METALS USA INC
Form 10-Q
May 11, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

Commission File Number 333-132918

FLAG INTERMEDIATE HOLDINGS CORPORATION

(Exact name of Registrant as Specified in its Charter)

Delaware	**20-3779375**
(State or other jurisdiction	**(I.R.S. Employer**

of incorporation or organization) **Identification Number)**

Commission File Number 001-13123

METALS USA, INC.

(Exact name of Registrant as Specified in its Charter)

Delaware	**76-0533626**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

2400 E. Commercial Blvd., Suite 905

Fort Lauderdale, Florida	**33308**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrants telephone number, including area code: (954) 202-4000

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 x 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 x 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 x

Number of shares of common stock outstanding at April 30, 2010 of Flag Intermediate Holdings Corporation.: 100

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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 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;*

- *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;*

- *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 report, 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 report 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 report, except as otherwise required by applicable law.

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FLAG INTERMEDIATE HOLDINGS CORPORATION AND

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FLAG INTERMEDIATE HOLDINGS CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share amounts)

	March 31, 2010	December 31, 2009
Assets		
Current Assets:		
Cash	$ 4.7	$ 5.5
Accounts receivable, net of allowance of $6.4 and $6.3, respectively	148.5	124.8
Inventories	223.7	216.0
Deferred income tax asset	14.8	14.5
Prepayments and other	5.2	6.5
Total current assets	396.9	367.3
Property and equipment, net	179.8	183.4
Intangible assets, net	7.3	8.4
Goodwill	45.6	45.6
Other assets	13.5	14.5
Total assets	$ 643.1	$ 619.2
Liabilities and Stockholder s Equity		
Current liabilities:		
Accounts payable	$ 63.9	$ 56.3
Accrued liabilities	40.1	34.6
Current portion of long-term debt	0.1	0.1
Total current liabilities	104.1	91.0
Long-term debt, less current portion	316.1	307.1
Deferred income tax liability	56.9	56.9
Other long-term liabilities	22.9	23.1
Total liabilities	500.0	478.1
Commitments and contingencies		
Stockholder s equity:		
Common stock, $.01 par value, 100 shares authorized, issued and outstanding at March 31, 2010, and December 31, 2009, respectively		
Additional paid-in capital	125.9	125.7
Retained earnings	17.2	15.8
Accumulated other comprehensive loss		(0.4)
Total stockholder s equity	143.1	141.1
Total liabilities and stockholder s equity	$ 643.1	$ 619.2

See notes to unaudited condensed consolidated financial statements.

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FLAG INTERMEDIATE HOLDINGS CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions)

	Three Months Ended March 31,	
	2010	**2009**
Net Sales	$ 287.9	$ 330.2
Operating costs and expenses:		
Cost of sales (exclusive of operating and delivery, and depreciation and amortization shown below	218.4	287.7
Operating and delivery	31.3	34.7
Selling, general and administrative	21.0	23.9
Depreciation and amortization	4.6	4.7
Gain on sale of property and equipment	(0.1)	
Operating income (loss)	12.7	(20.8)
Other (income) expense:		
Interest expense	9.6	12.4
Other (income) expense, net		(0.1)
Income (loss) before income taxes	3.1	(33.1)
Provision (benefit) for income taxes	1.7	(12.5)
Net income (loss)	$ 1.4	$ (20.6)

See notes to unaudited condensed consolidated financial statements.

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FLAG INTERMEDIATE HOLDINGS CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Cash flows from operating activities:		
Net income (loss)	$ 1.4	$ (20.6)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Gain on sale of property and equipment	(0.1)	
Provision for bad debts	0.6	1.0
Depreciation and amortization	5.1	5.2
Amortization of debt issuance costs	0.9	0.9
Deferred income taxes	(0.2)	(1.0)
Excess tax benefit from stock-based compensation	(0.1)	
Stock-based compensation	0.1	0.1
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(24.3)	21.0
Inventories	(7.7)	111.3
Prepayments and other	1.3	0.4
Accounts payable and accrued liabilities	13.5	8.2
Other		(1.8)
Net cash (used in) provided by operations	(9.5)	124.7
Cash flows from investing activities:		
Sales of assets	0.1	
Purchases of assets	(0.5)	(0.9)
Acquisition costs, net of cash acquired		(4.2)
Net cash used in investing activities	(0.4)	(5.1)
Cash flows from financing activities:		
Borrowings on credit facility	46.5	45.0
Repayments on credit facility	(37.5)	(162.0)
Excess tax benefit from stock-based compensation	0.1	
Net cash provided by (used in) financing activities	9.1	(117.0)
Net (decrease) increase in cash	(0.8)	2.6
Cash, beginning of period	5.5	93.0
Cash, end of period	$ 4.7	$ 95.6
Supplemental cash flow information:		
Cash paid for interest	$ 2.7	$ 4.0
Cash paid for income taxes	$ 0.2	$ 2.8
Cash (received) for income taxes	$ (0.7)	$ (0.2)

Investments in property, plant and equipment not paid	$ 0.1	$ 0.6

See notes to unaudited condensed consolidated financial statements.

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FLAG INTERMEDIATE HOLDINGS CORPORATION 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. Flag Intermediate, its wholly owned subsidiary Metals USA, and the wholly owned subsidiaries of 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 three months ended March 31, 2010, approximately 94% 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 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, 2009.

Use of Estimates and Assumptions The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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.

FLAG INTERMEDIATE HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in millions)

Allowance for Doubtful Accounts The determination of collectability 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 collectability. 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. We conduct a lower of cost or market inventory valuation annually as of December 31 or more frequently if circumstances indicate potential write-downs. 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 815 Derivatives and Hedging (ASC 815), 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 March 31, 2010, all have remaining terms of approximately one year or less.

Under hedge accounting treatment, 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.

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FLAG INTERMEDIATE HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in millions)

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 ASC Topic 820 Fair Value Measurements and Disclosures (ASC 820) 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. ASC 820 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.

Liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements as of March 31, 2010			
	Total	Level 1	Level 2	Level 3
Interest rate swaps	$ 5.3	$	$ 5.3	$

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. Our 11 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 the Company s Senior Secured Asset-Based Revolving Credit Facility (the ABL facility) and other 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, 2009 and March 31, 2010 was $298.2 and $311.9, 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.

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.

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FLAG INTERMEDIATE HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in millions)

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 $8.4 and $8.3 for the three months ended March 31, 2010 and 2009, 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 stockholder s equity.

New Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06, which amends ASC 820. The guidance requires companies to disclose the amount of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers and the reasons for any transfers in or out of Level 3 of the fair value hierarchy. In addition, the guidance clarifies certain existing disclosure requirements. The standard did not have a material impact on the Company s disclosures in its condensed consolidated financial statements. See Fair Value of Financial Assets and Liabilities above.

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.

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FLAG INTERMEDIATE HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in millions)

3. Inventories

Inventories consist of the following:

	March 31, 2010	December 31, 2009
Raw materials		
Plates and Shapes	$ 113.1	$ 111.0
Flat Rolled and Non-Ferrous	74.6	70.2
Building Products	4.9	5.1
Total raw materials	192.6	186.3
Work-in-process and finished goods		
Plates and Shapes		
Flat Rolled and Non-Ferrous	19.8	19.2
Building Products	11.3	10.5
Total work-in-process and finished goods	31.1	29.7
Total inventories	$ 223.7	$ 216.0

We recorded write-downs of $14.4 and $5.1 for inventory lower of cost or market adjustments during the three months ended March 31, 2009 in our Plates and Shapes and Flat Rolled and Non-Ferrous Groups, respectively.

4. Intangible Assets

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

	March 31, 2010	December 31, 2009
Customer lists	$ 40.7	$ 40.7
Effect of foreign currency	0.1	0.1
Less: Accumulated amortization	(36.2)	(35.2)
	$ 4.6	$ 5.6
Trade name	$ 3.3	$ 3.3
Less: Accumulated amortization	(0.6)	(0.5)
	$ 2.7	$ 2.8

Aggregate amortization expense for the three months ended March 31, 2010 and 2009 was $1.1 and $1.4, 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:

For the Year Ending	Estimated Amortization Expense
2010 (remaining 9 months)	$ 2.5
2011	$ 1.6
2012	$ 0.5

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FLAG INTERMEDIATE HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in millions)

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 a combined $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.

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 cash flow hedge designation 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.

As of September 30, 2009, and in connection with additional repayments of outstanding borrowings on the ABL facility, we removed the cash flow hedge designation from the remaining portion of our interest rate swaps. As a result of the removal of the cash flow hedge designations, we discontinued prospectively the use of hedge accounting on our remaining interest rate swaps. For the amount associated with the forecasted transactions still expected to occur, the net derivative instrument losses at the date of de-designation associated with these discontinued cash flow hedges will continue to be reported in OCI, and will be reclassified from OCI into earnings in the same periods during which the hedged forecasted transactions affect earnings. During the three months ended March 31, 2010, we reclassified into earnings $0.3 of net derivative losses from OCI. The amounts expected to be reclassified into earnings over the next twelve months amounted to $0.4 as of March 31, 2010. All subsequent changes in the fair value of these instruments will be prospectively recognized in earnings.

The following table presents the location within the consolidated balance sheet of all assets and liabilities associated with the Company s outstanding derivatives at March 31, 2010.

Derivatives not designated as hedging instruments under ASC 815	Balance Sheet Location	Asset Derivatives: Fair Value at March 31, 2010	Asset Derivatives: Fair Value at December 31, 2009	Liability Derivatives: Fair Value at March 31, 2010	Liability Derivatives: Fair Value at December 31, 2009
		(in millions)			
Interest rate swaps	Accrued liabilities	$	$	$ 4.3	$ 4.4
	Other long-term liabilities			1.0	1.4
Total derivatives not designated as hedging instruments under ASC 815		$	$	$ 5.3	$ 5.8
Total Derivatives		$	$	$ 5.3	$ 5.8

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FLAG INTERMEDIATE HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in millions)

The following tables present the pretax impact of the Company s derivative instruments within the consolidated statements of operations for the three months ended March 31, 2010 and 2009. 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 Derivative (Effective Portion) Three months ended March 31,		Amount of Gain (Loss) Reclassified from OCI into Income (Effective Portion) Three months ended March 31,		Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) Three months ended March 31,	
	2010	2009	2010	2009	2010	2009
	(in millions)					
Interest rate swaps	$	$ 0.8	$	$ (0.8)	$	$

	Derivatives Not Designated as Cash Flow Hedges Amount of Gain (Loss) Recognized in Income on Derivatives Three months ended March 31,	
	2010	2009
	(in millions)	
Interest rate swaps	$ (1.4)	$

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:

	March 31, 2010	December 31, 2009
Deferred financing costs	$ 4.6	$ 5.3
Deferred debt offering costs	4.1	4.3
Deferred management fees	3.4	3.7
Other	1.4	1.2
Total other assets	$ 13.5	$ 14.5

Aggregate amortization of debt issuance costs for the three months ended March 31, 2010 and 2009 was $0.9 and $0.9, respectively.

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7. Accrued Liabilities

Accrued liabilities consist of the following:

	March 31, 2010	December 31, 2009
Accrued salaries and employee benefits	$ 10.0	$ 9.9
Accrued taxes, other than income	3.2	2.4
Accrued interest	9.5	3.2
Accrued insurance	5.0	4.8
Accrued audit and tax fees	0.9	0.8
Accrued warranty liability	0.4	0.4
Accrued lease terminations	0.8	0.9
Accrued management fees	2.7	4.2
Accrued Merger consideration Predecessor common shares outstanding	2.0	2.0
Current portion of interest rate swap liability	4.3	4.4
Other	1.3	1.6
Total accrued liabilities	$ 40.1	$ 34.6

8. Debt

Debt consists of the following:

	March 31, 2010	December 31, 2009
Senior Secured Asset-Based Revolving Credit Facility (ABL facility)	$ 84.0	$ 75.0
11 1/8 % Senior Secured Notes due 2015 (Metals USA Notes)	226.3	226.3
Industrial Revenue Bond	5.7	5.7
Other	0.2	0.2
Total debt	316.2	307.2
Less current portion of debt	0.1	0.1
Total long-term portion of debt	$ 316.1	$ 307.1

The weighted average interest rates under the ABL facility for the three months ended March 31, 2010 and 2009 were 2.08% and 3.26%, 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 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.

The maximum availability under the ABL facility is based on eligible receivables and eligible inventory, subject to certain reserves. As of March 31, 2010, we had $253.8 of eligible collateral, $84.0 in outstanding advances, $14.0 in open letters of credit and $155.8 of additional borrowing capacity. As of March 31, 2010, we had $4.7 of cash.

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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.

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%. 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 March 31, 2010, our FCCR was 1.37.

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 0.291%, respectively, as of March 31, 2010.

The loan and security agreement governing the ABL facility requires us to comply with limited maintenance, 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

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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. We are in compliance with all covenants as of March 31, 2010.

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 $4.6 as of March 31, 2010, 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 March 31, 2010.

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

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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.

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 March 31, 2010.

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. 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 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 $4.1 as of March 31, 2010, 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 0.50% at March 31, 2010. 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 March 31, 2010.

Metals USA Holdings 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 July 1, 2012 (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.

The initial five interest payments on the 2007 Notes were paid solely in cash. Metals USA Holdings must make an election regarding whether subsequent interest payments 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

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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.

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, Metals USA Holdings 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 December 31, 2008, entirely through PIK Interest. The January 1, 2009 PIK Interest payment amounted to $8.2. Metals USA Holdings has continued to make PIK Interest payments subsequent to January 1, 2009. The April 1, 2009 PIK Interest payment amounted to $5.6, the July 1, 2009 PIK Interest payment amounted to $3.8, the October 1, 2009 PIK Interest payment amounted to $3.5, the January 1, 2010 PIK Interest payment amounted to $3.1, and the April 1, 2010 PIK Interest payment amounted to $3.1.

On April 14, 2010, Metals USA Holdings called for redemption of all of its outstanding 2007 Notes, representing an aggregate principal amount of approximately $169.6 as of the date thereof. The redemption price of the 2007 Notes is 100% of the outstanding aggregate principal amount, plus accrued and unpaid interest thereon to but not including May 14, 2010 (the Redemption Date). The 2007 Notes will be redeemed on the Redemption Date. None of the 2007 Notes will remain outstanding after the Redemption Date. Metals USA Holdings did not and will not incur any early termination penalties in connection with the redemption of the 2007 Notes. Metals USA Holdings will use the net proceeds from an initial public offering (the IPO) of its common stock to finance the redemption. Metals USA Holdings anticipates that the aggregate cash payment for the redemption, including accrued and unpaid interest, will be approximately $170.9. See Note 17.

9. Stockholder s Equity

Common Stock In accordance with its Certificate of Incorporation dated November 3, 2005, Flag Intermediate was authorized to issue 100 shares of capital stock, all of which were shares of common stock, $.01 par value. All such shares are issued and outstanding at March 31, 2010, and are owned by Metals USA Holdings.

As a result of the Merger, all of the issued and outstanding capital stock of Metals USA is held indirectly by Metals USA Holdings through Flag Intermediate, its wholly-owned subsidiary. As of March 31, 2010, investment funds associated with Apollo Management V L.P. (Apollo Management and together with its affiliated investment entities Apollo) owned approximately 93% of the capital stock of Metals USA Holdings (or approximately 91% on a fully-diluted basis). The remainder of the capital stock of Metals USA Holdings is held by our management participants.

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On April 14, 2010, Metals USA Holdings completed the IPO of 11,426,315 shares of its common stock. As a result of the IPO, Apollo s ownership of the capital stock of Metals USA Holdings was reduced to approximately 64%. See Note 17.

10. Stock-Based Compensation

We have no stock-based compensation arrangements of our own, but our direct parent, Metals USA Holdings, has adopted a stock-based Amended and Restated 2005 Stock and Incentive Plan (the Plan) which 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. As a result of the options and restricted stock awards being issued to employees and directors of the Company, the Company is required to reflect the stock-based compensation expense related to these options and restricted stock awards within its consolidated statements of operations. A total of $0.1 was recorded as stock-based employee compensation during each of the three month periods ended March 31, 2010 and 2009, respectively.

Description of Share Option Plan

The Plan has reserved for issuance up to 2.4 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 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).

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. The following is a summary of valuation assumptions for Tranche A option grants outstanding as of March 31, 2010:

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

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The following is a summary of stock option activity for Tranche A options for the three-month period ended March 31, 2010:

	Weighted Average Fair Value	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number of Options
Balance, December 31, 2009	$ 3.66	$ 3.18		417,616
Granted				
Exercised	3.98			(8,236)
Canceled or expired				
Balance, March 31, 2010	$ 3.65	$ 3.19	5.8	409,380
Vested and Exercisable as of:				
March 31, 2010		$ 3.19	5.8	256,627

A summary of nonvested Tranche A stock options for the three-month period ended March 31, 2010, is presented below:

	Weighted Average Grant-Date Fair Value	Number of Options
Nonvested at December 31, 2009	$ 3.90	159,863
Granted		
Vested	3.90	(7,110)
Canceled or expired		
Nonvested at March 31, 2010	$ 3.91	152,753

As of March 31, 2010, there was $0.3 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 8 months.

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. The following is a summary of valuation assumptions for Tranche B option grants outstanding as of March 31, 2010:

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

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

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(dollars in millions)

The following is a summary of stock option activity for Tranche B options for the three-month period ended March 31, 2010:

	Weighted Average Fair Value	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number of Options
Balance, December 31, 2009	$ 3.97	$ 2.30		68,986
Granted				
Exercised	3.98	2.30		(13,726)
Canceled or expired				
Balance, March 31, 2010	$ 3.97	$ 2.30	5.7	55,260
Vested and Exercisable as of:				
March 31, 2010		$ 2.30	5.7	55,260

All Tranche B stock options outstanding as of March 31, 2010 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 three-month period ending March 31, 2010, there were no shares of nonvested restricted stock outstanding.

2010 Long-Term Incentive Plan

On March 19, 2010, Metals USA Holdings board of directors adopted, and its stockholders approved, the Metals USA Holdings 2010 Long-Term Incentive Plan, which we refer to as the 2010 Plan. The purposes of the 2010 Plan are to further the growth and success of Metals USA and to reward and incentivize the outstanding performance of our key employees, directors, consultants and other service providers by aligning their interests with those of stockholders through equity-based compensation and enhanced opportunities for ownership of shares of Metals USA Holdings common stock.

Subject to adjustment, the 2010 Plan authorizes the issuance of up to 2,614,650 shares of common stock pursuant to the grant or exercise of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and other equity-based awards. The maximum number of shares of common stock pursuant to incentive stock options will be 2,614,650 shares of common stock.

The 2010 Plan will be administered by Metals USA Holdings board of directors or the compensation committee thereof, or such other committee of the board of directors as the board of directors may from time to time designate (the committee). Among other things, the committee will have the authority to select individuals to whom awards may be granted, to determine the type of award, to determine the terms and conditions of any such awards, including vesting terms, to interpret the terms and provisions of the 2010 Plan and awards granted thereunder and to otherwise administer the plan. As of March 31, 2010, no awards had been granted under the 2010 Plan.

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11. Income Taxes

Income tax expense of $1.7 for the three months ended March 31, 2010 resulted in an overall effective tax rate of 54.8%. Of the total tax expense recorded, $0.5 was recorded for discreet items identified for the period ending March 31, 2010. The discreet items consisted of $0.1 for uncertain tax liabilities, $0.2 for valuation allowances related to our Canadian operations and $0.2 for the recapture of certain deductions arising from the carry back of our 2009 net operating loss to the stub period ended November 30, 2005.

As of March 31, 2010, our unrecognized tax benefits totaled $8.9, 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 three months ended March 31, 2010.

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 March 31, 2010, the liability for uncertain taxes includes interest and penalties of $2.2 of which $0.1 is included in our statement of operations and impacted the Company s overall effective income tax rate for the three months ended March 31, 2010.

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

	Three Months Ended March 31,				
	Plates and Shapes	Flat Rolled and Non-Ferrous	Building Products	Corporate and Other	Total
2010:					
Net sales	$ 121.9	$ 152.0	$ 16.2	$ (2.2)	$ 287.9
Operating income (loss)	9.1	10.9	(1.7)	(5.6)	12.7
Capital expenditures	0.4	0.1			0.5
Depreciation and amortization(1)	2.4	1.8	0.6	0.3	5.1
2009:					
Net sales	$ 172.5	$ 140.9	$ 19.7	$ (2.9)	$ 330.2
Operating loss	(8.7)	(2.3)	(4.3)	(5.5)	(20.8)
Capital expenditures	0.4	0.4		0.1	0.9
Depreciation and amortization(1)	2.4	1.8	0.6	0.4	5.2

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

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	March 31, 2010	December 31, 2009
Total Assets:		
Plates and Shapes	$ 298.0	$ 291.3
Flat Rolled and Non-Ferrous	251.0	228.4
Building Products	42.6	43.2
Corporate and Other	51.5	56.3
Consolidated	$ 643.1	$ 619.2
Goodwill:		
Plates and Shapes	$ 15.2	$ 15.2
Flat Rolled and Non-Ferrous	20.5	20.5
Building Products	2.2	2.1
Corporate and Other	7.7	7.8
Consolidated	$ 45.6	$ 45.6

We recorded write-downs of $14.4 and $5.1 for inventory lower of cost or market adjustments during the three months ended March 31, 2009 in our Plates and Shapes and Flat Rolled and Non-Ferrous Groups, respectively.

13. Commitments and Contingencies

Letters of Credit

Letters of credit outstanding at March 31, 2010 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 $8.2 (total letters of credit of $14.0 at March 31, 2010). 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 March 31, 2010, our total withdrawal liability, including interest and amortization charges, amounted to approximately $7.1.

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 received an annual management fee equal to $2.0, payable on March 15 of every year, starting on March 15,

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2006. The management agreement would have terminated on December 31, 2012; however, Apollo elected to terminate the management agreement in connection with the completion of Metals USA Holding s IPO in April 2010 (see discussion below). Apollo elected to waive $0.5 of the annual management fee indefinitely, but reserved the right to revoke this waiver. The payment obligation was 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 were amortized on a straight-line basis over the term of the agreement. For the three months ended March 31, 2010 and 2009, amortization of deferred management fees was $0.4 for each period with $0.3 recorded as administrative expense and $0.1 recorded as interest expense during each period.

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.

Upon consummation of Metals USA Holdings IPO discussed in Note 17 below, Apollo terminated the management agreement and received $2.5 and approximately $0.3 for reimbursement of expenses.

15. Comprehensive Income (Loss)

The following table sets forth comprehensive income (loss), net of applicable taxes, for the three months ended March 31, 2010 and 2009.

	Three Months Ended March 31,	
	2010	2009
Net income (loss)	$ 1.4	$ (20.6)
Other comprehensive income:		
Foreign currency translation adjustments	0.1	(0.1)
Unrealized gains (losses) on derivatives	0.3	0.5
Total comprehensive income (loss)	$ 1.8	$ (20.2)

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FLAG INTERMEDIATE HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in millions)

16. Guarantor/Non-Guarantor Subsidiary Financial Information

The following condensed consolidating financial information is for the parent company, Flag Intermediate, a holding company with no assets or operations and Metals USA, a management holding company which owns 100% of the guarantor and non-guarantor subsidiaries.

As of March 31, 2010	Flag Intermediate Holdings Corporation	Metals USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Adjustments & Eliminations	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	$	$ 4.2	$ 0.3	$ 0.2	$	$ 4.7
Accounts receivable			139.0	1.6	7.9	148.5
Inventories			222.6	1.1		223.7
Deferred tax asset		14.8				14.8
Prepayments and other		2.2	2.9	0.1		5.2
Total current assets		21.2	364.8	3.0	7.9	396.9
Property and equipment, net		1.4	175.8	2.6		179.8
Intangible assets, net		0.4	6.4	0.5		7.3
Goodwill		7.8	35.7	2.1		45.6
Investment in subsidiaries, net	143.1	847.2			(990.3)	
Other assets, net		12.8	0.6	0.1		13.5
Total assets	$ 143.1	$ 890.8	$ 583.3	$ 8.3	$ (982.4)	$ 643.1
Liabilities and Stockholder s Equity						
Current liabilities:						
Accounts payable	$	$ 0.5	$ 63.0	$ 0.4	$	$ 63.9
Accrued liabilities		18.4	8.2	5.6	7.9	40.1
Current portion of long-term debt			0.1			0.1
Total current liabilities		18.9	71.3	6.0	7.9	104.1
Long-term debt, less current portion		310.4	5.7			316.1
Deferred income tax liability		56.9				56.9
Intercompany payable (receivable)		342.2	(382.2)	40.0		
Other long-term liabilities		19.3	3.3	0.3		22.9