Net loss	—	—	—	—	(46,514)	(46,514)
Accumulated other comprehensive income	—	—	—	47	—	47
Balance, December 31 , 2013	71,071,838	$ 711	$ 455,239	$ 125	$ (320,759)	$ 135,316
Issuance of common stock, net of issuance costs of $11.0 million	15,500,000	155	238,425	—	—	238,580
Exercise of common stock options and warrants	1,522,753	15	2,625	—	—	2,640
Issuance of common stock to fund the Company's 2013 401(k) match	32,666	1	455	—	—	456
Compensation expense related to issuance of	410,619	4	11,516	—	—	11,520

stock options and restricted stock awards						
Purchase of employee stock purchase plan shares	88,166	1	759	—	—	760
Net loss	—	—	—	—	(100,048)	(100,048)
Accumulated other comprehensive income	—	—	—	(240)	—	(240)
Balance, December 31 , 2014	88,626,042	$ 887	$ 709,019	$ (115)	$ (420,807)	$ 288,984
Issuance of common stock, net of issuance costs of $4.4 million	7,000,000	70	174,070	—	—	174,140
Exercise of common stock options and warrants	281,315	3	1,245	—	—	1,248
Issuance of common stock to fund the Company's 2014 401(k) match	21,826	—	836	—	—	836
Compensation expense related to issuance of stock options and restricted stock awards	568,818	6	18,044	—	—	18,050
Purchase of employee stock purchase plan shares	176,785	2	1,717	—	—	1,719
Net loss	—	—	—	—	(157,803)	(157,803)
Accumulated other comprehensive income	—	—	—	(318)	—	(318)
Balance, December 31 , 2015	96,674,786	$ 968	$ 904,931	$ (433)	$ (578,610)	$ 326,856

The accompanying notes are an integral part of these consolidated financial statements.

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EXACT SCIENCES CORPORATION

Consolidated Statements of Cash Flows

(Amounts in thousands, except share data)

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net loss	$ (157,803)	$ (100,048)	$ (46,514)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization of fixed assets	7,600	3,710	1,418
Loss on disposal of property and equipment	40	49	100
Stock-based compensation	18,050	11,520	7,744
Amortization of deferred license fees	—	(294)	(4,144)
Amortization of other liabilities	(573)	—	—
Amortization of deferred financing costs	44	—	—
Forgiveness of long-term debt	(1,000)	—	—
Amortization of premium on short-term investments	1,323	842	636
Amortization of intangible assets	150	—	—
Changes in assets and liabilities:			
Accounts receivable, net	(3,557)	(1,376)	—
Inventory, net	(2,660)	(4,017)	—
Prepaid expenses and other current assets	(3,057)	(1,329)	(1,606)
Accounts payable	661	1,886	(2,891)
Accrued liabilities	7,424	8,064	2,299
Lease incentive obligation	(553)	(487)	2,655
Accrued interest	(106)	22	21
Net cash used in operating activities	(134,017)	(81,458)	(40,282)
Cash flows from investing activities:			
Purchases of marketable securities	(205,054)	(209,471)	(98,510)
Maturities of marketable securities	162,283	104,172	72,289
Purchases of property and equipment	(20,084)	(11,991)	(8,748)
Purchases of intangible assets	(1,900)	—	—
Net cash used in investing activities	(64,755)	(117,290)	(34,969)
Cash flows from financing activities:			
Proceeds from exercise of common stock options	1,248	2,640	1,341
Proceeds from sale of common stock, net of issuance costs	174,140	238,580	73,296
Payments on capital lease obligations	(360)	(351)	(333)
Payments on mortgage payable	(44)	—	—
Proceeds from mortgage payable	5,062	—	—
Proceeds from New Market Tax Credit financing agreements	—	2,399	—
	1,719	760	453

Proceeds in connection with the Company's employee stock purchase plan			
Net cash provided by financing activities	181,765	244,028	74,757
Effects of exchange rate on cash and cash equivalents	11	—	—
Net (decrease) increase in cash and cash equivalents	(16,996)	45,280	(494)
Cash and cash equivalents, beginning of period	58,131	12,851	13,345
Cash and cash equivalents, end of period	$ 41,135	$ 58,131	$ 12,851
Supplemental disclosure of non-cash investing and financing activities:			
Property and equipment acquired but not paid	$ 1,705	$ 546	$ 534
Unrealized gain on available-for-sale investments	$ (329)	$ (240)	$ 47
Issuance of 21,826, 32,666 and 30,538 shares of common stock to fund the Company’s 401(k) matching contribution for 2014, 2013 and 2012, respectively	$ 836	$ 456	$ 354
Interest paid	$ 95	$ 29	$ 48

The accompanying notes are an integral part of these consolidated financial statements.

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EXACT SCIENCES CORPORATION

Notes to Consolidated Financial Statements

(1) ORGANIZATION

Exact Sciences Corporation (“Exact” or the “Company”) was incorporated in February 1995. Exact is a molecular diagnostics company currently focused on the early detection and prevention of some of the deadliest forms of cancer. The Company has developed an accurate, non-invasive, patient friendly screening test called Cologuard for the early detection of colorectal cancer and pre-cancer, and is currently working on the development of tests for lung cancer, pancreatic cancer and esophageal cancer.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company’s wholly owned subsidiaries, Exact Sciences Laboratories, LLC, Exact Sciences Finance Corporation, Exact Sciences Europe LTD, Beijing Exact Sciences Medical Technology Company Limited, and variable interest entities. See Note 13 for the discussion of financing arrangements involving certain entities that are variable interest entities that are included in our consolidated financial statements. All significant intercompany transactions and balances have been eliminated in consolidation.

References to “Exact”, “we”, “us”, “our”, or the “Company” refer to Exact Sciences Corporation and its wholly owned subsidiaries.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers cash on hand, demand deposits in bank, money market funds, and all highly liquid investments with an original maturity of 90 days or less to be cash and cash equivalents. The Company had no restricted cash at December 31, 2015 and 2014.

Marketable Securities

Management determines the appropriate classification of debt securities at the time of purchase and re evaluates such designation as of each balance sheet date. Debt securities carried at amortized cost are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. Marketable equity securities and debt securities not classified as held to maturity are classified as available for sale. Available for sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts

to maturity computed under the straight line method. Such amortization is included in investment income. Realized gains and losses and declines in value judged to be other than temporary on available for sale securities are included in investment income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available for sale are included in investment income.

At December 31, 2015 and December 31, 2014 the Company's investments consisted of fixed income investments and all were deemed available for sale. The objectives of the Company's investment strategy are to provide liquidity and safety of principal while striving to achieve the highest rate of return consistent with these two objectives. The

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EXACT SCIENCES CORPORATION

Notes to Consolidated Financial Statements (Continued)

Company's investment policy limits investments to certain types of instruments issued by institutions with investment grade credit ratings and places restrictions on maturities and concentration by type and issuer. Investments in which the Company has the ability and intent, if necessary, to liquidate in order to support its current operations (including those with a contractual term greater than one year from the date of purchase) are classified as current. All of the Company's investments are considered current. Realized gains were $14,205, $11,000, and $9,639, net of insignificant realized losses, for the years ended December 31, 2015, 2014, and 2013, respectively.

The Company periodically reviews investments in unrealized loss positions for other-than-temporary impairments. This evaluation includes, but is not limited to, significant quantitative and qualitative assessments and estimates regarding credit ratings, collateralized support, the length of time and significance of a security's loss position, the Company's intent not to sell the security, and whether it is more likely than not that the Company will have to sell the security before recovery of its cost basis. For the year ended December 31, 2015, no investments were identified with other-than-temporary declines in value.

Available for sale securities at December 31, 2015 consist of the following:

	December 31, 2015			
(In thousands)	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value
Corporate bonds	$ 179,471	$ 2	$ (262)	$ 179,211
U.S. government agency securities	7,057	—	(18)	7,039
Asset backed securities	77,661	—	(166)	77,495
Certificates of deposit	1,999	—	—	1,999
Total available-for-sale securities	$ 266,188	$ 2	$ (446)	$ 265,744

Available for sale securities at December 31, 2014 consist of the following:

	December 31, 2014			
(In thousands)	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value
Corporate bonds	$ 141,239	$ 20	$ (135)	$ 141,124

U.S. government agency securities	18,687	8	(7)	18,688
Asset backed securities	60,821	17	(18)	60,820
Commercial paper	3,993	—	—	3,993
Total available-for-sale securities	$ 224,740	$ 45	$ (160)	$ 224,625

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EXACT SCIENCES CORPORATION

Notes to Consolidated Financial Statements (Continued)

Changes in Accumulated Other Comprehensive Income (Loss)

The amount recognized in accumulated other comprehensive income (loss) ("AOCI") for the years ended December 31, 2015 and 2014 were as follows (in thousands):

	Cumulative Translation Adjustment	Unrealized Gain (Loss) on Securities	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2013	$ —	$ 78	$ 78
Other comprehensive (loss) income before reclassifications	—	90	90
Amounts reclassified from accumulated other comprehensive loss	—	(43)	(43)
Net current period change in accumulated other comprehensive income (loss)	—	47	47
Balance at December 31, 2013	$ —	$ 125	$ 125
Other comprehensive (loss) income before reclassifications	—	(200)	(200)
Amounts reclassified from accumulated other comprehensive loss	—	(40)	(40)
Net current period change in accumulated other comprehensive income (loss)	—	(240)	(240)
Balance at December 31, 2014	$ —	$ (115)	$ (115)
Other comprehensive (loss) income before reclassifications	11	(361)	(350)
Amounts reclassified from accumulated other comprehensive loss	—	32	32
Net current period change in accumulated other comprehensive income (loss)	11	(329)	(318)
Balance at December 31, 2015	$ 11	$ (444)	$ (433)

Amounts reclassified from accumulated other comprehensive income (loss) for the years ended December 31, 2015, 2014 and 2013 were as follows (in thousands):

Details about AOCI Components	Affected Line Item in the Statement of Operations	Year Ended December 31, 2015	2014	2013

Change in value of available-for-sale investments							
Sales and maturities of available-for-sale investments	Investment income	$	32	$	(40)	$	(43)
Total reclassifications		$	32	$	(40)	$	(43)

Allowance for Doubtful Accounts

The Company estimates an allowance for doubtful accounts against individual patient accounts receivable based on estimates of expected payment consistent with historical payment experience. The allowance for doubtful accounts is evaluated on a regular basis and adjusted when trends or significant events indicate that a change in the estimate is appropriate. Accounts receivable are written off against the allowance when the appeals process is exhausted or when there is other substantive evidence that the account will not be paid. As of December 31, 2015 and 2014 the Company's allowance for doubtful accounts was $275,000 and $86,000, respectively. The Company did not have an allowance for doubtful accounts in 2013. For the years ended December 31, 2015 and 2014 net additions charged to revenue were $189,000 and $86,000, respectively. There were no charges to revenue during the year ended December 31, 2013.

EXACT SCIENCES CORPORATION

Notes to Consolidated Financial Statements (Continued)

Property and Equipment

Property and equipment are stated at cost and depreciated using the straight line method over the assets' estimated useful lives. Maintenance and repairs are expensed when incurred; additions and improvements are capitalized. The estimated useful lives of fixed assets are as follows:

Asset Classification	Estimated Useful Life
Laboratory equipment	3 - 5 years
Computer equipment and computer software	3 years
Leasehold improvements	Lesser of the remaining lease term or useful life
Furniture and fixtures	3 years
Buildings	30 years

Depreciation expense for the years ended December 31, 2015, 2014, and 2013 was $7.6 million, $3.7 million, and $1.4 million, respectively.

At December 31, 2015, the Company had $8.0 million of assets under construction which consisted of $5.1 million related to building and leasehold improvements, $1.7 million of capitalized costs related to software projects and $1.2 million of costs related to machinery and equipment. Depreciation will begin on these assets once they are placed into service. The Company expects that it will cost $1.2 million to complete the building and leasehold improvements. The Company expects to incur minimal costs to complete the machinery and equipment and the software projects, and these projects are expected to be completed in 2016. The Company assesses its long-lived assets, consisting primarily of property and equipment, for impairment when material events and changes in circumstances indicate that the carrying value may not be recoverable. There were no impairment losses for the years ended December 31, 2015, 2014 or 2013.

Software Capitalization Policy

Software development costs related to internal use software are incurred in three stages of development: the preliminary project stage, the application development stage, and the post implementation stage. Costs incurred during the preliminary project and post implementation stages are expensed as incurred. Costs in the application development stage that meet the criteria for capitalization are capitalized and amortized using the straight line basis over the estimated economic useful life of the software.

Patent Costs and Intangible Assets

Patent costs, which have historically consisted of related legal fees, are capitalized as incurred, only if the Company determines that there is some probable future economic benefit derived from the transaction. The capitalized patents

are amortized beginning when patents are approved over an estimated useful life. Capitalized patent costs are expensed upon disapproval, upon a decision by the Company to no longer pursue the patent or when the related intellectual property is either sold or deemed to be no longer of value to the Company. The Company determined that all patent costs incurred during the year ended December 31, 2015, 2014 and 2013 should be expensed and not capitalized as the future economic benefit derived from the transactions cannot be determined.

Under a technology license and royalty agreement entered into with MDx Health, the Company is required to pay MDx Health milestone-based royalties on sales of products or services covered by the licensed intellectual property. Once the achievement of a milestone has occurred or is considered probable, an intangible asset and corresponding liability is reported in other long-term assets and accrued expenses, respectively. The intangible asset is amortized over the estimated ten-year useful life of the licensed intellectual property, and such amortization is reported in cost of sales. As of December 31, 2015, an intangible asset of $1.8 million and a liability of $2.0 million are reported

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EXACT SCIENCES CORPORATION

Notes to Consolidated Financial Statements (Continued)

in other long-term assets and accrued expenses, respectively. Amortization expense for the year ended December 31, 2015 was $0.2 million.

Net Loss Per Share

Basic net loss per common share was determined by dividing net loss applicable to common stockholders by the weighted average common shares outstanding during the period. Basic and diluted net loss per share is the same because all outstanding common stock equivalents have been excluded, as they are anti dilutive as a result of the Company’s losses.

The following potentially issuable common shares were not included in the computation of diluted net loss per share because they would have an anti dilutive effect due to net losses for each period (amounts are in thousands):

	2015	2014	2013
Shares issuable upon exercise of stock options	4,937	4,934	6,063
Shares issuable upon exercise of outstanding warrants(1)	—	—	155
Shares issuable upon the release of restricted stock awards	3,445	1,541	1,151
Shares issuable upon the vesting of restricted stock awards related to licensing agreement	—	24	49
	8,382	6,499	7,418

(1) At December 31, 2013, represents warrants to purchase 80,000 shares of common stock issued under a license agreement and warrants to purchase 75,000 shares of common stock issued under a consulting agreement.

Accounting for Stock Based Compensation

The Company requires all share based payments to employees, including grants of employee stock options, restricted stock, restricted stock units and shares purchased under an ESPP (if certain parameters are not met), to be recognized in the financial statements based on their fair values.

Revenue Recognition

Laboratory service revenue. The Company's laboratory service revenue are generated by performing diagnostic services using its Cologuard test, and the service is completed upon delivery of a test result to an ordering physician. The Company recognizes revenue in accordance with the provision of ASC 954-605, Health Care Entities - Revenue Recognition. The Company recognizes revenue related to billings for Medicare and other third-party payors on an accrual basis, net of contractual and other adjustments, when amounts that will ultimately be realized can be estimated. Contractual and other adjustments represent the difference between the list price (the billing rate) and the estimated reimbursement rate for each payor. Upon ultimate collection, the amount received from Medicare and other third-party payors where reimbursement was estimated is compared to previous estimates and, if necessary, the contractual allowance is adjusted accordingly.

The estimates of amounts that will ultimately be realized requires significant judgment by management. Some patients have out-of-pocket costs for amounts not covered by their insurance carrier, and the Company may bill the patient directly for these amounts in the form of co-payments and co-insurance in accordance with their insurance carrier and health plans. Some payors may not cover Cologuard as ordered by the prescribing physician under their reimbursement policies. The Company pursues reimbursement from such patients on a case-by-case basis. In the absence

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EXACT SCIENCES CORPORATION

Notes to Consolidated Financial Statements (Continued)

of contracted reimbursement coverage or the ability to estimate the amount that will ultimately be realized for the Company's services, revenue is recognized upon cash receipt.

The Company uses judgment in determining if it is able to make an estimate of what will ultimately be realized. The Company also uses judgment in estimating the amounts it expects to collect by payor. The Company's judgments will continue to evolve in the future as it continues to gain payment experience with third-party payors and patients.

The Company recognized approximately $39.4 million and $1.5 million in laboratory service revenue for the years ended December 31, 2015 and 2014, respectively.

License fees. License fees for the licensing of product rights are recorded as deferred revenue upon receipt of cash and recognized as revenue on a straight line basis over the license period.

As more fully described in Note 3 below, in connection with the Company's transaction with Genzyme Corporation, Genzyme agreed to pay the Company a total of $18.5 million, of which $16.65 million was paid on January 27, 2009 and $1.85 million was subject to a holdback by Genzyme to satisfy certain potential indemnification obligations in exchange for the assignment and licensing of certain intellectual property to Genzyme. The Company's on going performance obligations to Genzyme under the Collaboration, License and Purchase Agreement (the "CLP Agreement"), as described below, including its obligation to deliver through licenses certain intellectual property improvements to Genzyme, if improvements are made during the initial five year collaboration period, were deemed to be undelivered elements of the CLP Agreement on the date of closing. Accordingly, the Company deferred the initial $16.65 million in cash received at closing and is amortizing that up front payment on a straight line basis into revenue over the initial five year collaboration period ending in January 2014. The Company received the first holdback amount of $962,000, which included accrued interest, due from Genzyme during the first quarter of 2010. The Company received the second holdback amount of $934,000 which included accrued interest due, from Genzyme during the third quarter of 2010. The amounts were deferred and were amortized on a straight line basis into revenue over the remaining term of the collaboration at the time of receipt.

In addition, Genzyme purchased 3,000,000 shares of common stock purchased from the Company on January 27, 2009 for $2.00 per share, representing a premium of $0.51 per share above the closing price of the Company's common stock on that date of $1.49 per share. The aggregate premium paid by Genzyme over the closing price of the Company's common stock on the date of the transaction of $1.53 million is deemed to be a part of the total consideration for the CLP Agreement. Accordingly, the Company deferred the aggregate $1.53 million premium and amortized that amount on a straight line basis into revenue over the initial five year collaboration period ending in January 2014.

The Company did not recognize license fee revenue for the year ended December 31, 2015. The Company recognized approximately $0.3 million and $4.1 million in license fee revenue for the years ended December 31, 2014 and 2013, respectively, in connection with the amortization of the up-front payments from Genzyme.

Inventory

Inventory is stated at the lower of cost or market value (net realizable value). The Company determines the cost of inventory using the first-in, first out method (“FIFO”). The Company estimates the recoverability of inventory by reference to internal estimates of future demands and product life cycles, including expiration. The Company periodically analyzes its inventory levels to identify inventory that may expire prior to expected sale or has a cost basis in excess of its estimated realizable value, and records a charge to cost of sales for such inventory as appropriate. In addition, the Company’s products are subject to strict quality control and monitoring which the Company performs throughout the production process. If certain batches or units of product no longer meet quality specifications or become obsolete due to expiration, the Company records a charge to cost of sales to write down such unmarketable inventory to its estimated realizable value.

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Notes to Consolidated Financial Statements (Continued)

Direct and indirect manufacturing costs incurred during process validation and for other research and development activities, which are not permitted to be sold, have been expensed to research and development.

Inventory consists of the following (amount in thousands):

	December 31,	
	2015	2014
Raw materials	$ 1,772	$ 1,019
Semi-finished and finished goods	4,905	2,998
Total inventory	$ 6,677	$ 4,017

Advertising Costs

The Company expenses the costs of media advertising at the time the advertising takes place. The Company expensed approximately $10.8 million, $5.3 million and $0.1 million of media advertising during the years ended December 31, 2015, 2014, and 2013, respectively.

Fair Value Measurements

The FASB has issued authoritative guidance which requires that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements are separately disclosed by level within the fair value hierarchy. The fair value hierarchy establishes and prioritizes the inputs used to measure fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that reflect the assumptions that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The three levels of the fair value hierarchy established are as follows:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
Level 2	Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets

	that are not active.
Level 3	Unobservable inputs that reflect the Company's assumptions about the assumptions that market participants would use in pricing the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available.

Fixed income securities and mutual funds are valued using a third-party pricing agency. The valuation is based on observable inputs including pricing for similar assets and other observable market factors. There has been no material change from period to period.

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The following table presents the Company's fair value measurements as of December 31, 2015 along with the level within the fair value hierarchy in which the fair value measurements in their entirety fall. Amounts in the table are in thousands.

		Fair Value Measurement at December 31, 2015 Using:		
Description	Fair Value at December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents				
Cash and money market	$ 37,435	$ 37,435	$ —	$ —
Commercial paper	3,700	—	3,700	—
Available-for-Sale				
Marketable securities				
Corporate bonds	179,211	—	179,211	—
Asset backed securities	77,495	—	77,495	—
U.S. government agency securities	7,039	—	7,039	—
Certificates of deposit	1,999	—	1,999	—
Total	$ 306,879	$ 37,435	$ 269,444	$ —

The following table presents the Company's fair value measurements as of December 31, 2014 along with the level within the fair value hierarchy in which the fair value measurements in their entirety fall. Amounts in the table are in thousands.

		Fair Value Measurement at December 31, 2014 Using:		
Description	Fair Value at December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents				

Cash and money market	$ 53,569	$ 53,569	$ —	$ —
Corporate bonds	4,562	—	4,562	—
Available-for-Sale				
Marketable securities				
Corporate bonds	141,124	—	141,124	—
U.S. government agency securities	18,688	—	18,688	—
Asset backed securities	60,820	—	60,820	—
Commercial paper	3,993	—	3,993	—
Total	$ 282,756	$ 53,569	$ 229,187	$ —

The Company monitors investments for other-than-temporary impairment. It was determined that unrealized gains and losses at December 31, 2015 and 2014, are temporary in nature, because the change in market value for those securities has resulted from fluctuating interest rates, rather than a deterioration of the credit worthiness of the issuers. So long as the Company holds these securities to maturity, it is unlikely to experience gains or losses. In the event that the Company disposes of these securities before maturity, it is expected that realized gains or losses, if any, will be immaterial.

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The following table summarizes the gross unrealized losses and fair values of investments in an unrealized loss position as of December 31, 2015, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	December 31, 2015					
	Less than 12 months		12 months or greater		Total	
(In thousands)	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Marketable Securities						
Corporate bonds	$ 166,238	$ (262)	$ —	$ —	$ 166,238	$ (262)
U.S. government agency securities	7,039	(18)	—	—	7,039	(18)
Asset backed securities	72,792	(164)	3,887	(2)	76,679	(166)
Total	$ 246,069	$ (444)	$ 3,887	$ (2)	$ 249,956	$ (446)

The following table summarizes the gross unrealized losses and fair value of investments in an unrealized loss position as of December 31, 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	December 31, 2014					
	Less than 12 months		12 months or greater		Total	
(In thousands)	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Marketable Securities						

Corporate bonds	$ 113,960	$ (135)	$ —	$ —	$ 113,960	$ (135)
Asset backed securities	33,073	(18)	—	—	33,073	(18)
U.S. government agency securities	5,641	(7)	—	—	5,641	(7)
Total	$ 152,674	$ (160)	$ —	$ —	$ 152,674	$ (160)

The following table summarizes contractual underlying maturities of the Company’s available for sale investments at December 31, 2015 (in thousands):

	Due one year or less		Due after one year through four years	
Description	Cost	Fair Value	Cost	Fair Value
Marketable Securities				
U.S. government agency securities	$ 2,500	$ 2,494	$ 4,557	$ 4,545
Corporate bonds	115,647	115,555	63,824	63,656
Certificates of deposit	1,999	1,999	—	—
Asset backed securities	373	373	77,288	77,122
Total	$ 120,519	$ 120,421	$ 145,669	$ 145,323

Concentration of Credit Risk

In accordance with GAAP, the Company is required to disclose any significant off balance sheet risk and credit risk concentration. The Company has no significant off balance sheet risk, such as foreign exchange contracts or other hedging arrangements. Financial instruments that subject the Company to credit risk consist of cash, cash equivalents and marketable securities. As of December 31, 2015, the Company had cash and cash equivalents deposited in financial

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institutions in which the balances exceed the federal government agency insured limit of $250,000 by approximately $40.1 million. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

Through December 31, 2015, all of the Company's laboratory service revenues have been derived from the sale of Cologuard, and one payor, Centers for Medicare and Medicaid Services, has provided greater than 10% of revenue during the years ended December 31, 2015 and 2014. Medicare revenue as a percentage of total laboratory service revenue was 71% and 80% for the years ended December 31, 2015 and 2014, respectively. Medicare accounts receivable as a percentage of total accounts receivable were 64% and 88% at December 31, 2015 and 2014, respectively. As the number of payors reimbursing for Cologuard increases, the percentage of laboratory service revenue derived from Medicare will continue to change as a percentage of revenue and accounts receivable.

Subsequent Events

The Company evaluates events that occur through the filing date and discloses those events or transactions that provide additional evidence with respect to conditions that existed at the date of the balance sheet. In addition, the financial statements are adjusted for any changes in estimates resulting from the use of such evidence.

Tax Positions

A valuation allowance to reduce the deferred tax assets is reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company has incurred significant losses since its inception and due to the uncertainty of the amount and timing of future taxable income, the Company has determined that a $215.1 million and $161.9 million valuation allowance at December 31, 2015 and 2014 is necessary to reduce the tax assets to the amount that is more likely than not to be realized. The change in valuation allowance for December 31, 2015 and 2014 was $53.2 million and $37.4 million, respectively. Due to the existence of the valuation allowance, future changes in the Company's unrecognized tax benefits will not impact the Company's effective tax rate.

Recent Accounting Pronouncements

In February 2015, the FASB Issued ASU No. 2015-02, "Amendments to the Consolidation Analysis (Topic 810)." The amendments in this Update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities, (2) eliminate the presumption that a general partner should consolidate a limited partnership, (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The Company has not early adopted this Update, and the adoption of this Update is not expected to have a material impact on the Company's

consolidated financial statements.

In July 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-11, “Simplifying the Measurement of Inventory (Topic 330).” The new guidance requires most inventory to be measured at the lower of cost and net realizable value, thereby simplifying the previous guidance under which an entity must measure inventory at the lower of cost or market. Market is defined as replacement cost, net realizable value (“NRV”), less a normal profit margin. The Accounting Standards Update will not apply to inventory that is measured using either the last-in, first-out method or the retail inventory method. The standard will be effective prospectively for the first interim

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period within annual reporting periods beginning after December 15, 2016. Early adoption is permitted. We do not expect to early adopt this guidance and are currently assessing the provisions of the guidance and have not determined the impact of the adoption of this guidance on our consolidated financial statements.

In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement", which provides guidance that requires management to evaluate each cloud computing arrangement in order to determine whether it includes a software license that must be accounted for separately from hosted services. The new guidance clarifies that if a cloud computing arrangement includes a software license, we should account for the software license consistent with our accounting for other software licenses. If the arrangement does not include a software license, we should account for the arrangement as a service contract. The standard will be effective for our financial statements that we issue for fiscal periods beginning on or after January 1, 2016. Early adoption is permitted for financial statements that have not previously been issued. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs", which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. This guidance simplifies presentation of debt issuance costs but does not address presentation or subsequent measurement of debt issue costs related to line of credit arrangements. In August 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-15 "Interest-Imputation of Interest (Subtopic 835-30) Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" which indicates the SEC staff would not object to an entity deferring and presenting debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. Accounting Standards Update No. 2015-03 will be effective for the first interim period within annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on our financial statements.

In August 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-14, "Revenue from Contracts with Customers: Deferral of the Effective Date" to defer for one year the effective date of the new revenue standard and allow early adoption as of the original effective date which is for annual reports beginning after December 15, 2016. We are currently evaluating the impact of this amendment on our financial position and results of operations.

In November 2015, the FASB Issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes (Topic 740)". The amendments in this Update simplify the presentation of deferred income taxes, by requiring that deferred tax

liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update apply to all entities that present a classified statement of financial position. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Company does not expect to early adopt this Update, and the adoption of this Update is not expected to have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB Issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)". The amendments in this Update supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. An entity's equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of this Update. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The amendments also require enhanced disclosures about those investments. The amendments improve financial reporting by providing relevant information about an entity's equity investments and

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Notes to Consolidated Financial Statements (Continued)

reducing the number of items that are recognized in other comprehensive income. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company does not expect to early adopt this Update, and the adoption of this Update is not expected to have a material impact on the Company's consolidated financial statements.

Foreign Currency Translation

For the Company's international subsidiaries, the local currency is the functional currency. Assets and liabilities of these subsidiaries are translated into United States dollars at the period-end exchange rate or historical rates as appropriate. Consolidated statements of operations amounts are translated at average exchange rates for the period. The cumulative translation adjustments resulting from changes in exchange rates are included in the consolidated balance sheet as a component of accumulated other comprehensive income in total Exact Sciences Corporation's shareholders' equity. Transaction gains and losses are included in the consolidated statement of operations in 2015.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation in the consolidated financial statements and accompanying notes to the consolidated financial statements.

(3) GENZYME STRATEGIC TRANSACTION

Transaction summary

On January 27, 2009, the Company entered into a Collaboration, License and Purchase Agreement (the "CLP Agreement") with Genzyme Corporation ("Genzyme"). Pursuant to the CLP Agreement, the Company (i) assigned to Genzyme all of its intellectual property applicable to the fields of prenatal and reproductive health (the "Transferred Intellectual Property"), (ii) granted Genzyme an irrevocable, perpetual, exclusive, worldwide, fully paid, royalty free license to use and sublicense all of the Company's remaining intellectual property (the "Retained Intellectual Property") in the fields of prenatal and reproductive health (the "Genzyme Core Field"), and (iii) granted Genzyme an irrevocable, perpetual, non exclusive, worldwide, fully paid, royalty free license to use and sublicense the Retained Intellectual Property in all fields other than the Genzyme Core Field and other than colorectal cancer detection and stool based disease detection (the "Company Field"). Following the transaction, the Company retained rights in its intellectual property to pursue only the fields of colorectal cancer detection and stool based detection of any disease or condition. The Company agreed to deliver to Genzyme certain intellectual property improvements, if improvements were made during the initial five year collaboration period.

Pursuant to the Genzyme Strategic Transaction, Genzyme agreed to pay an aggregate of $18.5 million to the Company, of which $16.65 million was paid at closing and $1.85 million (the "Holdback Amount") was subject to a holdback by Genzyme to satisfy certain potential indemnification obligations of the Company. Genzyme also agreed to pay a double digit royalty to the Company on income received by Genzyme as a result of any licenses or sublicenses to third parties of the Transferred Intellectual Property or the Retained Intellectual Property in any field other than the Genzyme Core Field or the Company Field.

The Company's on going performance obligations to Genzyme under the CLP were deemed to be undelivered elements of the CLP Agreement on the date of closing. Accordingly, the Company deferred the initial $16.65 million in cash received at closing and amortized that up front payment on a straight line basis into the License Fee Revenue line item in its statements of operations over the initial five year collaboration period. The Company received the first holdback amount of $962,000, which included accrued interest, due from Genzyme during the first quarter of 2010. The Company received the second holdback amount of $934,000 which included accrued interest due, from Genzyme during the third quarter of 2010. The amounts were deferred and were amortized on a straight line basis into revenue over the remaining term of the collaboration through January 2014.

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In addition, the Company entered into a Common Stock Subscription Agreement with Genzyme on January 27, 2009, which provided for the private issuance and sale to Genzyme of 3,000,000 shares (the “Shares”) of the Company’s common stock, $0.01 par value per share, at a per share price of $2.00, for an aggregate purchase price of $6.0 million. The price paid by Genzyme for the Shares represented a premium of $0.51 per share above the closing price of the Company’s common stock on that date of $1.49 per share. The aggregate premium paid by Genzyme over the closing price of the Company’s common stock on the date of the transaction of $1.53 million is included as a part of the total consideration for the CLP. Accordingly, the Company deferred the aggregate $1.53 million premium and amortized that amount on a straight line basis into the License fees line item in the Company’s statements of operations over the initial five year collaboration period.

The Company did not recognize license fee revenue from the CLP Agreement during the year ended December 31, 2015. The Company recognized approximately $0.3 million and $4.1 million in license fee revenue in connection with the amortization of the up-front payments and holdback amounts from Genzyme during the years ended December 31, 2014 and 2013, respectively.

(4) MAYO LICENSE AGREEMENT

On June 11, 2009, the Company entered into a patent licensing agreement with MAYO Foundation for Medical Education and Research (“MAYO”). The Company’s license agreement with MAYO was most recently amended and restated in February 2015 and further amended in January 2016. Under the license agreement, MAYO granted the Company an exclusive, worldwide license to certain MAYO patents and patent applications, as well as a non exclusive, worldwide license with regard to certain MAYO know how. The scope of the license initially covered diagnostics and screenings for stool or blood based cancer, but was later amended to cover gastrointestinal cancers, pre-cancers, diseases and conditions. Under the January 2016 amendment to the license agreement, the scope has been expanded to cover any screening, surveillance or diagnostic tests or tools for use in connection with any type of cancers, pre-cancers, diseases or conditions.

The licensed MAYO patents and patent applications contain both method and composition of matter claims that relate to sample processing, analytical testing and data analysis associated with nucleic screening for cancers and other diseases. The jurisdictions covered by these patents and patent applications include the U.S., Canada, the European Union and Japan. In addition to granting the Company a license to the covered MAYO intellectual property, MAYO agreed to make available personnel to provide the Company product development and research and development assistance. Under the license agreement, the Company assumed the obligation and expense of prosecuting and maintaining the licensed MAYO patents and are obligated to make commercially reasonable efforts to bring to market products using the licensed MAYO intellectual property.

MAYO has agreed to make available personnel through January 2020 to provide us product development and research and development assistance.

Pursuant to the Company's agreement with MAYO, the Company is required to pay MAYO a low single digit royalty on the Company's net sales of products using the licensed MAYO intellectual property, with minimum annual royalty fees of $25,000 each year through 2033, the year the last patent expires. The January 2016 amendment to the MAYO license agreement established various low single digit royalty rates on net sales of current and future products and clarified how net sales will be calculated. As part of the amendment, the royalty rate on the Company's net sales of Cologuard increased and, if in the future, improvements are made to the Cologuard product, the royalty rate may further increase. However, the amendment provides that the Cologuard royalty will remain a low single digit percentage of net sales.

The Company is also required to issue MAYO shares of the Company's common stock with a value of $200,000 upon commercial launch of our second and third products that use the licensed MAYO intellectual property, as well as to

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pay MAYO, for each of the Company's products that use licensed MAYO intellectual property, $200,000 cash upon such product reaching $5 million in cumulative net sales, $750,000 cash upon such product reaching $20 million in cumulative net sales, and $2 million cash upon such product reaching $50 million in cumulative net sales.

As part of the February 2015 amendment and restatement of the license agreement, the Company agreed to pay MAYO an additional $5,000,000, payable in five annual installments, through 2019.

In addition, the Company is paying MAYO for research and development efforts. As part of the Company's research collaboration with MAYO, the Company has incurred charges of $2.6 million and has made payments of $2.6 million for the year ended December 31, 2015. The Company has recorded an estimated liability in the amount of $1.3 million for research and development efforts as of December 31, 2015. The Company incurred charges of $2.3 million and made payments of $0.7 million for the year ended December 31, 2014. The Company recorded an estimated liability in the amount of $1.5 million for research and development efforts at December 31, 2014. The Company incurred charges of $1.7 million and made payments of $1.0 million for the year ended December 31, 2013.

The MAYO license agreement required, among other things, a $0.5 million milestone payment upon FDA approval of the Company's Cologuard test. The Company received this FDA approval, and paid the milestone payment in August 2014.

Pursuant to the license agreement, the Company granted MAYO two common stock purchase warrants with an exercise price of $1.90 per share covering 1,000,000 and 250,000 shares of common stock, respectively. The warrant covering 1,000,000 shares was fully exercised as of September 2011. The warrant covering 250,000 shares was exercised at various dates in 2013 and 2014 and became fully exercised as of June 2014.

The license agreement will remain in effect, unless earlier terminated by the parties in accordance with the agreement, until the last of the licensed patents expires in 2033 (or later, if certain licensed patent applications are issued). However, if we are still using the licensed MAYO know how or certain MAYO provided biological specimens or their derivatives on such expiration date, the term shall continue until the earlier of the date we stop using such know how and materials and the date that is five years after the last licensed patents expires. The license agreement contains customary termination provisions and permits MAYO to terminate the license agreement if the Company sues MAYO or its affiliates, other than any such suit claiming an uncured material breach by MAYO of the license agreement.

(5) MD ANDERSON LICENSE AGREEMENT

Overview

On April 10, 2015, the Company entered into a Joint Development and License Agreement ("MD Anderson Agreement") with the University of Texas M.D. Anderson Cancer Center ("MD Anderson") to jointly develop, clinically validate and obtain FDA approval and CMS coverage and reimbursement for in-vitro diagnostic and screening tools for the early detection of lung cancer (the "IVD Assays"). Under the MD Anderson Agreement, MD Anderson assigned certain patent rights to the Company and granted the Company an exclusive license to certain intellectual property

rights for the purpose of developing, manufacturing and marketing IVD Assays. In addition, MD Anderson agreed to make personnel available to provide the Company product development and research and development assistance. Pursuant to the MD Anderson Agreement, the Company is obligated to reimburse IVD Assay development expenses incurred by the staff at MD Anderson, up to a maximum of $1.0 million per year for the first two years of the MD Anderson Agreement. The Company's current focus for lung cancer is to develop a test to detect cancer in lung nodules which is a shift from the product development efforts that were underway with MD Anderson. Therefore, the Company and MD Anderson have mutually agreed to terminate their collaboration effective February 2016. At December 31, 2015 the Company recorded an estimated liability in the amount of $15,000 for IVD Assay development efforts. During the year ended December 31, 2015, the Company made payments for IVD Assay development costs to MD Anderson of $0.5 million.

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Notes to Consolidated Financial Statements (Continued)

(6) ISSUANCES OF EQUITY

Underwritten Public Offerings

On June 21, 2013, the Company completed an underwritten public offering of 6.3 million shares of common stock at a price of $12.35 per share to the public. The Company received approximately $73.3 million of net proceeds from the offering, after deducting $4.8 million for the underwriting discount and other stock issuance costs paid by the Company.

On April 2, 2014, the Company completed an underwritten public offering of 11.5 million shares of common stock at a price of $12.75 per share to the public. The Company received approximately $137.7 million of net proceeds from the offering, after deducting the $8.9 million for the underwriting discount and other stock issuance costs paid by the Company.

On December 16, 2014, the Company completed an underwritten public offering of 4.0 million shares of common stock at a price of $25.75 per share to the public. The Company received approximately $100.9 million of net proceeds from the offering, after deducting $2.1 million for the underwriting discount and other stock issuance costs paid by the Company.

On July 24, 2015 the Company completed an underwritten public offering of 7.0 million shares of common stock at a price of $25.50 per share to the public. The Company received approximately $174.1 million of net proceeds from the offering, after deducting $4.4 million for the underwriting discount and commissions and other stock issuance costs paid by the Company.

Rights Agreement

In February 2011, the Company adopted a rights agreement and subsequently distributed to the Company's stockholders preferred stock purchase rights. Under certain circumstances, each right can be exercised for one one thousandth of a share of Series A Junior Participating Preferred Stock. In general, the rights will become exercisable in the event of an announcement of an acquisition of 15% or more of the Company's outstanding common stock or the commencement or announcement of an intention to make a tender offer or exchange offer for 15% or more of the Company's outstanding common stock. If any person or group acquires 15% or more of the Company's common stock, the Company's stockholders, other than the acquiror, will have the right to purchase additional shares of the Company's common stock (in lieu of the Series A Junior Participating Preferred Stock) at a substantial discount to the then prevailing market price. The rights agreement could significantly dilute such acquiror's ownership position in the Company's shares, thereby making a takeover prohibitively expensive and encouraging such acquiror to negotiate with the Company's board of directors. The ability to exercise these rights is contingent on events that the Company has determined to be unlikely at this time, and therefore this provision has not been considered in the computation of equity or earnings per share.

(7) STOCK BASED COMPENSATION

Stock Based Compensation Plans

The Company maintains the 2010 Omnibus Long Term Incentive Plan, the 2010 Employee Stock Purchase Plan, the 2015 Inducement Award Plan and the 2000 Stock Option and Incentive Plan (collectively, the “Stock Plans”).

2000 Stock Option and Incentive Plan The Company adopted the 2000 Option and Incentive Plan (the “2000 Option Plan”) on October 17, 2000. The 2000 Option Plan expired October 17, 2010 and after such date no further awards could be granted under the plan. Under the terms of the 2000 Option Plan, the Company was authorized to grant incentive stock options, as defined under the Internal Revenue Code, non qualified options, restricted stock awards and other stock awards to employees, officers, directors, consultants and advisors. Options granted under the 2000 Option

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Plan expire ten years from the date of grant. Grants made from the 2000 Option Plan generally vest over a period of three to four years.

The 2000 Option Plan was administered by the compensation committee of the Company's board of directors, which selected the individuals to whom equity based awards would be granted and determined the option exercise price and other terms of each award, subject to the provisions of the 2000 Option Plan. The 2000 Option Plan provides that upon an acquisition of the Company, all options to purchase common stock will accelerate by a period of one year. In addition, upon the termination of an employee without cause or for good reason prior to the first anniversary of the completion of the acquisition, all options then outstanding under the 2000 Option Plan held by that employee will immediately become exercisable. At December 31, 2015, options to purchase 3,345,800 shares were outstanding under the 2000 Option Plan. There were no shares of restricted stock outstanding under the 2000 Option Plan.

2010 Omnibus Long Term Incentive Plan The Company adopted the 2010 Omnibus Long Term Incentive Plan (the "2010 Stock Plan") on July 16, 2010. The 2010 Stock Plan will expire on July 16, 2020 and after such date no further awards may be granted under the plan. Under the terms of the 2010 Stock Plan, the Company is authorized to grant incentive stock options, as defined under the Internal Revenue Code, non qualified options, restricted stock awards and other stock awards to employees, officers, directors, consultants and advisors. Options granted under the 2010 Stock Plan expire ten years from the date of grant. Grants made from the 2010 Stock Plan generally vest over a period of three to four years.

The 2010 Stock Plan is administered by the compensation committee of the Company's board of directors, which selects the individuals to whom equity based awards will be granted and determines the option exercise price and other terms of each award, subject to the provisions of the 2010 Stock Plan. The 2010 Stock Plan provides that upon an acquisition of the Company, all equity will accelerate by a period of one year. In addition, upon the termination of an employee without cause or for good reason prior to the first anniversary of the completion of the acquisition, all equity awards then outstanding under the 2010 Stock Plan held by that employee will immediately vest. At December 31, 2015, options to purchase 1,590,794 shares were outstanding under the 2010 Stock Plan and 3,200,845 shares of restricted stock and restricted stock units were outstanding. On July 23, 2015 the Company's stockholders approved an amendment to the 2010 Stock Plan to increase the number of shares available for issuance thereunder by 8,360,000 shares. At December 31, 2015, there were 6,159,082 shares available for future grant under the 2010 Stock Plan.

2015 Inducement Award Plan The Company adopted the 2015 Inducement Award Plan ("the 2015 Inducement Plan") on February 9, 2015. The 2015 Inducement Plan expired on July 27, 2015 and after such date no further awards may be granted under the plan. Under the terms of the 2015 Inducement Plan, the Company is authorized to grant incentive stock options, as defined under the Internal Revenue Code, non-qualified options, restricted stock awards and other stock awards to employees who were not previously an employee of the Company or any of its Subsidiaries. Options granted under the 2015 Inducement Plan expire ten years from the date of grant. Grants made from the 2015 Inducement Plan generally vest over a period of three to four years.

The 2015 Inducement Plan is administered by the compensation committee of the Company's board of directors, which selects the individuals to whom equity-based awards will be granted and determines the option exercise price and other terms of each award, subject to the provisions of the 2015 Inducement Plan. The 2015 Inducement Plan provides that upon an acquisition of the Company, all equity will accelerate by a period of one year. In addition, upon

termination of an employee without cause or for good reason prior to the first anniversary of the completion of the acquisition, all equity awards then outstanding under the 2015 Inducement Plan held by that employee will immediately vest. At December 31, 2015, there were 243,849 shares of restricted stock and restricted stock units outstanding. At December 31, 2015, there were no shares available for future grant under the 2015 Inducement Plan.

2010 Employee Stock Purchase Plan The 2010 Employee Stock Purchase Plan (the “2010 Purchase Plan”) was adopted by the Company on July 16, 2010. The 2010 Purchase Plan provides participating employees the right to purchase common stock at a discount through a series of offering periods. The 2010 Purchase Plan will expire on October 31, 2020. On July 24, 2014 the stockholders of Exact Sciences Corporation approved an amendment to the 2010 Employee Stock Purchase Plan to increase the number of shares available for purchase thereunder by 500,000 shares. At

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December 31, 2015, there were 363,392 shares of common stock available for purchase by participating employees under the 2010 Purchase Plan.

The compensation committee of the Company's board of directors administers the 2010 Purchase Plan. Generally, all employees whose customary employment is more than 20 hours per week and more than five months in any calendar year are eligible to participate in the 2010 Purchase Plan. Participating employees authorize an amount, between 1% and 15% of the employee's compensation, to be deducted from the employee's pay during the offering period. On the last day of the offering period, the employee is deemed to have exercised the employee's option to purchase shares of Company common stock, at the option exercise price, to the extent of accumulated payroll deductions. Under the terms of the 2010 Purchase Plan, the option exercise price is an amount equal to 85% of the fair market value, as defined under the 2010 Purchase Plan and no employee can purchase more than $25,000 of Company common stock under the 2010 Purchase Plan in any calendar year. Rights granted under the 2010 Purchase Plan terminate upon an employee's voluntary withdrawal from the 2010 Purchase Plan at any time or upon termination of employment. At December 31, 2015, there were 436,608 cumulative shares issued under the 2010 Purchase Plan, and 176,785 shares were issued in the year ended December 31, 2015, as follows:

Offering period ended	Number of Shares	Weighted Average price per Share
April 30, 2015	56,635	$ 13.02
October 31, 2015	120,150	$ 7.72

Stock Based Compensation Expense

The Company recorded approximately $18.1 million, $11.5 million and $7.7 million in stock based compensation expense during the years ended December 31, 2015, 2014 and 2013, respectively, in connection with the amortization of restricted stock and restricted stock unit awards, stock purchase rights granted under the Company's employee stock purchase plan and stock options granted to employees, non employee consultants and non employee directors. Non cash stock based compensation expense by expense category for the years ended December 31, 2015, 2014, and 2013 are as follows, and amounts included in the table are in thousands:

	December 31,		
	2015	2014	2013
Cost of sales	$ 876	$ 279	$ —
Research and development	3,744	4,149	2,817
General and administrative	9,358	5,575	3,054
Sales and marketing	4,072	1,517	1,873

Total stock-based compensation	$ 18,050	$ 11,520	$ 7,744

In connection with the June 7, 2013 resignation of the Company's former Chief Commercial Officer, the Company modified the vesting of 100,000 shares of her previously unvested restricted stock units whereby 41,250 of the restricted stock units vested upon the execution of the separation agreement, 10,000 vested in March 2014, and the remaining 48,750 vest in twenty four equal monthly installments beginning in April 2014, subject to her continuing compliance with the terms of the separation agreement. She forfeited all other unvested restricted stock units and stock option awards. It was determined that the continuing compliance and service to be provided to the Company under the separation agreement was not substantive and, as a result, the Company recorded the full value of the modified restricted stock units as additional stock based compensation expense in the second quarter of 2013.

Determining Fair Value

Valuation and Recognition—The fair value of each option award is estimated on the date of grant using the Black Scholes option pricing model based on the assumptions in the table below. The estimated fair value of employee stock options is recognized to expense using the straight line method over the vesting period.

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Expected Term—The Company uses the simplified calculation of expected life, described in the SEC's Staff Accounting Bulletins 107 and 110, as the Company does not currently have sufficient historical exercise data on which to base an estimate of expected life. Using this method, the expected term is determined using the average of the vesting period and the contractual life of the stock options granted.

Expected Volatility—Expected volatility is based on the Company's historical stock volatility data over the expected term of the awards.

Risk Free Interest Rate—The Company bases the risk free interest rate used in the Black Scholes valuation model on the implied yield currently available on U.S. Treasury zero coupon issues with an equivalent expected term.

Forfeitures—The Company records stock based compensation expense only for those awards that are expected to vest. A forfeiture rate is estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. The Company's forfeiture used in the twelve months ended December 31, 2015, 2014 and 2013 was 4.99%, 4.99%, and 2.76%, respectively.

The fair value of service-based awards for each restricted stock and restricted stock unit award is determined on the date of grant using the closing stock price on that day. The fair value of market measure-based share-based compensation plans are calculated using a Monte Carlo simulation pricing model. The fair value of each option award is estimated on the date of grant using the Black Scholes option pricing model based on the assumptions in the following table:

	Year Ended December 31, 2015	2014	2013
Option Plan Shares			
Risk-free interest rates	1.5% - 1.92%	1.96% - 2.01%	0.94% - 1.73%
Expected term (in years)	6.25 - 6.6	6	6
Expected volatility	67.1% - 73.2%	77.6% - 80.8%	82.9% - 84%
Dividend yield	0%	0%	0 %
Weighted average fair value per share of options granted during the period	$15.81	$ 10.05	$ 8.12
ESPP Shares			
Risk-free interest rates	0.25% - 0.75%	0.1% - 0.5%	0.1% - 0.33%
Expected term (in years)	0.5 - 2	0.5 - 2	0.5 - 2
Expected volatility	51.2% - 110%	42.5% - 62.7%	39.1% - 45.6%

Dividend yield	0%	0%	0 %
Weighted average fair value per share of stock purchase rights granted during the period	$ 4.67	$ 6.3	$ 3.13

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Notes to Consolidated Financial Statements (Continued)

Stock Option, Restricted Stock, and Restricted Stock Unit Activity

A summary of stock option activity under the Stock Plans during the years ended 2015, 2014 and 2013 is as follows:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value(1)
(Aggregate intrinsic value in thousands)				
Outstanding, January 1, 2013	6,181,936	$ 2.62		
Granted	290,570	11.36		
Exercised	(274,919)	5.17		
Forfeited	(135,000)	10.08		
Outstanding, December 31, 2013	6,062,587	$ 2.78	6.6	
Granted	266,477	14.28		
Exercised	(1,378,372)	1.91		
Forfeited	(16,375)	6.37		
Outstanding, December 31, 2014	4,934,317	$ 3.63	5.2	
Granted	340,978	23.51		
Exercised	(281,315)	4.44		
Forfeited	(57,386)	16.99		
Outstanding, December 31, 2015	4,936,594	$ 4.80	4.5	$ 28,126
Exercisable, December 31, 2015	4,219,865	$ 2.69	3.9	$ 27,585
Vested and expected to vest, December 31, 2015	4,900,829	$ 4.71	5.2	$ 27,601

(1) The aggregate intrinsic value of options outstanding at December 31, 2015 is calculated as the difference between the exercise price of the underlying options and the market price of the Company's common stock for the 4,936,594 options that had exercise prices that were lower than the $9.23 market price of our common stock at December 31, 2015. The aggregate intrinsic value of options exercisable at December 31, 2015 is calculated as the difference between the exercise price of the underlying options and the market price of the Company's common stock for the 4,219,865 options that had exercise prices that were lower than the $9.23 market price of our common stock at December 31, 2015. The total intrinsic value of options exercised during the years ended December 31, 2015, 2014 and 2013 was $3.6 million, $29.2 million, $1.9 million, respectively, determined as of the date of exercise.

Warrants to purchase 75,000 shares of common stock were issued in connection with a consulting agreement in 2009 to provide specific assistance to the Company in attaining FDA approval of Cologuard. The 75,000 warrants vested in the third quarter of 2014 upon successful approval for Cologuard. The Company recorded $1.3 million, the fair value of the warrant on the vesting date as stock-based compensation expense during the third quarter of 2014 in connection with the vesting of this warrant.

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A summary of restricted stock and restricted stock unit activity under the Stock Plans during the years ended December 31, 2015, 2014 and 2013 is as follows:

	Restricted Shares	Weighted Average Grant Date Fair Value
Outstanding, January 1, 2013	813,955	$ 8.51
Granted	1,147,553	11.76
Released	(344,611)	8.56
Forfeited	(466,203)	9.73
Outstanding, December 31, 2013	1,150,694	$ 11.23
Granted	926,171	15.61
Released	(491,370)	11.17
Forfeited	(44,381)	12.44
Outstanding, December 31, 2014	1,541,114	$ 13.86
Granted	2,895,818	15.23
Released	(578,033)	13.77
Forfeited	(414,205)	20.84
Outstanding, December 31, 2015	3,444,694	$ 14.19

As of December 31, 2015, there was approximately $41.1 million of total unrecognized compensation cost related to non vested share based compensation arrangements granted under all equity compensation plans. Total unrecognized compensation cost will be adjusted for future changes in forfeitures. The Company expects to recognize that cost over a weighted average period of 2.8 years.

The Company received approximately $1.2 million, $2.6 million and $1.3 million from stock option exercises during the years ended December 31, 2015, 2014 and 2013, respectively. During the years ended December 31, 2015, 2014 and 2013, 176,785, 88,166 and 59,932 shares of common stock, respectively, were issued under the Company's 2010 Purchase Plan resulting in proceeds to the company of $1.7 million, $0.8 million and $0.5 million, respectively.

The following table summarizes information relating to currently outstanding and exercisable stock options as of December 31, 2015:

	Outstanding			Exercisable	
Exercise Price	Number of Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$0.00 - $3.00	3,186,500	3.3	$ 1.10	3,186,500	$ 1.10

$3.01 - $6.00	402,822	4.7	4.40	402,822	4.40
$6.01 - $9.00	146,991	5.5	7.89	146,991	7.89
$9.01 - $12.00	619,087	6.5	9.66	415,393	9.55
$12.01 - $15.00	233,000	8.2	13.96	58,250	13.96
$15.01 - $18.00	22,227	8.6	16.52	9,909	16.52
$18.01 - $24.00	313,359	9.2	23.38	—	—
$24.01- $26.98	12,608	9.1	26.98	—	—
	4,936,594	4.5	$ 4.80	4,219,865	$ 2.69

During the first quarter of 2013, the Company granted a total of 180,750 restricted stock units to certain executives that vest based upon the satisfaction of certain 2013 performance conditions. Based on the conditions that were met 100,800 shares were earned. The shares vest equally over three years with the first vesting date at December 31, 2013.

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Notes to Consolidated Financial Statements (Continued)

The company recognized $0.4 million during the year ended December 31, 2013 related to this restricted stock unit grant.

During the first quarter of 2015, the Company granted a total of 203,100 restricted stock units to certain executives that would have vested based upon the satisfaction of certain service and performance conditions. The Company performed an evaluation of internal and external factors, and determined the number of shares that were most likely to vest based on the probability of what performance conditions were met. The expense for the fair value of the awards that were expected to vest of $0.4 million was recognized during the year ended December 31, 2015. The service and performance conditions were not met and the expense of $0.4 million was reversed in the fourth quarter of the year ended December 31, 2015.

Shares Reserved for Issuance

The Company has reserved shares of its authorized common stock for issuance pursuant to its employee stock purchase and stock option plans, including all outstanding stock option grants noted above at December 31, 2015, as follows:

Shares reserved for issuance	
2010 Option Plan	6,159,082
2010 Purchase Plan	363,392
	6,522,474

(8) COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases a 35,000 square foot laboratory and office facility in Madison, Wisconsin. This lease has been in effect since 2010 and expires in October 2016. The Company has one option to extend the term of the lease for five years. The lease is not subject to periodic rent escalation adjustments.

During the second quarter of 2013, the Company entered into a five year lease for a 28,994 square foot facility in Madison, Wisconsin to house its commercial lab operations. This lease contains periodic rent escalation adjustments and includes provisions for tenant improvements. During August 2014, the Company entered into an amended lease agreement to lease an additional 3,189 square feet of office. The amended agreement covers the same term as the original term and is also subject to periodic rent escalation adjustments. During November 2014, the Company entered into an amended lease agreement to lease adjacent land for the construction of a parking lot. The amended agreement covers the same term as the original term and is also subject to periodic rent escalation adjustments. During May 2015, the Company entered into an amended lease agreement to lease an additional 7,853 square feet effective immediately, and another 5,810 square feet effective in June 2015. The lease now covers a total of 50,000 square feet. The amended agreement extended the initial term of the lease and is subject to periodic rent escalation adjustments. The Company has two options to extend the term of the lease for five years. The Company has two options to extend the term of the lease for five years each.

As part of the lease agreement, the landlord agreed to pay for a portion of leasehold improvements constructed. These payments are recorded as a lease incentive obligation and will be amortized over the five year term of the lease as a reduction of rent expense. As of December 31, 2015 and 2014, the lease incentive obligation was $1.6 million and $2.7 million, respectively. Construction of the laboratory facility was substantially complete at December 31, 2013 and the leasehold improvements related to the laboratory were placed into service. The amortization of the lease incentive obligation began in December of 2013.

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During April 2014, the Company entered into a one year lease for a 10,137 square foot facility in Madison, Wisconsin for administration purposes. The lease is subject to an annual rent escalation adjustment and includes an option for a one-year extension. During September 2014, the Company entered into an amended lease agreement to lease an additional 12,338 square feet of space for a total of 22,475 square feet. The amended agreement covers the same term as the original lease with an annual rent escalation adjustment and an option for a one-year extension. During November 2015, the Company entered into an amended lease agreement to lease an additional 11,238 square feet. The amended agreement extended the initial term of the lease and is subject to periodic rent escalation adjustments. The Company has two options to extend the lease.

During July 2015, the Company entered into a lease for a 21,000 square foot warehouse facility in Madison, Wisconsin. The lease commenced in October 2015 and is effective until May 2025 and includes an option for a five-year extension. The lease contains periodic rent escalation adjustments.

During November 2014, the Company entered into a two-year lease agreement for a 620 square foot office facility in London, United Kingdom that is to house European operations. This lease contains periodic rent escalation adjustments.

Future minimum payments under operating leases as of December 31, 2015 are as follows. Amounts included in the table are in thousands.

Year Ending December 31,	
2016	$ 2,073
2017	1,664
2018	1,118
2019	548
2020	277
Thereafter	358
Total lease obligations	$ 6,038

Rent expense included in the accompanying consolidated statements of operations was approximately $1.5 million, $1.0 million, and $0.7 million for the years ended December 31, 2015, 2014 and 2013, respectively.

License Agreements

The Company licenses, on a non exclusive basis, certain technologies that are, or may be, incorporated into its technology under several license agreements. Generally, the license agreements require the Company to pay royalties based on net revenues received using the technologies, and may require minimum royalty amounts or maintenance fees.

MAYO

See Note 4 for information related to the MAYO license agreement.

Hologic

On October 14, 2009, the Company entered into a technology license agreement with Hologic, Inc. (“Hologic”). Under the license agreement, Hologic granted the Company an exclusive, worldwide license within the field of human stool based colorectal cancer and pre cancer detection or identification with regard to certain Hologic patents, patent applications and improvements, including Hologic’s Invader detection chemistry (the “Covered Hologic IP”). The licensed patents and patent applications contain both method and composition of matter claims. The jurisdictions covered by these patents and patent applications include the U.S., Canada, the European Union, Australia and Japan. The license agreement also provided the Company with non exclusive, worldwide licenses to the Covered Hologic IP within the field of clinical diagnostic purposes relating to colorectal cancer (including cancer diagnosis, treatment, monitoring or staging) and the field

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Notes to Consolidated Financial Statements (Continued)

of detection or identification of colorectal cancer and pre cancers through means other than human stool samples. In December 2012 the Company entered into an amendment to this license agreement with Hologic pursuant to which Hologic granted the Company a non exclusive worldwide license to the Covered Hologic IP within the field of any disease or condition within, related to or affecting the gastrointestinal tract and/or appended mucosal surfaces. The Company received FDA approval for its Cologuard test in August 2014, and was required to make a milestone payment of $100,000 to Hologic, which was expensed to research and development in August 2014. The Company is required to pay Hologic a low single digit royalty on the Company's net sales of products using the Covered Hologic IP.

MDx Health

On July 26, 2010, the Company entered into a technology license and royalty agreement with MDx Health (formerly Oncomethylome Sciences, S.A.). Under the license agreement, MDx Health granted the Company a royalty bearing exclusive, worldwide license to certain patents. Under the licensing agreement, the Company is obligated to make commercially reasonable efforts to bring products covered by the license agreement to market. The Company is required to pay MDx Health a minimum royalty fee of $100,000 on each anniversary of the agreement for the life of the contract. The Company also agreed to pay $100,000 upon the first commercial sale of a licensed product after the receipt of FDA approval and $150,000 after the Company has reached net sales of $10 million of a licensed product after receipt of FDA approval, $750,000 after the Company has reached cumulative net sales of $50 million, and $1 million after the Company has reached net sales of $50 million in a single calendar year. The Company is also required to pay MDx Health a royalty fee based on a certain percentage of the Company's net sales of the licensed products.

Capital Lease

In 2012 the Company entered into a lease agreement which is accounted for as a capital lease and the final lease payment was made in September 2015. The leased equipment is recorded at $1.2 million and is included in the balance sheet as laboratory equipment. The cost of the leased equipment was depreciated over the three year lease term, and the expense was recorded as depreciation expense. The leased equipment was fully depreciated at December 31, 2015. The Company was required to make principal and interest payments of approximately $32,000 per month over the three year term of the lease agreement.

(9) RELATED PARTY TRANSACTIONS

In August 2013, the Company renewed a one year consulting agreement with a non employee director for an additional year. In accordance with the agreement, the Company granted a restricted stock award for 4,277 shares of common stock that vests over one year, and will make cash payments totaling $60,000 over the one year term of the agreement. The Company recorded expense related to this consulting agreement of $25,000 in 2013.

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(10) ACCRUED LIABILITIES

Accrued liabilities at December 31, 2015 and 2014 consisted of the following. Amounts included in the table are in thousands.

	December 31,	
	2015	2014
Compensation	$ 8,460	$ 5,668
Professional fees	7,502	5,764
Licenses	3,761	646
Research and trial related expenses	1,528	1,447
Other	646	122
Miscellaneous taxes	309	261
Occupancy costs	47	52
	$ 22,253	$ 13,960

(11) LONG TERM DEBT

Building Purchase Mortgage

During June 2015, the Company entered into a $5.1 million credit agreement with an unrelated third-party financial institution to finance the purchase of a facility located in Madison, WI. The credit agreement is collateralized by the acquired building.

Borrowings under the credit agreement bear interest at 4.15%. The Company made interest only payments on the outstanding principal balance for the period between July 12, 2015 and September 12, 2015. Beginning on October 12, 2015 and continuing through the maturity date, May 12, 2019, the Company is required to make monthly principal and interest payments of $31,000. The final principal and interest payment due on June 12, 2019 is $4.4 million.

Additionally, the Company has recorded $73,000 in deferred financing costs which are being amortized through June 12, 2019. For the year ended December 31, 2015, the Company has recorded $10,000 in amortization of deferred financing costs.

The table below represents the future principal obligations as of December 31, 2015:

Year ending December 31,	
2016	$ 166
2017	174
2018	182
2019	4,496
2020	—
Thereafter	—
	$ 5,018

Wisconsin Department of Commerce Loan

During November 2009, the Company entered into a loan agreement with the Wisconsin Department of Commerce pursuant to which the Wisconsin Department of Commerce agreed to lend up to $1.0 million to the Company subject to the Company’s satisfaction of certain conditions. The Company received the $1.0 million in December 2009. The terms

of the loan are such that portions of the loan become forgivable if the Company meets certain job creation requirements at a specified wage rate. After the Company creates 100 full time positions, the principal shall be reduced at the rate of $5,405 for each new position created thereafter during the measurement period. The loan bears an interest rate of 2%, which is subject to an increase to 4% if the Company does not meet certain job creation requirements. Both principal and interest payments under the loan agreement are deferred for five years. The loan's terms also contain a milestone that if the Company has created 185 new full-time positions as of June 30, 2015, the full amount of principal shall be forgiven. The Company met this job creation milestone and the $1.0 million benefit associated with the loan forgiveness has been recorded as an offset to the operating expenses during the year ended December 31, 2015.

(12) EMPLOYEE BENEFIT PLAN

The Company maintains a qualified 401(k) retirement savings plan (the "401(k) Plan") covering all employees. Under the terms of the 401(k) Plan, participants may elect to defer a portion of their compensation into the 401(k) Plan, subject to certain limitations. Company matching contributions may be made at the discretion of the Board of Directors.

The Company's Board of Directors approved 401(k) Plan matching contributions for the years ended December 31, 2015, 2014 and 2013 in the form of Company common stock equal to 100% up to 6% of the participant's salary for that year. The Company recorded compensation expense of approximately $2.1 million, $0.8 million, and $0.5 million, respectively, in the statements of operations for the years ended December 31, 2015, 2014 and 2013 in connection with 401(k) Plan matching contributions.

(13) NEW MARKET TAX CREDIT

During the fourth quarter of 2014, the Company received approximately $2.4 million in net proceeds from financing agreements related to working capital and capital improvements at one of its Madison, Wisconsin facilities. This financing arrangement was structured with an unrelated third-party financial institution (the "Investor"), an investment fund, and its majority owned community development entity in connection with the Company's participation in transactions qualified under the federal New Markets Tax Credit ("NMTC") program, pursuant to Section 45D of the Internal Revenue Code of 1986, as amended. Through its participation in this program, the Company has secured low interest financing and the potential for future debt forgiveness related to the Madison, Wisconsin facility. Upon closing of this transaction, the Company provided an aggregate of approximately $5.1 million to the Investor, in the form of a loan receivable, with a term of seven years, bearing an interest rate of 2.74% per annum. This $5.1 million in proceeds plus $2.4 million of capital from the Investor was used to make an aggregate $7.5 million loan to a

subsidiary of the Company. This financing arrangement is not secured by any assets of the Company. On December 1, 2021, the Company would receive a repayment of its approximately $5.1 million loan. The $5.1 million is eliminated in the consolidation of the financial statements. This transaction also includes a put/call feature that becomes enforceable at the end of the seven-year compliance period. The Investor may exercise its put option or the Company can exercise the call, both of which will serve to trigger forgiveness of the debt. The value attributable to the put/call is nominal. The $2.4 million was recorded in other long-term liabilities on the balance sheets. The benefit of this net $2.4 million contribution will be recognized as a decrease in expenses, included in cost of sales, as the Company amortizes the contribution liability over the seven-year compliance period as it is being earned through the Company's on-going compliance with the conditions of the NMTC program. The Company has recorded $0.4 million as a decrease of expenses for the year ended December 31, 2015. At December 31, 2015, the remaining balance of $2.0 million is included in Other Long Term Liabilities. The Company incurred approximately $0.2 million of debt issuance costs related to the above transactions, which are being amortized over the life of the agreements.

The Investor is subject to 100% recapture of the NMTC it receives for a period of seven years as provided in the Internal Revenue Code and applicable U.S. Treasury regulations. The Company is required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Noncompliance with applicable

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requirements could result in the Investor's projected tax benefits not being realized and, therefore, require the Company to indemnify the Investor for any loss or recapture of NMTC related to the financing until such time as the recapture provisions have expired under the applicable statute of limitations. The Company does not anticipate any credit recapture will be required in connection with this financing arrangement.

The Investor and its majority owned community development entity are considered Variable Interest Entities ("VIEs") and the Company is the primary beneficiary of the VIEs. This conclusion was reached based on the following:

- The ongoing activities of the VIEs—collecting and remitting interest and fees and NMTC compliance—were all considered in the initial design and are not expected to significantly affect performance throughout the life of the VIE;
- Contractual arrangements obligate the Company to comply with NMTC rules and regulations and provide various other guarantees to the Investor and community development entity;
- The Investor lacks a material interest in the underling economics of the project; and
- The Company is obligated to absorb losses of the VIEs.

Because the Company is the primary beneficiary of the VIEs, they have been included in the consolidated financial statements. There are no other assets, liabilities or transactions in these VIEs outside of the financing transactions executed as part of the NMTC arrangement.

Also in December 2014, in connection with the NMTC transaction, the Company entered into a land purchase option agreement with the owner of certain real property (land) adjacent to certain of the Company's current Madison, Wisconsin facilities. The option is renewable annually in exchange for a fee. If the Company exercises its land purchase option, it will pay a fixed amount for the land. That fixed amount approximates the then-current fair value of the land. If the Company decides not to exercise its option, then on December 31, 2021 (which is after the seven year compliance period of the NMTC program) the Company must pay $1.2 million to the community development entity. As discussed below, the community development entity is a variable interest entity consolidated into the Company. The community development entity would then distribute this money to its members. The majority member of the community development entity is also the owner of the land subject to the land purchase option. The Company has recorded the obligation and the land purchase option asset for $1.2 million to reflect the Company's assessment that it is probable that at least $1.2 million will be paid in the future based on resolution of the land purchase option. The asset is included in Other Long-Term Assets and the liability is included in Other Long-Term Liabilities on the consolidated balance sheet.

(14) WISCONSIN ECONOMIC DEVELOPMENT TAX CREDITS

During the first quarter of 2015, the Company entered into an agreement with the Wisconsin Economic Development Corporation ("WEDC") to earn $9.0 million in refundable tax credits if the Company expends $26.3 million in capital investments and establishes and maintains 758 full-time positions in the state of Wisconsin over a seven year period. The tax credits earned should first be applied against the tax liability otherwise due and if there is no such liability present, the claim for tax credits will be reimbursed in cash to the Company. The maximum amount of the refundable tax credit to be earned for each year is fixed, and the Company earns the credits by meeting certain capital investment and job creation thresholds over the seven year period. Should the Company earn and receive the job creation tax credits but not maintain those full-time positions through the end of the agreement, the Company may be required to pay those credits back to the WEDC.

The Company will record the earned tax credits as job creation and capital investments occur. The amount of tax credits earned will be recorded as a liability and amortized as a reduction of operating expenses over the expected period of benefit. The tax credits earned from capital investment will be recognized as an offset to depreciation expense over the expected life of the acquired capital assets. The tax credits earned related to job creation will be recognized as an offset to operational expenses over the life of the agreement as the Company is required to maintain the minimum level of full-time positions through the seven year period.

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EXACT SCIENCES CORPORATION

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2015 the Company has earned $2.2 million of tax credits. $1.1 million is reported in prepaid expenses and other current assets and $1.1 million is reported in other long-term assets, reflecting when collection of the refundable tax credits is expected to occur.

During the year ended December 31, 2015, the Company has amortized $0.2 million of the credits earned as a reduction of operating expenses. As of December 31, 2015, the Company also has recorded a $0.4 million liability in other short-term liablities and a $1.6 million liability in other long-term liabilities, reflecting when the expected benefit of the tax credit amortization will reduce future operating expenses.

(15) INCOME TAXES

The Company is subject to taxation in the U.S. and various state jurisdictions. All of the Company's tax years are subject to examination by the U.S. and state tax authorities due to the carryforward of unutilized net operating losses.

Under financial accounting standards, deferred tax assets or liabilities are computed based on the differences between the financial statement and income tax bases of assets and liabilities using the enacted tax rates. Deferred income tax expense or benefit represents the change in the deferred tax assets or liabilities from period to period. At December 31, 2015, the Company had federal net operating loss and state net operating loss carryforwards of approximately $565.9 million and $208.9 million, respectively for financial reporting purposes, which may be used to offset future taxable income. The Company also had federal and state research tax credit carryforwards of $7.5 million and $16.0 million, respectively which may be used to offset future income tax liability. The federal and state carryforwards expire beginning 2016 through 2035 and are subject to review and possible adjustment by the Internal Revenue Service and state tax jurisdictions. In the event of a change of ownership, the federal and state net operating loss and research and development tax credit carryforwards may be subject to annual limitations provided by the Internal Revenue Code and similar state provisions.

As of December 31, 2015 and 2014, the Company had $45.5 million and $39.8 million, respectively, in excess tax benefit stock option deductions. The excess tax benefit arising from these deductions is credited to additional paid in capital as the benefit is realized.

The components of the net deferred tax asset with the approximate income tax effect of each type of carryforward, credit and temporary differences are as follows. Amounts included in the table are in thousands.

	December 31,	
	2015	2014
Deferred tax assets:		
Operating loss carryforwards	$ 189,007	$ 140,471
Tax credit carryforwards	17,947	16,915
Deferred revenue	—	11
Other temporary differences	8,146	4,543
Tax assets before valuation allowance	215,100	161,940
Less—Valuation allowance	(215,100)	(161,940)
Net deferred taxes	$ —	$ —

A valuation allowance to reduce the deferred tax assets is reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company has incurred significant losses since its inception and due to the uncertainty of the amount and timing of future taxable income, management has determined that a valuation allowance of $215.1 million and $161.9 million at December 31, 2015 and 2014, respectively, is necessary to reduce the tax assets to the amount that is more likely than not to be realized. The change in valuation allowance for December 31, 2015 and 2014 was $53.2 million and $37.4 million, respectively. Due to the existence of

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EXACT SCIENCES CORPORATION

Notes to Consolidated Financial Statements (Continued)

the valuation allowance, future changes in our unrecognized tax benefits will not impact the Company's effective tax rate.

The effective tax rate differs from the statutory tax rate due to the following:

	December 31,		
	2015	2014	2013
U.S. Federal statutory rate	35.0 %	34.0 %	34.0 %
State taxes	2.1	5.5	4.8
Federal and state tax rate changes	(1.7)	—	—
Research and development tax credits	0.9	(1.1)	16.9
Stock-based compensation expense	(0.6)	(0.5)	(1.1)
Other adjustments	(0.9)	(0.8)	(0.3)
Valuation allowance	(34.8)	(37.1)	(54.3)
Effective tax rate	0.0 %	0.0 %	0.0 %

There are no unrecognized tax benefits as of December 2015, 2014 and 2013, nor are there any tax positions where it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the 12 months following December 31, 2015.

As of December 31, 2015, due to the carryforward of unutilized net operating losses and research and development credits, the Company is subject to U.S. Federal and state income tax examinations for the tax years 1995 through 2015, and to state income tax examinations for the tax years 1995 through 2015. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the years ended December 31, 2015, 2014 and 2013.

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EXACT SCIENCES CORPORATION

Notes to Consolidated Financial Statements (Continued)

(16) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth unaudited quarterly statement of operations data for each of the eight quarters ended December 31, 2015 and 2014. In the opinion of management, this information has been prepared on the same basis as the audited consolidated financial statements appearing elsewhere in this Form 10 K, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results of operations. The quarterly data should be read in conjunction with our audited consolidated financial statements and the notes to the consolidated financial statements appearing elsewhere in this Form 10 K.

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	(Amounts in thousands, except per share data)			
2015				
Laboratory service revenue	$ 4,266	$ 8,119	$ 12,632	$ 14,420
Cost of revenue	4,212	5,094	7,528	7,667
Gross profit	54	3,025	5,104	6,753
Research and development	6,571	8,115	9,863	9,365
General and administrative	12,971	13,683	15,432	15,864
Sales and marketing	16,524	20,593	23,079	21,944
Loss from operations	(36,012)	(39,366)	(43,270)	(40,420)
Investment income	222	193	365	491
Interest income (expense)	(11)	107	(40)	(62)
Net loss	$ (35,801)	$ (39,066)	$ (42,945)	$ (39,991)
Net loss per share—basic and diluted	$ (0.40)	$ (0.44)	$ (0.45)	$ (0.41)
Weighted average common shares outstanding—basic and diluted	88,662	88,919	94,444	96,404
2014				
Laboratory service revenue	$ —	$ —	$ —	$ 1,504
License fee revenue	$ 294	$ —	$ —	$ —
Cost of revenue	—	—	924	3,401
Gross profit	294	—	(924)	(1,897)
Research and development	7,430	7,174	9,073	4,992
General and administrative	4,586	6,230	8,994	10,625
Sales and marketing	4,456	6,166	13,217	15,069
Loss from operations	(16,178)	(19,570)	(32,208)	(32,583)
Investment income	86	146	160	150
Interest expense	(15)	(13)	(12)	(11)
Net loss	$ (16,107)	$ (19,437)	$ (32,060)	$ (32,444)
Net loss per share—basic and diluted	$ (0.23)	$ (0.24)	$ (0.39)	$ (0.38)

Weighted average common shares outstanding—basic and diluted	70,987	82,048	82,941	84,734

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no disagreements with accountants on accounting or financial disclosure matters.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

As required by Rule 13a 15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"), our management, including our principal executive officer and principal financial officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a 15(e) under the Exchange Act. Based on that evaluation, our principal executive officer and principal financial officer have concluded that these disclosure controls and procedures were effective as of December 31, 2015 to provide reasonable assurance that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in Securities and Exchange Commission rules and forms and that material information relating to the Company is accumulated and communicated to management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting.

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) under the Exchange Act during the quarter ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting.

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a 15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on our assessment, we concluded that, as of December 31, 2015, our internal control over financial reporting was effective based on those criteria.

Our independent registered public accounting firm, BDO USA, LLP, has issued an audit report on the effectiveness of our internal control over financial reporting as of December 31, 2015, which is included herein.

Item 9B. Other Information

William J. Megan, our Senior Vice President, Finance, is expected to terminate his employment with us on February 29, 2016. In connection with his termination, we expect to enter into a separation agreement and general release with Mr. Megan (the “Separation Agreement”). Under the Separation Agreement, Mr. Megan will receive (1) severance payments equal to 12 months of his current annual base salary and (2) continuation of group health benefits through no later than February 29, 2017. Further, pursuant to the agreement, 22,650 restricted stock units and 7,150 incentive stock options which were previously granted to Mr. Megan will vest upon the execution of the agreement. Mr. Megan is forfeiting all other equity awards.

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In partial consideration for the benefits provided under the Severance Agreement, Mr. Megan agreed to provide us, through August 30, 2016, consulting services in connection with any transition issues, business, needs, litigation, or investigation relating to our business.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required under this item is incorporated by reference to the following sections of our proxy statement for our 2015 Annual Meeting of Stockholders: “Information Concerning Directors and Nominees for Director,” “Information Concerning Executive Officers,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Corporate Governance Principles and Board Matters,” and “The Board of Directors and Its Committees.”

Item 11. Executive Compensation

The information required under this item is incorporated by reference to the following sections of our proxy statement for our 2015 Annual Meeting of Stockholders: “Compensation and Other Information Concerning Directors and Officers,” “The Board of Directors and Its Committees,” and “Report of The Compensation Committee.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required under this item is incorporated by reference to the following sections of our proxy statement for our 2015 Annual Meeting of Stockholders: “Equity Compensation Plan Information” and “Securities Ownership of Certain Beneficial Owners and Management.”

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required under this item is incorporated by reference to the following sections of our proxy statement for our 2015 Annual Meeting of Stockholders: “Certain Relationships and Related Transactions” and “Corporate Governance Principles and Board Matters.”

Item 14. Principal Accountant Fees and Services

The information required under this item is incorporated by reference to the following sections of our proxy statement for our 2015 Annual Meeting of Stockholders: “Independent Registered Public Accounting Firm” and “Pre Approval Policies and Procedures.”

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this Form 10 K:
(1) Financial Statements (see “Consolidated Financial Statements and Supplementary Data” at Item 8 and incorporated herein by reference).
(2) Financial Statement Schedules (Schedules to the Financial Statements have been omitted because the information required to be set forth therein is not applicable or is shown in the accompanying Financial Statements or notes thereto).
(3) Exhibits (The exhibits required to be filed as a part of this Report are listed in the Exhibit Index).

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SIGNATURES

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

EXACT SCIENCES CORPORATION

Date: February 24, 2016 By: /s/ Kevin T. Conroy

Kevin T. Conroy
President & Chief Executive Officer

POWER OF ATTORNEY AND SIGNATURES

We, the undersigned officers and directors of Exact Sciences Corporation, hereby severally constitute and appoint Kevin T. Conroy our true and lawful attorney, with full power to him to sign for us and in our names in the capacities indicated below, any amendments to this Annual Report on Form 10 K, and generally to do all things in our names and on our behalf in such capacities to enable Exact Sciences Corporation to comply with the provisions of the Securities Exchange Act of 1934, as amended, and all the requirements of the Securities Exchange Commission.

Pursuant to the requirements of the Securities and Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Kevin T. Conroy Kevin T. Conroy	President and Chief Executive Officer (Principal Executive Officer) and Chairman of the Board	February 24, 2016
/s/ Maneesh K. Arora Maneesh K. Arora	Senior Vice President and Chief Operating Officer and Director	February 24, 2016

/s/ John K. Bakewell John K. Bakewell	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 24, 2016
/s/ Thomas D. Carey Thomas D. Carey	Director	February 24, 2016
/s/ James E. Doyle James E. Doyle	Director	February 24, 2016
/s/ John A. Fallon M.D John A. Fallon	Director	February 24, 2016
./s/ Daniel J. Levangie Daniel J. Levangie	Director	February 24, 2016
/s/ Katherine Napier Katherine Napier	Director	February 24, 2016
/s/ Lionel Sterling Lionel Sterling	Director	February 24, 2016
/s/ David Thompson	Lead Independent Director	February 24, 2016

David Thompson		
/s/ Michael S. Wyzga Michael S. Wyzga	Director	February 24, 2016

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Exhibit Index to Annual Report on Form 10 K

Exhibit Number	Description
3.1	Sixth Amended and Restated Certificate of Incorporation of the Registrant (previously filed as Exhibit 3.3 to the Registrant's Registration Statement on Form S 1 (File No. 333 48812) and incorporated herein by reference)
3.2	First Amendment to Sixth Amended and Restated Certificate of Incorporation of the Registrant (previously filed as Appendix A to the Definitive Proxy Statement for the Registrant's 2014 Annual Meeting of Stockholders filed on June 20, 2014 and incorporated herein by reference)
3.3	Second Amended and Restated By-Laws of the Registrant (previously filed as Exhibit 3.3 to the Registrant's Report on Form 10-Q for the period ended September 30, 2015 and incorporated herein by reference)
3.4	Certificate of Designations of Series A Junior Participating Preferred Stock of the Registrant (previously filed as Exhibit 3.1 to the Registrant's Registration Statement on Form 8-A filed on February 23, 2011 and incorporated herein by reference)
4.1	Specimen certificate representing the Registrant's Common Stock (previously filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S 1 (File No. 333 48812) and incorporated herein by reference)
4.4	Rights Agreement, dated February 22, 2011, by and between the Registrant and American Stock Transfer & Trust Company, LLC (previously filed as Exhibit 4.1 to the Registrant's Registration Statement on Form 8 A filed on February 23, 2011 and incorporated herein by reference)
10.1*	2000 Stock Option and Incentive Plan (previously filed as Exhibit 10.2 to the Registrant's Annual Report on Form 10 K filed for the period ended December 31, 2008 and incorporated herein by reference)
10.2*	2000 Stock Option and Incentive Plan Form of Restricted Stock Award Agreement (previously filed as Exhibit 10.29 to the Registrant's Annual Report on Form 10 K for the period ended December 31, 2007 and incorporated herein by reference)
10.3**	Collaboration, License and Purchase Agreement dated January 27, 2009 by and between the Registrant and Genzyme Corporation (previously filed as Exhibit 10.1 to the Registrant's Report on Form 8 K filed on January 28, 2009 and incorporated herein by reference)
10.4*	Employment Agreement dated March 18, 2009 by and between Kevin T. Conroy and the Registrant (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8 K filed on March 18, 2009 and incorporated herein by reference)
10.5*	Employment Agreement dated March 18, 2009 by and between Maneesh Arora and the Registrant (previously filed as Exhibit 10.2 to the Registrant's Current Report on Form 8 K filed on March 18, 2009 and incorporated herein by reference)
10.6*+	Employment Agreement dated January 1, 2016 by and between John Bakewell and the Registrant
10.7*+	Employment Agreement dated October 30, 2015 by and between Scott Coward and the Registrant
10.8*	Employment Agreement dated August 1, 2009 by and between Graham Lidgard and the Registrant (previously filed as Exhibit 10 to the Registrant's Current Report on Form 10 Q for the period ended September 30, 2009 and incorporated herein by reference)
10.9**	Technology License Agreement by and among Hologic, Inc., Third Wave Technologies, Inc., and the Registrant, dated as of October 14, 2009 (previously filed as Exhibit 10.39 to the Registrant's Annual Report on Form 10 K filed for the period ended December 31, 2009 and incorporated herein by reference)
10.10	Loan Agreement, dated November 10, 2009, by and between the Wisconsin Department of Commerce and the Registrant (previously filed as Exhibit 10.40 to the Registrant's Annual Report on Form 10 K filed

	for the period ended December 31, 2009 and incorporated herein by reference)
10.11	Lease Agreement, dated November 1, 2009, by and between University Research Park Incorporated and the Registrant (previously filed as Exhibit 10.41 to the Registrant's Annual Report on Form 10 K filed for the period ended December 31, 2009 and incorporated herein by reference)
10.12*	The Registrant's 2010 Omnibus Long Term Incentive Plan, as amended and restated effective April 28, 2015 (previously filed as Appendix A to the Definitive Proxy Statement for the Registrant's 2015 Annual Meeting of Stockholders filed on April 30, 2015 and incorporated herein by reference)
10.13*	The Registrant's 2010 Employee Stock Purchase Plan (previously filed as Appendix B to the Definitive Proxy Statement for the Registrant's 2010 Annual Meeting of Stockholders filed on April 30, 2010 and incorporated herein by reference)
10.14*	First Amendment to the Registrant's 2010 Employee Stock Purchase Plan (previously filed as Appendix A to the Definitive Proxy Statement for the Registrant's 2014 Annual Meeting of Stockholders filed of June 20, 2014, and incorporated herein by reference)
10.15*	2010 Omnibus Long Term Incentive Plan Form Stock Option Award Agreement, as amended and restated effective April 28, 2015 (previously filed as Exhibit 4.7 to the Registrant's Registration Statement on Form S 8 (File No. 333 207703) and incorporated herein by reference)
10.16*	2010 Omnibus Long Term Incentive Plan Form Restricted Stock Award Agreement, as amended and restated effective April 28, 2015 (previously filed as Exhibit 4.6 to the Registrant's Registration Statement on Form S 8 (File No. 333 207703) and incorporated herein by reference)

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Exhibit Number	Description
10.17*	2010 Omnibus Long Term Incentive Plan Form Restricted Stock Unit Award Agreement, as amended and restated effective April 28, 2015 (previously filed as Exhibit 4.5 to the Registrant's Registration Statement on S 8 (File No. 333 207703) and incorporated herein by reference)
10.18*	2015 Inducement Award Plan (previously filed as Exhibit 4.8 to the Registrant's Registration Statement on Form S 8 (File No. 333 207703) and incorporated herein by reference)
10.19*	2015 Inducement Award Plan Form Restricted Stock Unit Award Agreement (previously filed as Exhibit 4.9 to the Registrant's Registration Statement on Form S 8 (File No. 333 207703) and incorporated herein by reference)
10.20*	Amended and Restated License Agreement between the Registrant and MAYO Foundation for Medical Education and Research (previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2015 and incorporated herein by reference)
10.21**	Amendment dated December 7, 2012 to Technology License Agreement dated October 14, 2009 by and between Hologic, Inc., Third Wave Technologies, Inc., and the Registrant (previously filed as Exhibit 10.37 to the Registrant's Annual Report on Form 10 K for the period ended December 31, 2012 and incorporated herein by reference)
10.22*	Employment Agreement by and between William J. Megan and the Registrant, dated as of November 10, 2014 (previously filed as Exhibit 10.20 to the Registrant's Annual Report on Form 10-K filed for the period ending December 31, 2014 and incorporated herein by reference)
10.23*	Non Employee Director Compensation Policy dated April 28, 2015 (previously filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10 Q for the period ended June 30, 2015 and incorporated herein by reference)
10.24	Lease Agreement dated June 25, 2013 by and between Tech Building I, LLC and Exact Sciences Laboratories, Inc. (previously filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10 Q for the period ended June 30, 2013 and incorporated herein by reference)
10.25**	License Agreement dated July 26, 2010 by and between MDx Health S.A. and the Registrant (previously filed as Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2013 and incorporated herein by reference)
10.26**	Addendum dated May 6, 2011 to License Agreement dated July 26, 2010 by and between MDx Health S.A. and the Registrant (previously filed as Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2013 and incorporated herein by reference)
10.27	Amendment One to Lease dated November 1, 2010 by and between University Research Park Incorporated and the Registrant(previously filed as Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2014 and incorporated herein by reference).
10.28	Lease Agreement dated April 16, 2014 by and between Ultratec, Inc. and the Registrant (previously filed as Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2014 and incorporated herein by reference)
10.29	First Amendment to Lease dated September 26, 2014 by and between Ultratec, Inc. and the Registrant (previously filed as Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2014 and incorporated herein by reference)
21+	Subsidiaries of the Registrant
23.1+	Consent of BDO USA, LLP
24.1	Power of Attorney (included on signature page)
31.1+	Certification Pursuant to Rule 13a 14(a) or Rule 15d 14(a) of the Securities Exchange Act of 1934
31.2+	Certification Pursuant to Rule 13a 14(a) or Rule 15d 14(a) of the Securities Exchange Act of 1934
32+	Certification Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002

101	Interactive Data Files

*Indicates a management contract or any compensatory plan, contract or arrangement.

**Confidential Treatment requested for certain portions of this Agreement.

+Filed herewith.