

Metals USA Holdings Corp.  
Form 10-Q  
August 14, 2009  
[Table of Contents](#)

**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, 2009

Commission File Number 333-146181

**METALS USA HOLDINGS CORP.**

(Exact name of Registrant as Specified in its Charter)

**Delaware**  
(State or other jurisdiction)

of incorporation or organization)

**20-3779274**  
(I.R.S. Employer

Identification Number)

Edgar Filing: Metals USA Holdings Corp. - Form 10-Q

One Riverway, Suite 1100

Houston, Texas  
(Address of Principal Executive Offices)

77056  
(Zip Code)

Registrants telephone number, including area code: (713) 965-0990

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

Indicate by check mark whether the Registrant 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

Number of shares of common stock outstanding at August 14, 2009 of Metals USA Holdings Corp.: 14,077,500

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

*This Quarterly Report on Form 10-Q contains statements reflecting assumptions, expectations, projections, intentions or beliefs about future events that are intended as forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements included or incorporated by reference in this Quarterly Report, other than statements of historical fact, that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. These statements appear in a number of places, including Management's Discussion and Analysis of Financial Condition and Results of Operations. These statements represent our reasonable judgment on the future based on various factors and using numerous assumptions and are subject to known and unknown risks, uncertainties and other factors that could cause our actual results and financial position to differ materially from those contemplated by the statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, believe, estimate, expect, forecast, may, should, plan, project and other words of similar meaning. In particular, these include, but are not limited to, statements relating to the following:*

*projected operating or financial results, including anticipated cash flows from operations and asset sale proceeds;*

*expectations regarding capital expenditures, interest expense and other payments;*

*our beliefs and assumptions relating to our liquidity position, including our ability to adapt to changing market conditions; and*

*our ability to compete effectively for market share with industry participants.*

*Any or all of our forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and other factors including, among others:*

*supply, demand, prices and other market conditions for steel and other commodities;*

*the timing and extent of changes in commodity prices;*

*the effects of competition in our business lines;*

*the condition of the steel and metal markets generally, which will be affected by interest rates, foreign currency fluctuations and general economic conditions;*

*the ability of our counterparties to satisfy their financial commitments;*

*tariffs and other government regulations relating to our products and services;*

*adverse developments in our relationship with both our key employees and unionized employees;*

## Edgar Filing: Metals USA Holdings Corp. - Form 10-Q

*operational factors affecting the ongoing commercial operations of our facilities, including catastrophic weather-related damage, regulatory approvals, permit issues, unscheduled blackouts, outages or repairs, unanticipated changes in fuel costs or availability of fuel emission credits or workforce issues;*

*our ability to operate our businesses efficiently, manage capital expenditures and costs (including general and administrative expenses) and generate earnings and cash flow;*

*our substantial indebtedness;*

*restrictive covenants in our indebtedness that may adversely affect our operational flexibility;*

*general political conditions and developments in the United States and in foreign countries whose affairs affect supply, demand and markets for steel, other metals and metal products;*

*our ability to retain key employees; and*

*our expectations with respect to our acquisition activity.*

*In addition, there may be other factors that could cause our actual results to be materially different from the results referenced in the forward-looking statements, some of which are included elsewhere in this Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations. Many of these factors will be important in determining our actual future results. Consequently, no forward-looking statement can be guaranteed. Our actual future results may vary materially from those expressed or implied in any forward-looking statements. All forward-looking statements contained in this Form 10-Q are qualified in their entirety by this cautionary statement. Forward-looking statements speak only as of the date they are made, and we disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of this Form 10-Q, except as otherwise required by applicable law.*

**Table of Contents**

**METALS USA HOLDINGS CORP. AND  
SUBSIDIARIES**

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

Item 1.	Financial Statements	
	<u>Unaudited Condensed Consolidated Balance Sheets at June 30, 2009 and December 31, 2008</u>	3
	<u>Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2009 and 2008</u>	4
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2009 and 2008</u>	5
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	46
Item 4.	<u>Controls and Procedures</u>	47

**PART II. OTHER INFORMATION**

Item 1.	<u>Legal Proceedings</u>	48
Item 1A.	<u>Risk Factors</u>	48
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
Item 3.	<u>Defaults Upon Senior Securities</u>	48
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	48
Item 5.	<u>Other Information</u>	48
Item 6.	<u>Exhibits</u>	48
	<u>Signature</u>	49
	Certifications	

**Table of Contents****METALS USA HOLDINGS CORP. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(in millions, except share amounts)

	June 30, 2009	December 31, 2008
<b>Assets</b>		
Current Assets:		
Cash	\$ 53.5	\$ 166.7
Accounts receivable, net of allowance of \$9.2 and \$8.8, respectively	139.5	189.3
Inventories	232.7	422.6
Deferred income tax asset	22.6	23.6
Prepayments and other	4.5	6.5
Total current assets	452.8	808.7
Property and equipment, net	189.0	190.1
Assets held for sale, net	0.9	1.8
Intangible assets, net	10.8	13.6
Goodwill	49.7	49.9
Other assets	18.9	24.1
Total assets	\$ 722.1	\$ 1,088.2
<b>Liabilities and Stockholders Deficit</b>		
Current liabilities:		
Accounts payable	\$ 46.0	\$ 47.2
Accrued liabilities	42.7	60.9
Current portion of long-term debt	0.1	1.6
Total current liabilities	88.8	109.7
Long-term debt, less current portion	575.7	942.6
Deferred income tax liability	74.9	62.2
Other long-term liabilities	21.9	24.7
Total liabilities	761.3	1,139.2
Commitments and contingencies		
Stockholders Deficit:		
Common stock, \$.01 par value, 30,000,000 shares authorized, 14,077,500 issued and outstanding at June 30, 2009 and December 31, 2008	0.1	0.1
Additional paid-in capital	6.6	6.4
Retained deficit	(44.8)	(54.5)
Accumulated other comprehensive loss	(1.1)	(3.0)
Total stockholders deficit	(39.2)	(51.0)
Total liabilities and stockholders deficit	\$ 722.1	\$ 1,088.2

See notes to unaudited condensed consolidated financial statements.



**Table of Contents****METALS USA HOLDINGS CORP. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in millions)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Net Sales</b>	\$ 267.8	\$ 593.1	\$ 598.0	\$ 1,082.1
<b>Operating costs and expenses:</b>				
Cost of sales (exclusive of operating and delivery, and depreciation and amortization shown below)	228.8	422.9	516.5	799.5
Operating and delivery	31.2	49.5	65.9	96.0
Selling, general and administrative	22.1	33.4	46.1	62.6
Depreciation and amortization	4.8	5.4	9.5	10.9
Gain on sale of property and equipment		(1.5)		(1.5)
Operating income (loss)	(19.1)	83.4	(40.0)	114.6
<b>Other (income) expense:</b>				
Interest expense	17.2	19.9	36.5	45.0
Gain on extinguishment of debt	(56.1)		(88.4)	
Other (income) expense, net	(0.2)	0.1	(0.3)	
<b>Income before income taxes</b>	20.0	63.4	12.2	69.6
Provision for income taxes	6.2	23.6	2.5	26.0
<b>Net income</b>	\$ 13.8	\$ 39.8	\$ 9.7	\$ 43.6

See notes to unaudited condensed consolidated financial statements.



**Table of Contents****METALS USA HOLDINGS CORP. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions)

	Six Months Ended June 30,	
	2009	2008
<b>Cash flows from operating activities:</b>		
Net income	\$ 9.7	\$ 43.6
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
(Gain) loss on sale of property and equipment		(1.5)
Provision for bad debts	2.1	1.3
Depreciation and amortization	10.4	12.4
Gain on extinguishment of debt	(88.4)	
Amortization of debt issuance costs and discounts on long-term debt	2.9	2.9
Deferred income taxes	13.7	(4.2)
Stock-based compensation	0.2	0.6
Non-cash interest on PIK option	13.8	
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	47.7	(77.4)
Inventories	189.9	(108.1)
Prepayments and other	2.0	(0.9)
Accounts payable and accrued liabilities	(18.2)	51.9
Other	(2.8)	6.4
Net cash provided by (used in) operating activities	183.0	(73.0)
<b>Cash flows from investing activities:</b>		
Sales of assets		4.3
Purchases of assets	(2.3)	(4.9)
Acquisition costs, net of cash acquired	(4.2)	
Net cash used in investing activities	(6.5)	(0.6)
<b>Cash flows from financing activities:</b>		
Borrowings on credit facility	63.5	550.5
Repayments on credit facility	(265.5)	(469.5)
Repayments of long-term debt	(87.7)	(2.3)
Deferred financing costs		(0.3)
Net cash (used in) provided by financing activities	(289.7)	78.4
<b>Net (decrease) increase in cash and cash equivalents</b>	(113.2)	4.8
Cash and cash equivalents, beginning of period	166.7	13.6
<b>Cash and cash equivalents, end of period</b>	\$ 53.5	\$ 18.4
<b>Supplemental Cash Flow Information:</b>		
Cash paid for interest	\$ 21.9	\$ 41.0
Cash paid for income taxes	\$ 2.9	\$ 1.2

Edgar Filing: Metals USA Holdings Corp. - Form 10-Q

Investments in property, plant and equipment not paid	\$	\$ 0.5
---	----	--------

See notes to unaudited condensed consolidated financial statements.

---

**Table of Contents**

**METALS USA HOLDINGS CORP. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(dollars in millions)**

**1. Organization and Basis of Presentation**

***Organization***

On May 18, 2005, Metals USA Holdings Corp. (formerly named Flag Holdings Corporation), a Delaware corporation ( *Metals USA Holdings* ), and its wholly owned subsidiary, Flag Acquisition Corporation, a Delaware corporation ( *Flag Acquisition* ), entered into an Agreement and Plan of Merger (the *Merger Agreement* ) with Metals USA, Inc. ( *Metals USA* ). On November 30, 2005, Flag Acquisition, then a wholly owned subsidiary of Flag Intermediate Holdings Corporation ( *Flag Intermediate* ) merged with and into Metals USA (the *Merger* ), with Metals USA being the surviving corporation. Metals USA Holdings and its wholly owned subsidiaries, Flag Intermediate and Metals USA, are referred to collectively herein as the *Company*. Metals USA prior to the Merger is referred to herein as the *Predecessor Company*.

We believe that we are a leading provider of value-added processed carbon steel, stainless steel, aluminum and specialty metals, as well as manufactured metal components. For the six months ended June 30, 2009, approximately 92% of our revenue was derived from our metals service center and processing activities, which are segmented into two groups: Flat Rolled and Non-Ferrous Group and Plates and Shapes Group. The remaining portion of our revenue was derived from our Building Products Group, which principally manufactures and sells aluminum products related to the residential remodeling industry. We purchase metal from primary producers that generally focus on large volume sales of unprocessed metals in standard configurations and sizes. In most cases, we perform the customized, value-added processing services required to meet the specifications provided by end-use customers. Our Plates and Shapes Group and Flat Rolled and Non-Ferrous Group customers are in the land and marine transportation, energy, aerospace, defense, electrical and appliance manufacturing, fabrication, furniture, commercial construction, and machinery and equipment industries. Our Building Products Group customers are primarily distributors and contractors engaged in the residential remodeling industry.

***Basis of Presentation***

*Principles of Consolidation* The condensed consolidated financial statements include the accounts of Metals USA Holdings, Flag Intermediate, and Metals USA and its subsidiaries. Intercompany accounts and transactions have been eliminated in the consolidated financial statements.

*Interim Financial Information* The interim consolidated financial statements included herein are unaudited; however, they include adjustments of a normal recurring nature which, in our opinion, are necessary to present fairly the interim consolidated financial information as of and for the periods indicated. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the entire year. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the *Company's* Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

*Use of Estimates and Assumptions* The preparation of financial statements in conformity with accounting principles generally accepted in the United States ( *GAAP* ) requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) the disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and (iii) the reported amount of net sales and expenses recognized during the periods presented. Adjustments made with respect to the use of estimates often relate to improved information not previously available. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements; accordingly, actual results could differ from these estimates.

---

**Table of Contents**

**METALS USA HOLDINGS CORP. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in millions, except share amounts)**

*Subsequent Events* In preparing the accompanying unaudited consolidated financial statements, the Company has reviewed, as determined necessary by the Company's management, events that have occurred after June 30, 2009, up until the issuance of the financial statements, which occurred on August 14, 2009.

*Allowance for Doubtful Accounts* The determination of collectibility of the Company's accounts receivable requires management to make frequent judgments and estimates in order to determine the appropriate amount of allowance needed for doubtful accounts. The Company's allowance for doubtful accounts is estimated to cover the risk of loss related to accounts receivable. This allowance is maintained at a level we consider appropriate based on historical and other factors that affect collectibility. These factors include historical trends of write-offs, recoveries and credit losses, the careful monitoring of customer credit quality, and projected economic and market conditions. Different assumptions or changes in economic circumstances could result in changes to the allowance.

*Inventories* Inventories are stated at the lower of cost or market. Our inventories are accounted for using a variety of methods including specific identification, average cost and the first-in first-out method of accounting. Inventory quantities are regularly reviewed and provisions for excess or obsolete inventory are recorded primarily based on our forecast of future demand and market conditions.

*Financial Derivatives* We use financial derivatives to mitigate the Company's exposure to volatility in interest rates. The Company hedges only exposures in the ordinary course of business. The Company accounts for its derivative instruments in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activity (SFAS 133), which requires all derivatives to be carried on the balance sheet at fair value and meet certain documentary and analytical requirements to qualify for hedge accounting treatment. Hedge accounting creates the potential for a statement of operations match between the changes in fair values of derivatives and the changes in cost of the associated underlying transactions, in this case interest expense. Derivatives held by the Company are designated as hedges of specific exposures at inception, with an expectation that changes in the fair value will essentially offset the change in cost for the underlying exposure. Fair values of derivatives are determined from market observation or dealer quotations. Interest rate swap derivatives outstanding at June 30, 2009, all have remaining terms of approximately two years or less and the associated underlying transactions are expected to occur within that time frame.

The effective portion of the change in fair value of derivatives is reported in other comprehensive income, a component of stockholders' deficit, until the underlying transaction occurs. Any determination that an underlying transaction is not probable of occurring will result in the recognition in earnings of gains and losses deferred in other comprehensive income. Amounts due from counterparties (unrealized hedge gains) or owed to counterparties (unrealized hedge losses) are included in other assets and accrued liabilities, respectively.

See Note 5 for additional information on underlying hedge categories, notional and fair values of derivatives, types and classifications of derivatives used, and gains and losses from hedging activity.

*Goodwill* Goodwill represents the residual between the consideration transferred in a business combination and the net of the acquisition-date amounts of identifiable assets acquired and liabilities assumed measured at fair value. We use estimates and judgments to measure the fair value of identifiable assets acquired and liabilities assumed.

*Intangible Assets* Intangible assets consist primarily of customer lists. We are amortizing the customer lists over five years using an accelerated amortization method which approximates their useful life and economic value to us.

**Table of Contents****METALS USA HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(in millions, except share amounts)

*Debt Issuance Costs* We defer certain expenses incurred to obtain debt financing and amortize these costs to interest expense over the terms of the respective agreements. See Note 6 for additional information on debt issuance costs.

*Fair Value of Financial Assets and Liabilities* Statement of Financial Accounting Standard No. 157 Fair Value Measurements ( SFAS 157 ) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 classifies the inputs used to measure fair value into the following hierarchy:

Level 1 Quoted prices in active markets for identical assets or liabilities. The Company uses stock quotes from an active, established stock market for the valuation of its short-term investments, which are reported in other current assets in the Company's consolidated balance sheet.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's interest rate swap derivatives are valued using market data which is derived by combining certain inputs with quantitative models and processes to generate interest rate forward curves and discount factors (see Note 5).

Level 3 Unobservable inputs that are supported by little or no market activity, but which are significant to the fair value of the assets or liabilities as determined by market participants.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements as of June 30, 2009			
	Total	Level 1	Level 2	Level 3
Short-term investments	\$ 0.2	\$ 0.2	\$	\$
Interest rate swaps	(5.7)		(5.7)	
<b>Total</b>	<b>(5.5)</b>	<b>0.2</b>	<b>(5.7)</b>	

Unrealized gains or losses on short-term investments and derivatives are recorded in accumulated other comprehensive income (loss) at each measurement date.

Our receivables, payables, prepayments and accrued liabilities are current assets and obligations and on normal terms and, accordingly, the recorded values are believed by management to approximate fair value. The estimated fair value of the Company's debt at December 31, 2008 excludes an amount for the Company's Senior Secured Asset-Based Revolving Credit Facility (the ABL facility) due to the global tightening of credit conditions, which would have made a hypothetical bank refinancing unlikely as of that date. Our Senior Floating Rate Toggle Notes due 2012 (the 2007 Notes) and our 1/8% Senior Secured Notes due 2015 (the Metals USA Notes) are thinly traded public debt instruments; accordingly, their market prices at any balance sheet date may not be representative of the prices which would be derived from a more active market. The fair value of publicly traded debt is determined based on quoted market prices. The fair value of debt which is not publicly traded is estimated using cash flows discounted at current borrowing rates. The estimated fair value of current and long-term debt at December 31, 2008 and June 30, 2009 was \$252.1 and \$343.0, respectively.

*Revenue recognition* We recognize revenues generally when products are shipped and our significant obligations have been satisfied. Shipping and handling costs billed to our customers are accounted for as revenues. Risk of loss for products shipped passes at the time of shipment. Provisions are made currently for estimated returns.



**Table of Contents**

**METALS USA HOLDINGS CORP. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in millions, except share amounts)**

*Cost of sales* Our Plates and Shapes and Flat Rolled and Non-Ferrous Groups classify, within cost of sales, the underlying commodity cost of metal purchased in mill form, the cost of inbound freight charges together with third-party processing cost, if any.

Cost of sales for our Building Products Group includes the cost of raw materials, manufacturing labor and overhead costs, together with depreciation and amortization expense associated with property, buildings and equipment used in the manufacturing process.

*Operating and delivery expense* Our operating and delivery expense reflects the cost incurred by our Plates and Shapes and Flat Rolled and Non-Ferrous Groups for labor and facility costs associated with the value-added metal processing services that we provide. With respect to our Building Products Group, operating costs are associated with the labor and facility costs attributable to the warehousing of our finished goods at our sales center facilities. Delivery expense reflects labor, material handling and other third party costs incurred with the delivery of product to customers.

Delivery expense totaled \$8.3, \$16.6, \$14.1 and \$26.3 for the three and six months ended June 30, 2009 and 2008, respectively.

*Selling, general and administrative expenses* Selling, general and administrative expenses include sales and marketing expenses, executive officers' compensation, office and administrative salaries, insurance, accounting, legal, computer systems and professional services costs not directly associated with the processing, manufacturing, operating or delivery costs of our products.

*Depreciation and amortization* Depreciation and amortization expense represents the costs associated with property, buildings and equipment used throughout the Company except for depreciation and amortization expense associated with the manufacturing assets employed by our Building Products Group, which is included within cost of sales. This caption also includes amortization of intangible assets.

*Foreign Currency Translation* The functional currency for our Canadian subsidiary, Allmet, is the Canadian dollar. We translate the functional currency into U.S. dollars based on the current exchange rate at the end of the period for the balance sheet and a weighted average rate for the period on the statement of operations. The resulting translation adjustments are recorded in accumulated other comprehensive income (loss), a component of stockholders' deficit.

***New Accounting Pronouncements***

In June 2009, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 ( SFAS 168 ), which establishes the FASB Accounting Standards Codification as the source of GAAP to be applied to nongovernmental agencies. SFAS 168 explicitly recognizes rules and interpretive releases of the Securities and Exchange Commission ( SEC ) under authority of federal securities laws as authoritative GAAP for SEC registrants. SFAS 168 will become effective for interim or annual periods ending after September 15, 2009. SFAS 168 will not have a material impact on the Company's consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events ( SFAS 165 ). SFAS 165 modifies the definition of what qualifies as a subsequent event those events or transactions that occur following the balance

---

**Table of Contents**

**METALS USA HOLDINGS CORP. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in millions, except share amounts)**

sheet date, but before the financial statements are issued, or are available to be issued and requires companies to disclose the date through which it has evaluated subsequent events and the basis for determining that date. The Company adopted the provisions of SFAS 165 for second quarter 2009, in accordance with the effective date.

In April 2009, The FASB issued FASB Staff Position SFAS 107-1 and Accounting Principles Board ( APB ) Opinion No. 28-1, Interim Disclosures about Fair Value of Financial Instruments ( FSP 107-1 and APB 28-1 ). FSP 107-1 amends SFAS No. 107, Disclosures about Fair Values of Financial Instruments to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. APB 28-1 amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in all interim financial statements. FSP 107-1 and APB 28-1 are effective for interim periods ending after June 15, 2009 and the Company has adopted them in second quarter 2009.

In April 2008, the FASB issued FASB Staff Position ( FSP ) No. SFAS 142-3, Determination of the Useful Life of Intangible Assets ( FSP SFAS 142-3 ). FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets ( SFAS 142 ). The intent of FSP SFAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R (revised 2007), Business Combinations ( SFAS 141R ) and other applicable accounting literature. FSP SFAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and must be applied prospectively to intangible assets acquired after the effective date. The Company has not acquired any intangible assets since adopting FSP SFAS 142-3. As such, there has been no impact to the Company's financial statements since the January 1, 2009 adoption date.

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 ( SFAS 161 ), which expands the disclosure requirements in SFAS 133 about an entity's derivative instruments and hedging activities. SFAS 161's disclosure provisions apply to all entities with derivative instruments subject to SFAS 133 and its related interpretations. The provisions also apply to related hedged items, bifurcated derivatives, and nonderivative instruments that are designated and qualify as hedging instruments. Entities with instruments subject to SFAS 161 must provide more robust qualitative disclosures and expanded quantitative disclosures. Such disclosures, as well as existing SFAS 133 required disclosures, generally will need to be presented for every annual and interim reporting period. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. For the six months ended June 30, 2009, we have included the statement's expanded disclosures about derivative instruments and hedging activities within the Company's financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ( SFAS 141R ), which replaces SFAS 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired in connection with a business combination. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effect of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of an entity's first fiscal year that begins after December 15, 2008. The Company applied the provisions of SFAS 141R in connection with the acquisition that closed during the first quarter of 2009 (see Note 2 below). The adoption of SFAS 141R did not have a material impact on the Company's consolidated financial statements.



**Table of Contents****METALS USA HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(in millions, except share amounts)

**2. Acquisitions*****VR Laser Acquisition***

On February 20 2009, we purchased substantially all of the operating assets of VR Laser Services USA, Inc. ( VR Laser ) for approximately \$4.2. The purchase price was funded by borrowings under our ABL facility. VR Laser was a metal processor of carbon steel plate products located in Philadelphia, Pennsylvania. The total purchase price represents the acquisition-date fair value of the individual assets acquired, which consist entirely of plant and equipment. The VR Laser acquisition replicates much of our existing processing capabilities in our Plates and Shapes Southeast geographic region and expands our service offerings in the marine and defense industries.

**3. Inventories**

Inventories consist of the following:

	June 30, 2009	December 31, 2008
Raw materials		
Plates and Shapes	\$ 130.9	\$ 254.8
Flat Rolled and Non-Ferrous	68.6	111.7
Building Products	7.6	10.9
<b>Total raw materials</b>	<b>207.1</b>	<b>377.4</b>
Work-in-process and finished goods		
Plates and Shapes		
Flat Rolled and Non-Ferrous	13.0	29.2
Building Products	12.6	16.0
<b>Total work-in-process and finished goods</b>	<b>25.6</b>	<b>45.2</b>
<b>Total inventories</b>	<b>\$ 232.7</b>	<b>\$ 422.6</b>

We recorded write-downs of \$20.7 and \$40.2 for inventory lower of cost or market adjustments during the three and six months ended June 30, 2009, respectively, in our metals service center businesses.

**4. Intangible Assets**

The carrying amounts of the Company's intangible assets are as follows:

	June 30, 2009	December 31, 2008
Customer lists	\$ 40.7	\$ 40.7

Edgar Filing: Metals USA Holdings Corp. - Form 10-Q

Effect of foreign currency	0.1	0.1
Less: Accumulated amortization	(33.0)	(30.3)
	\$ 7.8	\$ 10.5
Trade name	\$ 3.3	\$ 3.3
Less: Accumulated amortization	(0.4)	(0.3)
	\$ 2.9	\$ 3.0
Patents	\$ 0.6	\$ 0.6
Less: Accumulated amortization	(0.5)	(0.5)
	\$ 0.1	\$ 0.1

**Table of Contents****METALS USA HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(in millions, except share amounts)**

Aggregate amortization expense for the three and six months ended June 30, 2009 and 2008 was \$1.4, \$2.8, \$2.3 and \$4.6, respectively.

The following table represents the total estimated amortization of customer list intangible assets, excluding the effect of foreign currency, for the remaining lives of the assets:

<b>For the Year Ending</b>	<b>Estimated Amortization Expense</b>
2009 (remaining six months)	\$ 2.3
2010	\$ 3.4
2011	\$ 1.6
2012	\$ 0.5

**5. Derivatives**

In February 2008, we entered into a series of interest rate swap agreements that entitle us to receive quarterly payments of interest at a floating rate indexed to the three-month London Interbank Offered Rate ( LIBOR ) and pay a fixed rate that ranges from 2.686% to 2.997%, thereby converting \$250.0 notional amount of the outstanding borrowings on our ABL facility from a floating rate obligation to a fixed rate obligation. The interest rate swap agreements all have initial terms of approximately three years or less and the associated underlying transactions are expected to occur within that time frame.

The primary objective for our use of these interest rate hedges is to reduce our exposure to changes in interest rates on the ABL facility. The Company endeavors to finance its investment in working capital at the lowest possible cost and to manage variable interest rate exposure to achieve greater flexibility in meeting overall financial objectives.

In April 2009, we repaid outstanding borrowings on our ABL facility such that the outstanding balance on the ABL facility was less than the \$250.0 notional amount associated with our series of interest rate swap agreements. In connection with the debt repayment, we removed the designation of cash flow hedge from a portion of our interest rate swaps. As a result of the removal of the cash flow hedge designation, we reclassified into earnings \$1.7 of cumulative net losses associated with the derivative contract in other comprehensive income (loss) ( OCI ), a component of stockholders' deficit, during the second quarter of 2009. The underlying derivative instrument will not expire until April 15, 2011, and all subsequent changes in the fair value of this instrument will be prospectively recognized in earnings. The earnings impact is no longer considered hedge ineffectiveness, as defined by SFAS 133, as it is no longer associated with a hedge for accounting purposes.

The Company's designation as cash flow hedges for accounting purposes continues for the remaining portion of our interest rate swaps. We account for these hedges in accordance with SFAS 133, and therefore defer in OCI the effective portion of cash flow hedging gains and losses that equal the change in cost of the underlying hedged transactions. As the underlying hedged transactions occur, the associated deferred hedging gains and losses are reclassified into earnings to match the change in cost of the transaction. Because we hedge only with derivatives that have high correlation with the underlying transaction cost, changes in derivatives fair value and the underlying cost are expected to largely offset.

**Table of Contents****METALS USA HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(in millions, except share amounts)

The following table presents the location within the consolidated balance sheet of all assets and liabilities associated with the Company's outstanding derivatives at June 30, 2009.

Derivatives designated as hedging instruments under SFAS 133	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		Fair Value at June 30, 2009	Fair Value at December 31, 2008	Fair Value at June 30, 2009	Fair Value at December 31, 2008
		Interest rate swaps	Accrued liabilities	\$	\$
	Other long-term liabilities			0.8	4.8
Total derivatives designated as hedging instruments under SFAS 133		\$	\$	\$ 3.0	\$ 6.6
<b>Derivatives not designated as hedging instruments under SFAS 133</b>					
Interest rate swaps	Accrued liabilities	\$	\$	\$ 1.7	\$
	Other long-term liabilities			1.0	
Total derivatives not designated as hedging instruments under SFAS 133		\$	\$	\$ 2.7	\$
<b>Total derivatives</b>		\$	\$	\$ 5.7	\$ 6.6

The following tables present the pretax impact of the Company's derivative instruments within the consolidated statements of operations for the three and six months ended June 30, 2009 and 2008. Pretax realized gains and losses from derivatives which are recognized in earnings are included in interest expense in the consolidated statements of operations.

	Derivatives Designated as Cash Flow Hedges					
	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) Three months ended June 30,		Amount of Gain (Loss) Reclassified from OCI into Income (Effective Portion) Three months ended June 30,		Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion) Three months ended June 30,	
	2009	2008	2009	2008	2009	2008
	Interest rate swaps	\$ 0.1	\$ 5.2	\$ (1.1)	\$ (0.1)	\$

Edgar Filing: Metals USA Holdings Corp. - Form 10-Q

	Six months ended		Six months ended		Six months ended	
	June 30,		June 30,		June 30,	
	2009	2008	2009	2008	2009	2008
Interest rate swaps	\$ 0.9	\$ 5.9	\$ (1.9)	\$ (0.1)	\$	\$

	Derivatives Not Designated as Cash Flow Hedges Amount of Gain (Loss) Recognized in Income on Derivatives			
	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Interest rate swaps	\$ (1.7)	\$	\$ (1.7)	\$ (2.4)

**Table of Contents****METALS USA HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(in millions, except share amounts)

The Company's credit exposure related to interest rate swaps is represented by the fair value of swap agreements with a net positive fair value (asset position) to the Company at the reporting date. At such times, the outstanding instruments expose the Company to credit loss in the event of nonperformance by the counterparty to the agreements. However, we have not experienced any credit loss as a result of counterparty nonperformance in the past. Our credit risk exposure with respect to our interest rate swaps is limited to a single counterparty, which we monitor based on credit ratings.

**6. Other Assets**

Other assets consist of the following:

	June 30, 2009	December 31, 2008
Deferred financing costs	\$ 6.6	\$ 8.0
Deferred debt offering costs	6.4	9.6
Deferred management fees	4.3	4.9
Other	1.6	1.6
<b>Total other assets</b>	<b>\$ 18.9</b>	<b>\$ 24.1</b>

Aggregate amortization of debt issuance costs for the three and six months ended June 30, 2009 and 2008 was \$0.6, \$2.2, \$1.0 and \$2.0, respectively. For the three and six months ended June 30, 2009, \$1.9 and \$2.4, respectively, of deferred debt issuance costs were accelerated in connection with the extinguishment of debt during the periods.

**7. Accrued Liabilities**

Accrued liabilities consist of the following:

	June 30, 2009	December 31, 2008
Accrued salaries and employee benefits	\$ 9.7	\$ 19.3
Accrued taxes, other than income	3.3	3.1
Accrued interest	8.3	14.6
Accrued insurance	5.1	5.2
Accrued audit and tax fees	1.6	0.8
Accrued warranty liability	0.5	0.5
Accrued lease terminations	0.4	0.2
Accrued management fees	4.0	5.4
Accrued Merger consideration Predecessor common shares outstanding	4.6	6.0
Current portion of interest rate swap liability	3.9	1.7
Other	1.3	4.1
<b>Total accrued liabilities</b>	<b>\$ 42.7</b>	<b>\$ 60.9</b>



**Table of Contents****METALS USA HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(in millions, except share amounts)

**8. Debt**

Debt consists of the following:

	June 30, 2009	December 31, 2008
Senior Secured Asset-Based Revolving Credit Facility (ABL facility)	\$ 166.0	\$ 368.0
11 1/8% Senior Secured Notes due 2015 (Metals USA Notes)	226.3	275.0
Senior Floating Rate Toggle Notes due 2012 (2007 Notes)	177.5	293.7
Industrial Revenue Bond	5.7	5.7
Other	0.3	1.8
<b>Total debt</b>	<b>575.8</b>	<b>944.2</b>
Less current portion of debt	0.1	1.6
<b>Total long-term portion of debt</b>	<b>\$ 575.7</b>	<b>\$ 942.6</b>

The weighted average interest rates under the ABL facility for the three and six months ended June 30, 2009 and 2008 were 2.91%, 3.12%, 3.99% and 4.74%, respectively.

**Senior Secured Asset-Based Revolving Credit Facility**

The ABL facility permits us to borrow on a revolving basis through November 30, 2011. Substantially all of our subsidiaries are borrowers under the ABL facility.

On June 8, 2007, we executed an amendment to the ABL facility (the June 2007 amendment), which increased the commitment from \$450.0 to \$525.0, comprised of \$500.0 of Tranche A Commitments and \$25.0 of Tranche A-1 Commitments. Additionally, the June 2007 amendment reduced the borrowing cost on the Tranche A facility by 25 basis points, reduced the borrowing cost on the Tranche A-1 facility by 75 basis points and gave us the option to increase the Tranche A Commitments by \$100.0. Costs incurred in connection with the June 2007 amendment totaled \$1.6, and are being amortized over the existing term of the ABL facility, which expires November 30, 2011.

On July 1, 2008, we executed our option to increase the Tranche A Commitments by \$100.0, which increased the total commitment from \$525.0 to \$625.0. All other existing terms under the ABL facility remained unchanged. Costs incurred to exercise the option to increase the ABL facility totaled \$2.4, and are being amortized over the existing term of the ABL facility.

The maximum availability under the ABL facility is based on eligible receivables and eligible inventory, subject to certain reserves. As of June 30, 2009, we had \$249.6 of eligible collateral, \$166.0 in outstanding advances, \$14.5 in open letters of credit and \$69.1 of additional borrowing capacity. As of June 30, 2009, we had \$53.5 of available cash and cash equivalents.

At July 31, 2009, we had \$239.8 of eligible collateral, \$125.0 in outstanding advances, \$14.3 in open letters of credit and \$100.5 of additional borrowing capacity. As of July 31, 2009, we had approximately \$30.3 of available cash and cash equivalents.

The obligations under the ABL facility are guaranteed by the Company and certain of our domestic subsidiaries and are secured (i) on a first-priority lien basis by accounts receivable and inventory and (ii) on a second-priority lien basis by other assets, subject to certain exceptions and permitted liens.





**Table of Contents**

**METALS USA HOLDINGS CORP. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in millions, except share amounts)**

The ABL facility bears interest with respect to loans utilizing the Tranche A Commitments at the bank's base rate plus an applicable margin ranging between -0.25% and -0.50%, or LIBOR, at our option, plus an applicable margin ranging between 1.00% and 1.75% as determined in accordance with the amended loan and security agreement governing the ABL facility. The ABL facility bears interest with respect to the Tranche A-1 Commitments at the bank's base rate plus an applicable margin of 0.75%, or LIBOR, at our option, plus an applicable margin of 2.75% under the June 2007 amendment. The marginal rates related to the Tranche A Commitments will vary with our financial performance as measured by the fixed charge coverage ratio (the FCCR). The FCCR is determined by dividing (i) the sum of Adjusted EBITDA (as defined by the loan and security agreement governing the ABL facility) minus income taxes paid in cash minus non-financed capital expenditures by (ii) the sum of certain distributions paid in cash, cash interest expense and scheduled principal reductions on debt, and is calculated based on such amounts for the three immediately preceding months.

For purposes of determining covenant compliance, the FCCR is calculated based on the most recent period of four consecutive fiscal quarters. As long as our borrowing availability is greater than or equal to \$45.0, we do not have to maintain a minimum fixed charge coverage ratio. Should borrowing availability fall below \$45.0, we must maintain a fixed charge coverage ratio of at least 1.0 to 1.0. As of June 30, 2009, our FCCR was 0.31.

Interest on base rate loans is payable on the last day of each quarter. Interest on LIBOR loans is payable on maturity of the LIBOR loan or on the last day of the quarter if the term of the LIBOR loan exceeds 90 days. A commitment fee of 0.25% per annum is payable on any unused commitments under the ABL facility. The applicable base rate and the effective LIBOR rate for the Tranche A Commitments and Tranche A-1 Commitments were 3.25% and 0.595%, respectively, as of June 30, 2009.

The loan and security agreement governing the ABL facility requires us to comply with limited affirmative, negative and subjective covenants, the most significant of which are: (i) the maintenance of a borrowing base availability of at least \$45.0, or, if such required borrowing base availability is not maintained, the maintenance of the FCCR, (ii) restrictions on additional indebtedness and (iii) restrictions on liens, guarantees and quarterly dividends. There are no limitations with respect to capital expenditures.

The loan and security agreement governing the ABL facility provides for up to \$15.0 of swingline loans and up to \$100.0 for the issuance of letters of credit. Both the face amount of any outstanding letters of credit and any swingline loans will reduce borrowing availability under the ABL facility on a dollar-for-dollar basis.

The ABL facility contains customary representations, warranties and covenants as a precondition to lending, which includes a material adverse change in the business, limitations on our ability to incur or guarantee additional debt, subject to certain exceptions, pay dividends, or make redemptions and repurchases with respect to capital stock, repay debt, create or incur certain liens, make certain loans or investments, make acquisitions or investments, engage in mergers, acquisitions, asset sales and sale lease-back transactions, and engage in certain transactions with affiliates. In addition, the ABL facility requires a lock-box arrangement, which as long as borrowing availability is greater or equal to \$45.0 and in the absence of default, is controlled by the Company.

The ABL facility contains events of default with respect to: default in payment of principal when due, default in the payment of interest, fees or other amounts after a specified grace period, material breach of the representations or warranties, default in the performance of specified covenants, failure to make any payment when due under any indebtedness with a principal amount in excess of a specified amount, certain bankruptcy events, certain ERISA violations, invalidity of certain security agreements or guarantees, material judgments or a change of control. In the event of default the agreement may permit the lenders to: (i) restrict the account or

**Table of Contents**

**METALS USA HOLDINGS CORP. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in millions, except share amounts)**

refuse to make revolving loans; (ii) cause customer receipts to be applied against borrowings under the ABL facility causing the Company to suffer a rapid loss of liquidity and the ability to operate on a day-to-day basis; (iii) restrict or refuse to provide letters of credit; or ultimately: (iv) terminate the commitments and the agreement; or (v) declare any or all obligations to be immediately due and payable if such default is not cured in the specified period required. Any payment default or acceleration under the ABL facility would also result in a default under the Metals USA Notes and the 2007 Notes that would provide the holders of the Metals USA Notes and the 2007 Notes with the right to demand immediate repayment. We are in compliance with all covenants as of June 30, 2009.

In February 2008, \$250.0 notional amount of outstanding borrowings under the ABL facility was swapped from a floating LIBOR-based rate to a fixed rate (see Note 5).

Costs related to the establishment of the ABL facility, in addition to subsequent amendments to the ABL facility, were capitalized and are being charged to interest expense over the life of the ABL facility. Unamortized issuance costs of \$6.6 as of June 30, 2009, are included in other non-current assets.

***Senior Floating Rate Toggle Notes due 2012***

On July 10, 2007, Metals USA Holdings issued \$300.0 initial aggregate principal amount of Senior Floating Rate Toggle Notes due 2012 (the 2007 Notes ). The 2007 Notes were issued at an initial issue price of 97% of the principal amount thereof, and the original issue discount is being amortized to interest expense over the life of the 2007 Notes. The 2007 Notes are senior unsecured obligations that are not guaranteed by any of Metals USA Holdings' subsidiaries. As such, the 2007 Notes are structurally subordinated to all indebtedness and other liabilities (including trade payables) of Metals USA Holdings' subsidiaries.

Metals USA Holdings must make an election regarding whether interest payments on the 2007 Notes will be made in cash or through PIK Interest prior to the start of the applicable interest period. Metals USA Holdings may elect to pay interest (1) entirely in cash or (2) entirely by increasing the principal amount of the 2007 Notes or issuing new 2007 Notes ( PIK Interest ), or (3) on 50% of the outstanding principal amount of the 2007 Notes in cash and on 50% of the outstanding principal amount of the 2007 Notes by increasing the principal amount of the outstanding 2007 Notes or by issuing new 2007 Notes ( Partial PIK Interest ). Cash interest on the 2007 Notes will accrue at a rate per annum, reset quarterly, equal to LIBOR plus a spread of 6.00%, which increases by 0.25% to 6.25% in year 2, by 0.50% to 6.50% in year 3, and by 0.75% to 6.75% in year 4. In the event PIK Interest is paid on the 2007 Notes after the first four interest periods, the then-applicable margin over LIBOR on the 2007 Notes would increase by 0.75% for each period in which PIK Interest is paid. If Metals USA Holdings elects to pay any PIK Interest, Metals USA Holdings will increase the principal amount on the 2007 Notes or issue new 2007 Notes in an amount equal to the amount of PIK Interest for the applicable interest payment period to holders of the 2007 Notes on the relevant record date. Interest is payable quarterly in arrears on January 1, April 1, July 1 and October 1. PIK Interest notes, resulting from the conversion of interest into PIK notes, when paid will be treated as an operating activity in the Consolidated Statements of Cash Flows in accordance with SFAS 95.

The initial five interest payments on the 2007 Notes were paid solely in cash. Flag Intermediate provided funds to Metals USA Holdings to fund the initial five quarterly interest payments on the 2007 Notes, which were paid on October 1, 2007, January 2, 2008, April 1, 2008, July 1, 2008, and October 1, 2008 and which totaled \$7.7, \$8.4, \$8.1, \$6.5 and \$6.6, respectively.

On September 26, 2008, we made a permitted election under the indenture governing the 2007 Notes to pay all interest that is due on January 1, 2009, for the interest period beginning on October 1, 2008, and ending on

**Table of Contents**

**METALS USA HOLDINGS CORP. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in millions, except share amounts)**

December 31, 2008, entirely through PIK Interest. The January 1, 2009 PIK Interest payment amounted to \$8.2. The April 1, 2009 PIK Interest payment amounted to \$5.6. The Company must make an election regarding whether subsequent interest payments will be made in cash, through PIK Interest, or Partial PIK Interest, prior to the start of the applicable interest period. In the absence of such an election for any interest period, interest on the 2007 Notes will be payable according to the election for the previous interest period. As a result, the PIK Interest election is now the default election for future interest periods unless we elect otherwise not later than the commencement of an interest period.

The terms of the ABL facility, as well as the indenture governing the Metals USA Notes, restrict Flag Intermediate and certain of its subsidiaries from making payments or transferring assets to Metals USA Holdings, including dividends, loans, or distributions. Such restrictions include prohibition of dividends in an event of default and limitations on the total amount of dividends paid to Metals USA Holdings. In the event these agreements do not permit Flag Intermediate to provide Metals USA Holdings with sufficient distributions to fund interest and principal payments on the 2007 Notes when due, Metals USA Holdings may default on the 2007 Notes unless other sources of funding are available. The amount available under the restricted payment provision contained in the loan and security agreement governing the ABL facility was \$55.7 as of June 30, 2009. No amount was available under the restricted payment provision contained in the indenture governing the Metals USA Notes as of June 30, 2009.

On or after January 15, 2008, Metals USA Holdings may redeem some or all of the 2007 Notes at certain redemption prices, plus accrued and unpaid interest and additional interest, if any, to the redemption date. If Metals USA Holdings makes certain public offerings, sales or issuances of common stock, and does not redeem the 2007 Notes, it will be required to make an offer to repurchase the maximum principal amount of the 2007 Notes that may be purchased out of the proceeds thereof, at a price equal to 100% of the principal amount, plus accrued and unpaid interest and additional interest, if any, to the date of repurchase.

If Metals USA Holdings experiences a change of control and does not redeem the 2007 Notes, it will be required to make an offer to repurchase the 2007 Notes at a price equal to 101% of the principal amount, plus accrued interest and unpaid interest and additional interest, if any, to the date of repurchase.

Under the indenture governing the 2007 Notes, we are required to pay interest on overdue principal at 1% per annum in excess of the rates discussed above and are required to pay interest on overdue installments of interest at such higher rate to the extent lawful.

The indenture governing the 2007 Notes contains covenants that, among other things, limit Metals USA Holdings' ability and the ability of certain of its subsidiaries to incur or guarantee additional indebtedness or issue disqualified or preferred stock, repurchase or redeem capital stock or subordinated indebtedness, pay dividends or make distributions to its stockholders, incur restrictions on the ability of its subsidiaries to pay dividends or to make other payments to Metals USA Holdings, transfer or sell assets, create liens, enter into transactions with affiliates, make investments or acquisitions, and merge or consolidate with other companies or transfer all or substantially all of its assets.

Our affiliates, which include Apollo Management V L.P. ( Apollo Management and together with its affiliated investment entities Apollo ), as well as our Chief Executive Officer and our Chief Financial Officer, have purchased a portion of our 2007 Notes in the market. For the three and six months ended June 30, 2009, interest paid on the 2007 Notes held by affiliates amounted to \$2.8 and \$6.3, respectively, and was paid entirely by PIK Interest. From time to time, depending upon market, pricing and other conditions, as well on cash balances and liquidity, we, our subsidiaries or affiliates may seek to purchase or sell some amount of the Metals

**Table of Contents**

**METALS USA HOLDINGS CORP. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in millions, except share amounts)**

USA Notes or additional amounts of the 2007 Notes. Any such purchases or sales may be made in the open market, privately negotiated transactions, tender offers or otherwise. The amounts of any such purchases or sales may be material.

Costs related to the issuance of the 2007 Notes were capitalized and are being charged to interest expense over the life of the 2007 Notes. Unamortized issuance costs of \$1.7 as of June 30, 2009, are included in other non-current assets.

***11 1/8% Senior Secured Notes Due 2015***

On November 30, 2005, Flag Acquisition sold \$275.0 aggregate principal amount of the Metals USA Notes. The Metals USA Notes bear interest at a rate per annum equal to 11 1/8%, payable semi-annually in arrears, on June 1 and December 1 of each year, commencing on June 1, 2006. The Metals USA Notes will mature on December 1, 2015. We may redeem some or all of the Metals USA Notes at any time on or after December 1, 2010 at a predetermined redemption price plus accrued and unpaid interest and additional interest, if any, to the applicable redemption date. If we experience a change of control and we do not redeem the Metals USA Notes, we will be required to make an offer to repurchase the Metals USA Notes at a price equal to 101% of the principal amount, plus accrued and unpaid interest and additional interest, if any, to the date of repurchase.

As a result of the Merger, Metals USA assumed the obligations of Flag Acquisition including the Metals USA Notes. All domestic operating subsidiaries of Metals USA have agreed, jointly and severally with Flag Intermediate ( Guarantors ), to unconditionally and irrevocably guarantee Metals USA's obligations under the Metals USA Notes and Indenture dated as of November 30, 2005. Additionally, Flag Intermediate has unconditionally guaranteed to be a primary obligor of the due and punctual payment and performance of the obligations under the Indenture.

Metals USA Holdings is not a guarantor of the Metals USA Notes. There is a limitation on the amount of funds which can be transferred by the Guarantors to Metals USA Holdings in the form of dividends. Such amount available for distribution shall be increased by an amount equal to 50% of Consolidated Net Income, as defined, or reduced by an amount equal to 100% of Consolidated Net Loss, as defined. No amount was available under the restricted payment provision contained in the indenture governing the Metals USA Notes as of June 30, 2009.

The indebtedness evidenced by the Metals USA Notes and the guarantees will rank: equally with all of our and the Guarantors' existing and future senior indebtedness; junior in priority as to collateral that secures the ABL facility on a first-priority lien basis with respect to our and the Guarantors' obligations under the ABL facility, any other debt incurred after December 1, 2005 that has a priority security interest relative to the Metals USA Notes in the collateral that secures the ABL facility, any hedging obligations related to the foregoing debt and all cash management obligations incurred with any lender under the ABL facility; equal in priority as to collateral that secures the Metals USA Notes and the guarantees on a first-priority lien basis with respect to our and the Guarantors' obligations under any other equivalent priority lien obligations incurred after December 1, 2005; and senior to all of our and the Guarantors' existing and future subordinated indebtedness. The Metals USA Notes will also be effectively junior to the liabilities of any non-guarantor subsidiaries.

The Metals USA Notes contain covenants that are customary for debt instruments, including limitations on our or the guarantors' ability to incur or guarantee additional debt, subject to certain exceptions, pay dividends, or make redemptions and repurchases with respect to capital stock, create or incur certain liens, make certain loans or investments, make acquisitions or investments, engage in mergers, acquisitions, asset sales and sale lease-back transactions, and engage in certain transactions with affiliates.

---

**Table of Contents**

**METALS USA HOLDINGS CORP. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in millions, except share amounts)**

The Metals USA Notes indenture contains certain customary events of default, including (subject, in some cases, to customary cure periods thresholds) defaults based on (1) the failure to make payments under the Metals USA indenture when due, (2) breach of covenants, (3) cross-defaults to other material indebtedness, (4) bankruptcy events and (5) material judgments. We were in compliance with all covenants as of June 30, 2009.

Costs related to the establishment of the Metals USA Notes were capitalized and are being charged to interest expense over the life of the Metals USA Notes. Unamortized issuance costs of \$4.6 as of June 30, 2009, are included in other non-current assets.

***Industrial Revenue Bond***

The Industrial Revenue Bond ( IRB ) is payable on May 1, 2016 in one lump sum payment. The interest rate assessed on the IRB varies from month to month and was 0.57% at June 30, 2009. The IRB is secured by real estate and equipment acquired with proceeds from the IRB. The IRB places various restrictions on certain of our subsidiaries, including but not limited to maintenance of required insurance coverage, maintenance of certain financial ratios, limits on capital expenditures and maintenance of tangible net worth and is supported by a letter of credit. We were in compliance with all covenants as of June 30, 2009.

**9. Stockholders Deficit**

*Common Stock* In accordance with its Certificate of Incorporation dated May 9, 2005, and as amended on November 28, 2005, Metals USA Holdings was authorized to issue 30,000,000 shares of capital stock, all of which were shares of common stock, \$.01 par value. At June 30, 2009, 14,077,500 shares were issued and outstanding.

**10. Stock-Based Compensation**

Metals USA Holdings Amended and Restated 2005 Stock and Incentive Plan (the Plan ) permits the issuance of options and restricted stock awards on Metals USA Holdings stock to employees and directors of, or consultants to, the Company, except that consultants may only receive awards with the consent of the president of Metals USA. A total of \$0.1, \$0.2, \$0.1 and \$0.2 was recorded as stock-based employee compensation during the three and six months ended June 30, 2009 and 2008, respectively.

On January 3, 2007, the Board of Directors of Metals USA Holdings adopted the Metals USA Holdings Corp. 2006 Deferred Compensation Plan (the Deferred Compensation Plan ). The Deferred Compensation Plan was adopted in connection with the payment by Metals USA Holdings of a cash dividend of approximately \$149.0 to its stockholders on January 3, 2007 (the January 2007 Dividend ), and credited to individual accounts established for stock option holders an amount equal to \$6.56 per share on certain unvested options, for a total of approximately \$2.3. Payment of this liability was subject to continued employment for two years following the adoption date. The entire amount was paid in one lump sum on January 5, 2009, upon completion of such period. This modification of the Company s stock-based compensation resulted in incremental expense of \$1.4 related to the Deferred Compensation Plan, which was recognized over a two-year vesting period beginning on the date of adoption of the Deferred Compensation Plan.

*Description of Share Option Plan*

The Plan has reserved for issuance up to 1.4 million shares of common stock. The Plan has two tranches of options, Tranche A and Tranche B. Tranche A options vest on a pro-rata basis over five years, have a term of ten

**Table of Contents****METALS USA HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(in millions, except share amounts)**

years, and expire if not exercised. Tranche B options, which include both a service and a performance condition, vest on the eighth anniversary of the date of grant or earlier dependent on the satisfaction of an internal rate of return on capital invested, have a term of ten years from date of grant, and expire if not exercised. Awards are generally granted with an exercise price equal to the fair value of Metals USA Holdings' stock at the date of grant. The fair value of the stock is a calculated value based on the date of each of the respective grants using a combination of discounted cash flows and financial metrics from companies with similar characteristics of Metals USA Holdings. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the Plan).

In connection with a \$25.0 dividend paid to our stockholders in May 2006 (the May 2006 Dividend) and pursuant to the Plan's provisions of rights preservation, the Board of Directors modified the outstanding options by reducing the per share exercise price by \$1.78 in order to retain the participants' rights proportionate with those prior to the dividend payment.

In connection with the January 2007 Dividend, the outstanding employee stock options under the Plan were adjusted a second time by an amount approximately equal to the per share amount of this dividend. The per share exercise price of the options granted on November 30, 2005, was decreased by \$4.22 to \$4.00 and the per share exercise price of the options granted on March 17, 2006, was reduced by \$4.89 to \$4.00.

Because the payment of the January 2007 Dividend resulted in the internal rate of return of the funds managed by Apollo with respect to its investment in Metals USA Holdings to be near 25%, the Board of Directors exercised its discretion under the Plan to vest all of the outstanding Tranche B options. In addition, the Board of Directors exercised its discretion to vest all Tranche A options granted to directors affiliated with Apollo. In connection with the accelerated vesting of these options, we recognized \$1.8 of non-cash stock-based compensation expense, net of related tax effects, in the first quarter of 2007.

In connection with the payment by Metals USA Holdings of a cash dividend of approximately \$139.5 to its stockholders on July 10, 2007 (the July 2007 Dividend), stock option holders were paid approximately \$9.25 per share on outstanding options (an amount equal to the per-share amount of the July 2007 Dividend), for a total of approximately \$9.2. The cash payment to holders of outstanding options to acquire shares of Metals USA Holdings' common stock was made to equitably adjust such option holders by the Metals USA Holdings Board of Directors pursuant to the exercise of its discretion to preserve the rights of options holders under the Plan. As a result of the cash payment on outstanding options, we were required to recognize \$0.3 of non-cash stock-based compensation expense, net of related tax effects, in the third quarter of 2007.

***Tranche A Options***

The fair value of Tranche A option awards was estimated on the date of grant using a black-scholes option valuation model. No options have been granted since the first quarter of 2006. The following is a summary of valuation assumptions for Tranche A option grants outstanding as of June 30, 2009:

Expected dividend yield	0%
Expected stock price volatility	54.7%-54.9%
Risk free interest rate	4.0%-4.6%
Expected life of options (in years)	6.5-10.0

**Table of Contents****METALS USA HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(in millions, except share amounts)

The following is a summary of stock option activity for Tranche A options for the six-month period ended June 30, 2009:

	Weighted Average Fair Value	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number of Options
Balance, December 31, 2008	\$ 6.63	\$ 4.00		555,630
Granted				
Exercised				
Canceled or expired	\$ 6.93	\$ 4.00		(15,824)
Balance, June 30, 2009	\$ 6.62	\$ 4.00	6.5	539,806
Vested and Exercisable as of:				
June 30, 2009		\$ 4.00	6.5	381,380

A summary of nonvested Tranche A stock options for the six-month period ended June 30, 2009, is presented below:

	Weighted Average Grant-Date Fair Value	Number of Options
Nonvested at December 31, 2008	\$ 6.80	178,329
Granted		
Vested	6.27	(4,079)
Exercised		
Canceled or expired	6.93	(15,824)
Nonvested at June 30, 2009	\$ 6.80	158,426

As of June 30, 2009, there was \$0.6 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Tranche A options, which will be amortized over a remaining period of 1.4 years.

**Tranche B Options**

The fair value of the Tranche B options was also estimated on the date of grant using the same option valuation model used for the Tranche A options. No options have been granted since the first quarter of 2006. The following is a summary of valuation assumptions for Tranche B option grants outstanding as of June 30, 2009:

Expected dividend yield	0%
Expected stock price volatility	54.3%-54.7%



Edgar Filing: Metals USA Holdings Corp. - Form 10-Q

Risk free interest rate	4.0%-5.0%
Expected life of options (in years)	8.0-10.0

**Table of Contents****METALS USA HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(in millions, except share amounts)**

The following is a summary of stock option activity for Tranche B options for the six-month period ended June 30, 2009:

	Weighted Average Fair Value	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number of Options
Balance, December 31, 2008	\$ 6.92	\$ 4.00		395,631
Granted				
Exercised				
Canceled or expired				
Balance, June 30, 2009	\$ 6.92	\$ 4.00	6.4	395,631
Vested and Exercisable as of:				
June 30, 2009		\$ 4.00	6.4	395,631

All Tranche B stock options outstanding as of June 30, 2009 are fully vested and exercisable.

***Restricted Stock***

The Plan allows for grants of restricted stock as long-term compensation for directors and employees of, or consultants to, the Company or any of its subsidiaries. Grants of restricted stock have a vesting period that is determined at the discretion of the Board of Directors. The Company amortizes stock-based compensation expense associated with restricted stock ratably over the vesting period. For the six-month period ending June 30, 2009, there were no shares of nonvested restricted stock outstanding.

**11. Income Taxes**

As of June 30, 2009, our unrecognized tax benefits totaled \$7.2, and based on the contingent and uncertain nature of our liability, we are unable to make an estimate of the period of potential cash settlement, if any, with respective taxing authorities. The total amount of unrecognized tax benefits that, if recognized, would impact the Company's effective tax rate is \$0.1 for the six months ended June 30, 2009.

We file numerous consolidated and separate income tax returns in the United States and various foreign jurisdictions. We are no longer subject to U.S. Federal income tax examinations for years before 2002 and are no longer subject to state and local, or foreign income tax examinations for years before 2000.

We account for any applicable interest and penalties on uncertain tax positions as a component of income tax expense. As of June 30, 2009, the liability for uncertain income taxes includes interest and penalties of \$1.5, of which \$0.1 is included in our statement of operations and impacted the Company's effective income tax rate for the six months ended June 30, 2009.

**12. Segment and Related Information**

The following tables show summarized financial information for our reportable segments. The amounts shown as an operating loss under the column heading Corporate and Other consist primarily of general and administrative costs that are not allocated to the segments. Goodwill and customer list intangible assets resulting from the Merger are assigned to reporting units solely for testing for impairment. The reconciliation of

operating

**Table of Contents****METALS USA HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(in millions, except share amounts)

income to net income before income taxes is shown within the Consolidated Statements of Operations and therefore is not separately presented.

	Three Months Ended June 30				
	Plates and Shapes	Flat Rolled and Non-Ferrous	Building Products	Corporate and Other	Total
<b>2009:</b>					
Net sales	\$ 124.8	\$ 117.6	\$ 27.2	\$ (1.8)	\$ 267.8
Operating income (loss)	(17.0)	3.1	0.5	(5.7)	(19.1)
Capital expenditures	1.3	0.1			1.4
Depreciation and amortization(1)	2.3	1.8	0.6	0.5	5.2
<b>2008:</b>					
Net sales	\$ 325.6	\$ 234.5	\$ 36.4	\$ (3.4)	\$ 593.1
Operating income (loss)	64.2	29.2	(2.5)	(7.5)	83.4
Capital expenditures	1.2	0.6	0.3		2.1
Depreciation and amortization(1)	2.2	1.9	0.5	1.2	5.8

	Six Months Ended June 30				
	Plates and Shapes	Flat Rolled and Non-Ferrous	Building Products	Corporate and Other	Total
<b>2009:</b>					
Net sales	\$ 297.3	\$ 258.5	\$ 46.9	\$ (4.7)	\$ 598.0
Operating income (loss)	(25.7)	0.8	(3.8)	(11.3)	(40.0)
Capital expenditures	1.7	0.5		0.1	2.3
Depreciation and amortization(1)	4.7	3.6	1.2	0.9	10.4
<b>2008:</b>					
Net sales	\$ 575.2	\$ 450.5	\$ 62.5	\$ (6.1)	\$ 1,082.1
Operating income (loss)	92.6	44.1	(8.2)	(13.9)	114.6
Capital expenditures	3.3	0.9	0.6	0.1	4.9
Depreciation and amortization(1)	4.6	3.7	1.8	2.3	12.4

(1) Includes depreciation expense reflected in cost of goods sold for the Building Products Group.

	June 30, 2009	December 31, 2008
<b>Total Assets:</b>		
Plates and Shapes	\$ 317.0	\$ 483.3
Flat Rolled and Non-Ferrous	228.0	309.2
Building Products	53.0	62.0
Corporate and Other	124.1	233.7
Consolidated	\$ 722.1	\$ 1,088.2

Edgar Filing: Metals USA Holdings Corp. - Form 10-Q

<b>Goodwill:</b>			
Plates and Shapes	\$	15.5	\$ 15.5
Flat Rolled and Non-Ferrous		20.5	20.5
Building Products		1.9	1.8
Corporate and Other		11.8	12.1
Consolidated	\$	49.7	\$ 49.9

---

**Table of Contents**

**METALS USA HOLDINGS CORP. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in millions, except share amounts)**

Changes in goodwill for the six months ended June 30, 2009 are due to adjustments related to tax liabilities.

We recorded a \$20.7 write-down for inventory lower of cost or market adjustments during the second quarter of 2009 in our metals service center businesses.

We have implemented certain initiatives within our Building Products segment in response to the downturn in the housing and residential remodeling markets, including reductions in square footage under lease, standardization of sales center layouts, and manufacturing consolidation. We continue to evaluate various alternative strategies for our building products business.

Assets classified as held for sale as of June 30, 2009 are associated with a facility within our metals service center business that was closed during the first quarter of 2007. We continue to serve the marketing area of the closed facility with our existing sales force by expanding the responsible territories of other facilities, and through the use of common carrier for product delivery.

**13. Commitments and Contingencies**

*Letters of Credit*

Letters of credit outstanding at June 30, 2009 consist of a letter of credit in the amount of \$5.8 in conjunction with the IRB (see Note 8) and other letters of credit aggregating \$8.7 (total letters of credit of \$14.5 at June 30, 2009). Other letters of credit consist primarily of collateral support for our property and casualty insurance program. All letters of credit reduce the amount available to borrow under the ABL Facility.

*Pension Fund Withdrawal Obligation*

During 2007, we discontinued our participation in a multiemployer pension fund. In connection with our cessation of contributions to the plan, we were assessed a withdrawal liability of approximately \$5.6, which we are paying in monthly installments through 2021. As of June 30, 2009, our total withdrawal liability, including interest and amortization charges, amounted to approximately \$7.6.

*Dividends Relating to 2007 Notes*

See Note 8 for a discussion of the extent to which Metals USA Holdings is dependent on Flag Intermediate's cash flows to service its debt.

*Contingencies*

From time to time, we are involved in a variety of claims, lawsuits and other disputes arising in the ordinary course of business. We believe the resolution of these matters and the incurrence of their related costs and expenses should not have a material adverse effect on our consolidated financial position, results of operations, cash flows or liquidity.

**14. Related Party Transactions**

Upon completion of the Merger, Metals USA Holdings entered into a management agreement with Apollo under which Apollo or its affiliates provide us with management services. Pursuant to the agreement, Apollo receives an annual management fee equal to \$2.0, payable on March 15 of every year, starting on March 15, 2006. The management agreement will terminate on December 31, 2012, unless terminated earlier by Apollo.



**Table of Contents****METALS USA HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(in millions, except share amounts)**

Apollo elected to waive \$0.5 of the annual management fee indefinitely, but reserved the right to revoke this waiver. The payment obligation has been recorded as a current liability (see Note 7) at the present value of minimum future annual payments of \$1.5. A discount rate of 6.1% was used in the determination of present value, which approximated our incremental borrowing rate at the inception of the agreement. Deferred management fees of \$8.6 are being amortized on a straight-line basis over the term of the agreement. For the three and six months ended June 30, 2009, amortization of deferred management fees was \$0.4 and \$0.8, with \$0.3 and \$0.6 recorded as administrative expense and \$0.1 and \$0.2 recorded as interest expense during each period. For the three and six months ended June 30, 2008, amortization of deferred management fees was \$0.3 and \$0.6, with \$0.2 and \$0.4 recorded as administrative expense and \$0.1 and \$0.2 recorded as interest expense during each period.

The management agreement also provides that affiliates of Apollo will be entitled to receive a fee in connection with certain subsequent financing, acquisition, disposition and change of control transactions with a value of \$25.0 or more, with such fee to be equal to 1% of the gross transaction value of any such transaction.

Upon a termination of the management agreement prior to December 31, 2012, Apollo will be entitled to receive the present value of (a) \$14.0, less (b) the aggregate amount of management fees that were paid to it under the agreement prior to such termination, and less (c) management fees waived. Both the management agreement and transaction fee agreement contain customary indemnification provisions in favor of Apollo and its affiliates, as well as expense reimbursement provisions with respect to expenses incurred by Apollo and its affiliates in connection with its performance of services thereunder.

Our affiliates, which include Apollo Management V L.P. ( Apollo Management and together with its affiliated investment entities Apollo ), as well as our Chief Executive Officer and our Chief Financial Officer, have purchased a portion of our 2007 Notes in the market. For the three and six months ended June 30, 2009, interest paid on the 2007 Notes held by affiliates amounted to \$2.8 and \$6.3, respectively, and was paid entirely by PIK Interest. From time to time, depending upon market, pricing and other conditions, as well on cash balances and liquidity, we, our subsidiaries or affiliates may seek to purchase or sell some amount of the Metals USA Notes or additional amounts of the 2007 Notes. Any such purchases or sales may be made in the open market, privately negotiated transactions, tender offers or otherwise. The amounts of any such purchases or sales may be material.

**15. Comprehensive Income**

The following table sets forth comprehensive income, net of applicable taxes, for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income	\$ 13.8	\$ 39.8	\$ 9.7	\$ 43.6
Other comprehensive income:				
Foreign currency translation adjustments	0.3	0.1	0.2	(0.1)
Unrealized gains (losses) on derivatives	1.1	3.7	1.6	4.1
Unrealized gains (losses) on investment securities	0.1		0.1	(0.1)
Total comprehensive income	\$ 15.3	\$ 43.6	\$ 11.6	\$ 47.5



## **Table of Contents**

### **ITEM 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations**

*This section contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. See disclosure presented on the inside of the front cover of this Form 10-Q for cautionary information with respect to such forward-looking statements. Readers should refer to Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2008, for risk factors that may affect future performance.*

#### **Overview**

All references to the Company include Metals USA Holdings, Flag Intermediate, its wholly owned subsidiary Metals USA, and the wholly owned subsidiaries of Metals USA.

We believe that we are a leading provider of value-added processed carbon steel, stainless steel, aluminum and specialty metals, as well as manufactured metal components. For the six months ended June 30, 2009, approximately 92% of our revenue was derived from our metals service center and processing activities, which are segmented into two groups: Flat Rolled and Non-Ferrous Group and Plates and Shapes Group. The remaining portion of our revenue was derived from our Building Products Group, which principally manufactures and sells aluminum products related to the residential remodeling industry. We purchase metal from primary producers that generally focus on large volume sales of unprocessed metals in standard configurations and sizes. In most cases, we perform the customized, value-added processing services required to meet the specifications provided by end-use customers. Our Plates and Shapes Group and Flat Rolled and Non-Ferrous Group customers are in the land and marine transportation, energy, aerospace, defense, electrical and appliance manufacturing, fabrication, furniture, commercial construction, and machinery and equipment industries. Our Building Products Group customers are primarily distributors and contractors engaged in the residential remodeling industry.

#### **Selected Operational Information**

*Net sales* We derive the net sales of our Plates and Shapes and Flat Rolled and Non-Ferrous Groups from the processing and sale of metal products to end-users including metal fabrication companies, general contractors and OEMs. Pricing is generally based upon the underlying metal cost as well as a margin associated with customized value-added services as specified by the customer. The net sales of our Building Products Group are derived from the sales of finished goods primarily to general contractors who are generally engaged in the residential remodeling industry.

*Cost of sales* Our Plates and Shapes and Flat Rolled and Non-Ferrous Groups follow the normal industry practice which classifies within cost of sales the underlying commodity cost of metal purchased in mill form, and the cost of inbound freight charges, together with third-party processing cost, if any. Generally, the cost of metal approximates 75% of net sales for the Plates and Shapes and Flat Rolled and Non-Ferrous Groups. Cost of sales for our Building Products Group includes the cost of raw materials, manufacturing labor and overhead costs, together with depreciation and amortization expense associated with property, buildings and equipment used in the manufacturing process. Amounts included within this caption may not be comparable to similarly titled captions reported by other companies.

*Operating and delivery expense* Our operating and delivery expense reflects the cost incurred by our Plates and Shapes and Flat Rolled and Non-Ferrous Groups for labor and facility costs associated with the value-added metal processing services that we provide. With respect to our Building Products Group, operating costs are associated with the labor and facility costs attributable to warehousing of our finished goods at our service center facilities. Delivery expense reflects labor, material handling and other third party costs incurred with the delivery of product to customers. Amounts included within this caption may not be comparable to similarly titled captions reported by other companies.

*Selling, general and administrative expenses* Selling, general and administrative expenses include sales and marketing expenses, executive officers' compensation, office and administrative salaries, insurance,

## **Table of Contents**

accounting, legal, computer systems, and professional services and costs not directly associated with the processing, manufacturing, operating or delivery costs of our products. Amounts included within this caption may not be comparable to similarly titled captions reported by other companies.

*Depreciation and amortization* Depreciation and amortization expense represents the costs associated with property, buildings and equipment used throughout the company except for depreciation and amortization expense associated with the manufacturing assets employed by our Building Products Group, which is included within cost of sales. This caption also includes amortization of intangible assets.

## **Industry Trends**

### *Metals Service Centers*

The metals production and distribution industries have experienced an increase in demand for steel and other metals in recent years driven largely by new market development in China, Brazil, Russia, and India, as well as Europe in general. Through the first half of 2008, demand growth outpaced supply inputs creating upward cost pressure on commodity inputs such as ores, energy and transportation. In early 2008, global steel prices were at record highs.

However, global and economic conditions are significantly less favorable compared with those experienced during the first half of 2008. The level of global economic activity has declined through the latter part of 2008 and the first half of 2009, as the world's major economies, including the U.S. and European region, are experiencing difficulties related to, in large part, the tightening of credit conditions globally. The impact of economic uncertainty on steel markets has become more apparent over the past nine months as the volatile global economic climate has resulted in softening demand and prices for steel products. As demand has slowed along with the worldwide economy, steel prices globally have deteriorated.

The decline in steel prices resulting from weakened demand and an oversupply of steel throughout the supply chain have contributed to a significant decline in steel product shipments from metals service centers in the U.S in year-over-year comparisons. The timing of the effect that future price trends will have on the domestic steel market is difficult to predict, and any number of political or general economic factors could cause prices to decline further.

### *Building Products*

The current state of the housing and mortgage markets is causing significant contraction in the home improvement remodeling industry. Research indicates that remodeling activity is pro-cyclical with both new residential construction and the broader economy, but remodeling lags homebuilding by several quarters. The high cyclical nature of remodeling activity appears to be driven by discretionary improvements, similar to the products sold by our building products business, which are quite volatile. Improvement spending is expected to be much more cyclical and more sensitive to upturns and downturns in the general economy, whereas maintenance and repair spending is expected to be fairly stable over time.

The weak housing market, national economic recession, and reductions in the amount spent on high-end home improvement projects continue to hinder remodeling activity. Although lower financing costs are reducing the cost of financing home improvement projects, they have not been adequate to offset rising unemployment and falling consumer confidence.

Product demand for the Company's Building Products Group may be influenced by numerous factors such as interest rates, general economic conditions, consumer confidence and other factors beyond our control. Declines in existing home sales and improvement remodeling expenditures due to such factors could continue to significantly reduce the segment's performance.

---

**Table of Contents**

**Critical Accounting Policies and Estimates**

The discussion and analysis of the Company's financial condition and results of operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. Estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The result of this process forms the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. We review our estimates and judgments on a regular, ongoing basis. Actual results may differ from these estimates due to changed circumstances and conditions.

The following accounting policies and estimates are considered critical in light of the potential material impact that the estimates, judgments and uncertainties affecting the application of these policies might have on the Company's reported financial information.

*Accounts Receivable* We generally recognize revenue as product is shipped (risk of loss for our products generally passes at time of shipment), net of provisions for estimated returns. Financial instruments, which potentially subject us to concentrations of credit risk, consist principally of trade accounts and notes receivable. Collections on our accounts receivable are made through several lockboxes maintained by our lenders. Credit risk associated with concentration of cash deposits is low as we have the right of offset with our lenders for a substantial portion of our cash balances. Concentrations of credit risk with respect to trade accounts receivable are within several industries. Generally, credit is extended once appropriate credit history and references have been obtained. We perform ongoing credit evaluations of customers and set credit limits based upon reviews of customers' current credit information and payment history. We monitor customer payments and maintain a provision for estimated credit losses based on historical experience and specific customer collection issues that we have identified. Provisions to the allowance for doubtful accounts are made monthly and adjustments are made periodically based upon our expected ability to collect all such accounts. Generally we do not require collateral for the extension of credit.

Each month we consider all available information when assessing the adequacy of the provision for allowances, claims and doubtful accounts. Adjustments made with respect to the allowance for doubtful accounts often relate to improved information not previously available. Uncertainties with respect to the allowance for doubtful accounts are inherent in the preparation of financial statements. The rate of future credit losses may not be similar to past experience.

*Inventories* Inventories are stated at the lower of cost or market. Our inventories are accounted for using a variety of methods including specific identification, average cost and the first-in, first-out method of accounting. We regularly review inventory on hand and record provisions for damaged and slow-moving inventory based on historical and current sales trends. Changes in product demand and our customer base may affect the value of inventory on hand which may require higher provisions for damaged and slow-moving inventory.

Adjustments made with respect to the inventory valuation allowance often relate to improved information not previously available. Uncertainties with respect to the inventory valuation allowance are inherent in the preparation of financial statements. The rate of future losses associated with damaged or slow moving inventory may not be similar to past experience.

**Table of Contents****Results of Operations**

The following unaudited consolidated financial information reflects our historical financial statements.

*Consolidated Results Three Months Ended June 30, 2009 Compared to June 30, 2008*

	2009	%	2008	%
	(In millions, except percentages)			
Net sales	\$ 267.8	100.0%	\$ 593.1	100.0%
Cost of sales (exclusive of operating and delivery, and depreciation and amortization shown below)	228.8	85.4%	422.9	71.3%
Operating and delivery	31.2	11.7%	49.5	8.3%
Selling, general and administrative	22.1	8.3%	33.4	5.6%
Depreciation and amortization	4.8	1.8%	5.4	0.9%
Gain on sale of property and equipment			(1.5)	-0.3%
Operating income (loss)	(19.1)	-7.1%	83.4	14.1%
Interest expense	17.2	6.4%	19.9	3.4%
Gain on extinguishment of debt	(56.1)	-20.9%		
Other (income) expense, net	(0.2)	-0.1%	0.1	0.0%
Income before income taxes	\$ 20.0	7.5%	\$ 63.4	10.7%

*Net sales.* Net sales decreased \$325.3 million, or 54.8%, from \$593.1 million for the three months ended June 30, 2008 to \$267.8 million for the three months ended June 30, 2009. The decrease was primarily attributable to a 43.1% decrease in volumes for our Flat Rolled and Non-Ferrous and Plates and Shapes Product Groups, in addition to a 24.0% decrease in average realized prices. Net sales decreased \$9.2 million for our Building Products Group.

*Cost of sales.* Cost of sales decreased \$194.1 million, or 45.9%, from \$422.9 million for the three months ended June 30, 2008, to \$228.8 million for the three months ended June 30, 2009. The decrease was primarily attributable to a 43.1% decrease in volumes for our Flat Rolled and Non-Ferrous and Plates and Shapes Product Groups, in addition to a 6.3% decrease in the average cost per ton for our metals service center businesses. Cost of sales for our Building Products Group decreased \$9.3 million. We recorded a \$20.7 million write-down for inventory lower of cost or market adjustments in our metal service center businesses as a result of continued price decreases and weak demand for steel products during the second quarter of 2009. Inventory tonnage on hand as of June 30, 2009 was reduced 16.7% from March 31, 2009. Cost of sales as a percentage of net sales increased from 71.3% for the second quarter of 2008 to 85.4% for the second quarter of 2009 primarily due to the lower of cost or market write-down discussed above.

*Operating and delivery.* Operating and delivery expenses decreased \$18.3 million, or 37.0%, from \$49.5 million for the three months ended June 30, 2008 to \$31.2 million for the three months ended June 30, 2009. The decrease was a result of lower variable costs associated with decreased shipments. As a percentage of net sales, operating and delivery expenses increased from 8.3% for the three months ended June 30, 2008 to 11.7% for the three months ended June 30, 2009.

*Selling, general and administrative.* Selling, general and administrative expenses decreased \$11.3 million, or 33.8%, from \$33.4 million for the three months ended June 30, 2008 to \$22.1 million for the three months ended June 30, 2009. Lower variable costs of \$6.3 million associated with decreased incentive compensation were the primary contributor to the period-over-period decrease. As a percentage of net sales, selling, general and administrative expenses increased from 5.6% for the three months ended June 30, 2008 to 8.3% for the three months ended June 30, 2009.

**Table of Contents**

*Depreciation and amortization.* Depreciation and amortization expense decreased \$0.6 million, or 11.1%, from \$5.4 million for the three months ended June 30, 2008 to \$4.8 million for the three months ended June 30, 2009. The decrease was primarily due to lower amortization of customer list intangible assets (which is recognized on an accelerated basis and decreases over the life of the assets) recorded in connection with the acquisitions completed in May 2006, the acquisition of Lynch Metals in July 2007, and the Merger.

*Operating income (loss).* Operating income (loss) decreased \$102.5 million, or 122.9%, from operating income of \$83.4 million for the three months ended June 30, 2008 to an operating loss of \$19.1 million for the three months ended June 30, 2009. The decrease was primarily a result of the decrease in net sales discussed above. As a percentage of net sales, operating income (loss) decreased from 14.1% for the three months ended June 30, 2008 to (7.1%) for the three months ended June 30, 2009.

*Interest expense.* Interest expense decreased \$2.7 million, or 13.6%, from \$19.9 million for the three months ended June 30, 2008 to \$17.2 million for the three months ended June 30, 2009. The decrease was primarily a function of reduced borrowings, in addition to lower average interest rates, on our ABL facility, as well as debt extinguishments and a lower LIBOR base rate on the 2007 Notes. The weighted average outstanding balance on our ABL facility decreased from \$359.2 million for the three months ended June 30, 2008 to \$207.9 million for the same period of 2009. The weighted average facility rate decreased from 3.99% for the three months ended June 30, 2008 to 2.91% for the three months ended June 30, 2009.

**Consolidated Results Six Months Ended June 30, 2009 Compared to June 30, 2008**

	2009	%	2008	%
	(In millions, except percentages)			
Net sales	\$ 598.0	100.0%	\$ 1,082.1	100.0%
Cost of sales (exclusive of operating and delivery, and depreciation and amortization shown below)	516.5	86.4%	799.5	73.9%
Operating and delivery	65.9	11.0%	96.0	8.9%
Selling, general and administrative	46.1	7.7%	62.6	5.8%
Depreciation and amortization	9.5	1.6%	10.9	1.0%
Gain on sale of property and equipment			(1.5)	-0.1%
Operating income (loss)	(40.0)	-6.7%	114.6	10.6%
Interest expense	36.5	6.1%	45.0	4.2%
Gain on extinguishment of debt	(88.4)	-14.8%		
Other (income) expense, net	(0.3)	-0.1%		
Income before income taxes	\$ 12.2	2.0%	\$ 69.6	6.4%

*Net sales.* Net sales decreased \$484.1 million, or 44.7%, from \$1,082.1 million for the six months ended June 30, 2008 to \$598.0 million for the six months ended June 30, 2009. The decrease was primarily attributable to a 39.5% decrease in volumes for our Flat Rolled and Non-Ferrous and Plates and Shapes Product Groups, in addition to a 10.6% decrease in average realized prices. Net sales decreased \$15.6 million for our Building Products Group.

*Cost of sales.* Cost of sales decreased \$283.0 million, or 35.4%, from \$799.5 million for the six months ended June 30, 2008, to \$516.5 million for the six months ended June 30, 2009. The decrease was primarily attributable to a 39.5% decrease in volumes for our Flat Rolled and Non-Ferrous and Plates and Shapes Product Groups, partially offset by a 6.3% increase in the average cost per ton for our metals service center businesses. Cost of sales decreased \$15.0 million for our Building Products Group. We recorded a \$40.2 million write-down for inventory lower of cost or market adjustments in our metal service center businesses as a result of continued price decreases and weak demand for steel products during the first six months of 2009. Inventory

**Table of Contents**

tonnage on hand as of June 30, 2009 was reduced 31.9% from December 31, 2008. Cost of sales as a percentage of net sales increased from 73.9% for the first six months of 2008 to 86.4% for the first six months of 2009 primarily due to the lower of cost or market write-down discussed above.

*Operating and delivery.* Operating and delivery expenses decreased \$30.1 million, or 31.4%, from \$96.0 million for the six months ended June 30, 2008 to \$65.9 million for the six months ended June 30, 2009. The decrease was a result of lower variable costs associated with decreased shipments. As a percentage of net sales, operating and delivery expenses increased from 8.9% for the six months ended June 30, 2008 to 11.0% for the six months ended June 30, 2009.

*Selling, general and administrative.* Selling, general and administrative expenses decreased \$16.5 million, or 26.4%, from \$62.6 million for the six months ended June 30, 2008 to \$46.1 million for the six months ended June 30, 2009. Lower variable costs of \$9.3 million associated with decreased incentive compensation were the primary contributor to the period-over-period decrease. As a percentage of net sales, selling, general and administrative expenses increased from 5.8% for the six months ended June 30, 2008 to 7.7% for the six months ended June 30, 2009.

*Depreciation and amortization.* Depreciation and amortization expense decreased \$1.4 million, or 12.8%, from \$10.9 million for the six months ended June 30, 2008 to \$9.5 million for the six months ended June 30, 2009. The decrease was primarily due to lower amortization of customer list intangible assets (which is recognized on an accelerated basis and decreases over the life of the assets) recorded in connection with the acquisitions completed in May 2006, the acquisition of Lynch Metals in July 2007, and the Merger.

*Operating income (loss).* Operating income (loss) decreased \$154.6 million, or 134.9%, from operating income of \$114.6 million for the six months ended June 30, 2008 to an operating loss of \$40.0 million for the six months ended June 30, 2009. The decrease was primarily a result of the decrease in net sales discussed above. As a percentage of net sales, operating income (loss) decreased from 10.6% for the six months ended June 30, 2008 to (6.7%) for the six months ended June 30, 2009.

*Interest expense.* Interest expense decreased \$8.5 million, or 18.9%, from \$45.0 million for the six months ended June 30, 2008 to \$36.5 million for the six months ended June 30, 2009. The decrease was primarily a function of reduced borrowings, in addition to lower average interest rates, on our ABL facility, as well as debt extinguishments and a lower LIBOR base rate on the 2007 Notes. The weighted average outstanding balance on our ABL facility decreased from \$338.1 million for the six months ended June 30, 2008 to \$260.3 million for the same period of 2009. The weighted average facility rate decreased from 4.74% for the six months ended June 30, 2008 to 3.12% for the six months ended June 30, 2009.

**Table of Contents***Segment Results Three Months Ended June 30, 2009 Compared to June 30, 2008*

	Net Sales	Operating Costs and Expenses	Operating Income (Loss)	Capital Spending	Tons Shipped(1)
	(in millions, except tonnage)				
<b>2009:</b>					
Plates and Shapes	\$ 124.8	\$ 141.8	\$ (17.0)	\$ 1.3	120
Flat Rolled and Non-Ferrous	117.6	114.5	3.1	0.1	110
Building Products	27.2	26.7	0.5		
Corporate and other	(1.8)	3.9	(5.7)		(2)
Total	\$ 267.8	\$ 286.9	\$ (19.1)	\$ 1.4	228
<b>2008:</b>					
Plates and Shapes	\$ 325.6	\$ 261.4	\$ 64.2	\$ 1.2	240
Flat Rolled and Non-Ferrous	234.5	205.3	29.2	0.6	164
Building Products	36.4	38.9	(2.5)	0.3	
Corporate and other	(3.4)	4.1	(7.5)		(3)
Total	\$ 593.1	\$ 509.7	\$ 83.4	\$ 2.1	401

(1) Shipments are expressed in thousands of tons and are not an applicable measure for the Building Products Group.

*Plates and Shapes.* Net sales decreased \$200.8 million, or 61.7%, from \$325.6 million for the three months ended June 30, 2008 to \$124.8 million for the three months ended June 30, 2009. The decrease was primarily attributable to a 50.0% decrease in shipments, in addition to a 23.3% decrease in average realized prices, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008.

Operating costs and expenses decreased \$119.6 million, or 45.8%, from \$261.4 million for the three months ended June 30, 2008 to \$141.8 million for the three months ended June 30, 2009. The decrease was primarily attributable to a 50.0% decrease in shipments, partially offset by a 6.7% increase in the average cost per ton for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. This segment recorded a \$16.9 million write-down for inventory lower of cost or market adjustments during the second quarter of 2009.

Operating income (loss) decreased by \$81.2 million, or 126.5%, from operating income of \$64.2 million for the three months ended June 30, 2008 to an operating loss of \$17.0 million for the three months ended June 30, 2009. The decrease primarily resulted from lower net sales which were driven by a decrease in shipments, in addition to the charges incurred to write-down the segment's inventories as of June 30, 2009, as discussed above. Operating income (loss) as a percentage of net sales decreased from 19.7% for the three months ended June 30, 2008 to (13.6%) for the three months ended June 30, 2009.

*Flat Rolled and Non-Ferrous.* Net sales decreased \$116.9 million, or 49.9%, from \$234.5 million for the three months ended June 30, 2008 to \$117.6 million for the three months ended June 30, 2009. The decrease was primarily attributable to a 32.9% decrease in shipments, in addition to a 25.2% decrease in average realized prices, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. Sales of non-ferrous metals accounted for 36.7% of the segment's sales product mix for the second quarter of 2009, compared to 42.1% for the second quarter of 2008.

Operating costs and expenses decreased \$90.8 million, or 44.2%, from \$205.3 million for the three months ended June 30, 2008 to \$114.5 million for the three months ended June 30, 2009. The decrease was primarily attributable to a decrease in shipments of 32.9% in addition to a decrease in the average cost per ton of 20.8%. This segment recorded a \$3.8 million write-down for inventory lower of cost or market adjustments during the second quarter of 2009. Operating costs and expenses as a percentage of net sales increased from 87.5% for the three months ended June 30, 2008 to 97.4% for the three months ended June 30, 2009.





**Table of Contents**

Operating income decreased by \$26.1 million, or 89.4%, from \$29.2 million for the three months ended June 30, 2008 to \$3.1 million for the three months ended June 30, 2009. The decrease was primarily attributable to the decrease in sales volumes discussed above, which was primarily a function of lower shipments. Operating income as a percentage of net sales decreased from 12.5% for the three months ended June 30, 2008 to 2.6% for the three months ended June 30, 2009.

*Building Products.* Net sales decreased \$9.2 million, or 25.3%, from \$36.4 million for the three months ended June 30, 2008 to \$27.2 million for the three months ended June 30, 2009. The sales decrease was driven by lower home improvement remodeling activity. Consumer spending on residential remodeling has decreased dramatically due to the depreciation of homes, lower limits on home equity loans and decreased access to affordable credit for homeowners and residential remodeling contractors. These factors have led to significant contraction in the remodeling industry and negative growth in our Building Products Group.

Operating costs and expenses decreased \$12.2 million, or 31.4%, from \$38.9 million for the three months ended June 30, 2008 to \$26.7 million for the three months ended June 30, 2009. The decrease was primarily due to lower sales volume and a decrease in variable costs related to lower market demand, and to a lesser extent due to cost reduction measures which were implemented to align the cost structure of the segment to current levels of lower market demand. Operating costs and expenses as a percentage of net sales decreased from 106.9% for the three months ended June 30, 2008 to 98.2% for the same period of 2009.

Operating income (loss) increased by \$3.0 million, or 120.0%, from an operating loss of \$2.5 million for the three months ended June 30, 2008 to operating income of \$0.5 million for the three months ended June 30, 2009. The increase was primarily attributable to lower operating costs, which decreased at a rate greater than the decline in sales discussed above. Operating income (loss) as a percentage of net sales was 1.8% for the three months ended June 30, 2009, as compared to (6.9%) for the three months ended June 30, 2008.

*Corporate and other.* This category reflects certain administrative costs and expenses management has not allocated to its industry segments. These costs include compensation for executive officers, insurance, professional fees for audit, tax and legal services and data processing expenses. The negative net sales amount represents the elimination of intercompany sales. The operating loss decreased \$1.8 million, or 24.0%, from \$7.5 million for the three months ended June 30, 2008 to \$5.7 million for the three months ended June 30, 2009.

**Segment Results Six Months Ended June 30, 2009 Compared to June 30, 2008**

	Net Sales	Operating Costs and Expenses	Operating Income (Loss)	Capital Spending	Tons Shipped(1)
	(in millions, except tonnage)				
<b>2009:</b>					
Plates and Shapes	\$ 297.3	\$ 323.0	\$ (25.7)	\$ 1.7	257
Flat Rolled and Non-Ferrous	258.5	257.7	0.8	0.5	223
Building Products	46.9	50.7	(3.8)		
Corporate and other	(4.7)	6.6	(11.3)	0.1	(4)
Total	\$ 598.0	\$ 638.0	\$ (40.0)	\$ 2.3	476
<b>2008:</b>					
Plates and Shapes	\$ 575.2	\$ 482.6	\$ 92.6	\$ 3.3	460
Flat Rolled and Non-Ferrous	450.5	406.4	44.1	0.9	332
Building Products	62.5	70.7	(8.2)	0.6	
Corporate and other	(6.1)	7.8	(13.9)	0.1	(5)
Total	\$ 1,082.1	\$ 967.5	\$ 114.6	\$ 4.9	787

(1) Shipments are expressed in thousands of tons and are not an appropriate measure for the Building Products Group.



**Table of Contents**

*Plates and Shapes.* Net sales decreased \$277.9 million, or 48.3%, from \$575.2 million for the six months ended June 30, 2008 to \$297.3 million for the six months ended June 30, 2009. The decrease was primarily attributable to a 44.1% decrease in shipments, in addition to a 7.5% decrease in average realized prices, for the six months ended June 30, 2009 compared to the six months ended June 30, 2008.

Operating costs and expenses decreased \$159.6 million, or 33.1%, from \$482.6 million for the six months ended June 30, 2008 to \$323.0 million for the six months ended June 30, 2009. The decrease was primarily attributable to a 44.1% decrease in shipments, partially offset by a 20.0% increase in the average cost per ton for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. This segment recorded a \$31.3 million write-down for inventory lower of cost or market adjustments during the first six months of 2009.

Operating income (loss) decreased by \$118.3 million, or 127.8%, from operating income of \$92.6 million for the six months ended June 30, 2008 to operating loss of \$25.7 million for the six months ended June 30, 2009. The decrease primarily resulted from lower net sales which were driven by a decrease in shipments, in addition to the charges incurred to write-down the segment's inventories as of June 30, 2009, as discussed above. Operating income (loss) as a percentage of net sales was (8.6%) for the six months ended June 30, 2009 compared to 16.1% for the six months ended June 30, 2008.

*Flat Rolled and Non-Ferrous.* Net sales decreased \$192.0 million, or 42.6%, from \$450.5 million for the six months ended June 30, 2008 to \$258.5 million for the six months ended June 30, 2009. The decrease was primarily attributable to a 32.8% decrease in shipments, in addition to a 14.6% decrease in average realized prices, for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. Sales of non-ferrous metals accounted for 36.4% of the segment's sales product mix for the first six months of 2009, compared to 44.0% for the first six months of 2008.

Operating costs and expenses decreased \$148.7 million, or 36.6%, from \$406.4 million for the six months ended June 30, 2008 to \$257.7 million for the six months ended June 30, 2009. The decrease was primarily attributable to a decrease in shipments of 32.8% in addition to a decrease in the average cost per ton of 8.4%. This segment recorded an \$8.9 million write-down for inventory lower of cost or market adjustments during the first six months of 2009. Operating costs and expenses as a percentage of net sales increased from 90.2% for the six months ended June 30, 2008 to 99.7% for the six months ended June 30, 2009.

Operating income decreased by \$43.3 million, or 98.2%, from \$44.1 million for the six months ended June 30, 2008 to \$0.8 million for the six months ended June 30, 2009. The decrease was primarily attributable to the decrease in sales volumes discussed above, which were a primarily a function of lower shipments. Operating income as a percentage of net sales decreased from 9.8% for the six months ended June 30, 2008 to 0.3% for the six months ended June 30, 2009.

*Building Products.* Net sales decreased \$15.6 million, or 25.0%, from \$62.5 million for the six months ended June 30, 2008 to \$46.9 million for the six months ended June 30, 2009. Softness in the residential remodeling market continued to produce period-over-period net sales decreases for our Building Products Group.

Operating costs and expenses decreased \$20.0 million, or 28.3%, from \$70.7 million for the six months ended June 30, 2008 to \$50.7 million for the six months ended June 30, 2009. The decrease was primarily due to lower sales volume and a decrease in variable costs related to lower market demand, in addition to certain initiatives the segment has taken in response to the downturn in the housing and remodeling markets. Management has continued to focus on cost reduction in order to mitigate the impact of lower operating levels resulting from the market downturn. Operating costs and expenses as a percentage of net sales decreased from 113.1% for the six months ended June 30, 2008 to 108.1% for the six months ended June 30, 2009.

Operating loss decreased by \$4.4 million, or 53.7%, from \$8.2 million for the six months ended June 30, 2008 to \$3.8 million for the six months ended June 30, 2009. The decrease was primarily attributable to lower

## **Table of Contents**

operating costs, which decreased at a rate greater than the decline in sales discussed above. Operating loss as a percentage of net sales decreased from 13.1% for the six months ended June 30, 2008 to 8.1% for the six months ended June 30, 2009.

*Corporate and other.* This category reflects certain administrative costs and expenses management has not allocated to its industry segments. These costs include compensation for executive officers, insurance, professional fees for audit, tax and legal services and data processing expenses. The negative net sales amount represents the elimination of intercompany sales. The operating loss decreased \$2.6 million, or 18.7%, from \$13.9 million for the six months ended June 30, 2008 to \$11.3 million for the six months ended June 30, 2009.

## **Liquidity and Capital Resources**

Our primary sources of short-term liquidity are borrowings under the ABL facility and our cash flow from operations. We believe these resources will be sufficient to meet our working capital and capital expenditure requirements for the next year.

In operating our business, we need to finance our investment in working capital. Our ABL facility is the principal means by which we finance our investment in working capital (e.g., raw materials such as metal, which are crucial to operating our business) and therefore our ABL facility is crucial to our ability to purchase inventory. We increased the size of the ABL facility in July 2008 (see *Financing Activities* *The ABL facility* below) given its importance to us as a means to access additional capital. Access to the ABL facility and the cost of borrowing under it are constrained by certain covenants contained in the loan and security agreement governing the ABL facility and the indentures governing the Metals USA Notes and the 2007 Notes. These covenants are each based on Adjusted EBITDA, as discussed more fully below (see also *Financing Activities* *Covenant Compliance* below).

The FCCR is an important measure of our liquidity and affects our ability to take certain actions, including paying dividends to our stockholders, making acquisitions and incurring additional debt. In addition, the applicable interest rates associated with the ABL facility are determined by the FCCR (see *Financing Activities* *The ABL facility* *Interest Rate and Fees* and *Financing Activities* *Covenant Compliance* below).

As of June 30, 2009, our FCCR, as defined by the ABL facility, was 0.31. Under the terms of the ABL facility, as long as our borrowing availability is greater than or equal to \$45.0 million, we do not have to maintain a minimum FCCR. As of June 30, 2009, our borrowing availability was \$69.1 million.

The ability to implement strategic bolt-on acquisitions is one of our key strategies, and our ability to incur additional debt is a necessary element to support this strategy. The indentures governing the Metals USA Notes and the 2007 Notes contain covenants that restrict our ability to take certain actions, such as incurring additional debt, if we are unable to meet defined Adjusted EBITDA to fixed charges and consolidated total debt ratios (each, as defined). See *Financing Activities* *Covenant Compliance* below for further discussion of our restrictive covenants.

As of June 30, 2009, we had \$249.6 million of eligible collateral, \$166.0 million in outstanding advances, \$14.5 million in open letters of credit and \$69.1 million of additional borrowing capacity. As of June 30, 2009, we had \$53.5 million of available cash and cash equivalents.

At July 31, 2009, we had \$239.8 million of eligible collateral, \$125.0 million in outstanding advances, \$14.3 million in open letters of credit and \$100.5 million of additional borrowing capacity. As of July 31, 2009, we had approximately \$30.3 million of available cash and cash equivalents.

Our borrowing availability fluctuates daily with changes in eligible accounts receivables and inventory, less outstanding borrowings and letters of credit. See *Financing Activities* below.

---

**Table of Contents**

We generally meet long-term liquidity requirements, the repayment of debt and investment funding needs, through additional borrowings under the ABL facility and the issuance of debt securities. At June 30, 2009, our long-term debt consisted of \$166.0 million of outstanding borrowings on the ABL facility, \$226.3 million principal amount of the Metals USA Notes, \$177.5 million principal amount of the 2007 Notes, an Industrial Revenue Bond with \$5.7 million principal amount outstanding and \$0.2 million in vendor financing and purchase money notes.

With respect to long-term liquidity, we believe that we will be able to meet our working capital, capital expenditures and debt service obligations. Our ability to meet long-term liquidity requirements is subject to obtaining additional debt and/or equity financing. Decisions by lenders and investors to enter into such transactions with us will depend upon a number of factors, such as our historical and projected financial performance, compliance with the terms of our current credit agreements, industry and market trends, the availability of capital, and the relative attractiveness of alternative lending or investment opportunities.

Although we do not produce any metal, our financial performance is affected by changes in metal prices. When metal prices rise, the prices at which we are able to sell our products generally increase over their historical costs; accordingly, our working capital (which consists primarily of accounts receivable and inventory) tends to increase in a rising price environment. Conversely, when metal prices fall, our working capital tends to decrease. Our working capital (current assets less current liabilities) decreased from \$699.0 million at December 31, 2008 to \$364.0 million at June 30, 2009.

Changes in metal prices also affect our liquidity because of the time difference between our payment for our raw materials and our collection of cash from our customers. We sell our products and typically collect our accounts receivable within 45 days after the sale; however, we tend to pay for replacement materials (which are more expensive when metal prices are rising) over a much shorter period, primarily to benefit from early-payment discounts that are substantially higher than our cost of incremental debt. As a result, when metal prices are rising, we tend to draw more on the ABL facility to cover the cash flow cycle from material purchase to cash collection. When metal prices fall, we can replace our inventory at lower cost and, thus, generally do not need to access the ABL facility as much to cover the cash flow cycle. We believe our cash flow from operations, supplemented with the cash available under the ABL facility, will provide sufficient liquidity to meet the challenges and obligations we face during the current metal price environment. Additionally, we intend to look for value-added businesses that we can acquire at reasonable prices. We intend to use cash flows from operations and excess cash available under the ABL facility to fund future acquisitions.

The following discussion of the principal sources and uses of cash should be read in conjunction with our Unaudited Condensed Consolidated Statements of Cash Flows which are set forth under Item 1 Financial Statements.

During the six months ended June 30, 2009, net cash provided by operating activities was \$183.0 million. This amount represents net income, adjusted for gain on extinguishment of debt and costs that did not involve cash flows for the period, of negative \$35.6 million, in addition to changes in operating assets and liabilities that resulted in a cash inflow of \$218.6 million for the period, an amount that was primarily attributable to decreases in accounts receivable and inventories. During the six months ended June 30, 2008, net cash used in operating activities was \$73.0 million. This amount represents net income, adjusted for costs that did not involve cash flows for the period and gains on the sale of property and equipment, of \$55.1 million, in addition to changes in operating assets and liabilities that resulted in a cash outflow of \$128.1 million for the period, an amount that was primarily attributable to increases in accounts receivable and inventories, partially offset by increases in accounts payable and accrued liabilities.

Net cash used in investing activities was \$6.5 million for the six months ended June 30, 2009, and consisted of \$4.2 million for the acquisition of VR Laser and \$2.3 million of capital expenditures. Net cash used in investing activities was \$0.6 million for the six months ended June 30, 2008, and consisted of \$4.9 million of

---

**Table of Contents**

purchases of assets partially offset by proceeds from sales of assets of \$4.3 million. For the six months ended June 30, 2008, the most significant internal capital project was the expansion of our New Orleans Plates and Shapes facility.

Net cash used in financing activities was \$289.7 million for the six months ended June 30, 2009, and consisted primarily of net repayments on the ABL facility of \$202.0 million, in addition to repayments of other long-term debt of \$87.7 million. Net cash provided by financing activities was \$78.4 million for the six months ended June 30, 2008, and consisted primarily of net borrowings on the ABL facility of \$81.0 million.

***Adjusted EBITDA***

EBITDA represents net income before interest, income taxes, depreciation and amortization. Adjusted EBITDA (as defined by the loan and security agreement governing the ABL facility and the indentures governing the Metals USA Notes and the 2007 Notes) is defined as EBITDA further adjusted to exclude certain non-cash, non-recurring and realized (or in the case of the indentures, expected) future cost savings directly related to prior acquisitions. EBITDA and Adjusted EBITDA are not defined terms under GAAP. Neither EBITDA nor Adjusted EBITDA should be considered an alternative to operating income or net income as a measure of operating results or an alternative to cash flow as a measure of liquidity. There are material limitations associated with making the adjustments to our earnings to calculate EBITDA and Adjusted EBITDA and using these non-GAAP financial measures as compared to the most directly comparable GAAP financial measures. For instance, EBITDA and Adjusted EBITDA do not include:

interest expense, and, because we have borrowed money in order to finance our operations, interest expense is a necessary element of our costs and ability to generate revenue;

depreciation and amortization expense, and, because we use capital assets, depreciation and amortization expense is a necessary element of our costs and ability to generate revenue; and

income tax expense, and because the payment of taxes is part of our operations, tax expense is a necessary element of our costs and ability to operate.

We present EBITDA because we consider it an important supplemental measure of our performance and believe it is frequently used by our investors and other interested parties, as well as by our management, in the evaluation of companies in our industry, many of which present EBITDA when reporting their results. In addition, EBITDA provides additional information used by our management and board of directors to facilitate internal comparisons to historical operating performance of prior periods. Further, management believes EBITDA facilitates their operating performance comparisons from period to period because it excludes potential differences caused by variations in capital structure (affecting interest expense), tax positions (such as the impact of changes in effective tax rates or net operating losses) and the age and book depreciation of facilities and equipment (affecting depreciation expense).

We believe that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA are appropriate to provide additional information to investors about the performance of the business, and we are required to reconcile net income to Adjusted EBITDA to demonstrate compliance with debt covenants. Management uses Adjusted EBITDA as a key indicator to evaluate performance of certain employees.

**Table of Contents****Reconciliation of Net Income to EBITDA and Adjusted EBITDA**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
<b>Net income</b>	\$ 13.8	\$ 39.8	\$ 9.7	\$ 43.6
Depreciation and amortization(1)	5.2	5.8	10.4	12.4
Interest expense	17.2	19.9	36.5	45.0
Gain on extinguishment of debt	(56.1)		(88.4)	
Provision for income taxes	6.2	23.6	2.5	26.0
Other (income) expense	(0.2)	0.1	(0.3)	
<b>EBITDA</b>	(13.9)	89.2	(29.6)	127.0
Covenant defined adjustments:				
Facilities closure(2)		2.8	0.4	4.7
Stock options and grant expense(3)	0.1	0.3	0.2	0.6
Management fees(4)	0.3	0.3	0.6	0.6
<b>Adjusted EBITDA(5)</b>	\$ (13.5)	\$ 92.6	\$ (28.4)	\$ 132.9
Fixed charge coverage ratio numerator(6)	\$ 38.4	\$ 171.6	\$ 38.4	\$ 171.6
Fixed charge coverage ratio denominator(6)	\$ 124.0	\$ 73.8	\$ 124.0	\$ 73.8
Fixed charge coverage ratio(6)	0.31	2.33	0.31	2.33

- (1) Includes depreciation for Building Products that is included in cost of sales.
- (2) This amount represents charges in the Building Products Group for severance costs incurred in the first quarter of 2009 and the closure of five facilities during the respective periods of 2008.
- (3) Non-cash stock option and stock grant expense.
- (4) Includes accrued expenses related to the management agreement we have with Apollo.
- (5) As defined by the loan and security agreement governing the ABL facility.
- (6) This amount represents the FCCR, as defined by the ABL facility.

**Financing Activities****The ABL Facility**

The ABL facility permits us to borrow on a revolving basis through November 30, 2011. Substantially all of our subsidiaries are borrowers under the ABL facility.

On July 1, 2008, we executed our option to increase the Tranche A Commitments by \$100.0 million, which increased the total commitment from \$525.0 million to \$625.0 million. All other existing terms under the ABL facility remained unchanged. Costs incurred to exercise the option to increase the ABL facility totaled \$2.4 million, and are being amortized over the existing term of the ABL facility.

On June 8, 2007, we executed the June 2007 amendment to the ABL facility, which increased the commitment from \$450.0 million to \$525.0 million, comprised of \$500.0 million of Tranche A Commitments and \$25.0 million of Tranche A-1 Commitments. Additionally, the June 2007 amendment reduced the borrowing cost on the Tranche A facility by 25 basis points, reduced the borrowing cost on the Tranche A-1 facility by 75 basis points and gave us the option to increase the Tranche A Commitments by \$100.0 million. Costs incurred in connection with the June 2007 amendment totaled \$1.6 million, and are being amortized over the existing term of the ABL facility, which expires November 30, 2011.

**Borrowing Base.** The maximum availability under the ABL facility is based on eligible receivables and eligible inventory, subject to certain reserves. Our borrowing availability fluctuates daily with changes in eligible





---

**Table of Contents**

receivables and inventory, less outstanding borrowings and letters of credit. The borrowing base is equal to the lesser of (a) the aggregate amount of the Tranche A Commitments and the Tranche A-1 Commitments and (b) the sum of:

85% of the net amount of eligible accounts receivable;

the lesser of (x) 70% of the lesser of the original cost or market value of eligible inventory and (y) 90% of the net orderly liquidation value of eligible inventory; and

at all times prior to the termination of the Tranche A-1 Commitments, the sum of 5% of the net amount of eligible accounts receivable and 5% of the net orderly liquidation value of eligible inventory.

Initial borrowings under the ABL facility were used to repay the outstanding amounts drawn under our existing revolving credit facility and to fund other costs and expenses related to the Merger. The loan and security agreement governing the ABL facility provides for up to \$15.0 million of swing-line loans and up to \$100.0 million for the issuance of letters of credit. Both the face amount of any outstanding letters of credit and any swing-line loans will reduce borrowing availability under the ABL facility on a dollar-for-dollar basis.

As of June 30, 2009, we had \$249.6 million of eligible collateral, \$166.0 million in outstanding advances, \$14.5 million in open letters of credit and \$69.1 million of additional borrowing capacity. As of June 30, 2009, we had \$53.5 million of available cash and cash equivalents.

At July 31, 2009, we had \$239.8 million of eligible collateral, \$125.0 million in outstanding advances, \$14.3 million in open letters of credit and \$100.5 million of additional borrowing capacity. As of July 31, 2009, we had approximately \$30.3 million of available cash and cash equivalents.

*Guarantees and Security.* Substantially all of our subsidiaries are defined as borrowers under the loan and security agreement governing the ABL facility. The obligations under the ABL facility are guaranteed by Flag Intermediate and certain of our domestic subsidiaries and are secured (i) on a first-priority lien basis by our, the other borrowers and the guarantors accounts, inventory, cash and proceeds and products of the foregoing and certain assets related thereto and (ii) on a second-priority lien basis by substantially all of our, the other borrowers and the guarantors other assets, subject to certain exceptions and permitted liens. Metals USA Holdings is not a party to the ABL facility, and indebtedness under the ABL facility is not guaranteed by Metals USA Holdings.

*Interest Rate and Fees.* Interest is calculated based upon a margin (established within a specific pricing grid for loans utilizing Tranche A Commitments) over reference rates. The marginal rates vary with our financial performance as measured by the FCCR. The FCCR is determined by dividing (i) the sum of Adjusted EBITDA (as defined by the loan and security agreement governing the ABL facility) minus income taxes paid in cash minus non-financed capital expenditures by (ii) the sum of certain distributions paid in cash, cash interest expense and scheduled principal reductions on debt, and is calculated based on such amounts for the three immediately preceding months.

The interest rates with respect to loans utilizing the Tranche A Commitments are, at our option, (i) the higher of (a) the prime rate of Credit Suisse in effect at its principal office in New York City and (b) the federal funds effective rate plus 0.5%; plus, in each case, an applicable margin ranging between -0.25% and -0.50% as determined in accordance with the loan and security agreement governing the ABL facility or (ii) the rate (as adjusted for statutory reserves) for Eurodollar deposits for one, two, three, six or, if agreed to by all lenders under the loan and security agreement, nine or twelve months, as selected by us, by reference to the British Bankers Association Interest Settlement Rates, plus an applicable margin ranging between 1.00% and 1.75% as determined in accordance with the loan and security agreement governing the ABL facility. The interest rates with respect to loans utilizing the Tranche A-1 Commitments are, at our option, (i) the higher of (a) the prime rate of Credit Suisse in effect at its principal office in New York City and (b) the federal funds effective rate plus

---

**Table of Contents**

0.5%; in each case plus an applicable margin of 0.75% or (ii) the rate (as adjusted for statutory reserves) for Eurodollar deposits for one, two, three, six or, if agreed to by all lenders under the loan and security agreement, nine or twelve months, as selected by us, by reference to the British Bankers Association Interest Settlement Rates, plus an applicable margin of 2.75%.

A commitment fee is payable on any unused commitments under the ABL facility of 0.25% per annum. The applicable base rate and the effective LIBOR rate for the Tranche A Commitments and Tranche A-1 Commitments were 3.25% and 0.595%, respectively, as of June 30, 2009.

*Certain Covenants.* The ABL facility contains customary representations, warranties and covenants as a precondition to lending, including a material adverse change in the business, limitations on our ability to incur or guarantee additional debt, subject to certain exceptions, pay dividends, or make redemptions and repurchases, with respect to capital stock, repay debt, create or incur certain liens, make certain loans or investments, make acquisitions or investments, engage in mergers, acquisitions, asset sales and sale lease-back transactions, and engage in certain transactions with affiliates. In addition, the ABL facility requires a lock-box arrangement, which, as long as borrowing availability is greater or equal to \$45.0 million and in the absence of default, is controlled by Metals USA. As long as our borrowing availability is greater than or equal to \$45.0 million, we do not have to maintain a minimum FCCR. Should borrowing availability fall below \$45.0 million, we must maintain an FCCR of at least 1.0 to 1.0. For purposes of determining covenant compliance, the FCCR is determined by dividing (i) the sum of Adjusted EBITDA (as defined by the loan and security agreement governing the ABL facility) minus income taxes paid in cash minus non-financed capital expenditures by (ii) the sum of certain distributions paid in cash, cash interest expense and scheduled principal reductions on debt, and is calculated based on such amounts for the most recent period of four consecutive fiscal quarters. As of June 30, 2009, our FCCR was 0.31.

Additionally, payments to affiliates are limited to the greater of \$3.0 million or 3% of Adjusted EBITDA (as defined in the loan and security agreement governing the ABL facility) provided borrowing availability equals at least \$25.0 million. Further, distributions in respect of capital stock are limited to the payment of up to \$25.0 million, plus \$5.0 million for each full fiscal quarter (with any amount not used in any fiscal quarter being permitted to be used in succeeding fiscal quarters), plus 50% of cumulative consolidated net income, or if a loss, minus 100% of the amount thereof, plus 100% of the aggregate net proceeds received by us from certain sales and issuances of capital stock or from certain capital contributions, of dividends in any fiscal quarter provided that borrowing availability is greater than \$50.0 million and the FCCR is at least 1.0 to 1.0.

The ABL facility contains events of default with respect to: default in payment of principal when due, default in the payment of interest, fees or other amounts after a specified grace period, material breach of the representations or warranties, default in the performance of specified covenants, failure to make any payment when due under any indebtedness with a principal amount in excess of a specified amount, certain bankruptcy events, certain ERISA violations, invalidity of certain security agreements or guarantees, material judgments, or a change of control. In the event of default the agreement may permit the lenders to: (i) restrict the account or refuse to make revolving loans; (ii) cause customer receipts to be applied against borrowings under the ABL facility causing the Company to suffer a rapid loss of liquidity and the ability to operate on a day-to-day basis; (iii) restrict or refuse to provide letters of credit; or ultimately: (iv) terminate the commitments and the agreement; or (v) declare any or all obligations to be immediately due and payable if such default is not cured in the specified period required. Any payment default or acceleration under the ABL facility would also result in a default under the Metals USA Notes and the 2007 Notes that would provide the holders of the Metals USA Notes and the 2007 Notes with the right to demand immediate repayment.

*Interest Rate Swaps.* In February 2008, \$250.0 million notional amount of outstanding borrowings under the ABL facility were swapped from a floating LIBOR-based rate to a fixed rate. The swaps entitle us to receive quarterly payments of interest at a floating rate indexed to the three-month LIBOR and pay a fixed rate that ranges from 2.686% to 2.997%, converting a portion of the outstanding borrowings on our ABL facility from a

**Table of Contents**

floating rate obligation to a fixed rate obligation. Pretax realized gains and losses from derivatives which were recognized in earnings during the six months ended June 30, 2009 amounted to \$3.6 million of additional interest expense, consisting of \$1.9 million of gains and losses that effectively offset changes in the cost of the Company's hedged exposure, and \$1.7 million of changes in the fair value of derivatives, an amount that was excluded from the Company's assessment of hedge effectiveness. The fair value of the Company's interest rate swaps was \$5.7 million at June 30, 2009, with \$3.9 million classified as accrued liabilities and \$1.8 million classified as other long-term liabilities in the consolidated balance sheet.

***2007 Notes***

On July 10, 2007, we issued \$300.0 million initial aggregate principal amount of the 2007 Notes due July 1, 2012. The 2007 Notes were issued at an initial issue price of 97% of the principal amount thereof, and original issue discount is being amortized to interest expense over the life of the 2007 Notes. The 2007 Notes are senior unsecured obligations that are not guaranteed by any of Metals USA Holdings' subsidiaries. As such, the 2007 Notes are structurally subordinated to all indebtedness and other liabilities (including trade payables) of Metals USA Holdings subsidiaries.

Metals USA Holdings must make an election regarding whether interest payments on the 2007 Notes will be made in cash or through PIK Interest prior to the start of the applicable interest period. Metals USA Holdings may elect to pay interest (1) entirely in cash or (2) entirely by increasing the principal amount of the 2007 Notes or issuing new 2007 Notes ( PIK Interest ), or (3) on 50% of the outstanding principal amount of the 2007 Notes in cash and on 50% of the outstanding principal amount of the 2007 Notes by increasing the principal amount of the outstanding 2007 Notes or by issuing new 2007 Notes ( Partial PIK Interest ). Cash interest on the 2007 Notes will accrue at a rate per annum, reset quarterly, equal to LIBOR plus a spread of 6.00%, which increases by 0.25% to 6.25% in year 2, by 0.50% to 6.50% in year 3, and by 0.75% to 6.75% in year 4. In the event PIK Interest is paid on the 2007 Notes after the first four interest periods, the then-applicable margin over LIBOR on the 2007 Notes would increase by 0.75% for each period in which PIK Interest is paid. If Metals USA Holdings elects to pay any PIK Interest, Metals USA Holdings will increase the principal amount on the 2007 Notes or issue new 2007 Notes in an amount equal to the amount of PIK Interest for the applicable interest payment period to holders of the 2007 Notes on the relevant record date. Interest is payable quarterly in arrears on January 1, April 1, July 1 and October 1. PIK Interest notes, resulting from the conversion of interest into PIK notes, when paid will be treated as an operating activity in the Consolidated Statements of Cash Flows in accordance with SFAS 95.

The initial five interest payments on the 2007 Notes were paid solely in cash. Flag Intermediate provided funds to Metals USA Holdings to fund the initial five quarterly interest payments on the 2007 Notes, which were paid on October 1, 2007, January 2, 2008, April 1, 2008, July 1, 2008, and October 1, 2008 and which totaled \$7.7 million, \$8.4 million, \$8.1 million, \$6.5 million and \$6.6 million, respectively.

On September 26, 2008, we made a permitted election under the indenture governing the 2007 Notes to pay all interest that was due on January 1, 2009, for the interest period beginning on October 1, 2008, and ending on December 31, 2008, entirely through PIK Interest. The January 1, 2009 PIK Interest payment amounted to \$8.2 million. The April 1, 2009 PIK Interest payment amounted to \$5.6 million. The Company must make an election regarding whether subsequent interest payments will be made in cash, through PIK Interest, or Partial PIK Interest, prior to the start of the applicable interest period. In the absence of such an election for any interest period, interest on the 2007 Notes will be payable according to the election for the previous interest period. As a result, the PIK Interest election is now the default election for future interest periods unless we elect otherwise not later than the commencement of an interest period.

The terms of the ABL facility, as well as the indenture governing the Metals USA Notes, restrict Flag Intermediate and certain of its subsidiaries from making payments or transferring assets to Metals USA Holdings, including dividends, loans, or distributions. Such restrictions include prohibition of dividends in an event of

## **Table of Contents**

default and limitations on the total amount of dividends paid to Metals USA Holdings. In the event these agreements do not permit Flag Intermediate to provide Metals USA Holdings with sufficient distributions to fund interest and principal payments on the 2007 Notes when due, Metals USA Holdings may default on the 2007 Notes unless other sources of funding are available. The amount available under the restricted payment provision contained in the loan and security agreement governing the ABL facility was \$55.7 million as of June 30, 2009. No amount was available under the restricted payment provision contained in the indenture governing the Metals USA Notes as of June 30, 2009.

On or after January 15, 2008, Metals USA Holdings may redeem some or all of the 2007 Notes at certain redemption prices, plus accrued and unpaid interest and additional interest, if any, to the redemption date. If Metals USA Holdings makes certain public offerings, sales or issuances of common stock, and does not redeem the 2007 Notes, it will be required to make an offer to repurchase the maximum principal amount of the 2007 Notes that may be purchased out of the proceeds thereof, at a price equal to 100% of the principal amount, plus accrued and unpaid interest and additional interest, if any, to the date of repurchase.

If Metals USA Holdings experiences a change of control and does not redeem the 2007 Notes, it will be required to make an offer to repurchase the 2007 Notes at a price equal to 101% of the principal amount, plus accrued interest and unpaid interest and additional interest, if any, to the date of repurchase.

Under the indenture governing the 2007 Notes, we are required to pay interest on overdue principal at 1% per annum in excess of the rates discussed above and are required to pay interest on overdue installments of interest at such higher rate to the extent lawful. The indenture governing the 2007 Notes contains covenants described under **Covenant Compliance** below.

The indenture governing the 2007 Notes contains covenants that, among other things, limit Metals USA Holdings' ability and the ability of certain of its subsidiaries to incur or guarantee additional indebtedness or issue disqualified or preferred stock, repurchase or redeem capital stock or subordinated indebtedness, pay dividends or make distributions to its stockholders, incur restrictions on the ability of its subsidiaries to pay dividends or to make other payments to Metals USA Holdings, transfer or sell assets, create liens, enter into transactions with affiliates, make investments or acquisitions, and merge or consolidate with other companies or transfer all or substantially all of its assets.

Our affiliates, which include Apollo Management V L.P. ( **Apollo Management** ) and together with its affiliated investment entities ( **Apollo** ), as well as our Chief Executive Officer and our Chief Financial Officer, have purchased a portion of our 2007 Notes in the market. For the three and six months ended June 30, 2009, interest paid on the 2007 Notes held by affiliates amounted to \$2.8 and \$6.3 million, respectively, and was paid entirely by PIK Interest. From time to time, depending upon market, pricing and other conditions, as well as cash balances and liquidity, we, our subsidiaries or affiliates may seek to purchase or sell some amount of the Metals USA Notes or additional amounts of the 2007 Notes. Any such purchases or sales may be made in the open market, privately negotiated transactions, tender offers or otherwise. The amounts of any such purchases or sales may be material.

### ***The Metals USA Notes***

On the closing date of the Merger, we received approximately \$268.0 million of net cash proceeds from the sale of \$275.0 million in aggregate principal amount of the Metals USA Notes, after deducting expenses of the offering. Interest on the Metals USA Notes accrues at the rate of 11 <sup>1</sup>/<sub>8</sub>% per annum and is payable semiannually in arrears on June 1 and December 1 and commenced on June 1, 2006. The Metals USA Notes will mature on December 1, 2015. We may redeem some or all of the Metals USA Notes at any time on or after December 1, 2010, at a predetermined redemption price plus accrued and unpaid interest and additional interest, if any, to the applicable redemption date. If we experience a change of control and we do not redeem the Metals USA Notes, we will be required to make an offer to repurchase the Metals USA Notes at a price equal to 101% of the principal amount, plus accrued and unpaid interest and additional interest, if any, to the date of repurchase.

---

## **Table of Contents**

Under the indenture governing the Metals USA Notes, we are required to pay interest on overdue principal at 1% per annum in excess of the above rate and are required to pay interest on overdue installments of interest at such higher rate to the extent lawful. The indenture governing the Metals USA Notes contains the covenants described under **Covenant Compliance** below.

The Metals USA Notes indenture contains certain customary events of default, including (subject, in some cases, to customary cure periods thresholds) defaults based on (1) the failure to make payments under the Metals USA indenture when due, (2) breach of covenants, (3) cross-defaults to other material indebtedness, (4) bankruptcy events and (5) material judgments. We were in compliance with all covenants as of June 30, 2009.

### ***Covenant compliance***

Our FCCR as defined by the ABL facility is calculated based on a numerator consisting of Adjusted EBITDA less cash taxes and capital expenditures and a denominator consisting of interest expense and certain distributions, and is calculated based on such amounts for the most recent period of four consecutive fiscal quarters. As of June 30, 2009, our FCCR was 0.31. As of June 30, 2009, we had \$69.1 million of additional borrowing capacity under the ABL facility. Failure to comply with the FCCR covenant of the ABL facility can result in limiting our long-term growth prospects by hindering our ability to incur future indebtedness or grow through acquisitions.

The indentures governing the Metals USA Notes and the 2007 Notes contain covenants that restrict our ability to take certain actions, such as incurring additional debt and making certain acquisitions, if we are unable to meet defined Adjusted EBITDA to Fixed Charges and consolidated total debt ratios (each, as defined). The covenants in the indenture requires us to have an Adjusted EBITDA to Fixed Charge ratio (measured on a trailing four-quarter basis and calculated differently from the fixed charge coverage ratio as defined by the ABL facility) of 2.0 to 1.0 to incur ratio indebtedness and a consolidated total debt ratio of no greater than 4.75 to 1.0 to incur ratio indebtedness in connection with acquisitions. Based on the calculations for the trailing four quarters, we are not able to satisfy these covenants and incur additional indebtedness under these ratios, including for acquisition purposes, under our indentures. The most restrictive of the covenants in all of our debt agreements is the FCCR in our ABL facility; accordingly, we have presented our covenant compliance on that basis.

The FCCR (as defined in the loan and security agreement governing the ABL facility) is determined by dividing (i) the sum of Adjusted EBITDA (as defined by the loan and security agreement governing the ABL facility) minus income taxes paid in cash minus non-financed capital expenditures by (ii) the sum of certain distributions paid in cash, cash interest expense and scheduled principal reductions on debt, and is calculated based on such amounts for the most recent period of four consecutive fiscal quarters. Adjusted EBITDA is defined as EBITDA further adjusted to exclude certain non-cash, non-recurring and realized or expected future cost savings directly related to prior acquisitions. We believe that the inclusion of the supplemental adjustments applied in calculating Adjusted EBITDA is appropriate to provide additional information to investors to demonstrate compliance with our financial covenants and assess our ability to incur additional indebtedness in the future. EBITDA, adjusted EBITDA and fixed charges are not defined terms under GAAP. Adjusted EBITDA should not be considered an alternative to operating income or net income as a measure of operating results or an alternative to cash flows as a measure of liquidity. Fixed charges should not be considered an alternative to interest expense. Because we are highly leveraged, we believe that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA are appropriate to provide additional information to investors to demonstrate compliance with the covenants in our debt agreements.

Both the loan and security agreement governing the ABL facility and the indentures governing the Metals USA Notes and the 2007 Notes contain restrictions as to the payment of dividends. The amount available under the restricted payment provision contained in the loan and security agreement governing the ABL facility was \$55.7 million as of June 30, 2009. No amount was available under the restricted payment provision contained in the indenture governing the Metals USA Notes as of June 30, 2009. As of June 30, 2009, Flag Intermediate and its wholly-owned subsidiary, Metals USA, had \$146.0 million of total stockholder s equity.

## **Table of Contents**

We believe the cash flow from operations, supplemented by the cash available under the ABL facility, will be sufficient to enable us to meet our debt service and operational obligations as they come due for at least the next twelve months.

### **Commitments and Contingencies**

From time to time, we are involved in a variety of claims, lawsuits and other disputes arising in the ordinary course of business. We believe the resolution of these matters and the incurrence of their related costs and expenses should not have a material adverse effect on our consolidated financial position, results of operations, liquidity or cash flows.

### **Off-Balance Sheet Arrangements**

We were not engaged in off-balance sheet arrangements through any unconsolidated, limited purpose entities and no material guarantees of debt or other commitments to third parties existed at June 30, 2009.

### **New Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 ( SFAS 168 ), which establishes the FASB Accounting Standards Codification as the source of GAAP to be applied to nongovernmental agencies. SFAS 168 explicitly recognizes rules and interpretive releases of the Securities and Exchange Commission ( SEC ) under authority of federal securities laws as authoritative GAAP for SEC registrants. SFAS 168 will become effective for interim or annual periods ending after September 15, 2009. SFAS 168 will not have a material impact on the Company s consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events ( SFAS 165 ). SFAS 165 modifies the definition of what qualifies as a subsequent event those events or transactions that occur following the balance sheet date, but before the financial statements are issued, or are available to be issued and requires companies to disclose the date through which it has evaluated subsequent events and the basis for determining that date. The Company adopted the provisions of SFAS 165 for second quarter 2009, in accordance with the effective date.

In April 2009, The FASB issued FASB Staff Position SFAS 107-1 and Accounting Principles Board ( APB ) Opinion No. 28-1, Interim Disclosures about Fair Value of Financial Instruments ( FSP 107-1 and APB 28-1 ). FSP 107-1 amends SFAS No. 107, Disclosures about Fair Values of Financial Instruments to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. APB 28-1 amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in all interim financial statements. FSP 107-1 and APB 28-1 are effective for interim periods ending after June 15, 2009 and the Company has adopted them in second quarter 2009.

In April 2008, the FASB issued FASB Staff Position ( FSP ) No. SFAS 142-3, Determination of the Useful Life of Intangible Assets ( FSP SFAS 142-3 ). FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets ( SFAS 142 ). The intent of FSP SFAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R (revised 2007), Business Combinations ( SFAS 141R ) and other applicable accounting literature. FSP SFAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and must be applied prospectively to intangible assets acquired after the effective date. The Company has not acquired any intangible assets since adopting FSP SFAS 142-3. As such, there has been no impact to the Company s financial statements since the January 1, 2009 adoption date.

**Table of Contents**

In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133 ( SFAS 161 ), which expands the disclosure requirements in SFAS 133 about an entity's derivative instruments and hedging activities. SFAS 161's disclosure provisions apply to all entities with derivative instruments subject to SFAS 133 and its related interpretations. The provisions also apply to related hedged items, bifurcated derivatives, and nonderivative instruments that are designated and qualify as hedging instruments. Entities with instruments subject to SFAS 161 must provide more robust qualitative disclosures and expanded quantitative disclosures. Such disclosures, as well as existing SFAS 133 required disclosures, generally will need to be presented for every annual and interim reporting period. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. For the six months ended June 30, 2009, we have included the statement's expanded disclosures about derivative instruments and hedging activities within the Company's financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS 141R ), which replaces SFAS 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired in connection with a business combination. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effect of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of an entity's first fiscal year that begins after December 15, 2008. The Company applied the provisions of SFAS 141R in connection with the acquisition that closed during the first quarter of 2009 (see Note 2 below). The adoption of SFAS 141R did not have a material impact on the Company's consolidated financial statements.

**ITEM 3. *Quantitative and Qualitative Disclosures About Market Risk***

In the normal course of our business, we are exposed to market risk, primarily from changes in interest rates and the cost of metal we hold in inventory. We continually monitor exposure to market risk and develop appropriate strategies to manage this risk. With respect to our metal purchases, there is no recognized market to purchase derivative financial instruments to reduce the inventory exposure risks. See *Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources* for a discussion of market risk relative to steel prices.

Our exposure to market risk for changes in interest rates relates primarily to the ABL facility and the 2007 Notes, both of which are subject to variable interest rates. As of June 30, 2009, outstanding borrowings under the ABL facility were \$166.0 million. Based on the weighted average borrowings outstanding on the ABL facility during the six months ended June 30, 2009, a one percent increase or decrease in the weighted average facility rate would have resulted in a change to pretax interest expense of approximately \$1.3 million for the period.

As of June 30, 2009, the outstanding principal amount of the 2007 Notes was \$177.5 million. Based on this amount, a one percent increase or decrease in the base rate would have resulted in a change to pretax interest expense of \$0.9 million for the six months ended June 30, 2009. At July 31, 2009, the 2007 Notes were traded at approximately 64% of face value, based on quoted market prices.

In February 2008, \$250.0 million notional amount of outstanding borrowings under the ABL facility were swapped from a floating LIBOR-based rate to a fixed rate. The swaps entitle us to receive quarterly payments of interest at a floating rate indexed to the three-month LIBOR and pay a fixed rate that ranges from 2.686% to 2.997%, converting a portion of the outstanding borrowings on our ABL facility from a floating rate obligation to a fixed rate obligation. Pretax realized gains and losses from derivatives which were recognized in earnings during the six months ended June 30, 2009 amounted to \$3.6 million of additional interest expense, consisting of \$1.9 million of gains and losses that effectively offset changes in the cost of the Company's hedged exposure, and \$1.7 million of changes in the fair value of derivatives, an amount that was excluded from the Company's assessment of hedge effectiveness. The fair value of the Company's interest rate swaps was \$5.7 million at

**Table of Contents**

June 30, 2009, with \$3.9 million classified as accrued liabilities and \$1.8 million classified as other long-term liabilities in the consolidated balance sheet.

\$226.3 million aggregate principal amount of Metals USA Notes were outstanding at June 30, 2009, with a fixed interest rate of 11 1/8%. Changes in market interest rates will not impact cash interest payable on the Metals USA Notes. At July 31, 2009, the Metals USA Notes were traded at approximately 90% of face value, based on quoted market prices.

**ITEM 4. Controls and Procedures**

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including the Chief Executive Officer ( CEO ) and the Chief Financial Officer ( CFO ) of Metals USA Holdings Corp, of the effectiveness of our disclosure controls and procedures (as defined pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934).

Based on that evaluation, the CEO and CFO of Metals USA Holdings Corp. have concluded that our disclosure controls and procedures are effective to ensure that the information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

We maintain a system of internal accounting controls that are designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our policies and procedures are followed. There have been no changes in our internal controls over financial reporting or in other factors that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.



**Table of Contents**

**PART II. OTHER INFORMATION**

**ITEM 1. *Legal Proceedings***

From time to time, we are involved in a variety of claims, lawsuits and other disputes arising in the ordinary course of business. We believe the resolution of these matters and the incurrence of their related costs and expenses should not have a material adverse effect on our consolidated financial position, results of operations, liquidity or cash flows. While it is not feasible to predict the outcome of all pending suits and claims, the ultimate resolution of these matters as well as future lawsuits could have a material adverse effect on our business, financial condition, results of operations, cash flows or reputation.

**ITEM 1A. *Risk Factors***

There have been no material changes to the disclosure related to risk factors made in our Annual Report on Form 10-K for the year ended December 31, 2008.

**ITEM 2. *Unregistered Sales of Equity Securities and Use of Proceeds***

None.

**ITEM 3. *Defaults Upon Senior Securities***

None.

**ITEM 4. *Submission of Matters to a Vote of Security Holders***

None.

**ITEM 5. *Other Information***

None.

**ITEM 6. *Exhibits***

<b>Exhibit Number</b>	<b>Description</b>
31.1*	Certification of the Chief Executive Officer of Metals USA Holdings Corp., dated August 14, 2009, pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer of Metals USA Holdings Corp., dated August 14, 2009, pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer of Metals USA Holdings Corp., dated August 14, 2009, 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 the Chief Financial Officer of Metals USA Holdings Corp., dated August 14, 2009, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith.

**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, who has signed this report on behalf of the Registrant and as the principal financial officer of the Registrant.

METALS USA HOLDINGS CORP.

Date: August 14, 2009

By: /s/ **ROBERT C. MCPHERSON, III**  
**Robert C. McPherson, III**  
  
**Senior Vice President and**  
  
**Chief Financial Officer**