

STEEL DYNAMICS INC
Form 10-Q
August 07, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

June 30, 2017

OR

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

Commission File Number 0-21719

Steel Dynamics, Inc.
(Exact name of registrant as specified in its charter)

Indiana 35-1929476
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

7575 West Jefferson Blvd, Fort Wayne, IN 46268
(Address of principal executive offices) (Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company (see definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act).

(Check one): Large accelerated filer Accelerated filer Non-accelerated filer
Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 1, 2017, Registrant had 239,872,874 outstanding shares of common stock.

STEEL DYNAMICS, INC.

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STEEL DYNAMICS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

| | June 30, 2017 (unaudited) | December 31, 2016 |
|--------------------------------------|---------------------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and equivalents | \$ 908,843 | \$ 841,483 |
| Accounts receivable, net | 866,716 | 703,565 |
| Accounts receivable-related parties | 20,178 | 26,219 |
| Inventories | 1,418,732 | 1,275,211 |
| Other current assets | 37,188 | 83,197 |
| Total current assets | 3,251,657 | 2,929,675 |
| Property, plant and equipment, net | 2,729,721 | 2,787,215 |
| Restricted cash | 17,373 | 18,060 |
| Intangible assets, net | 269,129 | 283,977 |
| Goodwill | 390,129 | 393,351 |
| Other assets | 12,121 | 11,454 |
| Total assets | \$ 6,670,130 | \$ 6,423,732 |
| Liabilities and Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 467,611 | \$ 382,126 |
| Accounts payable-related parties | 16,392 | 13,070 |
| Income taxes payable | 5,589 | 5,593 |
| Accrued payroll and benefits | 138,360 | 164,543 |
| Accrued interest | 29,632 | 30,295 |
| Accrued expenses | 118,337 | 113,556 |
| Current maturities of long-term debt | 19,971 | 3,632 |
| Total current liabilities | 795,892 | 712,815 |
| Long-term debt | 2,354,337 | 2,353,194 |
| Deferred income taxes | 459,639 | 448,375 |
| Other liabilities | 20,781 | 20,649 |
| Total liabilities | 3,630,649 | 3,535,033 |
| Commitments and contingencies | | |

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| | | |
|---|--------------|--------------|
| Redeemable noncontrolling interests | 111,240 | 111,240 |
| Equity | | |
| Common stock voting, \$.0025 par value; 900,000,000 shares authorized; 264,161,359 and 264,130,544 shares issued; and 239,872,874 and 243,785,485 shares outstanding, as of June 30, 2017 and December 31, 2016, respectively | 641 | 641 |
| Treasury stock, at cost; 24,288,485 and 20,345,059 shares, as of June 30, 2017 and December 31, 2016 respectively | (551,125) | (416,829) |
| Additional paid-in capital | 1,141,050 | 1,132,749 |
| Retained earnings | 2,490,373 | 2,210,459 |
| Total Steel Dynamics, Inc. equity | 3,080,939 | 2,927,020 |
| Noncontrolling interests | (152,698) | (149,561) |
| Total equity | 2,928,241 | 2,777,459 |
| Total liabilities and equity | \$ 6,670,130 | \$ 6,423,732 |

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|--------------|------------------------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| Net sales | | | | |
| Unrelated parties | \$ 2,347,304 | \$ 1,978,984 | \$ 4,666,967 | \$ 3,676,988 |
| Related parties | 43,416 | 44,918 | 91,969 | 88,215 |
| Total net sales | 2,390,720 | 2,023,902 | 4,758,936 | 3,765,203 |
| Costs of goods sold | 1,998,202 | 1,643,519 | 3,894,264 | 3,148,784 |
| Gross profit | 392,518 | 380,383 | 864,672 | 616,419 |
| Selling, general and administrative expenses | 98,433 | 96,853 | 201,366 | 184,383 |
| Profit sharing | 21,308 | 20,176 | 48,539 | 29,467 |
| Amortization of intangible assets | 7,424 | 7,232 | 14,848 | 14,482 |
| Operating income | 265,353 | 256,122 | 599,919 | 388,087 |
| Interest expense, net of capitalized interest | 33,869 | 36,646 | 67,842 | 73,689 |
| Other expense (income), net | (3,835) | (1,818) | (7,494) | (3,610) |
| Income before income taxes | 235,319 | 221,294 | 539,571 | 318,008 |
| Income tax expense | 82,372 | 80,851 | 187,958 | 116,247 |
| Net income | 152,947 | 140,443 | 351,613 | 201,761 |
| Net loss attributable to noncontrolling interests | 986 | 1,526 | 3,137 | 2,945 |
| Net income attributable to Steel Dynamics, Inc. | \$ 153,933 | \$ 141,969 | \$ 354,750 | \$ 204,706 |
| Basic earnings per share attributable to Steel Dynamics, Inc. stockholders | \$ 0.64 | \$ 0.58 | \$ 1.47 | \$ 0.84 |
| Weighted average common shares outstanding | 241,343 | 243,655 | 242,143 | 243,429 |
| Diluted earnings per share attributable to Steel Dynamics, Inc. stockholders, including the effect of assumed conversions | | | | |

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| | | | | |
|--|----------|----------|----------|----------|
| when dilutive | \$ 0.63 | \$ 0.58 | \$ 1.46 | \$ 0.84 |
| Weighted average common shares and share equivalents outstanding | 243,021 | 245,392 | 243,784 | 245,000 |
| Dividends declared per share | \$ 0.155 | \$ 0.140 | \$ 0.310 | \$ 0.280 |

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|--------------|------------------|--------------|
| | June 30, | 2016 | June 30, | 2016 |
| | 2017 | | 2017 | |
| Operating activities: | | | | |
| Net income | \$ 152,947 | \$ 140,443 | \$ 351,613 | \$ 201,761 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 73,801 | 74,795 | 148,858 | 148,780 |
| Equity-based compensation | 6,380 | 7,236 | 17,683 | 17,770 |
| Deferred income taxes | 6,849 | 18,314 | 14,565 | 35,401 |
| Other adjustments | (43) | 1,035 | (147) | 1,215 |
| Changes in certain assets and liabilities: | | | | |
| Accounts receivable | (3,746) | (103,598) | (157,110) | (179,194) |
| Inventories | (57,622) | (108,893) | (144,441) | (26,326) |
| Other assets | 5,418 | 10,613 | 7,531 | 11,161 |
| Accounts payable | (45,445) | 53,732 | 88,364 | 166,391 |
| Income taxes receivable/payable | (77,587) | 34,388 | 18,732 | 48,381 |
| Accrued expenses | 20,056 | 29,907 | (24,191) | 23,660 |
| Net cash provided by operating activities | 81,008 | 157,972 | 321,457 | 449,000 |
| Investing activities: | | | | |
| Purchases of property, plant and equipment | (43,274) | (35,686) | (84,951) | (63,394) |
| Other investing activities | 2,387 | 1,206 | 29,305 | 4,260 |
| Net cash used in investing activities | (40,887) | (34,480) | (55,646) | (59,134) |
| Financing activities: | | | | |
| Issuance of current and long-term debt | 51,233 | 63,655 | 51,233 | 84,107 |
| Repayment of current and long-term debt | (34,997) | (81,022) | (36,426) | (85,254) |
| Dividends paid | (37,527) | (34,090) | (71,657) | (67,515) |
| Purchases of treasury stock | (76,813) | - | (138,069) | - |
| Other financing activities | - | 3,680 | (3,532) | 4,430 |
| Net cash used in financing activities | (98,104) | (47,777) | (198,451) | (64,232) |
| Increase in cash and equivalents | (57,983) | 75,715 | 67,360 | 325,634 |
| Cash and equivalents at beginning of period | 966,826 | 976,951 | 841,483 | 727,032 |
| Cash and equivalents at end of period | \$ 908,843 | \$ 1,052,666 | \$ 908,843 | \$ 1,052,666 |

Supplemental disclosure information:

| | | | | |
|---------------------------------|------------|-----------|------------|-----------|
| Cash paid for interest | \$ 53,976 | \$ 45,094 | \$ 66,625 | \$ 71,380 |
| Cash paid for income taxes, net | \$ 152,116 | \$ 27,565 | \$ 153,670 | \$ 28,264 |

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Description of the Business and Significant Accounting Policies

Description of the Business

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

Steel Operations Segment. Steel operations include the company's Butler Flat Roll Division, Columbus Flat Roll Division, The Techs galvanizing lines, Structural and Rail Division, Engineered Bar Products Division, Vulcan Threaded Products, Inc. – acquired August 1, 2016, Roanoke Bar Division, Steel of West Virginia, and Iron Dynamics, 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 numerous downstream coating and bar processing lines. Steel operations accounted for 73% and 72% of the company's consolidated external net sales during the three months ended June 30, 2017 and 2016, respectively, and 73% and 71% of the company's consolidated external net sales during the six months ended June 30, 2017 and 2016, respectively.

Metals Recycling Operations Segment. Metals recycling operations consists solely of OmniSource Corporation (OmniSource), and includes both ferrous and nonferrous processing, transportation, marketing, brokerage, and consulting services. Metals recycling operations accounted for 14% and 15% of the company's consolidated external net sales during the three months ended June 30, 2017, and 2016, respectively, and 15% of the company's consolidated external net sales for the six months ended June 30, 2017, and 2016.

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 in 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 8% of the company's consolidated external net sales during the three months ended June 30, 2017 and 2016, and 8% and 9% during the six months ended June 30, 2017 and 2016.

Other. Other operations consists of subsidiary operations that are below the quantitative thresholds required for reportable segments and primarily consist of our idled Minnesota ironmaking operations and other 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.

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

In the opinion of management, these financial statements reflect all normal recurring adjustments necessary for a fair presentation of the interim period results. These financial statements and notes should be read in conjunction with the audited financial statements and notes thereto included in the company's Annual Report on Form 10-K for the year ended December 31, 2016.

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Goodwill. The company's goodwill is allocated to the following reporting units at June 30, 2017, and December 31, 2016, (in thousands):

| | June 30, 2017 | December 31, 2016 |
|---|------------------|-------------------------|
| Steel Operations Segment: | | |
| Columbus Flat Roll Division | \$ 19,682 | \$ 19,682 |
| The Techs | 142,783 | 142,783 |
| Vulcan Threaded Products | 7,824 | 7,824 |
| Roanoke Bar Division | 29,041 | 29,041 |
| Metals Recycling Operations Segment: | | |
| Butler Flat Roll Division, Structural and Rail Division, and Engineered Bar Division | 95,000 | 95,000 |
| OmniSource | 93,874 | 97,096 |
| Steel Fabrication Operations Segment | 1,925 | 1,925 |
| | \$ 390,129 | \$ 393,351 |

OmniSource goodwill decreased \$3.2 million from December 31, 2016 to June 30, 2017, in recognition of the 2017 tax benefit related to the normal amortization of the component of OmniSource tax-deductible goodwill in excess of book goodwill.

Recently Adopted/Issued Accounting Standards

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory (ASU 2015-11), 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. The company adopted ASU 2015-11 as required in the first quarter of 2017 on a prospective basis, and the adoption had no impact on its financial condition, results of operations, or cash flow.

In May 2014, the FASB issued ASU 2014-09, which is codified in ASC 606, Revenue Recognition – Revenue from Contracts with Customers, which amends the guidance in former ASC 605, Revenue Recognition. FASB has since issued clarifying guidance in the form of ASU 2016-08, Revenue from Contracts with Customers: Principal versus

Agent Consideration (Reporting Revenue Gross versus Net), ASU 2016-10, Revenue from Contract with Customers : Identifying Performance Obligations and Licensing, and ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients, collectively (ASC 606). 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. ASC 606 also requires additional disclosures to help users of financial statements better understand the nature, amount, timing, and potential uncertainty of revenue that is recognized. ASC 606 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, using a full retrospective or modified retrospective approach. The company is currently working through an adoption plan and has identified current revenue streams and initially analyzed those revenue streams pursuant to the new accounting requirements. The company intends to complete the adoption plan during the second half of 2017, including final determination of whether the accounting impact of ASC 606 significantly differs from the company's current revenue accounting, evaluating and concluding on the timing and method of adoption and related disclosure, and determine whether implementation of the new standard may affect functions, processes and systems within the company. Based on our analysis within the adoption plan completed to date, the company preliminarily does not believe there will be significant change in the amount or timing of revenue recognized under the new standard, or significant changes required to the company's functions, processes or systems. The company preliminarily intends to adopt ASU 2014-09 in the first quarter of 2018. These preliminary assessments may however change as we complete the adoption plan.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842): which establishes a new lease accounting model that requires lessees to recognize a right of use asset and related lease liability for most leases having lease terms of more than 12 months (ASU 2016-02). Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. This new guidance is effective for annual and interim periods beginning after December 15, 2018, but can be early adopted. The company is currently evaluating the impact of the provisions of ASU 2016-02, including the timing of adoption.

Reclassifications

The company early adopted, effective December 31, 2016, Improvement to Employee Share-based Payment Accounting (ASU 2016-09). Cash paid to tax authorities from shares withheld to satisfy the company's statutory income tax withholding obligation of \$2.1 million were reclassified to financing activities from operating activities in the six-month period ended June 30, 2016, statement of cash flows.

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 2. 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 restricted stock units, deferred stock units, stock options and other equity-based awards; and are excluded from the computation in periods in which they have an anti-dilutive effect. There were no anti-dilutive common share equivalents at or for the three and six months ended June 30, 2017 and 2016.

The following tables present a reconciliation of the numerators and the denominators of the company's basic and diluted earnings per share computations for the three and six months ended June 30, 2017 and 2016 (in thousands, except per share data):

| | Three Months Ended June 30, 2017 | | | 2016 | | |
|-----------------------------------|-------------------------------------|-------------------------|------------------------|------------------------------|-------------------------|------------------------|
| | Net Income (Numerator) | Shares (Denominator) | Per Share Amount | Net Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic earnings per share | \$ 153,933 | 241,343 | \$ 0.64 | \$ 141,969 | 243,655 | \$ 0.58 |
| Dilutive common share equivalents | - | 1,678 | | - | 1,737 | |
| Diluted earnings per share | \$ 153,933 | 243,021 | \$ 0.63 | \$ 141,969 | 245,392 | \$ 0.58 |

| | Six Months Ended June 30, 2017 | | | 2016 | | |
|-----------------------------------|-----------------------------------|-------------------------|------------------------|------------------------------|-------------------------|------------------------|
| | Net Income (Numerator) | Shares (Denominator) | Per Share Amount | Net Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic earnings per share | \$ 354,750 | 242,143 | \$ 1.47 | \$ 204,706 | 243,429 | \$ 0.84 |
| Dilutive common share equivalents | - | 1,641 | | - | 1,571 | |
| Diluted earnings per share | \$ 354,750 | 243,784 | \$ 1.46 | \$ 204,706 | 245,000 | \$ 0.84 |

Note 3. Inventories

Inventories are stated at lower of cost or net realizable value. Cost is determined using a weighted average cost method for raw materials and supplies, and on a first-in, first-out, basis for other inventory. Inventory consisted of the following (in thousands):

| | June 30, 2017 | December 31, 2016 |
|-------------------|------------------|-------------------------|
| Raw materials | \$ 616,240 | \$ 515,924 |
| Supplies | 375,453 | 383,134 |
| Work in progress | 124,949 | 103,606 |
| Finished goods | 302,090 | 272,547 |
| Total inventories | \$ 1,418,732 | \$ 1,275,211 |

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 4. Changes in Equity

The following table provides a reconciliation of the beginning and ending carrying amounts of total equity, equity attributable to stockholders of Steel Dynamics, Inc. and equity and redeemable amounts attributable to the noncontrolling interests (in thousands):

| | Stockholders of Steel Dynamics, Inc. | | | | | Total Equity | Redeemable Noncontrolling Interests |
|-------------------------------------|--------------------------------------|-------------------|----------------------------------|----------------------|-----------------------------|-----------------|---|
| | Common Stock | Treasury Stock | Additional Paid-In Capital | Retained Earnings | Noncontrolling Interests | | |
| Balances at December 31, 2016 | \$ 641 | \$ (416,829) | \$ 1,132,749 | \$ 2,210,459 | \$ (149,561) | \$ 2,777,459 | \$ 111,240 |
| Dividends declared | - | - | - | (74,707) | - | (74,707) | - |
| Share repurchases | - | (138,069) | - | - | - | (138,069) | - |
| Equity-based compensation | - | 3,773 | 8,301 | (129) | - | 11,945 | - |
| Comprehensive and net income (loss) | - | - | - | 354,750 | (3,137) | 351,613 | - |
| Balances at June 30, 2017 | \$ 641 | \$ (551,125) | \$ 1,141,050 | \$ 2,490,373 | \$ (152,698) | \$ 2,928,241 | \$ 111,240 |

Note 5. Derivative Financial Instruments

The company is exposed to certain risks relating to its ongoing business operations. The company utilizes derivative instruments to mitigate commodity margin risk, interest rate risk and foreign currency exchange rate risk. The company routinely enters into forward exchange traded futures and option contracts to manage the price risk associated with nonferrous metals inventory as well as purchases and sales of nonferrous metals (primarily aluminum and copper). The company offsets fair value amounts recognized for derivative instruments executed with the same counterparty under master netting agreements.

Commodity Futures Contracts. If the company is “long” on futures contracts, it means the company has more futures contracts purchased than futures contracts sold for the underlying commodity. If the company is “short” on a futures contract, it means the company has more futures contracts sold than futures contracts purchased for the underlying commodity. The following summarizes the company’s futures contract commitments as of June 30, 2017:

| Commodity Futures | Long/Short | Metric Tons |
|-------------------|------------|-------------|
| Aluminum | Long | 4,125 |
| Aluminum | Short | 4,700 |
| Copper | Long | 8,131 |
| Copper | Short | 22,169 |

The following summarizes the location and amounts of the fair values reported on the company’s balance sheets as of June 30, 2017, and December 31, 2016, and gains and losses related to derivatives included in the company’s statement of income for the three and six months ended June 30, 2017 and 2016 (in thousands):

| | Asset Derivatives | | Liability Derivatives | | |
|--|------------------------|---------------|-----------------------|---------------|-------------------|
| | Balance sheet location | Fair Value | | Fair Value | |
| | | June 30, 2017 | December 31, 2016 | June 30, 2017 | December 31, 2016 |
| Derivative instruments designated as fair value hedges | | | | | |
| Commodity futures | Other current assets | \$ 597 | \$ 2,910 | \$ 2,538 | \$ 1,300 |
| Derivative instruments not designated as hedges | | | | | |
| Commodity futures | Other current assets | 1,336 | 1,150 | 1,902 | 783 |
| Total derivative instruments | | \$ 1,933 | \$ 4,060 | \$ 4,440 | \$ 2,083 |

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 5. Derivative Financial Instruments (Continued)

The fair value of the above derivative instruments along with required margin deposit amounts with the same counterparty under master netting arrangements totaled \$2.4 million at June 30, 2017, and \$3.2 million at December 31, 2016, are reflected in other current assets in the consolidated balance sheets.

| | Location of gain (loss) recognized in income on derivatives | Amount of gain (loss) recognized in income on derivatives for the three months ended | | Hedged items in fair value hedge relationships | Location of gain (loss) recognized in income on related hedged items | Amount of gain (loss) recognized in income on related hedged for the three months ended | |
|---|--|---|------------------|--|--|--|------------------|
| | | June 30, 2017 | June 30, 2016 | | | June 30, 2017 | June 30, 2016 |
| Derivatives in fair value hedging relationships | | | | | | | |
| Commodity futures | Costs of goods sold | \$ (3,398) | \$ (477) | Firm commitments | Costs of goods sold | \$ 2,167 | \$ (208) |
| | | | | Inventory | Costs of goods sold | 1,014 | 541 |
| Derivatives not designated as hedging instruments | | | | | | \$ 3,181 | \$ 333 |
| Commodity futures | Costs of goods sold | \$ 2,384 | \$ 1,116 | | | | |

| Location of gain (loss) recognized | Amount of gain (loss) recognized in income on derivatives | Hedged items in | Location of gain (loss) recognized in income on | Amount of gain (loss) recognized in income on related hedged it |
|---------------------------------------|---|-----------------|---|--|
|---------------------------------------|---|-----------------|---|--|

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| | | for the six months ended | | | | for the six months ended | |
|---|---------------------|--------------------------|---------------|--------------------------------|-------------------------|--------------------------|---------------|
| in income on derivatives | | June 30, 2017 | June 30, 2016 | fair value hedge relationships | on related hedged items | June 30, 2017 | June 30, 2016 |
| Derivatives in fair value hedging relationships | | | | | | | |
| Commodity futures | Costs of goods sold | \$ (3,551) | \$ 455 | Firm commitments | Costs of goods sold | \$ 2,706 | \$ (1,430) |
| | | | | Inventory | Costs of goods sold | 1,509 | 819 |
| Derivatives not designated as hedging instruments | | | | | | \$ 4,215 | \$ (611) |
| Commodity futures | Costs of goods sold | \$ (1,962) | \$ 244 | | | | |

Derivatives accounted for as fair value hedges had ineffectiveness resulting in gains of \$49,000 and losses of \$47,000 during the three-month periods ended June 30, 2017 and 2016, respectively; and gains of \$97,000 and losses of \$91,000 during the six-month periods ended June 30, 2017 and 2016, respectively. Losses excluded from hedge effectiveness testing of \$266,000 and \$97,000 increased cost of goods sold during the three-month periods ended June 30, 2017 and 2016, respectively. Gains of \$567,000 decreased costs of goods sold during the six-month period ended June 30, 2017, and losses of \$65,000 increased costs of goods sold during the six month period ended June 30, 2016.

Note 6. Fair Value Measurements

FASB accounting standards provide a comprehensive framework for measuring fair value and sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. Levels within the hierarchy are defined as follows:

- Level 1—Unadjusted quoted prices for identical assets and liabilities in active markets;
- Level 2—Quoted prices for similar assets and liabilities in active markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly; and
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 6. Fair Value Measurements (Continued)

The following table sets forth financial assets and liabilities measured at fair value on a recurring basis in the consolidated balance sheet and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of June 30, 2017, and December 31, 2016 (in thousands):

| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|----------|---|---|--|
| June 30, 2017 | | | | |
| Commodity futures – financial assets | \$ 1,933 | \$ - | \$ 1,933 | \$ - |
| Commodity futures – financial liabilities | 4,440 | - | 4,440 | - |
| December 31, 2016 | | | | |
| Commodity futures – financial assets | \$ 4,060 | \$ - | \$ 4,060 | \$ - |
| Commodity futures – financial liabilities | 2,083 | - | 2,083 | - |

The carrying amounts of financial instruments including cash and equivalents approximate fair value. The fair values of commodity futures contracts are estimated by the use of quoted market prices, estimates obtained from brokers, and other appropriate valuation techniques based on references available. The fair value of long-term debt, including current maturities, as determined by quoted market prices (Level 2), was approximately \$2.5 billion (with a corresponding carrying amount in the consolidated balance sheet of \$2.4 billion at June 30, 2017, and December 31, 2016).

Note 7. Commitments and Contingencies

The company is 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.

Note 8. Segment Information

The company's operations are primarily organized and managed by reportable operating segments, which are steel operations, metals recycling operations, and steel fabrication operations. The segment operations are more fully described in Note 1 to the financial statements. Operating segment performance and resource allocations are primarily based on operating results before income taxes. The accounting policies of the reportable segments are consistent with those described in Note 1 to the financial statements. Intra segment sales and any related profits are eliminated in consolidation. Amounts included in the category "Other" are from subsidiary operations that are below the quantitative thresholds required for reportable segments and primarily consist of our Minnesota ironmaking operations and several small joint ventures. In addition, "Other" also includes certain unallocated corporate accounts, such as the company's senior secured credit facility, senior notes, certain other investments and certain profit sharing expenses.

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 8. Segment Information (Continued)

The company's segment results are as follows (in thousands):

| For the three months ended June 30, 2017 | Metals | | Steel | | Eliminations | Consolidated |
|---|------------------|----------------------|------------------------|--------------|------------------|------------------|
| | Steel Operations | Recycling Operations | Fabrication Operations | Other | | |
| Net Sales | | | | | | |
| External | \$ 1,690,973 | \$ 298,457 | \$ 197,834 | \$ 91,083 | \$ - | \$ 2,278,347 |
| External Non-U.S. | 67,269 | 45,072 | 32 | - | - | 112,373 |
| Other segments | 63,710 | 350,487 | 143 | 615 | (414,955) | - |
| | 1,821,952 | 694,016 | 198,009 | 91,698 | (414,955) | 2,390,720 |
| Operating income (loss) | 269,929 | 16,495 | 20,147 | (43,110) | (1) 1,892 | (2) 265,353 |
| Income (loss) before income taxes | 248,562 | 14,582 | 18,633 | (48,350) | 1,892 | 235,319 |
| Depreciation and amortization | 56,150 | 11,993 | 2,906 | 2,752 | - | 73,801 |
| Capital expenditures | 36,707 | 3,174 | 3,073 | 320 | - | 43,274 |
| As of June 30, 2017 | | | | | | |
| Assets | \$ 4,309,720 | \$ 1,009,650 | \$ 368,360 | \$ 1,123,951 | (3) \$ (141,551) | (4) \$ 6,670,130 |

Footnotes related to the three months ended June 30, 2017, segment results (in millions):

| | | | |
|--|-----------|--|--------|
| (1) Corporate SG&A | \$ (13.4) | Gross profit increase from intra-company sales | \$ 1.9 |
| Company-wide equity-based compensation | (7.1) | | |
| Profit sharing | (20.1) | | |
| Other, net | (2.5) | | |

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\$ (43.1)

| | | | |
|------------------------------------|------------|--|------------|
| (3) Cash and equivalents | \$ 860.2 | (4) Elimination of intra-company receivables | \$ (117.6) |
| Accounts receivable | 12.8 | Elimination of intra-company debt | (11.6) |
| Inventories | 39.5 | Other | (12.4) |
| Property, plant and equipment, net | 163.9 | | \$ (141.6) |
| Intra-company debt | 11.6 | | |
| Other | 36.0 | | |
| | \$ 1,124.0 | | |

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 8. Segment Information (Continued)

| For the three months ended June 30, 2016 | Steel Operations | Metals Recycling Operations | Steel Fabrication Operations | Other | Eliminations | Consolidated |
|---|---------------------|-----------------------------------|------------------------------------|-------------|--------------|--------------|
| Net Sales | | | | | | |
| External | \$ 1,408,993 | \$ 271,985 | \$ 170,477 | \$ 75,450 | \$ - | \$ 1,926,905 |
| External Non-U.S. | 57,711 | 39,075 | 65 | 146 | - | 96,997 |
| Other segments | 66,594 | 279,664 | 1,178 | 1,269 | (348,705) | - |
| | 1,533,298 | 590,724 | 171,720 | 76,865 | (348,705) | 2,023,902 |
| Operating income (loss) | 273,111 | 11,093 | 23,470 | (45,569)(1) | (5,983) (2) | 256,122 |
| Income (loss) before income taxes | 250,683 | 8,086 | 21,514 | (53,006) | (5,983) | 221,294 |
| Depreciation and amortization | 53,675 | 14,250 | 2,762 | 4,160 | (52) | 74,795 |
| Capital expenditures | 30,098 | 4,482 | 567 | 539 | - | 35,686 |

Footnotes related to the three months ended June 30, 2016, segment results (in millions):

| | | | |
|--|-----------|--|----------|
| (1) Corporate SG&A | \$ (14.8) | (2) Gross profit decrease from intra-company sales | \$ (6.0) |
| Company-wide equity-based compensation | (7.3) | | |
| Profit sharing | (18.5) | | |
| Other, net | (5.0) | | |
| | \$ (45.6) | | |

Metals Steel

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| For the six months ended June 30, 2017 | Steel Operations | Recycling Operations | Fabrication Operations | Other | Eliminations | Consolidated |
|---|---------------------|-------------------------|---------------------------|------------|--------------|--------------|
| Net Sales | | | | | | |
| External | \$ 3,324,603 | \$ 609,408 | \$ 391,869 | \$ 180,034 | \$ - | \$ 4,505,914 |
| External Non-U.S. | 154,972 | 97,957 | 93 | - | - | 253,022 |
| Other segments | 118,053 | 706,788 | 155 | 949 | (825,945) | - |
| | 3,597,628 | 1,414,153 | 392,117 | 180,983 | (825,945) | 4,758,936 |
| Operating income (loss) | 618,461 | 34,344 | 43,873 | (97,080) | (1) 321 | (2) 599,919 |
| Income (loss) before income taxes | 575,326 | 30,654 | 40,972 | (107,702) | 321 | 539,571 |
| Depreciation and amortization | 112,481 | 25,028 | 5,877 | 5,472 | - | 148,858 |
| Capital expenditures | 70,285 | 9,950 | 4,224 | 492 | - | 84,951 |

Footnotes related to the six months ended June 30, 2017, segment results (in millions):

| | | | |
|--|-----------|--|--------|
| (1) Corporate SG&A | \$ (25.8) | (2) Gross profit increase from intra-company sales | \$ 0.3 |
| Company-wide equity-based compensation | (16.7) | | |
| Profit sharing | (46.6) | | |
| Other, net | (8.0) | | |
| | \$ (97.1) | | |

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 8. Segment Information (Continued)

| For the six months ended June 30, 2016 | Steel Operations | Metals Recycling Operations | Steel Fabrication Operations | Other | Eliminations | Consolidated |
|---|---------------------|-----------------------------------|------------------------------------|--------------|--------------|--------------|
| Net Sales | | | | | | |
| External | \$ 2,565,962 | \$ 508,742 | \$ 350,518 | \$ 150,076 | \$ - | \$ 3,575,298 |
| External Non-U.S. | 117,918 | 71,725 | 79 | 183 | - | 189,905 |
| Other segments | 107,806 | 497,442 | 1,204 | 2,495 | (608,947) | - |
| | 2,791,686 | 1,077,909 | 351,801 | 152,754 | (608,947) | 3,765,203 |
| Operating income (loss) | 405,386 | 13,860 | 55,486 | (77,499) (1) | (9,146) (2) | 388,087 |
| Income (loss) before income taxes | 360,058 | 7,863 | 51,530 | (92,297) | (9,146) | 318,008 |
| Depreciation and amortization | 106,158 | 28,830 | 5,583 | 8,312 | (103) | 148,780 |
| Capital expenditures | 54,002 | 7,562 | 1,171 | 659 | - | 63,394 |

Footnotes related to the six months ended June 30, 2016, segment results (in millions):

| | | | |
|--|-----------|--|----------|
| (1) Corporate SG&A | \$ (25.9) | (2) Gross profit decrease from intra-company sales | \$ (9.1) |
| Company-wide equity-based compensation | (14.3) | | |
| Profit sharing | (26.7) | | |
| Other, net | (10.6) | | |
| | \$ (77.5) | | |

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 9. Condensed Consolidating Information

Certain 100% owned subsidiaries of SDI have fully and unconditionally guaranteed all of the indebtedness relating to the issuance of the company's senior unsecured notes due 2021, 2022, 2023, 2024 and 2026. Following are the company's condensed consolidating financial statements, including the guarantors, which present the financial position, results of operations, and cash flows of (i) SDI (in each case, reflecting investments in its consolidated subsidiaries under the equity method of accounting), (ii) the guarantor subsidiaries of SDI, (iii) the non-guarantor subsidiaries of SDI, and (iv) the eliminations necessary to arrive at the information on a consolidated basis. The following statements should be read in conjunction with the accompanying consolidated financial statements and the company's Annual Report on Form 10-K for the year ended December 31, 2016.

Condensed Consolidating Balance Sheets (in thousands)

| As of June 30, 2017 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|---|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Cash and equivalents | \$ 858,083 | \$ 43,416 | \$ 7,344 | \$ - | \$ 908,843 |
| Accounts receivable, net | 288,263 | 1,394,316 | 39,611 | (835,296) | 886,894 |
| Inventories | 629,757 | 731,165 | 67,141 | (9,331) | 1,418,732 |
| Other current assets | 21,575 | 14,191 | 4,627 | (3,205) | 37,188 |
| Total current assets | 1,797,678 | 2,183,088 | 118,723 | (847,832) | 3,251,657 |
| Property, plant and equipment, net | 884,642 | 1,643,556 | 201,523 | - | 2,729,721 |
| Intangible assets, net | - | 238,397 | 30,732 | - | 269,129 |
| Goodwill | - | 382,305 | 7,824 | - | 390,129 |
| Other assets, including investments in subs | 2,673,406 | 7,587 | 5,487 | (2,656,986) | 29,494 |
| Total assets | \$ 5,355,726 | \$ 4,454,933 | \$ 364,289 | \$ (3,504,818) | \$ 6,670,130 |
| Accounts payable | \$ 184,903 | \$ 318,990 | \$ 90,871 | \$ (110,761) | \$ 484,003 |
| Accrued expenses | 175,777 | 231,871 | 8,456 | (124,186) | 291,918 |
| Current maturities of long-term debt | 702 | - | 45,908 | (26,639) | 19,971 |
| Total current liabilities | 361,382 | 550,861 | 145,235 | (261,586) | 795,892 |
| Long-term debt | 2,326,538 | - | 168,681 | (140,882) | 2,354,337 |
| Other liabilities | (413,133) | 1,071,249 | 29,044 | (206,740) | 480,420 |
| Total liabilities | 2,274,787 | 1,622,110 | 342,960 | (609,208) | 3,630,649 |

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| | | | | | |
|-------------------------------------|--------------|--------------|------------|----------------|--------------|
| Redeemable noncontrolling interests | - | - | 111,240 | - | 111,240 |
| Common stock | 641 | 1,727,859 | 14,908 | (1,742,767) | 641 |
| Treasury stock | (551,125) | - | - | - | (551,125) |
| Additional paid-in-capital | 1,141,050 | 128,076 | 785,678 | (913,754) | 1,141,050 |
| Retained earnings (deficit) | 2,490,373 | 976,888 | (737,799) | (239,089) | 2,490,373 |
| Total Steel Dynamics, Inc. equity | 3,080,939 | 2,832,823 | 62,787 | (2,895,610) | 3,080,939 |
| Noncontrolling interests | - | - | (152,698) | - | (152,698) |
| Total equity | 3,080,939 | 2,832,823 | (89,911) | (2,895,610) | 2,928,241 |
| Total liabilities and equity | \$ 5,355,726 | \$ 4,454,933 | \$ 364,289 | \$ (3,504,818) | \$ 6,670,130 |

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 9. Condensed Consolidating Information (Continued)

| As of December 31, 2016 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|--|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Cash and equivalents | \$ 766,685 | \$ 54,677 | \$ 20,121 | \$ - | \$ 841,483 |
| Accounts receivable, net | 229,148 | 1,257,245 | 23,689 | (780,298) | 729,784 |
| Inventories | 587,319 | 639,148 | 58,696 | (9,952) | 1,275,211 |
| Other current assets | 45,049 | 36,062 | 4,447 | (2,361) | 83,197 |
| Total current assets | 1,628,201 | 1,987,132 | 106,953 | (792,611) | 2,929,675 |
| Property, plant and equipment, net | 899,370 | 1,679,751 | 208,094 | - | 2,787,215 |
| Intangible assets, net | - | 251,919 | 32,058 | - | 283,977 |
| Goodwill | - | 385,527 | 7,824 | - | 393,351 |
| Other assets, including investments in subs | 2,769,884 | 7,335 | 5,832 | (2,753,537) | 29,514 |
| Total assets | \$ 5,297,455 | \$ 4,311,664 | \$ 360,761 | \$ (3,546,148) | \$ 6,423,732 |
| Accounts payable | \$ 141,089 | \$ 265,764 | \$ 89,659 | \$ (101,316) | \$ 395,196 |
| Accrued expenses | 198,085 | 220,917 | 8,793 | (113,808) | 313,987 |
| Current maturities of long-term debt | 674 | 700 | 29,347 | (27,089) | 3,632 |
| Total current liabilities | 339,848 | 487,381 | 127,799 | (242,213) | 712,815 |
| Long-term debt | 2,324,298 | - | 168,566 | (139,670) | 2,353,194 |
| Other liabilities | (293,711) | 1,219,444 | 42,482 | (499,191) | 469,024 |
| Total liabilities | 2,370,435 | 1,706,825 | 338,847 | (881,074) | 3,535,033 |
| Redeemable noncontrolling interests | - | - | 111,240 | - | 111,240 |
| Common stock | 641 | 1,727,859 | 14,908 | (1,742,767) | 641 |
| Treasury stock | (416,829) | - | - | - | (416,829) |
| Additional paid-in-capital | 1,132,749 | 128,076 | 779,678 | (907,754) | 1,132,749 |
| Retained earnings (deficit) | 2,210,459 | 748,904 | (734,351) | (14,553) | 2,210,459 |
| Total Steel Dynamics, Inc. equity | 2,927,020 | 2,604,839 | 60,235 | (2,665,074) | 2,927,020 |
| Noncontrolling interests | - | - | (149,561) | - | (149,561) |
| Total equity | 2,927,020 | 2,604,839 | (89,326) | (2,665,074) | 2,777,459 |
| Total liabilities and equity | \$ 5,297,455 | \$ 4,311,664 | \$ 360,761 | \$ (3,546,148) | \$ 6,423,732 |

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 9. Condensed Consolidating Information (Continued)

Condensed Consolidating Statements of Operations
(in thousands)

| For the three months ended, June 30, 2017 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|---|------------|--------------|----------------------------|------------------------------|-----------------------|
| Net sales | \$ 926,855 | \$ 2,614,676 | \$ 144,938 | \$ (1,295,749) | \$ 2,390,720 |
| Costs of goods sold | 767,047 | 2,362,604 | 137,052 | (1,268,501) | 1,998,202 |
| Gross profit | 159,808 | 252,072 | 7,886 | (27,248) | 392,518 |
| Selling, general and administrative | 50,942 | 75,720 | 5,304 | (4,801) | 127,165 |
| Operating income | 108,866 | 176,352 | 2,582 | (22,447) | 265,353 |
| Interest expense, net of capitalized interest | 18,441 | 14,641 | 3,047 | (2,260) | 33,869 |
| Other (income) expense, net | (3,869) | (2,146) | (79) | 2,259 | (3,835) |
| Income (loss) before income taxes and equity in net income of subsidiaries | 94,294 | 163,857 | (386) | (22,446) | 235,319 |
| Income taxes | 29,142 | 59,397 | 1,692 | (7,859) | 82,372 |
| | 65,152 | 104,460 | (2,078) | (14,587) | 152,947 |
| Equity in net income of subsidiaries | 88,781 | - | - | (88,781) | - |
| Net loss attributable to noncontrolling interests | - | - | 986 | - | 986 |
| Net income (loss) attributable to Steel Dynamics, Inc. | \$ 153,933 | \$ 104,460 | \$ (1,092) | \$ (103,368) | \$ 153,933 |

| For the three months ended, June 30, 2016 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|--|------------|--------------|----------------------------|------------------------------|-----------------------|
| Net sales | \$ 793,990 | \$ 2,206,348 | \$ 89,545 | \$ (1,065,981) | \$ 2,023,902 |
| Costs of goods sold | 627,246 | 1,957,570 | 94,986 | (1,036,283) | 1,643,519 |
| Gross profit (loss) | 166,744 | 248,778 | (5,441) | (29,698) | 380,383 |
| Selling, general and administrative | 53,999 | 72,808 | 2,416 | (4,962) | 124,261 |
| Operating income (loss) | 112,745 | 175,970 | (7,857) | (24,736) | 256,122 |
| Interest expense, net of capitalized interest | 17,837 | 18,352 | 2,451 | (1,994) | 36,646 |

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| | | | | | |
|--|------------|-----------|------------|-------------|------------|
| Other (income) expense, net | (2,271) | 1,885 | (3,426) | 1,994 | (1,818) |
| Income (loss) before income taxes and equity in net income of subsidiaries | 97,179 | 155,733 | (6,882) | (24,736) | 221,294 |
| Income taxes (benefit) | 31,700 | 58,779 | (589) | (9,039) | 80,851 |
| | 65,479 | 96,954 | (6,293) | (15,697) | 140,443 |
| Equity in net income of subsidiaries | 76,490 | - | - | (76,490) | - |
| Net loss attributable to noncontrolling interests | - | - | 1,526 | - | 1,526 |
| Net income (loss) attributable to Steel Dynamics, Inc. | \$ 141,969 | \$ 96,954 | \$ (4,767) | \$ (92,187) | \$ 141,969 |

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 9. Condensed Consolidating Information (Continued)

| For the six months ended, June 30, 2017 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|---|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Net sales | \$ 1,851,421 | \$ 5,186,914 | \$ 288,346 | \$ (2,567,745) | \$ 4,758,936 |
| Costs of goods sold | 1,478,626 | 4,652,268 | 275,093 | (2,511,723) | 3,894,264 |
| Gross profit (loss) | 372,795 | 534,646 | 13,253 | (56,022) | 864,672 |
| Selling, general and administrative | 112,597 | 152,002 | 10,357 | (10,203) | 264,753 |
| Operating income (loss) | 260,198 | 382,644 | 2,896 | (45,819) | 599,919 |
| Interest expense, net of capitalized interest | 36,522 | 29,764 | 6,313 | (4,757) | 67,842 |
| Other (income) expense, net | (7,123) | (4,813) | (315) | 4,757 | (7,494) |
| Income (loss) before income taxes and equity in net income of subsidiaries | 230,799 | 357,693 | (3,102) | (45,819) | 539,571 |
| Income taxes (benefit) | 70,727 | 129,708 | 3,482 | (15,959) | 187,958 |
| | 160,072 | 227,985 | (6,584) | (29,860) | 351,613 |
| Equity in net income of subsidiaries | 194,678 | - | - | (194,678) | - |
| Net loss attributable to noncontrolling interests | - | - | 3,137 | - | 3,137 |
| Net income (loss) attributable to Steel Dynamics, Inc. | \$ 354,750 | \$ 227,985 | \$ (3,447) | \$ (224,538) | \$ 354,750 |

| For the six months ended, June 30, 2016 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|---|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Net sales | \$ 1,451,804 | \$ 4,063,692 | \$ 175,285 | \$ (1,925,578) | \$ 3,765,203 |
| Costs of goods sold | 1,175,425 | 3,659,391 | 186,016 | (1,872,048) | 3,148,784 |
| Gross profit (loss) | 276,379 | 404,301 | (10,731) | (53,530) | 616,419 |
| Selling, general and administrative | 92,601 | 140,008 | 5,218 | (9,495) | 228,332 |
| Operating income (loss) | 183,778 | 264,293 | (15,949) | (44,035) | 388,087 |
| Interest expense, net of capitalized interest | 36,024 | 36,752 | 4,711 | (3,798) | 73,689 |
| Other (income) expense, net | (4,479) | 4,075 | (7,004) | 3,798 | (3,610) |
| Income (loss) before income taxes and equity in net income of subsidiaries | 152,233 | 223,466 | (13,656) | (44,035) | 318,008 |
| Income taxes (benefit) | 48,968 | 84,274 | (860) | (16,135) | 116,247 |
| | 103,265 | 139,192 | (12,796) | (27,900) | 201,761 |

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| | | | | | |
|--|------------|------------|------------|--------------|------------|
| Equity in net income of subsidiaries | 101,441 | - | - | (101,441) | - |
| Net loss attributable to noncontrolling interests | | | 2,945 | | 2,945 |
| Net income (loss) attributable to Steel Dynamics, Inc. | \$ 204,706 | \$ 139,192 | \$ (9,851) | \$ (129,341) | \$ 204,706 |

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 9. Condensed Consolidating Information (Continued)

Condensed Consolidating Statements of Cash Flows (in thousands)

| For the six months ended, June 30, 2017 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|---|------------|------------|----------------------------|------------------------------|-----------------------|
| Net cash provided (used in) by operating activities | \$ 60,686 | \$ 279,513 | \$ (19,857) | \$ 1,115 | \$ 321,457 |
| Net cash used in investing activities | (33,305) | (22,599) | (503) | 761 | (55,646) |
| Net cash provided by (used in) financing activities | 64,017 | (268,175) | 7,583 | (1,876) | (198,451) |
| Increase (decrease) in cash and equivalents | 91,398 | (11,261) | (12,777) | - | 67,360 |
| Cash and equivalents at beginning of period | 766,685 | 54,677 | 20,121 | - | 841,483 |
| Cash and equivalents at end of period | \$ 858,083 | \$ 43,416 | \$ 7,344 | \$ - | \$ 908,843 |

| For the six months ended, June 30, 2016 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|---|------------|------------|----------------------------|------------------------------|-----------------------|
| Net cash provided by (used in) operating activities | \$ 185,848 | \$ 264,839 | \$ (2,066) | \$ 379 | \$ 449,000 |
| Net cash used in investing activities | (19,031) | (35,026) | (4,746) | (331) | (59,134) |
| Net cash provided by (used in) financing activities | 143,324 | (222,896) | 15,388 | (48) | (64,232) |
| Increase in cash and equivalents | 310,141 | 6,917 | 8,576 | - | 325,634 |
| Cash and equivalents at beginning of period | 636,877 | 81,976 | 8,179 | - | 727,032 |
| Cash and equivalents at end of period | \$ 947,018 | \$ 88,893 | \$ 16,755 | \$ - | \$ 1,052,666 |

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

Forward-Looking Statements

This report contains some predictive statements about future events, including statements related to conditions in the steel and metallic scrap markets, Steel Dynamics’ 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. 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 our more detailed explanation of these and other factors and risks that may cause such predictive statements to turn out differently, as set forth under the headings Special Note Regarding Forward-Looking Statements and Risk Factors, in our most recent Annual Report on Form 10-K for the year ended December 31, 2016, in our quarterly reports on Form 10-Q or in other reports which we from time to time file with the Securities and Exchange Commission. These reports are available publicly on the Securities and Exchange Commission website, www.sec.gov, and on our website, www.steeldynamics.com under “Investors – SEC Filings.”

Description of the Business

We are one of the largest domestic steel producers and metal recyclers in the United States based on current estimated steelmaking and coating capacity of 11 million tons and actual metals recycling volumes. The primary source of revenues are from the manufacture and sale of steel products, processing and sale of recycled ferrous and nonferrous metals, and fabrication and sale of steel joists and deck products. We have three reportable segments: steel operations, metals recycling operations, and steel fabrication operations.

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 the steel fabrication operations, we recognize 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. Our 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.

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, electricity, 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 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 Expense (Income), 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 certain acquisition and financing expenses.

Results Overview

Consolidated operating income increased \$9.2 million, or 4%, to \$265.4 million for the second quarter 2017, compared to the second quarter 2016. Second quarter 2017 net income increased \$12.0 million, or 8%, to \$153.9 million, compared to the second quarter 2016.

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Consolidated operating income increased \$211.8 million, or 55%, to \$599.9 million for the first half of 2017, compared to \$388.1 million for the first half of 2016. First half 2017 net income increased \$150.0 million, or 73%, to \$354.8 million, compared to the first half 2016.

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Our consolidated results for the second quarter and first half of 2017 benefited from continued strong demand primarily for our sheet and special-bar-quality steel products coupled with continued historically low customer inventory levels. However, increased pressure from imports with some hesitancy in customer order entry, and a planned outage and new product start-up at two of our steel mills, put downward pressure on steel shipments and profitability during the second quarter of 2017. Decreased scrap volumes for our metals recycling operations were offset by improved pricing and metal spreads and reduced operating expenses, resulting in increased operating income. The non-residential construction market remains strong, resulting in record quarterly shipments for our steel fabrication operations for the second straight quarter; however, metal spreads and operating income contracted as increases in average selling prices have been outpaced by rising steel input costs.

Segment Operating Results 2017 vs. 2016 (dollars in thousands)

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|--------------------------------------|-----------------------------|----------|--------------|---------------------------|----------|--------------|
| | 2017 | % Change | 2016 | 2017 | % Change | 2016 |
| Net sales: | | | | | | |
| Steel Operations Segment | \$ 1,821,952 | 19% | \$ 1,533,298 | \$ 3,597,628 | 29% | \$ 2,791,686 |
| Metals Recycling Operations Segment | 694,016 | 17% | 590,724 | 1,414,153 | 31% | 1,077,909 |
| Steel Fabrication Operations Segment | 198,009 | 15% | 171,720 | 392,117 | 11% | 351,801 |
| Other | 91,698 | 19% | 76,865 | 180,983 | 18% | 152,754 |
| | 2,805,675 | | 2,372,607 | 5,584,881 | | 4,374,150 |
| Intra-company | (414,955) | | (348,705) | (825,945) | | (608,947) |
| | \$ 2,390,720 | 18% | \$ 2,023,902 | \$ 4,758,936 | 26% | \$ 3,765,203 |
| Operating income (loss): | | | | | | |
| Steel Operations Segment | \$ 269,929 | (1)% | \$ 273,111 | \$ 618,461 | 53% | \$ 405,386 |
| Metals Recycling Operations Segment | 16,495 | 49% | 11,093 | 34,344 | 148% | 13,860 |
| Steel Fabrication Operations Segment | 20,147 | (14)% | 23,470 | 43,873 | (21)% | 55,486 |
| Other | (43,110) | 5% | (45,569) | (97,080) | (25)% | (77,499) |
| | 263,461 | | 262,105 | 599,598 | | 397,233 |
| Intra-company | 1,892 | | (5,983) | 321 | | (9,146) |

| | | | | | |
|------------|----|------------|------------|-----|------------|
| \$ 265,353 | 4% | \$ 256,122 | \$ 599,919 | 55% | \$ 388,087 |
|------------|----|------------|------------|-----|------------|

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 eleven downstream steel coating lines, and several bar processing lines, as well as Iron Dynamics, 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 construction, automotive, manufacturing, transportation, heavy and agriculture equipment, and pipe and tube (including OCTG) markets. Steel operations accounted for 73% and 72% of our consolidated external net sales during the second quarter of 2017 and 2016, respectively, and 73% and 71% of our consolidated external net sales during the first half of 2017 and 2016, respectively.

Sheet Steel Products. Our sheet steel products operations consist of Butler and Columbus Flat Roll Divisions, and our downstream coating lines. These operations sell a broad range of sheet steel products, consisting of hot roll, cold roll and coated steel products, including a wide variety of specialty products, such as light gauge hot roll, galvanized, Galvalume®, and painted products. The Techs is comprised of three galvanizing lines which sell specialized galvanized sheet steels used in primarily 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, merchant-bar-quality, round cornered squares, and smaller-diameter engineered round bars. Vulcan Threaded Products produces threaded rod products and also cold drawn and heat treated bar. 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):

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|------------------------------------|-----------------------------|----------|-----------|---------------------------|----------|-----------|
| | 2017 | % Change | 2016 | 2017 | % Change | 2016 |
| Total shipments | 2,421,897 | (3)% | 2,491,362 | 4,903,644 | 3% | 4,768,571 |
| Intra-segment shipments | (88,571) | | (85,720) | (191,356) | | (150,779) |
| Steel Operations Segment Shipments | 2,333,326 | (3)% | 2,405,642 | 4,712,288 | 2% | 4,617,792 |
| External shipments | 2,246,569 | (2)% | 2,291,162 | 4,551,649 | 3% | 4,413,034 |

Segment Results 2017 vs. 2016

Overall domestic steel demand outlook remained strong, with automotive remaining steady and construction and energy markets improving, particularly benefiting our Engineered Bar Products Division, which achieved increased shipments of 29% in the second quarter 2017 compared to second quarter 2016. Overall steel shipments decreased 3% in the second quarter 2017, as compared to the same period in 2016, due in part to a planned outage at our Butler Flat Roll Division, in which we upgraded our equipment while completing a galvanizing line expansion. In addition, the Columbus Flat Roll Division experienced some quality issues related to the start-up of our new Galvalume and paint line. Each of these matters reduced our ability to ship value-added coated sheet products. Lastly, structural and merchant steel shipments were adversely affected by increased import pressure during the second quarter 2017. Our steel mill utilization rate averaged 91% for the second quarter 2017, as compared to 95% in the second quarter 2016. Sheet steel average selling prices increased 25% in the second quarter 2017 compared to the same period in 2016, while long products rose 14%. Net sales for the steel operations increased 19% in the second quarter 2017, when compared to the same period in 2016, as an increase of \$140 per ton, or 22%, in average selling prices more than offset the 3% decrease in steel operations shipments. Net sales for the steel operations increased 29% in the first half of 2017, when compared to the same period in 2016, due to a 3% increase in steel operations shipments combined with an increase of \$155 per ton, or 26%, in average selling prices. The increase in shipments for the first half of 2017 was the result of much stronger market in the first quarter 2017, compared to the first quarter 2016.

Metallic raw materials used in our electric arc furnaces represent our single most significant steel manufacturing cost, generally comprising approximately 60% of our steel operations' manufacturing costs, excluding the operations of The Techs and Vulcan, which purchase, rather than produce, the steel they further process. Our metallic raw material cost per net ton consumed in our steel operations increased \$76, or 33%, in the second quarter 2017, compared to the same period in 2016, consistent with overall increased domestic scrap pricing. In the first half of 2017, our metallic raw material cost per net ton consumed increased \$77, or 37%, compared to the same period in 2016.

Operating income for the steel operations decreased 1%, to \$269.9 million, in the second quarter 2017, compared to the same period in 2016, due to the decrease in steel shipments more than offsetting the impact of the increase in metal spread (which we define as the difference between average selling prices and the cost of ferrous scrap consumed). Sheet steel and long-products metal spread increased 18% and 10%, respectively, period over period. First half 2017 operating income increased 53%, to \$618.5 million, compared to the first half of 2016, due to a 19% expansion of overall steel operations metal spread, coupled with a 3% increase in steel shipments.

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Metals Recycling Operations Segment

Metals Recycling Operations Segment. Metals recycling operations consists solely of OmniSource and includes both ferrous and nonferrous scrap metal processing, transportation, marketing, brokerage, and consulting services strategically located primarily in close proximity to our steel mills and other end-user scrap consumers throughout the eastern half of the United States. In addition, OmniSource designs, installs, and manages customized scrap management programs for industrial manufacturing companies at approximately 700 locations throughout North America. Our steel mills utilize a large portion (60% - 63% for the periods presented) of the ferrous scrap sold by OmniSource as raw material in our steelmaking operations, and the remainder is sold to other consumers, such as other steel manufacturers and foundries. Our metals recycling operations accounted for 14% and 15% of our consolidated external net sales during the second quarter of 2017 and 2016, respectively, and 15% for the first half of 2017 and 2016.

Metals Recycling Operations Shipments:

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|-----------------------------|----------|-----------|---------------------------|----------|-------------|
| | 2017 | % Change | 2016 | 2017 | % Change | 2016 |
| Ferrous metal (gross tons) | | | | | | |
| Total | 1,222,777 | (9)% | 1,346,324 | 2,561,376 | (3)% | 2,651,478 |
| Inter-company | (756,271) | | (807,077) | (1,609,456) | | (1,608,444) |
| External shipments | 466,506 | (13)% | 539,247 | 951,920 | (9)% | 1,043,034 |
| Nonferrous metals (thousands of pounds) | | | | | | |
| Total | 270,444 | (3)% | 278,198 | 554,047 | 1% | 548,608 |
| Inter-company | (39,880) | | (30,706) | (70,547) | | (58,556) |
| External shipments | 230,564 | (7)% | 247,492 | 483,500 | (1)% | 490,052 |

Segment Results 2017 vs. 2016

Metals recycling operations operating income in the second quarter 2017 of \$16.5 million was 49% higher than the second quarter 2016 operating income of \$11.1 million, due to improvements in ferrous and nonferrous metal spread (which we define as the difference between average selling prices and the cost of purchased scrap), and reduced operating costs. Net sales increased 17% in the second quarter 2017 as compared to the same period in 2016, driven by increased pricing, which more than offset decreased shipments. Overall domestic steel mill utilization was 74% in

the second quarter of both 2017 and 2016, while our own steel mill utilization declined moderately (91%, compared to 95% in the second quarter 2016). Ferrous shipments to our own steel mills decreased by 6% in the second quarter 2017, compared to the same period in 2016. Both ferrous and nonferrous scrap average selling prices increased 27% during the second quarter 2017 compared to the same period in 2016. Ferrous metal spread increased 5%, along with a 3% increase in nonferrous metal spread.

Metals recycling operations operating income in the first half of 2017 of \$34.3 million was 148% higher than the first half 2016 operating income of \$13.9 million, due to increased selling prices and a 21% improvement in ferrous metal spread. Net sales increased 31% in the first half of 2017 as compared to the same period in 2016, driven by increased pricing for both ferrous and nonferrous products, which increased 46% and 23%, respectively, during the first half of 2017 compared to the same period in 2016.

Steel Fabrication Operations Segment

Steel fabrication operations include our eight New Millennium Building Systems' joist and deck plants located throughout the United States and in Northern Mexico. Revenues from these plants are generated from the fabrication of steel joists, trusses, girders and steel deck used within the non-residential construction industry. Steel fabrication operations accounted for 8% of our consolidated external net sales during the second quarter of 2017 and 2016, and 8% and 9% during the first half of 2017 and 2016, respectively.

Segment Results 2017 vs. 2016

The overall non-residential construction market has continued to remain strong, and shows signs of further growth, as our fabrication operations again achieved record quarterly shipments in the second quarter of 2017, slightly beating the previous record set in the first quarter 2017. Increases in selling prices were, however, outpaced by increased steel input costs during the second quarter 2017 compared to the same period in 2016, resulting in metal spread (which we define as the difference between average selling prices and the cost of purchased steel) contraction, and decreased operating income. Net sales for the steel fabrication operations increased \$26.3 million, or 15%, during the second quarter 2017, compared to the same period in 2016, as shipments increased 6%, while average selling prices increased \$109 per ton, or 9%. Net sales for the segment increased \$40.3 million, or 11%, in the first half of 2017, compared to the first half of 2016, as volumes increased 5% and selling prices increased 6%. Our steel fabrication operations continue to realize strength in order activity and resulting shipments, as we continue to leverage our national operating footprint to sustain and improve market share, and market demand continues to be strong.

The purchase of various steel products is the largest single cost of production for our steel fabrication operations, generally representing approximately two-thirds of the total cost of manufacturing. The average cost of steel consumed increased by 24% in the second quarter 2017, as compared to the same period in 2016. With selling prices increasing only 9%, metal spread declined 6%, resulting in a 14% decrease in operating income to \$20.1 million in the second quarter 2017, as compared to \$23.5 million in the same period in 2016. Segment operating income of \$43.9 million in the first half of 2017 decreased 21%, from \$55.5 million in the first half of 2016, as metal spreads decreased 8% year over year

Other Operations

Other operations consists of subsidiary operations that are below the quantitative thresholds required for reportable segments and primarily consist of our idled Minnesota ironmaking operations and 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.

Second Quarter Consolidated Results 2017 vs. 2016

Selling, General and Administrative Expenses. Selling, general and administrative expenses (including profit sharing and amortization of intangible assets) of \$127.2 million during the second quarter 2017 increased 2% from \$124.3 million during the second quarter 2016, representing approximately 5.3% and 6.1% of net sales, respectively. The slight increase in the second quarter 2017 expenses compared to the same period in 2016 is due most notably to increased performance-based incentive compensation, including profit sharing, associated with our increased

profitability.

Interest Expense, net of Capitalized Interest. During the second quarter 2017, interest expense decreased 8% to \$33.9 million from \$36.6 million during the same period in 2016. The decrease in interest expense is due primarily to the December 2016 refinancing of \$400.0 million of 6.125% senior notes due 2019 with 5.000% senior notes due 2026. In addition, in December 2016 we repaid the remaining \$228.1 million of outstanding Senior Term Loan debt, which was set to mature on November 14, 2019.

Income Tax Expense. During the second quarter 2017, our income tax expense was \$82.4 million at an effective income tax rate of 35.0%, as compared to \$80.9 million at an effective income tax rate of 36.5%, during the second quarter 2016. The lower effective tax rate in 2017 is due

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primarily to additional permanent tax benefit items, most notably the 2017 domestic manufacturing deduction, resulting from increases in taxable income.

First Six Months Consolidated Results 2017 vs. 2016

Selling, General and Administrative Expenses. Selling, general and administrative expenses (including profit sharing and amortization of intangible assets) of \$264.8 million during the first half of 2017 increased 16% from \$228.3 million during the first half of 2016, representing approximately 5.6% and 6.1% of net sales, respectively. The increase in the first half 2017 expenses compared to the same period in 2016 is due most notably to increased performance-based incentive compensation, including profit sharing, associated with our increased profitability.

Interest Expense, net of Capitalized Interest. During the first half of 2017, interest expense decreased \$5.8 million to \$67.8 million, when compared to the same period in 2016. The decrease in interest expense is due primarily to the December 2016 refinancing of \$400.0 million of 6.125% senior notes due 2019 with 5.000% senior notes due 2026. In addition, in December 2016 we repaid the remaining \$228.1 million of outstanding Senior Term Loan debt, which was set to mature on November 14, 2019.

Income Tax Expense. During the first half of 2017, our income tax expense was \$188.0 million at an effective income tax rate of 34.8%, as compared to \$116.2 million at an effective income tax rate of 36.6%, during the first half of 2016. The lower effective tax rate in 2017 is due primarily to additional permanent tax benefit items, most notably the 2017 domestic manufacturing deduction, resulting from increases in taxable income.

Liquidity and Capital Resources

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 steel, metals recycling, and steel fabrication operations, and to remain in compliance with environmental laws. Our 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 and long-term borrowings, and we also have availability under our Revolver. Our liquidity at June 30, 2017, is as follows (in thousands):

| | |
|-----------------------|--------------|
| Cash and equivalents | \$ 908,843 |
| Revolver availability | 1,188,148 |
| Total liquidity | \$ 2,096,991 |

Our total outstanding debt remained relatively unchanged during the first half of 2017 at \$2.4 billion. 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) was 43.9% at June 30, 2017, from 44.9% at December 31, 2016, due to our increased profitability during the first half of 2017.

Our November 2014 senior secured credit facility (Facility), which provides a \$1.2 billion Revolver, matures November 2019. Subject to certain conditions, we have the opportunity to increase the Revolver size by at least \$750.0 million. The Facility is guaranteed by certain of our subsidiaries; and is secured by substantially all of our and our wholly-owned subsidiaries' receivables and inventories, and by pledges of all shares of our wholly-owned subsidiaries' capital stock or other equity interests, and intercompany debt held by us as collateral. The Revolver is available to fund working capital, capital expenditures, and other general corporate purposes. The Facility contains financial covenants 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, or 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 June 30, 2017, we had \$1.2 billion of availability on the Revolver, \$11.9 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-months (LTM) consolidated adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, and certain other non-cash transactions as allowed in the 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 June 30, 2017, our interest coverage ratio and net debt leverage ratio were 10.17:1.00 and 1.36:1.00, respectively. We were, therefore, in compliance with these covenants at June 30, 2017, and we anticipate we will continue to be in compliance during the next twelve months.

Working Capital. We generated cash flow from operations of \$321.5 million in the first half of 2017. Operational working capital (representing amounts invested in trade receivables and inventories, less current liabilities other than income taxes payable and debt) increased \$233.9 million to \$1.5 billion at June 30, 2017. Increases in volumes, pricing and profitability resulted in increased accounts receivable, with related increases in inventory, which were only partially offset by related increases in accounts payable.

Capital Investments. During the first half of 2017, we invested \$85.0 million in property, plant and equipment, primarily within our steel operations segment, compared with \$63.4 million invested during the same period in 2016.

Cash Dividends. As a reflection of continued confidence in our current and future cash flow generation ability and financial position, we increased our quarterly cash dividend by 11% to \$0.155 per share in the first quarter 2017 (from \$0.140 per share in 2016), resulting in declared cash dividends of \$74.7 million during the first half of 2017, compared to \$68.2 million during the same period in 2016. We paid cash dividends of \$71.7 million and \$67.5 million during the first half of 2017 and 2016, 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 Facility and the indentures relating to our senior notes may restrict the amount of cash dividends we can pay.

Other. In 2016, the board of directors authorized a share repurchase program of up to \$450 million of our common stock. Under the share repurchase program, purchases will take place as and when we determine in open market or private transactions made based upon the market price of our common stock, the nature of other investment opportunities or growth projects, our cash flows from operations, and general economic conditions. The share repurchase program does not require us to acquire any specific number of shares, and may be modified, suspended, extended or terminated by us at any time. We acquired 4.1 million shares of our common stock for \$138.1 million in the first half of 2017 pursuant to this program. See Part II Other Information, Item 2 Unregistered Sales of Equity Securities and Use of Proceeds for additional information.

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 if necessary borrowings under our Revolver through its term, 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 4 years for physical commodity requirements and commodity transportation requirements, and for up to 12 years for air products. 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 Butler 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 June 30, 2017, we had a cumulative unrealized loss associated with these financial contracts of \$2.5 million, substantially all of which have a settlement date within the next twelve months. We believe the customer contracts associated with the financial contracts will be fully consummated.

ITEM 4.CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of June 30, 2017, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective.

(b) Changes in Internal Controls Over Financial Reporting. No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended June 30, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1.LEGAL PROCEEDINGS

We are 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.

We may also be involved from time to time in various governmental investigations, regulatory proceedings or judicial actions seeking remediation under federal, state and local environmental laws and regulations. The United States EPA has conducted such investigations and proceedings involving us, in some instances along with state environmental regulators, under various environmental laws, including RCRA, CERCLA, the Clean Water Act and the Clean Air Act. Some of these matters have resulted in fines or penalties, for which a total of \$200,000 is recorded in our financial statements as of June 30, 2017.

ITEM 1A.RISK FACTORS

No material changes have occurred to the indicated risk factors as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

(c) Issuer Purchases of Equity Securities

We purchased the following equity securities registered by us pursuant to Section 12 of the Exchange Act during the three months ended June 30, 2017.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares | Maximum Dollar Value of |
|--------|----------------------------------|------------------------------|------------------------|-------------------------|
|--------|----------------------------------|------------------------------|------------------------|-------------------------|

| | | | Purchased as Part of Publicly Announced Program (1) | Shares That May Yet be Purchased Under the Program (in thousands) (1) |
|-----------------------------|-----------|----------|---|---|
| Quarter ended June 30, 2017 | | | | |
| April 1-30 | 323,338 | \$ 32.93 | 323,338 | \$ 353,062 |
| May 1-31 | 786,119 | 33.94 | 786,119 | 326,384 |
| June 1-30 | 1,188,565 | 33.22 | 1,188,565 | 286,897 |
| | 2,298,022 | | 2,298,022 | |

(1) On October 18, 2016, we announced that our board of directors had authorized a share repurchase program of up to \$450.0 million of our common stock. Our board of directors cancelled the previously authorized program with respect to which no shares had been repurchased for a number of years.

ITEM 3.DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4.MINE SAFETY DISCLOSURES

Information normally required to be furnished, in Exhibit 95 to this Quarterly Report, pursuant to Item 4 concerning mine safety disclosure matters, if applicable, 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 not included in this report, as there are no applicable mine safety disclosure matters to report for the three months ended June 30, 2017. Accordingly, there is no Exhibit 95 attached to this report.

ITEM 5.OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Executive Officer Certifications

- 31.1* Certification of Principal Executive Officer required by Item 307 of Regulation S-K as promulgated by the Securities and Exchange Commission and pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 31.2* Certification of Principal Financial Officer required by Item 307 of Regulation S-K as promulgated by the Securities and Exchange Commission and pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 32.1* Certification of Chief Executive Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- 32.2* Certification of Chief Financial Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

Other

- 95** Mine Safety Disclosures.

XBRL Documents

- 101.INS* XBRL Instance Document
- 101.SCH* XBRL Taxonomy Extension Schema Document
- 101.CAL* XBRL Taxonomy Extension Calculation Document
- 101.DEF* XBRL Taxonomy Definition Document
- 101.LAB* XBRL Taxonomy Extension Label Document
- 101.PRE* XBRL Taxonomy Presentation Document

*Filed concurrently herewith

**Inapplicable for purposes of this report

SIGNATURE

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

August 7, 2017

STEEL DYNAMICS, INC.

By: /s/ Theresa E. Wagler
Theresa E. Wagler
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)